BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE PETITION FILED BY XCEL ENERGY FOR APPROVAL OF THE INCLUSION OF FINANCIAL INCENTIVES IN ITS FUEL CLAUSE	**))))**	**ORDER APPROVING EXTENSION** **EL03-020**

On December 23, 1999, the Public Utilities Commission (Commission) received a Petition for Approval of the Inclusion of Financial Incentives in its Fuel Clause from Northern States Power Company (NSP), nka Xcel Energy (Xcel). In the petition, NSP requested approval of the use of financial instruments and linked transactions to be considered as part of its Fuel Adjustment Clause pursuant to SDCL 49-34A-25.

In its petition, NSP requested that it be allowed to use financial instruments such as futures contracts, option contracts, and linked transactions to help reduce price and volatility for its customers. The first type of instrument proposed to be used by NSP is a futures contract. A futures contract is similar to a forward contract in that it locks in the price of electricity. The difference is that with a futures contract NSP will typically close out the futures contract and then purchase energy at the market price. NSP would then reflect the locked-in price through the recognition on NSP's books of a gain or loss on the transaction and apply the gains and losses to the fuel clause.

The second type of instrument is an option contract. An option contract will give NSP the choice to elect delivery at a fixed price, by paying an option premium, without any obligation to actually take the energy. NSP stated that it may utilize options with power-producing entities or with futures contracts. NSP stated that the costs and revenues of options contracts should be allowed to flow through the fuel clause because those costs and revenues reflect the actual costs and benefits of securing optimally priced power.

The third type of instrument is a "linked" or transmission sensitive forward contract. This type of instrument would allow NSP to create linked forward transactions based upon transmission price differentials in order to lower costs. NSP stated that opportunities to link transactions exist because of regional market price differences and that linked transactions can result in lower overall total cost of energy to customers. NSP stated that without fuel clause recovery, it would take a loss on this transaction.

Prior to scheduling this filing for Commission decision, Staff and NSP briefed the Commission on the legality of including the costs and effects of such transactions in NSP's fuel clause. Concurrent with briefing, Staff and NSP submitted a Stipulation of Facts to the Commission. Attached to the Stipulation of Facts were Exhibits B, 1, and C which were agreed to by Staff and NSP in the event the Commission approved NSP's filing. Exhibit B was a list of conditions which NSP would comply with. Exhibit 1 was a revised tariff sheet with language incorporating hedging transactions into the fuel clause. Exhibit C was NSP's Commodity Risk Management Policy.

On April 27, 2000, the Commission voted unanimously to approve NSP's petition subject to the conditions in Exhibit B and subject to NSP following its Commodity Risk Management Policy (Exhibit C).

On April 6, 2001, Xcel Energy fka NSP (Xcel) filed its compliance filing and a request for an extension of the test period which would be subject to the same limitations and reporting requirements as the Commission's previous approval (contained in Exhibit B). At its April 17, 2001, meeting, the Commission considered this matter. The Commission voted unanimously to approve the extension and to change the reporting requirements to biannual filings. The Commission also adopted the conditions as stated in Exhibit B, which was incorporated by reference.

On June 3, 2003, Xcel Energy fka NSP filed its compliance filing and a request for renewal required in the order approving extension in Docket EL99-021. Xcel explained that it had neglected to file for approval of an extension for the test period of May 10, 2002, through May 10, 2003, and was now seeking approval of that extension. In addition, Xcel requested an approval of a current extension which would now include a test period comprising of calendar year 2003. Additionally, Xcel requested that the reporting requirement contained in Exhibit B be revised to specify annual reporting requirements instead of biannual. Xcel also informed Staff that it had updated its Commodity Risk Management Policy which was revised as of September 6, 2001.

On July 1, 2003, the Commission considered Xcel's request for extensions at a regularly scheduled meeting. Commission Staff recommended approval of the request for the extension for the period of May 10, 2002, to May 10, 2003, and approval of a new extension for CY 2003. Staff also recommended that the conditions which had formerly been referenced in Exhibit B, now be included in the order approving the request. Staff also recommended conditioning approval on Xcel following its September 6, 2001, Commodity Risk Management Policy. Xcel did not object to those recommendations.

The Commission has jurisdiction over this matter pursuant to SDCL Chapter 49-34A, specifically SDCL 49-34A-25. At its July 1, 2003, meeting, the Commission considered this matter. The Commission voted unanimously to approve the extension with the revisions and conditions proposed by Staff. It is therefore

ORDERED, that:

1. Xcel shall submit an activity report to the SDPUC on an annual basis, concurrent with future requests for extension, which will include gains, losses, premium expenses, premium revenues, and transaction costs in FERC Account 555. The report must also detail:

a. each hedging instrument entered into;
b. the total Mwh contracted for, for each instrument; and
c. the net gain or loss, including all transaction costs, for each instrument in comparison to Xcel's incremental energy cost.

2. Xcel's extension requested for the May 10, 2002, to May 10, 2003, test period is hereby granted and the extension for the test period of January 1, 2003, through December 31, 2003, is also granted. Further extensions of the test period are subject to Commission approval.

3. Losses, premiums, transaction costs, and any other costs associated with this plan passed through to South Dakota customers through the fuel adjustment clause are capped at $875,000 per year.

4. The Commission retains the ability to terminate Xcel's authority to pass through costs associated with the above described activities at any time provided it gives Xcel at least a three month notice.

5. Xcel shall follow its Commodity Risk Management Policy dated September 6, 2001.

Dated at Pierre, South Dakota, this 14th day of July, 2003.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Delaine Kolbo

Date: 7/16/03

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

Robert K. Sahr

ROBERT K. SAHR, Chairman

Gary Hanson

GARY HANSON, Commissioner

James A. Burg

JAMES A. BURG, Commissioner