

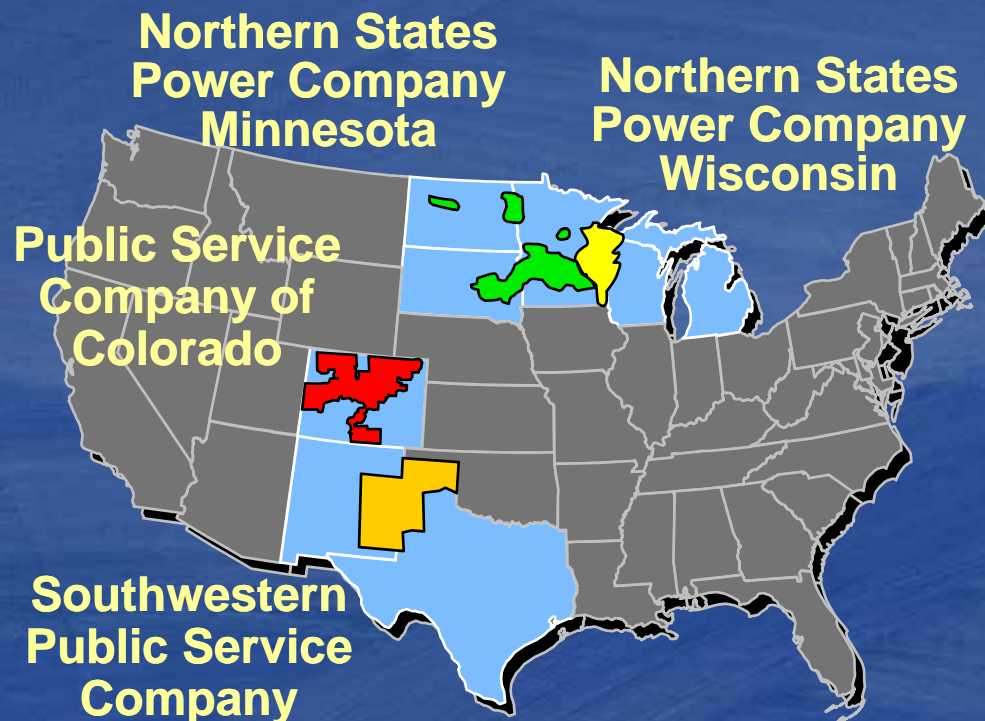


Perspective on Regional Challenges



Judy M. Poferi
President and CEO – NSP Minnesota
September 15, 2011

Xcel Energy Service Territories



- **Maintain reasonably priced, reliable energy**
- **Address risk through advanced, balanced, and diverse energy portfolio**
- **Create value for customers, shareholders and employees**

Gas Customers	1.9 M
Electric Customers	3.4 M

Our Focus

RESPONSIBLE BY NATURE™

- Reasonable cost
- Safe service
- Reliable service
- Forward-looking
- Fuel diversity
- Environmental leadership
- Innovation for the future

Built to Last

- **Strategy**
 - Invest in our core electric and gas businesses
 - Provide safe, clean, reliable and affordable energy
 - Meet policy objectives and manage risk
- **Demonstrated benefits to stakeholders**
 - Satisfy customers
 - Achieve policy objectives
 - Earn fair total return for shareholders

Xcel Energy's Perspective

- **Clarity and certainty of rules is essential**
 - Aging infrastructure
 - Long-lead time, long-lived assets
 - Reliability investments
- **Significant capital required**
- **Investments must demonstrate value**
 - Cost
 - Reliability
 - Environment
 - Risk

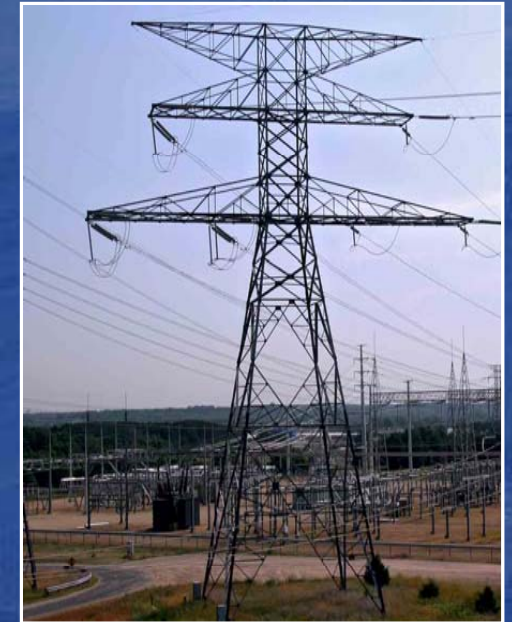


Mitigating Risk is Key

- **Early adoption of clean energy initiatives**
 - Reduces long-term environmental and compliance risk
 - Secures place at the table
 - Gives us time and lowers costs
- **Enhance flexibility**
 - Retirements, retrofits and repowering
 - Emission controls
 - Nuclear power uprates and life extensions
 - Grid expansion and improvements

The Challenges

- Evolving environmental policies
- Federal and regional transmission policies
- Expansive agenda

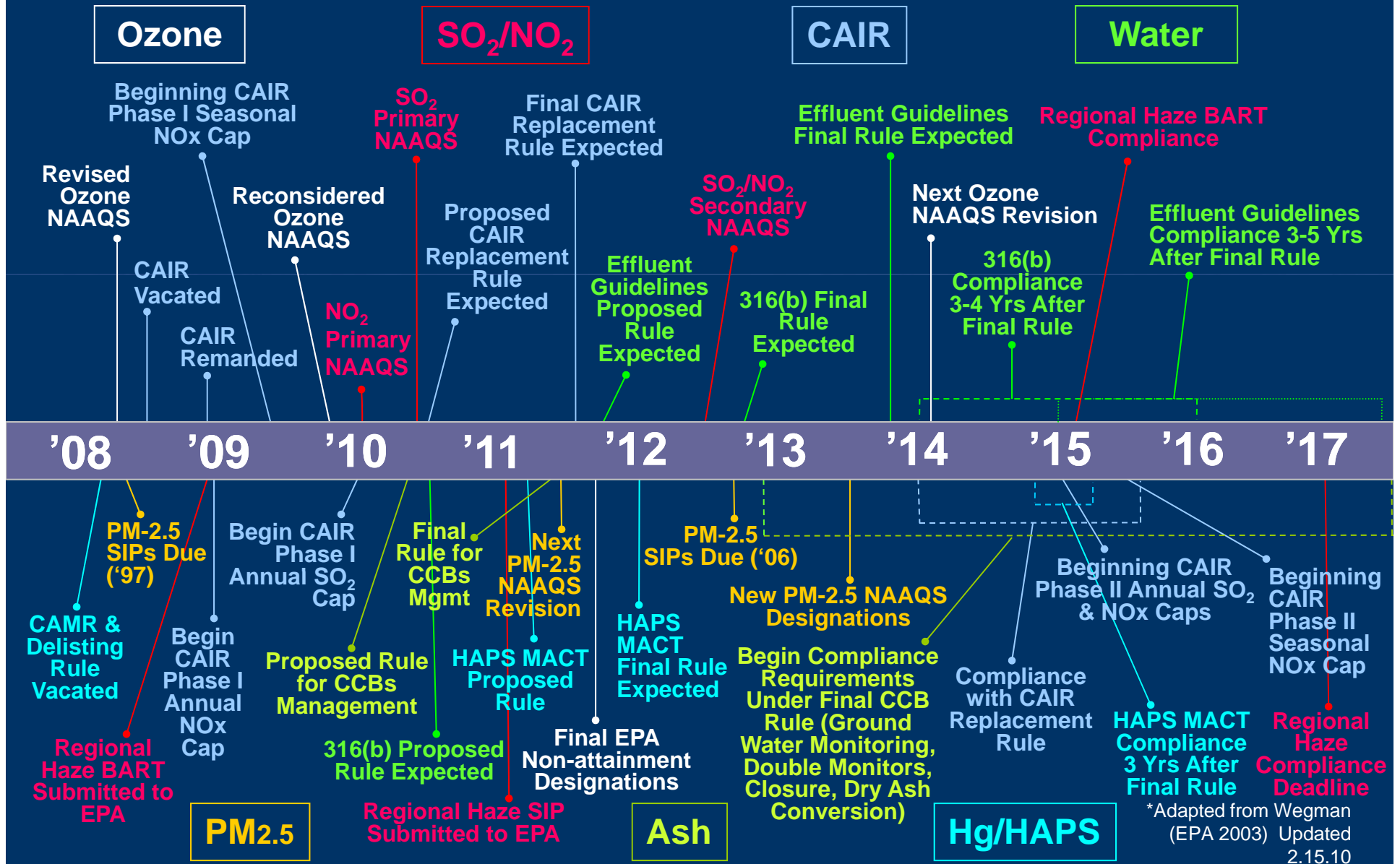


EPA Initiatives

- **Propose or finalize at least seven major rulemakings**
 - Focused on air quality
 - Would require billions of dollars in scrubber, SCR and other environmental costs
 - Anticipated to result in widespread power plant retirements
- **Timing**
 - Usually requires compliance within three to five years
 - ◆ Exception: Cross State Air Pollution Rule (CSAPR)
 - Need several years for planning, engineering, procurement and installation

EPA Initiatives

Non-CO₂ Environmental Regulatory Timeline for Coal Units

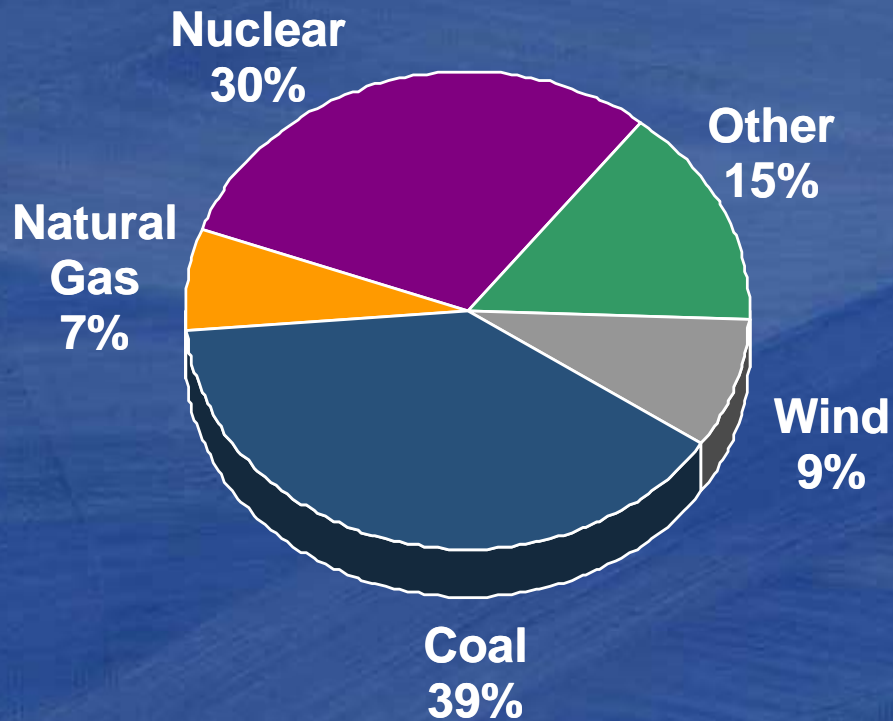




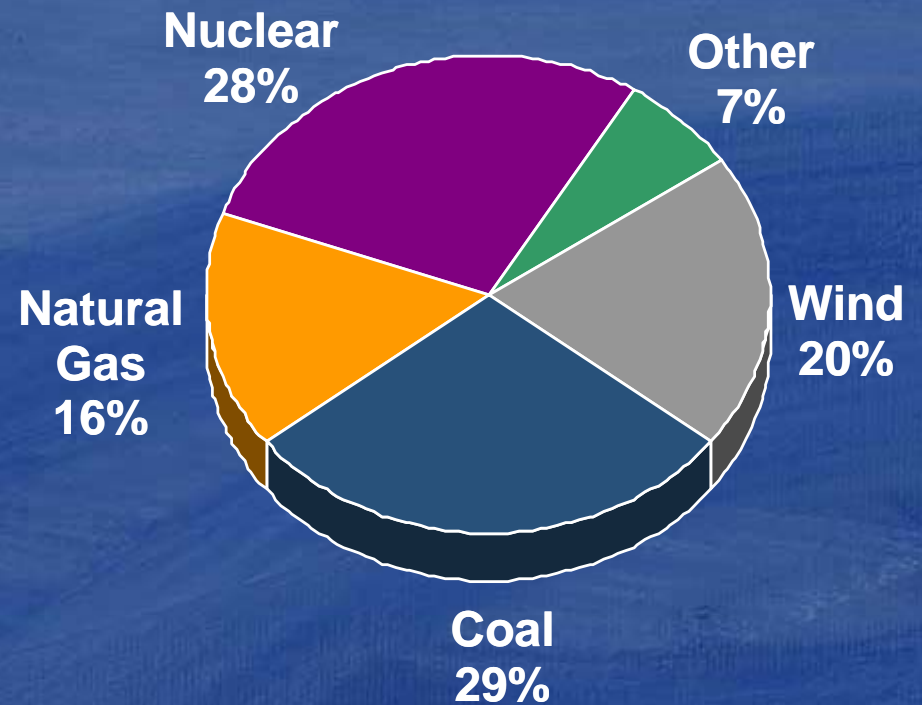


Upper Midwest Fuel Mix

Current



2025



Key Decisions



Retire and Replace

Natural gas supplemented with renewables?

Higher operating costs?

More volatility?

Retrofit

More retrofits in the future?

Future carbon costs?

Costs over useful life?

Emission Reduction Initiatives

Retrofit
“anchor”
coal units

Minnesota Emissions Reduction Project

- Retrofit one unit to BACT level controls
- Retire five units
- Construct two natural gas combined cycle units

Preserve
valuable
assets for the
future

Retire
“heritage”
coal units

Black Dog Proposal

- Retire 270 MW of remaining coal
- Construct natural gas combined cycle unit

Maintain
reasonable
long-term cost

Approach requires significant investment and supportive regulation

Industry Response

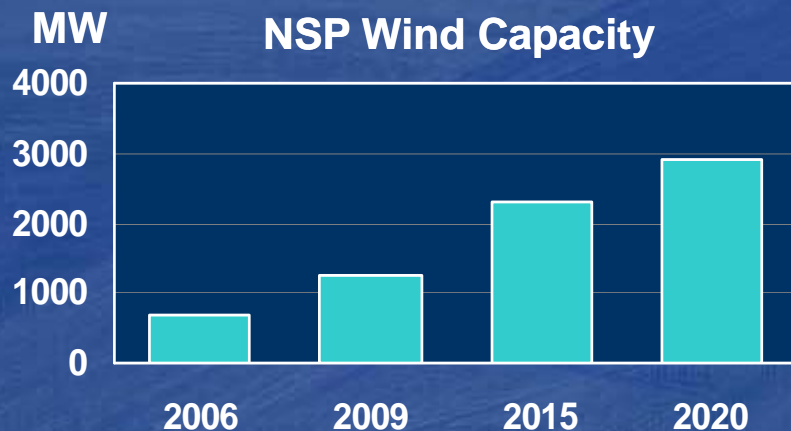
U.S. vs Xcel Energy, 2010-2021

	Percentage of Coal Fleet Retired/Replaced/Fuel Switched	Retrofit Cost for Non-Retired Coal Units (Fleet-wide Average, \$/kW)	Retrofit Cost as Percentage of Market Cap
U.S. (EEI/ICF Analysis)	18% - 31%*	\$667 - \$685*	n/a
AEP (largest U.S. coal generator)	24%	\$261 - \$367	31% - 43%
Southern Company	~40%	\$700 - \$1100	29% - 45%
Xcel Energy	15%	\$130 - \$371	9% - 25%

* EEI / ICF analysis results reflect scenarios with and without carbon regulation

Concurrent Strategies

- Nation's No. 1 Wind Provider
- Industry leader in energy efficiency programs
- Transmission investments
- Commitment to innovation
 - Energy Innovation Corridor
 - Electric vehicles



Savings

Demand
2.1 million kW

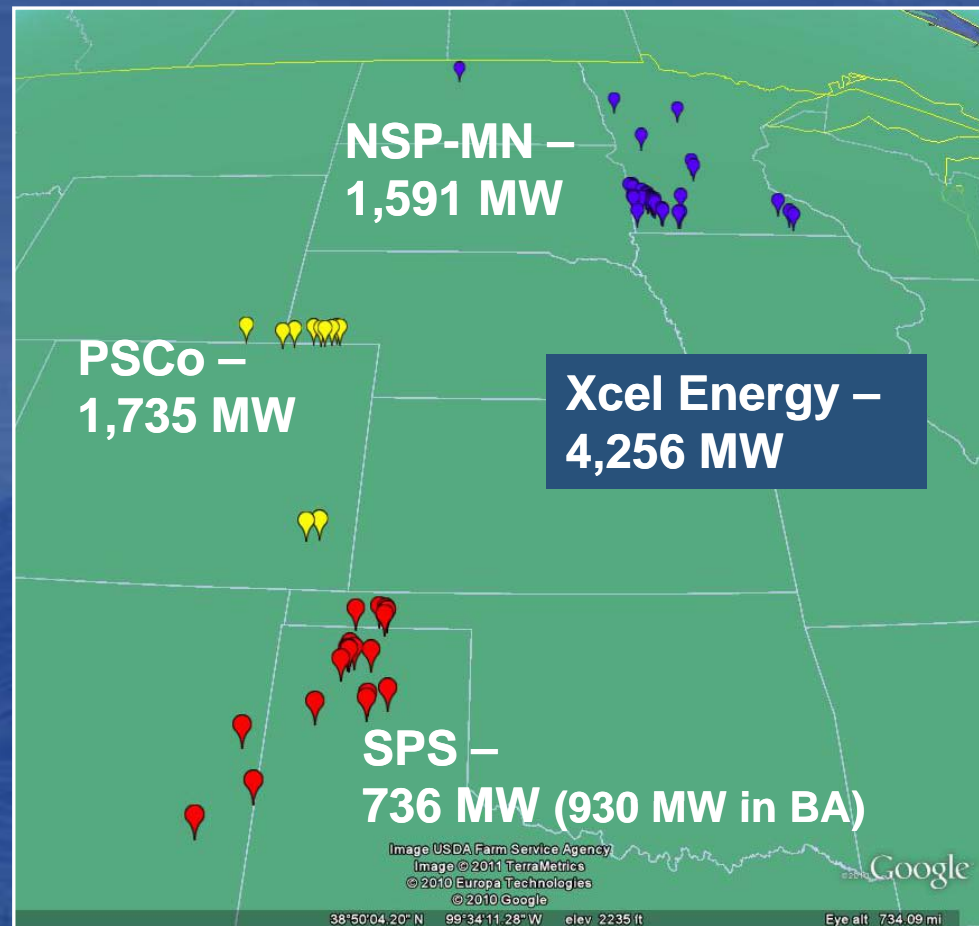
Natural Gas
9.3 million MCF

Electricity
4.8 billion kWh

Results: Equivalent of removing 4 million metric tons of CO₂ emissions

System Wind Resources

- Over 3,000 turbines
- Three operating companies
- Three market structures
 - MISO
 - WECC
 - SPP



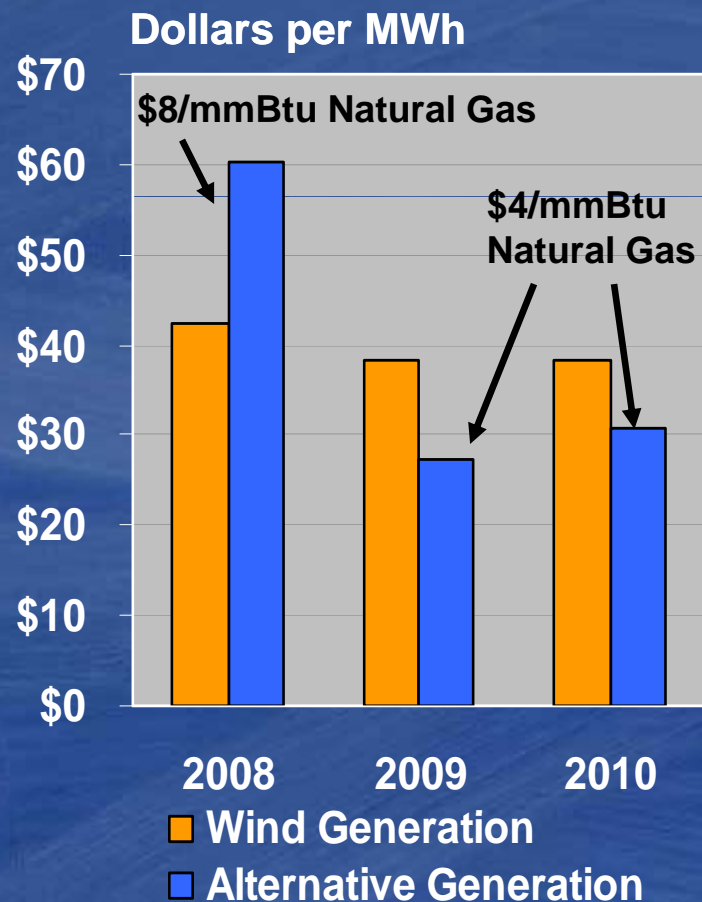
That Was Then....



This Is Now: Grand Meadow Wind Farm



Wind Power



- Provides value today and in the future
- No need to take projects
 - Ahead of RES
 - Creates economic pressure
- Current prices are significantly lower than previously seen

Wind Challenges

- Wind production forecast error
- Largest hourly change (MWs)

	<u>Wind</u>	<u>Net Load</u>
NSP	+567	+1,094
PSCo	+750	-1,066
SPS	+294	- 597

- System operational impacts



Solutions

- **Better understand wind**
 - Partner with experts
 - Improve forecasts
 - Improve wind event detection
- **Increase flexibility on system**
 - Operator vigilance
 - “Flex reserve” requirement
 - Gas nominations



Energy Markets Matter

- **NSP: 1,293 MWs**
 - 116,000 MW MISO footprint
 - Substantial import/export capability
- **SPS: 653 MWs**
 - 46,000 MW SPP footprint
 - Limited transmission
 - North/South flow issues
- **PSCo: 1,258 MWs**
 - 7,900 MW Balancing Authority
 - Limited import/export capability
 - Highest penetration level

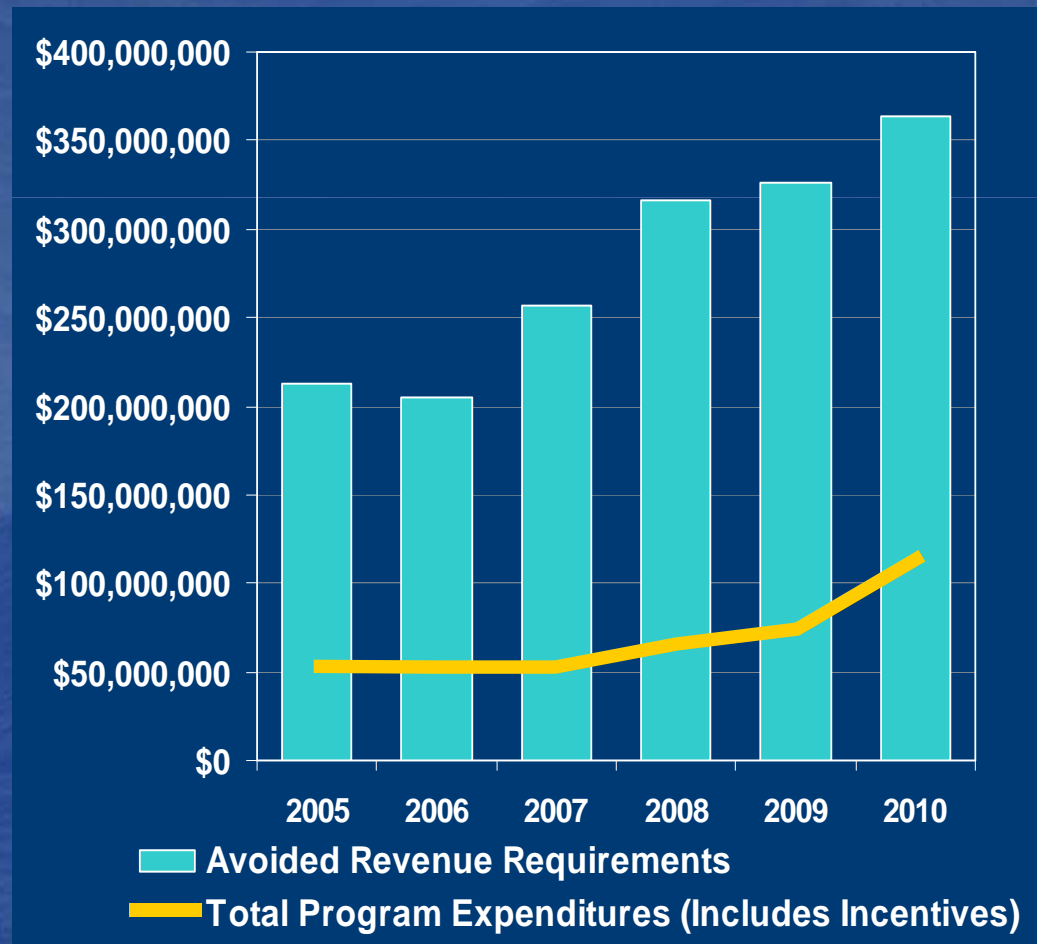


Energy Efficiency



Demand-Side Management

- Lower costs to customers by reducing the need for new power plants
- Give customers greater control over their costs
- C&I customers are the key to the success of our programs



Regulation of GHGs (Carbon Dioxide)

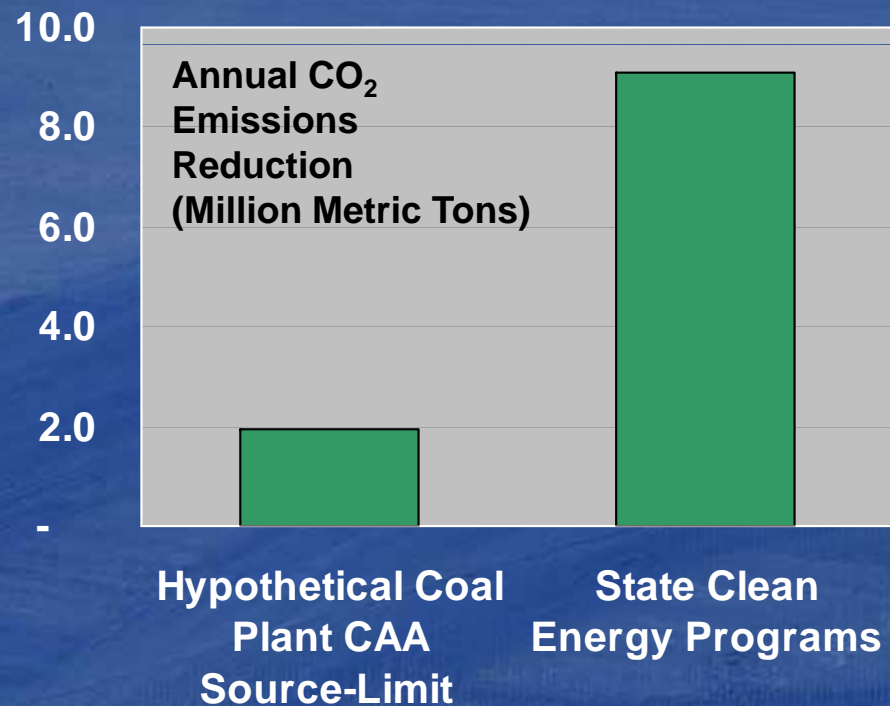
- **Congress**
 - Impasse (Can't pass anything/Can't stop EPA)
- **Supreme Court**
 - AEP v. Connecticut (June 2011)
 - Preemption of state common law claims remains unclear
- **EPA regulation**



Regulation of Existing GHG Sources

- **EPA regulation under CAA**
 - State plans must meet Federal guidelines
 - Likely to be stack-by-stack limits
 - Risk of stranding "Train Wreck" retrofits
- **Our strategy**
 - Seek credit for state clean energy initiatives
- **Lower cost, greater benefit**

Xcel Energy Emissions Reductions in Colorado

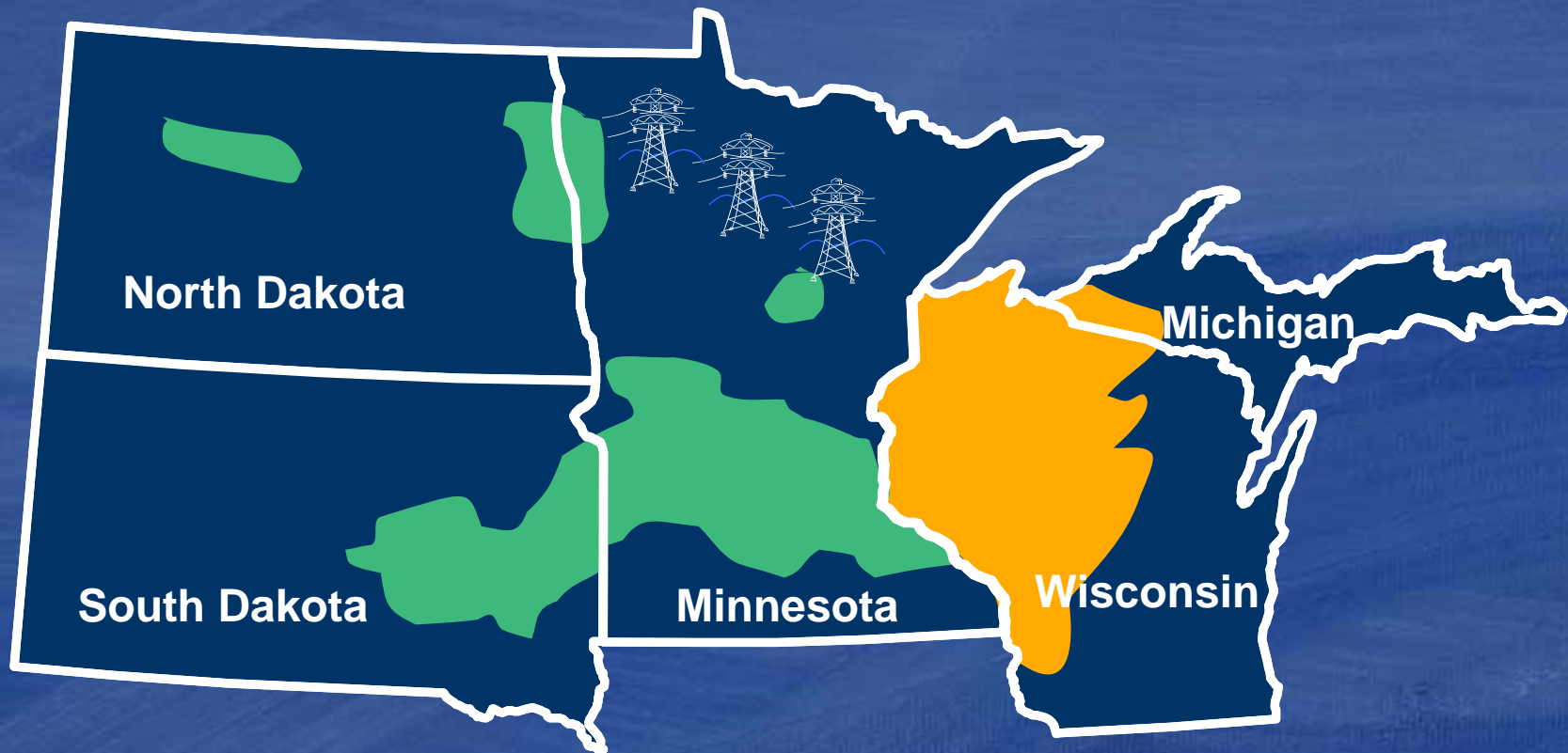


Looking Forward

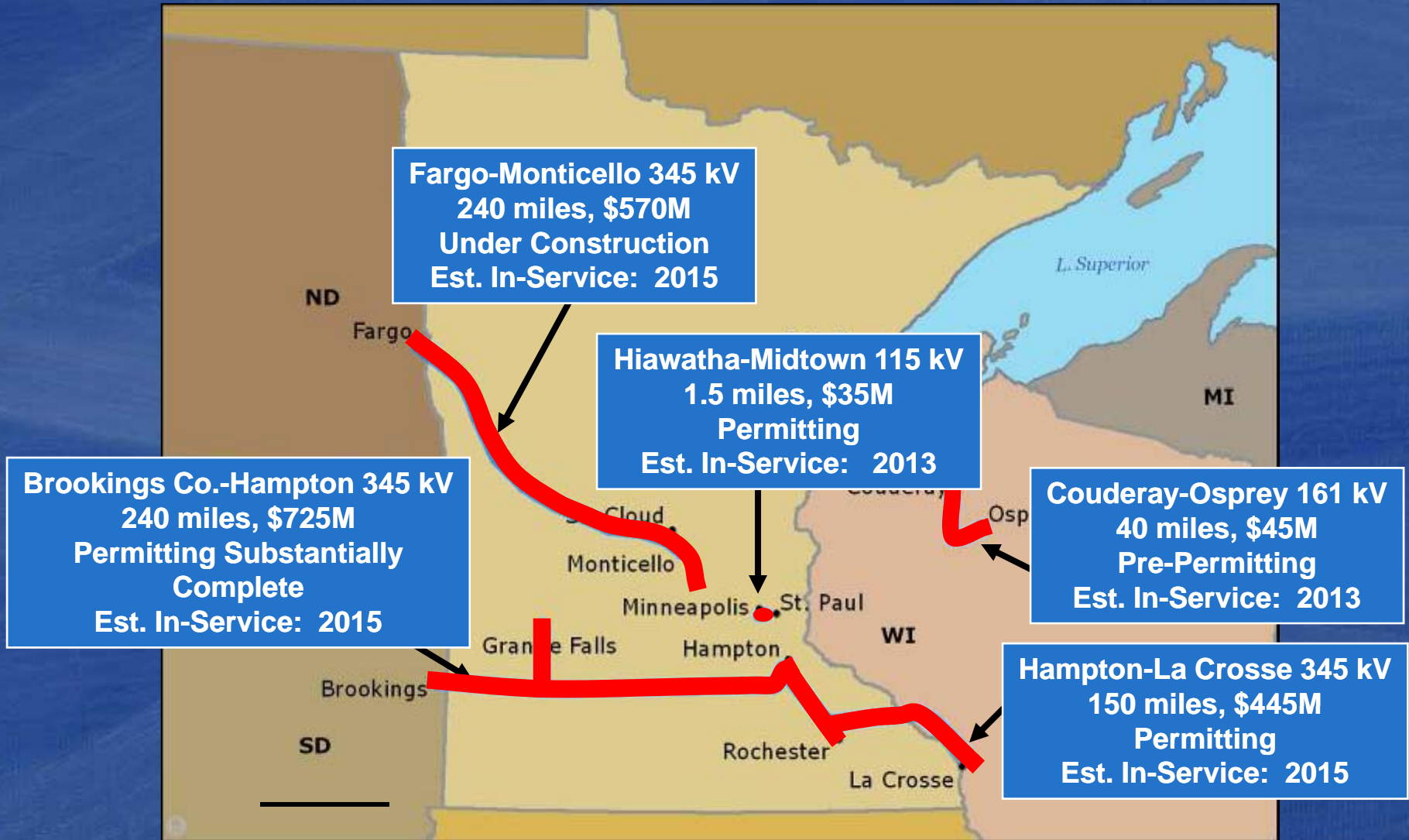
- **Continue to pursue balanced, diverse energy portfolio**
 - Likely slowed due to recession
- **Address coal infrastructure**
 - Long-term Sherco plan
- **Explore and implement cost-effective new technologies**
- **Advocate for flexible, low-cost energy and environmental policies**

Transmission

Active Project Highlights



Transmission Projects



Cost Allocation Working Group



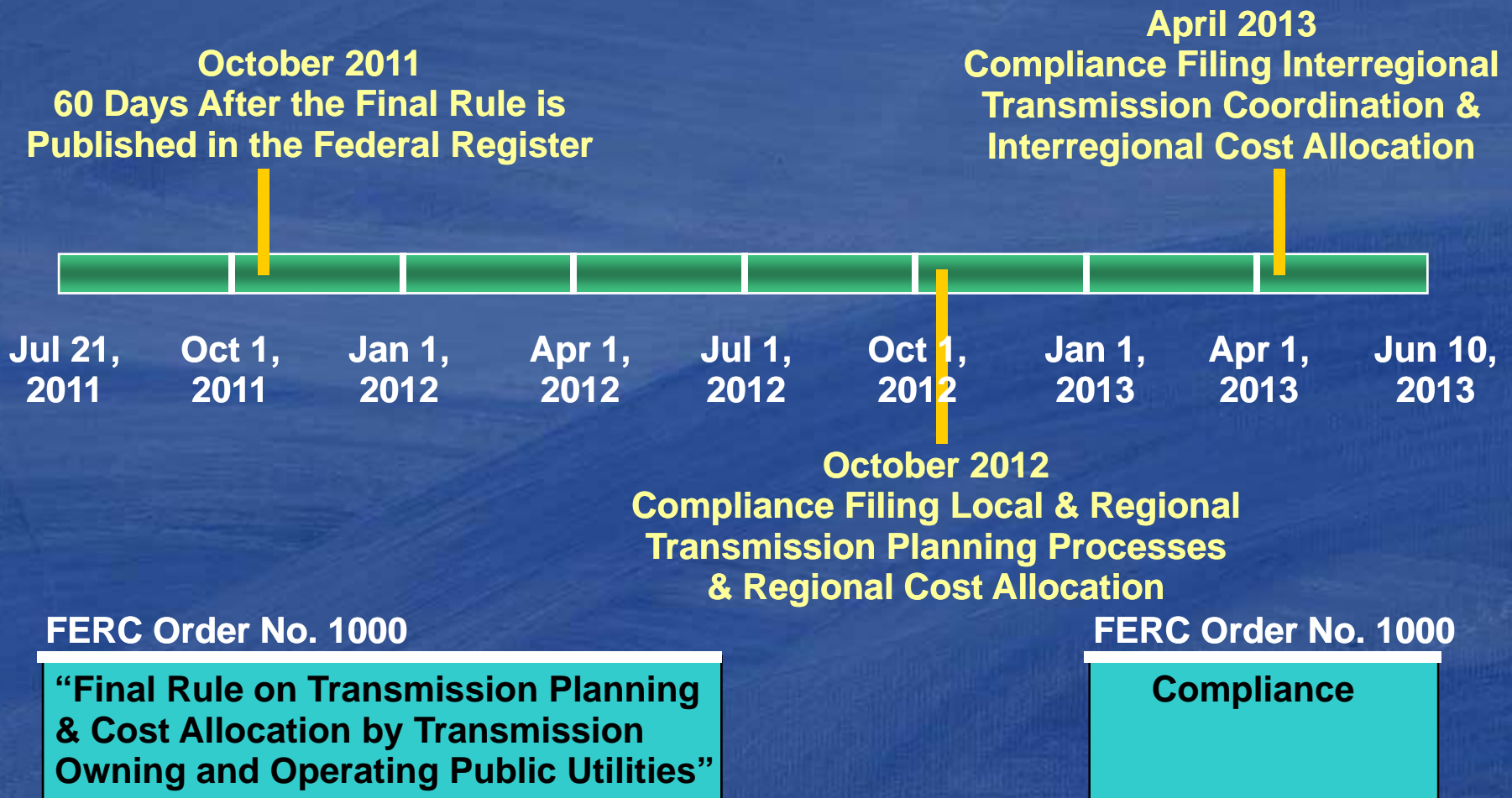
FERC Order 1000

Federal ROFR Provisions

- **Removes Federal ROFR for projects selected in a regional transmission plan for purposes of cost allocation**
- **Limitations**
 - Does not apply to a facility not selected in a regional plan
 - Does not apply to upgrades to transmission facilities
 - Allows, but does not require, use of competitive bidding
 - Does not preempt state or local laws or regulations

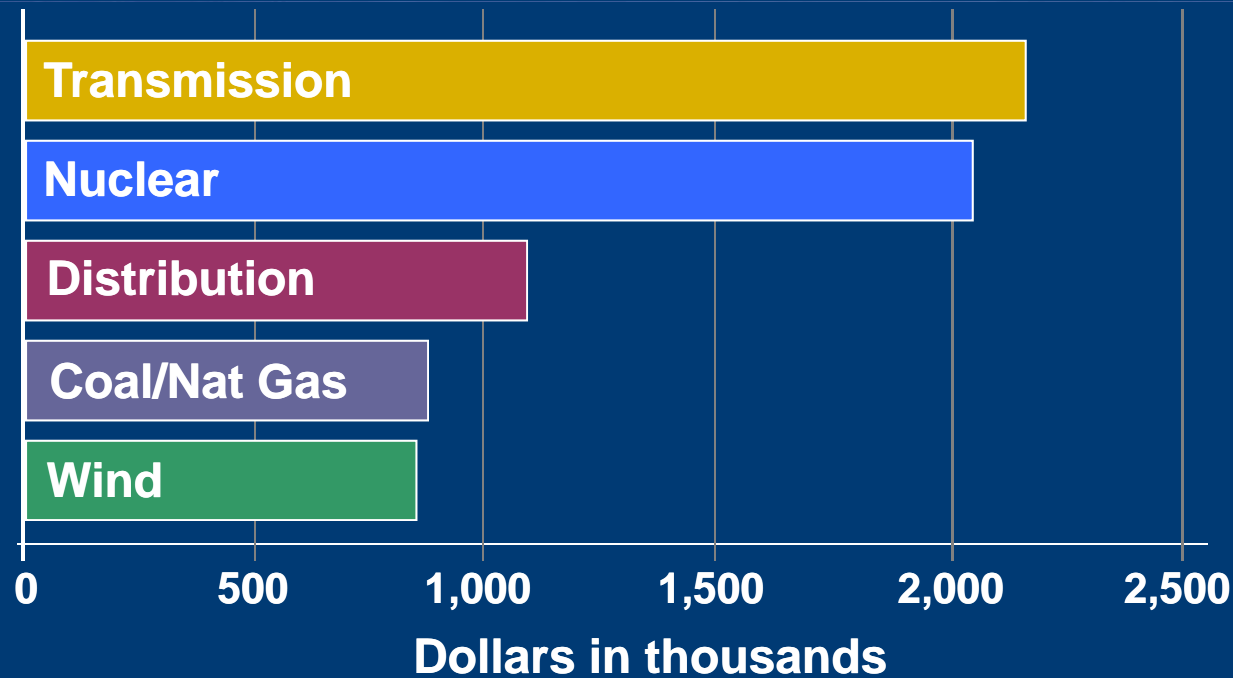
FERC Order 1000 Timeline

Required Compliance Q2/Q3 2013



The Challenge Ahead

**NSP Planned Infrastructure Investments
~ \$7.2 Billion Between 2010 and 2015**



**Potential rate
impact may
average
about 3.8%
per year**

**Multiple rate
cases,
multiple rate
riders**

Stakeholder Alignment

Policymakers	Building long-term goals
Customers	Having access to sound environmental programs and options Keeping rates reasonable
Regulators	Implementing an efficient and effective framework for oversight and cost recovery
Community	Creating jobs and energy sustainability
Shareholders	Reducing risk and providing growth

Value Proposition

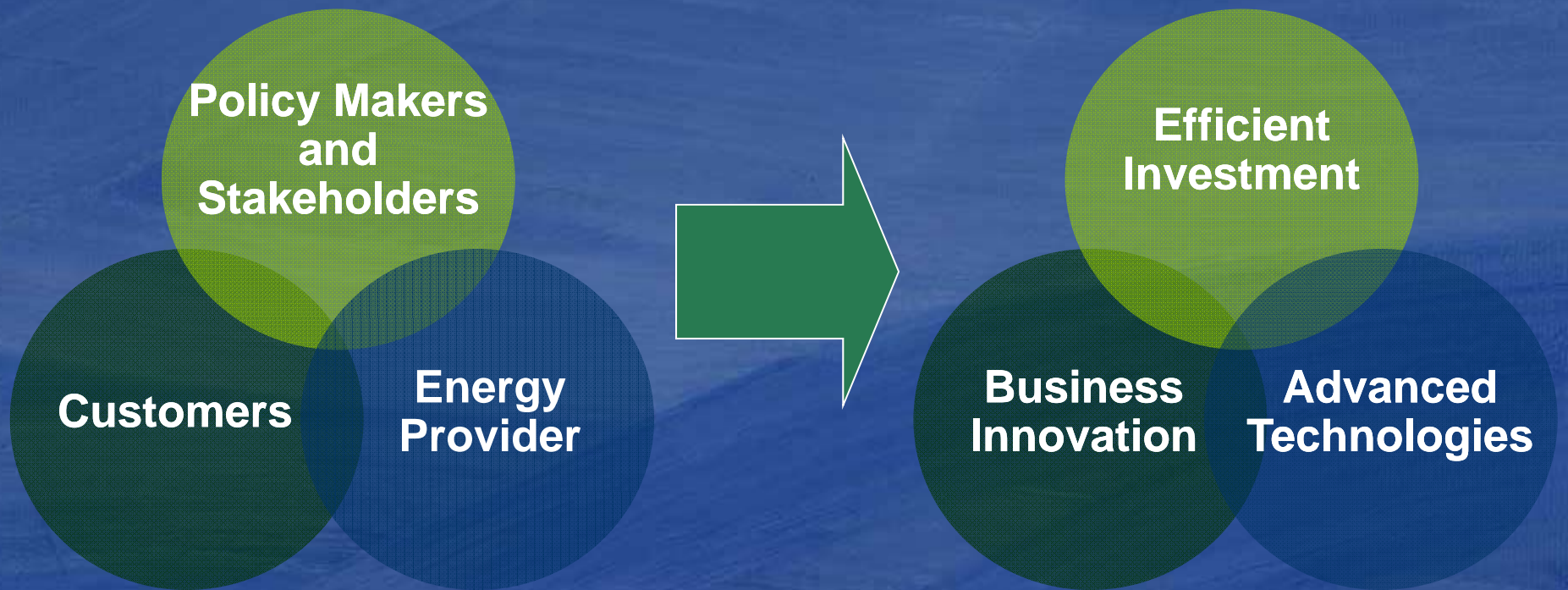
Stakeholders

- Continued advancement of policy objectives
- Addresses rates more comprehensively and predictably
- Regulatory efficiency
- Improved line of sight to business

Company

- Improves opportunity to earn sustainable ROEs
- Facilitates required investments with fewer riders
- Pre-determined increases will improve budget decisions

The Path Forward



Built to Last

- **Solid strategy to meet customer needs and grow our business, adding long-term value**
- **Proactive initiatives have been achieved at minimal cost, balancing price and environmental risk**
- **Positioned to meet new requirements that may come in the near future**
- **Committed to continued work with stakeholders to ensure reliability, safety, and value over the long term**



Xcel Energy[®]

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