

XCEL ENERGY INC
Form 10-Q
July 30, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-3034

Xcel Energy Inc.

(Exact name of registrant as specified in its charter)

Edgar Filing: XCEL ENERGY INC - Form 10-Q

Minnesota

(State or other jurisdiction of incorporation or organization)

41-0448030

(I.R.S. Employer Identification No.)

414 Nicollet Mall

Minneapolis, Minnesota

(Address of principal executive offices)

55401

(Zip Code)

(612) 330-5500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 and Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Stock, \$2.50 par value

Outstanding at July 19, 2010
459,640,918 shares

Table of Contents

TABLE OF CONTENTS

<u>PART I</u>	<u>FINANCIAL INFORMATION</u>	
<u>Item 1</u>	<u>Financial Statements (unaudited)</u>	
	<u>CONSOLIDATED STATEMENTS OF INCOME</u>	2
	<u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	3
	<u>CONSOLIDATED BALANCE SHEETS</u>	4
	<u>CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME</u>	5
	<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	7
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	58
<u>Item 4</u>	<u>Controls and Procedures</u>	58
<u>PART II</u>	<u>OTHER INFORMATION</u>	58
<u>Item 1</u>	<u>Legal Proceedings</u>	58
<u>Item 1A</u>	<u>Risk Factors</u>	58
<u>Item 6</u>	<u>Exhibits</u>	60
<u>SIGNATURES</u>		
	Certifications Pursuant to Section 302	1
	Certifications Pursuant to Section 906	1
	Statement Pursuant to Private Litigation	1

This Form 10-Q is filed by Xcel Energy Inc. Xcel Energy Inc. wholly owns the following subsidiaries: Northern States Power Company, a Minnesota corporation (NSP-Minnesota); Northern States Power Company, a Wisconsin corporation (NSP-Wisconsin); Public Service Company of Colorado, a Colorado corporation (PSCo); and Southwestern Public Service Company, a New Mexico corporation (SPS). Additional information on the wholly owned subsidiaries is available on various filings with the Securities and Exchange Commission (SEC).

Table of Contents**PART I FINANCIAL INFORMATION****Item 1 FINANCIAL STATEMENTS****XCEL ENERGY INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)***(amounts in thousands, except per share data)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Operating revenues				
Electric	\$ 2,040,702	\$ 1,733,695	\$ 4,036,294	\$ 3,620,252
Natural gas	249,410	265,884	1,039,560	1,054,560
Other	17,652	16,504	39,372	36,813
Total operating revenues	2,307,764	2,016,083	5,115,226	4,711,625
Operating expenses				
Electric fuel and purchased power	986,088	797,101	1,974,566	1,721,849
Cost of natural gas sold and transported	126,963	146,388	708,076	738,153
Cost of sales other	4,704	3,987	12,396	9,353
Other operating and maintenance expenses	516,640	472,401	997,613	944,295
Conservation and demand side management program expenses	55,551	41,417	113,590	86,636
Depreciation and amortization	211,506	202,348	417,632	411,063
Taxes (other than income taxes)	81,008	73,073	162,384	150,111
Total operating expenses	1,982,460	1,736,715	4,386,257	4,061,460
Operating income	325,304	279,368	728,969	650,165
Other income, net	1,709	3,019	2,684	5,371
Equity earnings of unconsolidated subsidiaries	7,362	3,255	14,763	6,397
Allowance for funds used during construction equity	12,996	18,720	26,286	36,947
Interest charges and financing costs				
Interest charges includes other financing costs of \$5,146, \$5,114, \$10,157 and \$10,152, respectively	141,455	139,297	285,285	281,100
Allowance for funds used during construction debt	(6,575)	(9,845)	(14,312)	(20,073)
Total interest charges and financing costs	134,880	129,452	270,973	261,027
Income from continuing operations before income taxes				
Income taxes	212,491	174,910	501,729	437,853
Income from continuing operations	135,625	117,064	302,965	292,882
Income (loss) from discontinued operations, net of tax	4,151	43	3,929	(1,708)
Net income	139,776	117,107	306,894	291,174

Edgar Filing: XCEL ENERGY INC - Form 10-Q

Dividend requirements on preferred stock		1,060		1,060		2,120		2,120
Earnings available to common shareholders	\$	138,716	\$	116,047	\$	304,774	\$	289,054

Weighted average common shares outstanding:

Basic		460,041		456,307		459,483		455,753
Diluted		460,432		456,766		460,068		456,362

Earnings per average common share basic:

Income from continuing operations	\$	0.29	\$	0.25	\$	0.65	\$	0.63
Income from discontinued operations		0.01				0.01		
Earnings per share	\$	0.30	\$	0.25	\$	0.66	\$	0.63

Earnings per average common share diluted:

Income from continuing operations	\$	0.29	\$	0.25	\$	0.65	\$	0.63
Income from discontinued operations		0.01				0.01		
Earnings per share	\$	0.30	\$	0.25	\$	0.66	\$	0.63

Cash dividends declared per common share	\$	0.25	\$	0.25	\$	0.50	\$	0.48
---	----	------	----	------	----	------	----	------

See Notes to Consolidated Financial Statements

Table of Contents**XCEL ENERGY INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)***(amounts in thousands of dollars)*

	Six Months Ended June 30,	
	2010	2009
Operating activities		
Net income	\$ 306,894	\$ 291,174
Remove (income) loss from discontinued operations	(3,929)	1,708
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	421,820	419,841
Conservation and demand side management program expenses	15,514	13,904
Nuclear fuel amortization	49,551	37,713
Deferred income taxes	138,133	146,903
Amortization of investment tax credits	(3,188)	(3,475)
Allowance for equity funds used during construction	(26,286)	(36,947)
Equity earnings of unconsolidated subsidiaries	(14,763)	(6,397)
Dividends from unconsolidated subsidiaries	15,791	13,473
Share-based compensation expense	16,470	17,944
Net realized and unrealized hedging and derivative transactions	(21,374)	51,388
Changes in operating assets and liabilities:		
Accounts receivable	72,912	190,491
Accrued unbilled revenues	140,035	264,308
Inventories	101,822	229,504
Recoverable purchased natural gas and electric energy costs	(1,186)	(31,891)
Other current assets	21,491	1,695
Accounts payable	(226,316)	(310,589)
Net regulatory assets and liabilities	28,829	32,886
Other current liabilities	(119,096)	(43,239)
Change in other noncurrent assets	(2,736)	5,898
Change in other noncurrent liabilities	(22,218)	(157,191)
Operating cash flows provided by (used) in discontinued operations	23,361	(3,335)
Net cash provided by operating activities	911,531	1,125,766
Investing activities		
Utility capital/construction expenditures	(967,331)	(947,474)
Allowance for equity funds used during construction	26,286	36,947
Purchase of investments in external decommissioning fund	(3,001,198)	(1,014,130)
Proceeds from the sale of investments in external decommissioning fund	3,006,616	1,012,705
Investment in WYCO Development LLC	(2,905)	(25,254)
Change in restricted cash	(44)	33
Other investments	4,150	3,537
Net cash used in investing activities	(934,426)	(933,636)
Financing activities		
Repayment of short-term borrowings, net	(330,000)	(85,250)
Proceeds from issuance of long-term debt	544,205	394,897
Repayment of long-term debt, including reacquisition premiums	(25,860)	(168,971)
Proceeds from issuance of common stock	4,294	2,665
Dividends paid	(212,387)	(203,859)
Net cash used in financing activities	(19,748)	(60,518)

Edgar Filing: XCEL ENERGY INC - Form 10-Q

Net (decrease) increase in cash and cash equivalents	(42,643)	131,612
Net increase (decrease) in cash and cash equivalents discontinued operations	842	(557)
Cash and cash equivalents at beginning of period	107,789	249,198
Cash and cash equivalents at end of period	\$ 65,988	\$ 380,253
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ (254,113)	\$ (250,990)
Cash paid for income taxes, net	(7,831)	(26,569)
Supplemental disclosure of non-cash investing transactions:		
Property, plant and equipment additions in accounts payable	\$ 53,871	\$ 37,066
Supplemental disclosure of non-cash financing transactions:		
Issuance of common stock for reinvested dividends and 401(k) plans	\$ 32,261	\$ 36,076

See Notes to Consolidated Financial Statements

Table of Contents**XCEL ENERGY INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)***(amounts in thousands of dollars)*

	June 30, 2010	Dec. 31, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 65,988	\$ 107,789
Accounts receivable, net	662,461	729,409
Accrued unbilled revenues	554,014	694,049
Inventories	464,383	566,205
Recoverable purchased natural gas and electric energy costs	57,930	56,744
Derivative instruments valuation	63,905	97,700
Prepayments and other	305,275	359,560
Current assets related to discontinued operations	89,991	151,955
Total current assets	2,263,947	2,763,411
Property, plant and equipment, net	19,074,194	18,508,296
Other assets		
Nuclear decommissioning fund and other investments	1,376,601	1,381,791
Regulatory assets	2,297,485	2,287,636
Derivative instruments valuation	260,094	289,530
Other	151,714	140,367
Noncurrent assets related to discontinued operations	139,177	117,397
Total other assets	4,225,071	4,216,721
Total assets	\$ 25,563,212	\$ 25,488,428
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	\$ 545,637	\$ 543,814
Short-term debt	129,000	459,000
Accounts payable	842,277	1,083,127
Taxes accrued	166,742	232,964
Accrued interest	161,436	157,253
Dividends payable	117,115	113,147
Derivative instruments valuation	52,150	46,554
Other	322,361	350,318
Current liabilities related to discontinued operations	8,949	29,080
Total current liabilities	2,345,667	3,015,257
Deferred credits and other liabilities		
Deferred income taxes	3,448,079	3,336,354
Deferred investment tax credits	96,102	99,290
Regulatory liabilities	1,196,628	1,222,833
Asset retirement obligations	905,542	881,479
Derivative instruments valuation	293,857	307,770
Customer advances	281,302	295,470
Pension and employee benefit obligations	830,913	838,067
Other	254,895	211,666
Noncurrent liabilities related to discontinued operations	3,610	3,389

Edgar Filing: XCEL ENERGY INC - Form 10-Q

Total deferred credits and other liabilities		7,310,928	7,196,318
Commitments and contingent liabilities			
Capitalization			
Long-term debt		8,409,815	7,888,628
Preferred stockholders equity authorized 7,000,000 shares of \$100 par value; outstanding shares: 1,049,800		104,980	104,980
Common stockholders equity authorized 1,000,000,000 shares of \$2.50 par value; outstanding shares: June 30, 2010 459,627,420; Dec. 31, 2009 457,509,263		7,391,822	7,283,245
Total liabilities and equity	\$	25,563,212	\$ 25,488,428

See Notes to Consolidated Financial Statements

Table of Contents**XCEL ENERGY INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS EQUITY
AND COMPREHENSIVE INCOME (UNAUDITED)***(amounts in thousands)*

	Shares	Common Stock Issued Par Value	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Common Stockholders Equity
Three Months Ended						
June 30, 2010 and 2009						
Balance at March 31, 2009	455,256	\$ 1,138,141	\$ 4,710,666	\$ 1,252,471	\$ (52,196)	\$ 7,049,082
Net income				117,107		117,107
Changes in unrecognized amounts of pension and retiree medical benefits, net of tax of \$255					372	372
Net derivative instrument fair value changes during the period, net of tax of \$1,379					2,131	2,131
Unrealized gain - marketable securities, net of tax of \$232					339	339
Comprehensive income for the period						119,949
Dividends declared:						
Cumulative preferred stock				(1,060)		(1,060)
Common stock				(112,113)		(112,113)
Issuances of common stock	461	1,151	9,347			10,498
Share-based compensation			7,367			7,367
Balance at June 30, 2009	455,717	\$ 1,139,292	\$ 4,727,380	\$ 1,256,405	\$ (49,354)	\$ 7,073,723
Balance at March 31, 2010	459,215	\$ 1,148,038	\$ 4,784,152	\$ 1,472,308	\$ (48,627)	\$ 7,355,871
Net income				139,776		139,776
Changes in unrecognized amounts of pension and retiree medical benefits, net of tax of \$321					456	456
Net derivative instrument fair value changes during the period, net of tax of \$(2,725)					(3,807)	(3,807)
Unrealized loss - marketable securities, net of tax of \$(74)					(107)	(107)
Comprehensive income for the period						136,318
Dividends declared:						
Cumulative preferred stock				(1,060)		(1,060)
Common stock				(117,027)		(117,027)
Issuances of common stock	412	1,031	7,612			8,643
Share-based compensation			9,077			9,077
Balance at June 30, 2010	459,627	\$ 1,149,069	\$ 4,800,841	\$ 1,493,997	\$ (52,085)	\$ 7,391,822

Edgar Filing: XCEL ENERGY INC - Form 10-Q

See Notes to Consolidated Financial Statements

Table of Contents**XCEL ENERGY INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS EQUITY
AND COMPREHENSIVE INCOME (UNAUDITED)***(amounts in thousands)*

	Shares	Common Stock Issued Par Value	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Common Stockholders Equity
Six Months Ended June 30, 2010 and 2009						
Balance at Dec. 31, 2008	453,792	\$ 1,134,480	\$ 4,695,019	\$ 1,187,911	\$ (53,669)	\$ 6,963,741
Net income				291,174		291,174
Changes in unrecognized amounts of pension and retiree medical benefits, net of tax of \$509					741	741
Net derivative instrument fair value changes during the period, net of tax of \$2,180					3,331	3,331
Unrealized gain - marketable securities, net of tax of \$168					243	243
Comprehensive income for the period						295,489
Dividends declared:						
Cumulative preferred stock				(2,120)		(2,120)
Common stock				(220,560)		(220,560)
Issuances of common stock	1,925	4,812	18,065			22,877
Share-based compensation			14,296			14,296
Balance at June 30, 2009	455,717	\$ 1,139,292	\$ 4,727,380	\$ 1,256,405	\$ (49,354)	\$ 7,073,723
Balance at Dec. 31, 2009	457,509	\$ 1,143,773	\$ 4,769,980	\$ 1,419,201	\$ (49,709)	\$ 7,283,245
Net income				306,894		306,894
Changes in unrecognized amounts of pension and retiree medical benefits, net of tax of \$616					875	875
Net derivative instrument fair value changes during the period, net of tax of \$(2,265)					(3,155)	(3,155)
Unrealized loss - marketable securities, net of tax of \$(66)					(96)	(96)
Comprehensive income for the period						304,518
Dividends declared:						
Cumulative preferred stock				(2,120)		(2,120)
Common stock				(229,978)		(229,978)
Issuances of common stock	2,118	5,296	15,633			20,929
Share-based compensation			15,228			15,228
Balance at June 30, 2010	459,627	\$ 1,149,069	\$ 4,800,841	\$ 1,493,997	\$ (52,085)	\$ 7,391,822

Edgar Filing: XCEL ENERGY INC - Form 10-Q

See Notes to Consolidated Financial Statements

Table of Contents

XCEL ENERGY INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (UNAUDITED)

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America (GAAP), the financial position of Xcel Energy Inc. and its subsidiaries (collectively, Xcel Energy) as of June 30, 2010 and Dec. 31, 2009; the results of its operations and changes in stockholders equity for the three and six months ended June 30, 2010 and 2009; and its cash flows for the six months ended June 30, 2010 and 2009. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Management has also evaluated the impact of events occurring after June 30, 2010 up to the date of issuance of these consolidated financial statements. These statements contain all necessary adjustments and disclosures resulting from that evaluation. The Dec. 31, 2009 balance sheet information has been derived from the audited 2009 financial statements. These notes to the consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. For further information, refer to the consolidated financial statements and notes thereto included in the Xcel Energy Annual Report on Form 10-K for the year ended Dec. 31, 2009, filed with the SEC on Feb. 26, 2010. Due to the seasonality of Xcel Energy's electric and natural gas sales, interim results are not necessarily an appropriate base from which to project annual results.

1. Summary of Significant Accounting Policies

Except to the extent updated or described below, the significant accounting policies set forth in Note 1 to the consolidated financial statements in Xcel Energy's Annual Report on Form 10-K for the year ended Dec. 31, 2009, appropriately represent, in all material respects, the current status of accounting policies and are incorporated herein by reference.

Reclassifications Conservation and demand side management program expenses for the six months ended June 30, 2009 were reclassified as a separate item from depreciation and amortization expenses within the consolidated statements of cash flows. The reclassification did not have an impact on net cash provided by operating activities.

2. Accounting Pronouncements

Recently Adopted

Consolidation of Variable Interest Entities In June 2009, the Financial Accounting Standards Board (FASB) issued new guidance on consolidation of variable interest entities. The guidance affects various elements of consolidation, including the determination of whether an entity is a variable interest entity and whether an enterprise is a variable interest entity's primary beneficiary. These updates to the FASB Accounting Standards Codification (ASC or Codification) are effective for interim and annual periods beginning after Nov. 15, 2009. Xcel Energy implemented the guidance on Jan. 1, 2010, and the implementation did not have a material impact on its consolidated financial statements. For further information and required disclosures regarding variable interest entities, see Note 7 to the consolidated financial

statements.

Fair Value Measurement Disclosures In January 2010, the FASB issued *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements (Accounting Standards Update (ASU) No. 2010-06)*, which updates the Codification to require new disclosures for assets and liabilities measured at fair value. The requirements include expanded disclosure of valuation methodologies for fair value measurements, transfers between levels of the fair value hierarchy, and gross rather than net presentation of certain changes in Level 3 fair value measurements. The updates to the Codification contained in ASU No. 2010-06 were effective for interim and annual periods beginning after Dec. 15, 2009, except for requirements related to gross presentation of certain changes in Level 3 fair value measurements, which are effective for interim and annual periods beginning after Dec. 15, 2010. Xcel Energy implemented the portions of the guidance required on Jan. 1, 2010, and the implementation did not have a material impact on its consolidated financial statements. For further information and required disclosures, see Note 10 to the consolidated financial statements.

Table of Contents**3. Selected Balance Sheet Data**

(Thousands of Dollars)	June 30, 2010	Dec. 31, 2009
Accounts receivable, net		
Accounts receivable	\$ 712,244	\$ 785,512
Less allowance for bad debts	(49,783)	(56,103)
	\$ 662,461	\$ 729,409
Inventories		
Materials and supplies	\$ 182,091	\$ 172,993
Fuel	184,337	221,457
Natural gas	97,955	171,755
	\$ 464,383	\$ 566,205
Property, plant and equipment, net		
Electric plant	\$ 23,745,491	\$ 22,589,071
Natural gas plant	3,336,052	3,269,934
Common and other property	1,532,921	1,492,463
Construction work in progress	1,360,506	1,769,545
Total property, plant and equipment	29,974,970	29,121,013
Less accumulated depreciation	(11,208,797)	(10,914,509)
Nuclear fuel	1,793,249	1,737,469
Less accumulated amortization	(1,485,228)	(1,435,677)
	\$ 19,074,194	\$ 18,508,296

4. Discontinued Operations

Results of operations for divested businesses are reported, for all periods presented, as discontinued operations. The majority of current and noncurrent assets related to discontinued operations are deferred tax assets associated with temporary differences and net operating loss (NOL) and tax credit carryforwards that will be deductible in future years.

The major classes of assets and liabilities related to discontinued operations are as follows:

(Thousands of Dollars)	June 30, 2010	Dec. 31, 2009
Cash	\$ 8,701	\$ 7,859
Deferred income tax benefits	48,453	106,770
Other current assets	32,837	37,326
Current assets related to discontinued operations	\$ 89,991	\$ 151,955
Deferred income tax benefits	\$ 121,067	\$ 95,424
Other noncurrent assets	18,110	21,973
Noncurrent assets related to discontinued operations	\$ 139,177	\$ 117,397
Accounts payable	\$ 325	\$ 445
Other current liabilities	8,624	28,635
Current liabilities related to discontinued operations	\$ 8,949	\$ 29,080

Edgar Filing: XCEL ENERGY INC - Form 10-Q

Noncurrent liabilities related to discontinued operations	\$	3,610	\$	3,389
---	----	-------	----	-------

Table of Contents**5. Income Taxes**

Corporate Owned Life Insurance (COLI) In 2007, Xcel Energy and the U. S. government settled an ongoing dispute regarding PSCo's right to deduct interest expense on policy loans related to its COLI program that insured lives of certain PSCo employees. These COLI policies were owned and managed by P.S.R. Investments, Inc. (PSRI), a wholly owned subsidiary of PSCo. Xcel Energy paid the U. S. government a total of \$64.4 million in settlement of the U. S. government's claims for tax, penalty, and interest for tax years 1993 through 2007. Xcel Energy surrendered the policies to its insurer on Oct. 31, 2007, without recognizing a taxable gain. As a result of the settlement, the lawsuit filed by Xcel Energy in the United States District Court has been dismissed and the Tax Court proceedings are in the process of being dismissed.

As part of the Tax Court proceedings, during the first quarter of 2010, Xcel Energy and the Internal Revenue Service (IRS) reached an agreement in principle after a comprehensive financial reconciliation of Xcel Energy, dating back to tax year 1993. Upon completion of this review, PSRI recorded a net non-recurring tax and interest charge of approximately \$10 million (including \$7.7 million tax expense and \$2.3 million interest expense, net of tax), or \$0.02 per share during the first quarter of 2010. Xcel Energy anticipates that the Tax Court proceedings will be dismissed in 2010.

Medicare Part D Subsidy Reimbursements In March 2010, the Patient Protection and Affordable Care Act was signed into law. The law includes provisions to generate tax revenue to help offset the cost of the new legislation. One of these provisions reduces the deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D coverage, beginning in 2013. Based on this provision, Xcel Energy is subject to additional taxes and is required to reverse previously recorded tax benefits in the period of enactment. Xcel Energy expensed approximately \$17 million, or \$0.04 per share, of previously recognized tax benefits relating to Medicare Part D subsidies during the first quarter of 2010. Xcel Energy does not expect the \$17 million of additional tax expense to recur in future periods. The 2010 effective tax rate (ETR) will increase due to additional tax expense of approximately \$4 million associated with current year retiree health care accruals.

Federal Audit Xcel Energy files a consolidated federal income tax return. During the first quarter of 2010, the IRS completed an examination of Xcel Energy's federal income tax returns of tax years 2006 and 2007. The IRS did not propose any material adjustments for those tax years. The statute of limitations applicable to Xcel Energy's 2006 federal income tax return expires on Aug. 28, 2010. The IRS audit of tax years 2008 and 2009 is expected to begin during the fourth quarter of 2010.

State Audits Xcel Energy files consolidated state tax returns based on income in its major operating jurisdictions of Colorado, Minnesota, Texas, and Wisconsin, and various other state income-based tax returns. As of June 30, 2010, Xcel Energy's earliest open tax years that are subject to examination by state taxing authorities in its major operating jurisdictions are as follows:

State	Year
Colorado	2004
Minnesota	2004
Texas	2005
Wisconsin	2005

Edgar Filing: XCEL ENERGY INC - Form 10-Q

In 2009, Xcel Energy received a request for information from the state of Minnesota relating to tax years 2002 through 2007 in order to determine whether to undertake an audit of those years. During the second quarter of 2010, the state of Minnesota informed Xcel Energy that the state's request for information relating to tax years 2002 through 2007 had been fulfilled. The state indicated that it does not intend to perform audit procedures on these years at this time. Also, during the second quarter of 2010 the state of Texas completed its audit of tax years 2006 and 2007. No change in tax liability was proposed. There currently are no state income tax audits in progress.

Unrecognized Tax Benefits The unrecognized tax benefit balance includes permanent tax positions, which if recognized would affect the annual ETR. In addition, the unrecognized tax benefit balance includes temporary tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. A change in the period of deductibility would not affect the ETR but would accelerate the payment of cash to the taxing authority to an earlier period.

Edgar Filing: XCEL ENERGY INC - Form 10-Q

Table of Contents

A reconciliation of the amount of unrecognized tax benefit in continuing operations is as follows:

(Millions of Dollars)	June 30, 2010		Dec. 31, 2009	
Unrecognized tax benefit - Permanent tax positions	\$	4.0	\$	4.0
Unrecognized tax benefit - Temporary tax positions		22.6		19.7
Unrecognized tax benefit balance	\$	26.6	\$	23.7

A reconciliation of the amount of unrecognized tax benefit in discontinued operations is as follows:

(Millions of Dollars)	June 30, 2010		Dec. 31, 2009	
Unrecognized tax benefit - Permanent tax positions	\$	0.3	\$	6.6
Unrecognized tax benefit - Temporary tax positions				
Unrecognized tax benefit balance	\$	0.3	\$	6.6

The unrecognized tax benefit amounts were reduced by the tax benefits associated with NOL and tax credit carryforwards. The amounts of tax benefits associated with NOL and tax credit carryforwards as reported in continuing operations and discontinued operations were as follows:

(Millions of Dollars)	June 30, 2010		Dec. 31, 2009	
Continuing operations	\$	(8.8)	\$	(8.9)
Discontinued operations		(13.7)		(20.4)

The increase in the unrecognized tax benefit balance reported in continuing operations of \$1.8 million from March 31, 2010 to June 30, 2010 and \$2.9 million from Dec. 31, 2009 to June 30, 2010 was due primarily to the addition of similar uncertain tax positions related to ongoing activity. Xcel Energy's amount of unrecognized tax benefits for continuing operations could significantly change in the next 12 months when the IRS and state audits resume. At this time, due to the uncertain nature of the audit process, it is not reasonably possible to estimate an overall range of possible change.

The decrease in the unrecognized tax benefit balance reported in discontinued operations of \$6.3 million from March 31, 2010 to June 30, 2010 and Dec. 31, 2009 to June 30, 2010, was due to a clarification of tax law in a court ruling issued to an unrelated taxpayer, coupled with the completion of the state of Minnesota review of tax years 2002 through 2007. Xcel Energy's remaining amount of unrecognized tax benefits for discontinued operations is not expected to change significantly in the next 12 months.

The payable for interest related to unrecognized tax benefits is partially offset by the interest benefit associated with NOL and tax credit carryforwards. A reconciliation of the beginning and ending amount of the payable for interest related to unrecognized tax benefits reported in continuing operations is as follows:

(Millions of Dollars)	2010		2009	
Payable for interest related to unrecognized tax benefits at Jan. 1	\$	(0.4)	\$	(1.9)

Edgar Filing: XCEL ENERGY INC - Form 10-Q

Interest expense related to unrecognized tax benefits for the three months ended March 31		(0.1)		(0.3)
Interest expense related to unrecognized tax benefits for the three months ended June 30		(0.3)		(0.3)
Payable for interest related to unrecognized tax benefits at June 30	\$	(0.8)	\$	(2.2)

A reconciliation of the beginning and ending amount of the receivable for interest related to unrecognized tax benefits reported in discontinued operations is as follows:

(Millions of Dollars)		2010		2009
Receivable for interest related to unrecognized tax benefits at Jan. 1	\$	0.2	\$	1.5
Interest income related to unrecognized tax benefits for the three months ended March 31		0.1		0.2
Interest income related to unrecognized tax benefits for the three months ended June 30		0.2		0.1
Receivable for interest related to unrecognized tax benefits at June 30	\$	0.5	\$	1.8

No amounts were accrued for penalties related to unrecognized tax benefits as of June 30, 2010 or Dec. 31, 2009.

Table of Contents

6. Rate Matters

Except to the extent noted below, the circumstances set forth in Note 16 to the consolidated financial statements included in Xcel Energy's Annual Report on Form 10-K for the year ended Dec. 31, 2009 appropriately represent, in all material respects, the current status of other rate matters, and are incorporated herein by reference.

NSP-Minnesota

Pending and Recently Concluded Regulatory Proceedings Minnesota Public Utilities Commission (MPUC)

Base Rate

NSP-Minnesota Gas Rate Case In November 2009, NSP-Minnesota filed a request with the MPUC to increase Minnesota natural gas rates by \$16.2 million for 2010 based on a return on equity (ROE) of 11 percent, an equity ratio of 52.46 percent and a rate base of \$441 million. The overall request seeks an additional \$3.5 million, effective Jan. 1, 2011, for recovery of pension funding costs necessary to comply with federal law. In December 2009, the MPUC approved an interim rate increase of \$11.1 million, subject to refund. Interim rates went into effect on Jan. 11, 2010.

In May 2010, the Office of Energy Security (OES) filed direct testimony recommending a rate increase of \$1.8 million based on a 9.67 percent ROE. The Minnesota Office of Attorney General (OAG) made several adjustments. In addition to ROE, both parties focused on adjustments to bad debt expense, distribution operating and maintenance expenses (O&M), cost of debt and pension expense.

Evidentiary hearings were held in June 2010. By the end of the hearings, NSP-Minnesota made several adjustments to reflect more recent information, accepted the OES position on distribution O&M, and is currently seeking an increase of \$10.0 million based on a 10.6 percent ROE. The OES revised its case and is now recommending an increase of approximately \$7.5 million based on a 10.09 percent ROE. NSP-Minnesota and OAG agreed on treatment of pension issues, for future rate proceedings, and NSP-Minnesota is no longer seeking a 2011 step-in of pension expense. The OAG continues to recommend further adjustments in bad debt expense, distribution O&M and the cost of debt.

The remaining procedural schedule is listed as follows:

- Reply briefs and proposed findings due Aug. 19, 2010; and
- Administrative law judge (ALJ) report due Oct. 1, 2010.

A decision from the MPUC in this proceeding is expected in the fourth quarter of 2010.

Electric, Purchased Gas and Resource Adjustment Clauses

Transmission Cost Recovery (TCR) Rider The MPUC has approved a TCR rider that allows annual adjustments to retail electric rates to provide recovery of certain incremental transmission investments between rate cases. On April 27, 2010, the MPUC approved the 2010 TCR rider that will recover approximately \$10.8 million in 2010, including initial costs associated with three of the four CapX 2020 transmission projects. The MPUC did not allow 2010 recovery of \$1.2 million in costs associated with the Brookings, S.D.-Hampton, Minn. CapX 2020 transmission line because of uncertainty regarding cost allocation as the result of impending Midwest Independent Transmission System Operator, Inc. (MISO) tariff changes. NSP-Minnesota filed a request to reconsider the MPUC's determination regarding the Brookings S. D. project. The reconsideration request is pending MPUC action. MISO filed the proposed cost allocation tariff changes with the Federal Energy Regulatory Commission (FERC) on July 15, 2010. The MPUC also expressed a desire to limit TCR to the initial project cost estimates and address any potential additional amounts in general rate cases. This approach to rider administration does not impact the 2010 TCR request.

Renewable Energy Standard (RES) Rider The MPUC has approved a rider to recover the costs for utility-owned projects implemented in compliance with the Minnesota RES. On April 1, 2010, the MPUC approved the 2010 RES rider that will result in \$45.6 million in revenue. As noted with the TCR rider above, the MPUC also expressed a desire to limit recovery based on initial project estimates and address any potential additional amounts in general rate cases. This approach to rider administration is not expected to have a material impact in 2010.

Table of Contents

Annual Automatic Adjustment Report for 2008/2009 In September 2009, NSP-Minnesota filed its annual electrical and natural gas automatic adjustment reports for July 1, 2008 through June 30, 2009. During that time period, \$803.6 million in fuel and purchased energy costs were recovered from Minnesota electric customers through the fuel clause adjustment (FCA). In addition, approximately \$499.4 million of purchased natural gas and transportation costs were recovered from Minnesota natural gas customers through the purchased gas adjustment (PGA). On June 18, 2010, the OES filed comments recommending approval of the 2008/2009 natural gas automatic adjustment report. Final MPUC action is pending. Comments on NSP-Minnesota's 2009 electric report are due in January 2011. FCA and PGA recovery remains provisional and potentially subject to refund until the MPUC issues an order approving the automatic adjustment report for the period.

NSP-Wisconsin

Pending and Recently Concluded Regulatory Proceedings Public Service Commission of Wisconsin (PSCW)

2009 Electric Fuel Cost Recovery In April 2009, the PSCW initiated a fuel cost recovery proceeding under the Wisconsin fuel rules and set NSP-Wisconsin's rates subject to refund with interest, pending a full review of 2009 fuel costs. The PSCW completed its review of actual 2009 fuel costs in the second quarter of 2010 and determined that NSP-Wisconsin's 2009 fuel refund obligation was \$19.1 million. In NSP-Wisconsin's 2010 rate case decision, the PSCW authorized NSP-Wisconsin to apply \$6.4 million of the 2009 fuel refund obligation to offset the 2010 Wisconsin retail electric rate increase. NSP-Wisconsin implemented fuel cost credits in the first half of 2010 designed to refund the remaining \$12.7 million to customers.

2010 Electric Fuel Cost Recovery NSP-Wisconsin's fuel and purchased power costs through March 2010 were approximately \$1.7 million, or 4.1 percent lower than authorized in the 2010 electric rate case, which was outside the monthly and cumulative variance ranges for monitored fuel costs established by the PSCW. Pursuant to the fuel rules, on May 11, 2010, the PSCW set NSP-Wisconsin's electric rates subject to refund with interest at 10.40 percent, pending a full review of 2010 fuel costs. The PSCW has not begun its review of 2010 fuel costs. However, through June 2010, NSP-Wisconsin's fuel costs were approximately \$0.2 million, or 0.2 percent, lower than authorized in the 2010 electric rate case, which is within the cumulative variance range for monitored fuel costs established by the PSCW.

2010 Electric Rate Case Reopener As part of the resolution of its 2010 electric rate case, the PSCW allowed NSP-Wisconsin to file for a reopener for production and transmission capital costs, as well as fuel and purchased power expense. NSP-Wisconsin is expected to file its reopener petition in August 2010.

PSCo

Pending and Recently Concluded Regulatory Proceedings Colorado Public Utilities Commission (CPUC)

Base Rate

PSCo 2010 Electric Rate Case In December 2009, the CPUC approved a rate increase of approximately \$128.3 million; however, due to the delay in Comanche Unit 3 coming online, the CPUC approved PSCo's proposal to phase in the approved electric rate increase to reflect the actual cost of service. Under the plan, the following increases will be implemented:

- A rate increase of \$67 million was implemented on Jan. 1, 2010. The adjustments to the rate increase, because of the delay of the in-service date of Comanche Unit 3, include reduced O&M, property taxes, the impact of a delay in changes to jurisdictional allocators and depreciation expenses;
- Base rates increased to recover \$121 million annually, on May 14, 2010 when Comanche Unit 3 went into service; and
- Finally, base rates will increase to recover \$128.3 million annually on Jan. 1, 2011 to reflect 2011 property taxes.

Several parties, including PSCo and the Office of Consumer Counsel (OCC), filed motions for reconsideration. On April 19, 2010, the CPUC granted PSCo's request to not include long-term debt interest in the working capital calculation, which increases the revenue deficiency, recovered under the order by approximately \$2.2 million, and denied all other requests for reconsideration.

Comanche Unit 3 went into service in May 2010, and the CPUC allowed both the step change for Comanche Unit 3 in-service and the increase to reflect the debt interest on working capital.

Table of Contents

A second phase of the rate case addressed changes to rate design. The new rates approved by the CPUC went into effect on June 1, 2010. In this phase of the proceeding, the CPUC approved tiered summer rates for residential customers and seasonally differentiated rates for other customer classes. The CPUC also approved a low-income pilot program similar to the previously approved gas low-income pilot program.

Transmission Cost Adjustment (TCA) Rider In April 2010, PSCo filed a TCA rider, to adjust to the amounts recovered in the rider based on the outcome of the 2010 rate case. The filing reduced rates by \$2.3 million, effective June 1, 2010. The new TCA rider reflects actual 13-month average transmission plant in service and year-end transmission construction work in progress (CWIP) account balances for 2009, as compared to the amount of transmission costs included in PSCo's last rate case.

Unreasonable Rates for Natural Gas Formal Complaint In July 2009, the trial advocacy staff of the CPUC proposed a complaint against PSCo for unreasonable rates for natural gas service associated with earnings in excess of PSCo's authorized return that occurred in 2008. In January 2010, the CPUC opened a proceeding and assigned this matter to an ALJ.

The ALJ recommended approval of an unopposed settlement of the case on June 14, 2010 and vacated the schedule in the docket. The settlement, provided that no adjustments to current rates would be made, PSCo would file a gas rate case before the end of 2010. In that case, PSCo would propose to remove recovery on gas in storage from base rates to an adjustment clause.

Renewable Energy Credit (REC) Sharing Settlement In August 2009, PSCo filed an application seeking approval of treatment of margins associated with certain sales of Colorado RECs bundled with energy into California. In January 2010, PSCo, the OCC, the CPUC staff, the Colorado governor's energy office and Western Resource Advocates entered into a unanimous settlement in this case. The settlement establishes a pilot program and defines certain margin splits during this pilot period. The settlement provides margins would be shared based on the following:

Margin	Customers	PSCo	Carbon Offsets
Less than \$10 million	50%	40%	10%
\$10 million to \$30 million	55	35	10
Greater than \$30 million	60	30	10

Amounts designated as carbon offsets are recorded as a regulatory liability until carbon offset-related expenditures are incurred. Carbon offsets are capped at \$10 million, with the remaining 10 percent going to customers after the cap is reached. The unanimous settlement also clarified that margins associated with RECs bundled with Colorado energy would be shared 20 percent to PSCo and 80 percent to customers and margins associated with sales of stand-alone RECs without energy would be credited 100 percent to customers. The CPUC approved the settlement in a written order in May 2010.

Pending and Recently Concluded Regulatory Proceedings FERC

Edgar Filing: XCEL ENERGY INC - Form 10-Q

Wholesale Rate Case In 2009, PSCo filed a request with the FERC to increase electric rates to its firm wholesale customers by \$30.7 million based on a 12.5 percent ROE, a 58 percent equity ratio and a rate base of \$315 million. In June and July 2010, PSCo filed blackbox settlements with all of its wholesale customers except for Intermountain Rural Electric Association at the FERC. Under the terms of that settlement, PSCo would increase rates on an annual basis by \$17.0 million for these customers, effective July 7, 2010. In addition, on Jan. 1, 2011, an additional step rate increase of \$1.0 million will be implemented for property taxes associated with Comanche Unit 3. The terms of the settlement provide for lower depreciation expense than requested and for certain capacity costs to be recovered through the fuel clause until those contracts expire. A decision by the FERC on the settlements is expected by the end of 2010.

SPS

Pending and Recently Concluded Regulatory Proceedings Public Utility Commission of Texas (PUCT)

Texas Retail Base Rate Case On May 17, 2010, SPS filed a Texas rate case with the PUCT, seeking an annual base rate increase of approximately \$62 million. On a net basis, the request seeks to increase customer bills by approximately \$53.4 million, or 7 percent.

The rate filing is based on a 2009 test year adjusted for known and measurable changes, a requested ROE of 11.35 percent, an electric rate base of \$1.031 billion and an equity ratio of 51.0 percent.

Table of Contents

The following table summarizes the request:

(Millions of Dollars)	Request	
Proposed base rate increase	\$	62.0
Franchise fee cost recovery		8.7
Nitrogen oxide (NOx) emission allowances		0.8
Purchased capacity recovery factor		(13.5)
Transmission cost recovery factor		(4.6)
Adjusted rate increase	\$	53.4
ROE		11.35%
Equity ratio		51.0
Electric rate base	\$	1,031

The filing with the PUCT also includes a request to reconcile SPS fuel and purchased power costs for calendar years 2008 and 2009. As of Dec. 31, 2009, SPS had a fuel cost under-recovery of approximately \$3.3 million.

SPS expects new rates to go into effect early in 2011, although fully litigated cases would typically take longer for rates to be implemented. The procedural schedule is as follows:

- Intervenor testimony due Sept. 16, 2010;
- Staff testimony due Sept. 23, 2010;
- SPS rebuttal testimony due Oct. 7, 2010; and
- Hearings are Oct. 19 through Nov. 5, 2010.

Lubbock Electric Distribution Assets In November 2009, SPS entered into an agreement with the city of Lubbock, Texas, in which SPS will sell its electric distribution system assets within the city limits to the City of Lubbock for approximately \$87 million. As part of this transaction, SPS will continue to provide the wholesale power to meet the electric load for the customers that SPS currently serves. The wholesale power agreements provide for formula rates that change annually based on the actual cost of service. The formula rate with West Texas Municipal Power Agency (WTMPA) reflects an initial 10.5 percent ROE. All or portions of this transaction are subject to review and approval by the PUCT, the New Mexico Public Regulation Commission (NMPRC) and the FERC. This transaction is expected to close late in 2010. It is anticipated that any resulting gain on the sale of assets will be shared with retail customers in Texas, as determined in the above Texas retail base rate case.

The FERC accepted the amended WTMPA full-requirements contract in February 2010. SPS filed its application before the PUCT in January 2010 for the approvals related to the sale of distribution assets to Lubbock. In June 2010, the parties to the Texas proceeding filed an uncontested settlement resolving all issues in the Texas proceeding relating to the transaction. The PUCT has placed this matter on its agenda for its July 30, 2010 open meeting. Also in June 2010, SPS filed its application in New Mexico for approval of the transaction. A hearing

examiner has adopted a procedural schedule for a hearing on Sept. 14, 2010.

Pending and Recently Concluded Regulatory Proceedings FERC

Wholesale Rate Complaints In November 2004, Golden Spread Electric, Lyntegar Electric, Farmer s Electric, Lea County Electric, Central Valley Electric and Roosevelt County Electric, all wholesale cooperative customers of SPS, filed a rate complaint with the FERC alleging that SPS rates for wholesale service were excessive and that SPS had incorrectly calculated monthly fuel cost adjustment charges to such customers (the complaint). Among other things, the complainants asserted that SPS had inappropriately allocated average fuel and purchased power costs to other wholesale customers, effectively raising the fuel cost charges to the complainants. Cap Rock Energy Corporation (Cap Rock), another full-requirements customer of SPS, Public Service Company of New Mexico (PNM) and Occidental Permian Ltd. and Occidental Power Marketing, L.P. (Occidental), SPS largest retail customer, intervened in the proceeding.

Table of Contents

In April 2008, the FERC issued its order on the complaint applied to the remaining non-settling parties. The order addresses base rate issues for the period from Jan. 1, 2005 through June 30, 2006, for SPS full requirements customers who pay traditional cost-based rates and require certain refunds. Several parties, including SPS, filed requests for rehearing on the order. In July 2008, SPS submitted its compliance report to the FERC and calculated the base rate refund for the 18-month period to be \$6.1 million and the fuel refund to be \$4.4 million. Several wholesale customers protested these calculations. As of June 30, 2010, SPS has accrued an amount it believes is sufficient to cover the estimated refund obligation related to these complaints. The status of various settlements and the applicable regulatory approvals are discussed below. At this time, PNM, which filed a separate complaint, is the only party that has not settled.

Golden Spread Complaint Settlement SPS reached a settlement with Golden Spread (which included Lyntegar Electric) and Occidental in December 2007 regarding base rate and fuel issues raised in the complaint described above as well as a subsequent rate proceeding. The FERC approved the settlement in April 2008 and the PUCT and NMPRC approvals were obtained in the first quarter of 2010 eliminating the potential contingent payments by SPS resulting from an adverse cost assignment decision or a failure to obtain state approvals.

New Mexico Cooperatives Complaint Settlement In June 2010, the FERC approved the settlement with Farmers Electric Cooperative of New Mexico, Lea County Electric Cooperative, Central Valley Electric Cooperative and Roosevelt County Electric Cooperative, and Occidental regarding the same base rate and fuel issues raised in the complaint described above. The settlement resolves all issues arising from the complaint docket and implements a replacement contract with a formula production rate at 10.5 percent ROE and extended the term of its requirements sale to the four wholesale customers.

The four wholesale customers must reduce their system average cost power purchases by 90 to 100 megawatts (MW) in 2012, and implement staged reductions in system average cost power purchases through the term of the agreement, which terminates on May 31, 2026. The settlement made the replacement contract contingent on certain state approvals. In the event not all state regulatory approvals are received, the settlement includes a one time contingent payment of \$12 million by SPS to these wholesale customers. These wholesale customers agreed to hold SPS harmless from any future adverse regulatory treatment regarding the proposed wholesale power sale.

SPS reached settlements that would obtain the needed state approvals referenced above. No party has contested the PUCT approval, and it is expected that the PUCT will act on the settlement in August 2010. The New Mexico parties and NMPRC staff filed a stipulation to resolve the NMPRC proceeding. The hearing examiner heard the stipulation and recommended that the NMPRC approve the stipulation. The NMPRC is expected to consider a final order in August 2010. As a result of the FERC approval of the settlement and resolution of the complaint with the New Mexico cooperatives, SPS released previously established reserves of \$11.5 million in the second quarter of 2010.

Cap Rock Complaint Settlement Cap Rock is an intervenor in the complaint case. In the second quarter of 2010, SPS and Cap Rock filed a settlement agreement with the FERC regarding the same base rate and fuel issues described above. Subject to FERC approval of the settlement agreement, SPS will pay Cap Rock \$1 million to resolve all remaining base rate and fuel claims against SPS. Cap Rock also agrees that its production base rates will be converted to a formula rate design. The settlement agreement was also contingent on FERC and PUCT approval of the Sharyland acquisition of Cap Rock, which was approved in June 2010 and July 2010, respectively.

7. Commitments and Contingent Liabilities

Edgar Filing: XCEL ENERGY INC - Form 10-Q

Except to the extent noted below and in Note 6 to the consolidated financial statements in this Quarterly Report on Form 10-Q, the circumstances set forth in Notes 16, 17 and 18 to the consolidated financial statements included in Xcel Energy's Annual Report on Form 10-K for the year ended Dec. 31, 2009, appropriately represent, in all material respects, the current status of commitments and contingent liabilities, including those regarding public liability for claims resulting from any nuclear incident, and are incorporated herein by reference. The following include commitments, contingencies and unresolved contingencies that are material to Xcel Energy's financial position.

Commitments

Variable Interest Entities Effective Jan. 1, 2010, Xcel Energy adopted new guidance on consolidation of variable interest entities contained in *ASC 810 Consolidation*. The guidance requires enterprises to consider the activities that most significantly impact an entity's financial performance, and power to direct those activities, when determining whether an entity is a variable interest entity and whether an enterprise is a variable interest entity's primary beneficiary.

Table of Contents

Purchased Power Agreements The utility subsidiaries of Xcel Energy have entered into agreements with other utilities and energy suppliers for purchased power to meet system load and energy requirements, replace generation from company-owned units under maintenance or during outages, and meet operating reserve obligations.

NSP-Minnesota, PSCo and SPS have various pay-for-performance contracts with expiration dates through the year 2034. In general, these contracts provide for energy payments based on actual power taken under the contracts as well as capacity payments. Capacity payments are typically contingent on the independent power producing entity meeting certain contract obligations, including plant availability requirements. Certain contractual payments are adjusted based on market indices; however, the effects of price adjustments are mitigated through purchased energy cost recovery mechanisms.

Xcel Energy is not subject to risk of loss from the operations of these entities, and no significant financial support has been, or is in the future required to be provided other than contractual payments for energy and capacity set forth in purchased power agreements.

Certain natural gas and biomass fueled purchased power agreements that either reimburse the independent power producing entities for fuel costs, or contain tolling arrangements under which Xcel Energy procures the fuel required to produce the energy it purchases, have been determined to be variable interest entities.

Xcel Energy has evaluated each of these variable interest entities for possible consolidation, including review of qualitative factors such as the length and terms of the contract, control over operations and maintenance, historical and estimated future fuel and electricity prices, and financing activities. Xcel Energy has concluded that these entities are not required to be consolidated in its consolidated financial statements because it does not have the power to direct the activities that most significantly impact the entities' economic performance. As of June 30, 2010 and Dec. 31, 2009, Xcel Energy had approximately 5,012 MW of capacity under long-term purchased power agreements with entities that have been determined to be variable interest entities.

Fuel Contracts SPS purchases all of its coal requirements for its Harrington and Tolk electric generating stations from TUCO, Inc. (TUCO) under contracts for those facilities that expire in 2016 and 2017, respectively. TUCO arranges for the purchase, receiving, transporting, unloading, handling, crushing, weighing, and delivery of coal to meet SPS' requirements. TUCO is responsible for negotiating and administering contracts with coal suppliers, transporters and handlers.

No significant financial support has been, or is in the future, required to be provided to TUCO by SPS, other than contractual payments for delivered coal. However, the fuel contracts have been determined to create a variable interest in TUCO due to SPS' reimbursement of certain fuel procurement costs. SPS has evaluated the TUCO coal supply contracts and has concluded that it is not the primary beneficiary because SPS does not have the power to direct the activities that most significantly impact TUCO's economic performance.

Low-Income Housing Limited Partnerships Eloigne Company (Eloigne) and NSP-Wisconsin have entered into limited partnerships for the construction and operation of affordable rental housing developments which qualify for low-income housing tax credits. Xcel Energy has determined Eloigne and NSP-Wisconsin's low-income housing limited partnerships to be variable interest entities primarily due to contractual arrangements within each limited partnership that establish sharing of ongoing voting control and profits and losses that does not consistently align with the partners' proportional equity ownership. These limited partnerships are designed to qualify for low-income housing tax credits,

Edgar Filing: XCEL ENERGY INC - Form 10-Q

and Eloigne and NSP-Wisconsin generally receive a larger allocation of the tax credits than the general partners at inception of the arrangements. It has been determined that Eloigne and NSP-Wisconsin have the power to direct the activities that most significantly impact these entities' economic performance, and therefore Xcel Energy consolidates these limited partnerships in its consolidated financial statements.

Equity financing for these entities has been provided by Eloigne and NSP-Wisconsin and the general partner of each limited partnership, and Xcel Energy's risk of loss is limited to its capital contributions, adjusted for any distributions and its share of undistributed profits and losses; no significant additional financial support has been, or is in the future, required to be provided to the limited partnerships by Eloigne or NSP-Wisconsin. Mortgage-backed debt typically comprises the majority of the financing at inception of each limited partnership and is paid over the life of the limited partnership arrangement. Obligations of the limited partnerships are generally secured by the low-income housing properties of each limited partnership, and the creditors of each limited partnership have no significant recourse to Xcel Energy or its subsidiaries. Likewise, the assets of the limited partnerships may only be used to settle obligations of the limited partnerships, and not those of Xcel Energy or its subsidiaries.

Table of Contents

Amounts reflected in Xcel Energy's consolidated balance sheets for the Eloigne and NSP-Wisconsin low-income housing limited partnerships include the following:

(Thousands of Dollars)	June 30, 2010		Dec. 31, 2009	
Current assets	\$	3,717	\$	3,674
Property, plant and equipment, net		100,696		103,552
Other noncurrent assets		7,687		7,577
Total assets	\$	112,100	\$	114,803
Current liabilities	\$	14,128	\$	12,315
Mortgages and other long-term debt payable		52,027		54,927
Other noncurrent liabilities		8,140		8,250
Total liabilities	\$	74,295	\$	75,492

Environmental Contingencies

Xcel Energy and its subsidiaries have been, or are currently, involved with the cleanup of contamination from certain hazardous substances at several sites. In many situations, the subsidiary involved believes it will recover some portion of these costs through insurance claims. Additionally, where applicable, the subsidiary involved is pursuing, or intends to pursue, recovery from other potentially responsible parties (PRPs) and through the rate regulatory process. New and changing federal and state environmental mandates can also create added financial liabilities for Xcel Energy and its subsidiaries, which are normally recovered through the rate regulatory process. To the extent any costs are not recovered through the options listed above, Xcel Energy would be required to recognize an expense.

Site Remediation Xcel Energy must pay all or a portion of the cost to remediate sites where past activities of its subsidiaries or other parties have caused environmental contamination. Environmental contingencies could arise from various situations, including sites of former manufactured gas plants (MGPs) operated by Xcel Energy subsidiaries, predecessors, or other entities; and third-party sites, such as landfills, for which Xcel Energy is alleged to be a PRP that sent hazardous materials and wastes. At June 30, 2010, the liability for the cost of remediating these sites was estimated to be \$102.0 million, of which \$5.5 million was considered to be a current liability.

Manufactured Gas Plant Sites

Ashland MGP Site NSP-Wisconsin has been named a PRP for creosote and coal tar contamination at a site in Ashland, Wis. The Ashland/Northern States Power Lakefront Superfund Site (Ashland site) includes property owned by NSP-Wisconsin, which was previously an MGP facility and two other properties: an adjacent city lakeshore park area, on which an unaffiliated third party previously operated a sawmill; and an area of Lake Superior's Chequamegon Bay adjoining the park.

In September 2002, the Ashland site was placed on the National Priorities List. In 2009, the Environmental Protection Agency (EPA) issued its proposed remedial action plan (PRAP). The estimated remediation costs for the cleanup proposed by the EPA in the PRAP range between \$94.4 million and \$112.8 million. NSP-Wisconsin submitted comments to the EPA in response to the PRAP, and indicated that it had serious concerns about the cleanup approach proposed by the EPA. It is expected that the EPA will select a final remedial action plan sometime later in

2010.

NSP-Wisconsin's potential liability, the actual cost of remediating the Ashland site and the time frame over which the amounts may be paid out are not determinable until the EPA selects a remediation strategy for the entire site and determines NSP-Wisconsin's level of responsibility. NSP-Wisconsin continues to work with the Wisconsin Department of Natural Resources to access state and federal funds to apply to the ultimate remediation cost of the entire site. NSP-Wisconsin has recorded a liability of \$97.5 million based upon the minimum of the range of remediation costs established by the PRAP, together with estimated outside legal, consultant and remedial design costs.

NSP-Wisconsin has deferred, as a regulatory asset, the costs accrued for the Ashland site based on an expectation that the PSCW will continue to allow NSP-Wisconsin to recover payments for environmental remediation from its customers. The PSCW has consistently authorized recovery in NSP-Wisconsin rates of all remediation costs incurred at the Ashland site and has authorized recovery of similar remediation costs for other Wisconsin utilities. External MGP remediation costs are subject to deferral in the Wisconsin retail jurisdiction and are reviewed for prudence as part of the Wisconsin biennial retail rate case process. A final determination of the scope and cost of the remediation of the Ashland site is not currently expected until sometime later in 2010.

Table of Contents

In addition, in 2003, the Wisconsin Supreme Court rendered a ruling that reopens the possibility that NSP-Wisconsin may be able to recover a portion of the remediation costs from its insurance carriers. Any insurance proceeds received by NSP-Wisconsin will be credited to ratepayers.

In addition to potential liability for remediation, NSP-Wisconsin may also have potential liability for natural resource damages at the Ashland site. NSP-Wisconsin has recorded an estimate of its potential liability based upon its best estimate of potential exposure.

Third Party and Other Environmental Site Remediation

Asbestos Removal Some of Xcel Energy's facilities contain asbestos. Most asbestos will remain undisturbed until the facilities that contain it are demolished or renovated. Xcel Energy has recorded an estimate for final removal of the asbestos as an asset retirement obligation (ARO). See additional discussion of AROs in Note 17 to the Xcel Energy Annual Report on Form 10-K for the year ended Dec. 31, 2009. It may be necessary to remove some asbestos to perform maintenance or make improvements to other equipment. The cost of removing asbestos as part of other work is immaterial and is recorded as incurred as operating expenses for maintenance projects, capital expenditures for construction projects or removal costs for demolition projects.

Other Environmental Requirements

Colorado Clean Air-Clean Jobs Act The Colorado Clean Air-Clean Jobs Act (the Act) was signed into law on April 19, 2010. The Act establishes a timeline and regulatory framework for rate-regulated utilities in Colorado to develop a plan to potentially retrofit, retire or replace 900 MW or more of aging coal-fired electric generating capacity. The plan must result in a reduction of 70 to 80 percent in NOx emissions from affected coal-fired power plants by 2018 or sooner to meet current and reasonably foreseeable Clean Air Act (CAA) emission reduction mandates.

Under the emission reduction plan, PSCo may retrofit its existing coal-fired plants with emission controls or retire and replace the plants with natural gas-fired generation or other low emitting resources. The Act specifically requires PSCo to study the early retirement of up to 900 MW of existing coal-fired capacity, but does not require any retirement unless, among other things, the retirement can be accomplished at a reasonable cost while protecting system reliability. PSCo must submit its plan to the CPUC by Aug. 15, 2010 and the CPUC must act on the plan by Dec. 15, 2010.

Pursuant to the Act, PSCo is entitled to fully recover the costs that it prudently incurs in executing an approved emission reduction plan and is allowed a return on CWIP on plan investments. In addition, if early action is taken to retire or convert units to natural gas, and PSCo shows that the costs of the plan would contribute to any earnings deficiency, additional relief, including a more comprehensive rider to recover other plant costs such as depreciation and O&M expense, or a multi-year rate plan are allowed. The Act also makes interim rates permissible in Colorado, starting Jan. 1, 2012. Additional information regarding the Colorado Clean Air-Clean Jobs Act is presented in the Management's Discussion of Analysis of Financial Condition and Results of Operations, Factors Affecting Results of Continuing Operations, Public Utility Regulation section.

Edgar Filing: XCEL ENERGY INC - Form 10-Q

EPA Greenhouse Gas (GHG) Rulemaking On Dec. 7, 2009, in response to the U. S. Supreme Court's decision in *Massachusetts v. EPA*, 549 U. S. 497 (2007), the EPA issued its endangerment finding that GHG emissions endanger public health and welfare and that emissions from motor vehicles contribute to the GHGs in the atmosphere. This endangerment finding creates a mandatory duty for the EPA to regulate GHGs from light duty vehicles. The EPA finalized GHG efficiency standards for light duty vehicles in spring of 2010 and has promulgated permitting requirements for GHGs for large new and modified stationary sources, such as power plants. These regulations will become applicable in 2011.

Clean Air Interstate Rule (CAIR) In March 2005, the EPA issued the CAIR to further regulate sulfur dioxide (SO₂) and NO_x emissions. The objective of CAIR is to cap emissions of SO₂ and NO_x in the eastern United States, including Minnesota, Texas and Wisconsin, which are within Xcel Energy's service territory. In 2008, the U. S. Court of Appeals for the District of Columbia vacated and remanded CAIR. On July 6, 2010, the EPA issued the proposed Clean Air Transport Rule (CATR), which would replace CAIR by requiring SO₂ and NO_x reductions in 31 states and the District of Columbia. The EPA is proposing to reduce these emissions through federal implementation plans for each affected state. The EPA's preferred approach would set emission limits for each state and allow limited interstate emissions trading. As proposed, CATR will impact Minnesota and Wisconsin for annual SO₂ and NO_x emissions, and Texas in the form of ozone season NO_x emission allowances. Xcel Energy is analyzing the proposed rule to determine whether emission reductions are needed from facilities in these affected states. Until CATR becomes final, Xcel Energy will continue activities to support CAIR compliance.

Table of Contents

CAIR - SPS

Under CAIR's cap and trade structure, SPS can comply through capital investments in emission controls or purchase of emission allowances from other utilities making reductions on their systems. The remaining scheduled capital investments for NOx controls in the SPS region are estimated at \$16.4 million. For 2009, the NOx allowance compliance costs were \$1.7 million. The estimated NOx allowance cost for 2010 is \$1.2 million. Annual purchases of SO2 allowances are estimated in the range of \$1.7 million to \$7.7 million each year, beginning in 2013, for phase I. Allowance cost estimates for SPS are based on fuel quality and current market data. Xcel Energy believes the cost of any required capital investment or allowance purchases will be recoverable from customers in rates.

CAIR - NSP-Wisconsin and NSP-Minnesota

For 2009, the NOx allowance costs for NSP-Wisconsin were \$0.5 million. The estimated NOx allowance cost for 2010 is \$0.4 million. Allowance cost estimates for NSP-Wisconsin are based on fuel quality and current market data. Xcel Energy believes the cost of any required capital investment or allowance purchases will be recoverable from customers in rates. On Nov. 3, 2009, the EPA published a rule staying the effectiveness of CAIR in Minnesota effective Dec. 3, 2009. Cost estimates are therefore not included at this time for NSP-Minnesota.

Clean Air Mercury Rule (CAMR) In March 2005, the EPA issued the CAMR, which regulated mercury emissions from power plants. In February 2008, the U. S. Court of Appeals for the District of Columbia vacated CAMR, which impacted federal CAMR requirements, but not necessarily state-only mercury legislation and rules. The EPA has agreed to finalize Maximum Achievable Control Technology (MACT) emission standards for all hazardous air pollutants from electric utility steam generating units by November 2011 to replace CAMR. Xcel Energy anticipates that the EPA will require affected facilities to demonstrate compliance within 18 to 36 months thereafter.

Colorado Mercury Regulation Colorado's mercury regulations require mercury emission controls capable of achieving 80 percent capture to be installed at the Pawnee Generating Station by 2012 and other specified units by 2014. The expected cost estimate for the Pawnee Generating Station is \$2.3 million for capital costs with an annual estimate of \$1.4 million for sorbent expense. PSCo is evaluating the emission controls required to meet the state rule for the remaining units and is currently unable to provide a total capital cost estimate.

Minnesota Mercury Legislation In May 2006, the Minnesota legislature enacted the Mercury Emissions Reduction Act of 2006 (Act) providing a process for plans, implementation and cost recovery for utility efforts to curb mercury emissions at certain power plants. For NSP-Minnesota, the Act covers units at the A. S. King and Sherco generating facilities. NSP-Minnesota installed and is operating and maintaining continuous mercury emission monitoring systems at these generating facilities.

In November 2008, the MPUC approved and ordered the implementation of the Sherco Unit 3 and A. S. King mercury emission reduction plans. A sorbent injection control system was installed at Sherco Unit 3 in December 2009, with installation at A. S. King scheduled for December 2010. In November 2009, the MPUC authorized NSP-Minnesota to collect approximately \$3.5 million from customers through a mercury rider in 2010.

In December 2009, NSP-Minnesota filed its mercury control plan at Sherco Units 1 and 2 with the MPUC and the Minnesota Pollution Control Agency (MPCA). In June 2010, the MPCA filed its comments on the Sherco Unit 1 and 2 mercury plan and believes the plan to be appropriate under the Act. The MPUC has 180 days to either approve or disapprove the plan. Assuming that the plan is approved, NSP-Minnesota expects to file for recovery of the costs to implement the plan through the mercury cost recovery rider.

Regional Haze Rules In June 2005, the EPA finalized amendments to its regional haze rules regarding provisions that require emission controls, known as best available retrofit technology (BART), for industrial facilities emitting air pollutants that reduce visibility by causing or contributing to regional haze. Xcel Energy generating facilities in several states will be subject to BART requirements. States are required to identify the facilities that will have to reduce SO₂, NO_x and particulate matter emissions under BART and then set BART emissions limits for those facilities.

Table of Contents

PSCo

In May 2006, the Colorado Air Quality Control Commission promulgated BART regulations requiring certain major stationary sources to evaluate, install, operate and maintain BART to make reasonable progress toward meeting the national visibility goal. PSCo expects the cost of any required capital investment will be recoverable from customers. Emissions controls are expected to be installed between 2012 and 2015. Colorado's BART state implementation plan (SIP) has been submitted to the EPA for approval. The Colorado Air Pollution Control Division (CAPCD) is currently analyzing what types of additional NOx controls may be necessary to meet reasonable progress goals for Colorado's Class I areas, the new ozone standard, and Rocky Mountain National Park nitrogen deposition reduction goals. The CAPCD has indicated that it expects to submit a Regional Haze/Reasonable Further Progress SIP to the EPA in early 2011. PSCo anticipates that for those plants included in the Clean Air-Clean Jobs Act's emission reduction plan, the plan will satisfy regional haze requirements.

In March 2010, two environmental groups petitioned the U. S. Department of the Interior (DOI) to certify that 12 coal-fired boilers and one coal-fired cement kiln in Colorado are contributing to visibility problems in Rocky Mountain National Park. Four PSCo plants are named in the petition: Cherokee, Hayden, Pawnee and Valmont. The groups allege that the Colorado BART rule is inadequate to satisfy the CAA mandate of ensuring reasonable further progress towards restoring natural visibility conditions in the park. It is not known when the DOI will rule on the petition.

NSP-Minnesota

NSP-Minnesota submitted its BART alternatives analysis for Sherco Units 1 and 2 in October 2006. The MPCA reviewed the BART analyses for all units in Minnesota and determined that overall, compliance with CAIR is better than BART. The MPCA completed their BART determination and proposed SO2 and NOx limits in the draft SIP that are equivalent to the reductions made under CAIR.

In October 2009, the DOI certified that a portion of the visibility impairment in Voyageurs and Isle Royale National Parks is reasonably attributable to emissions from NSP-Minnesota's Sherco Units 1 and 2. The EPA is required to make its own determination as to whether Sherco Units 1 and 2 cause or contribute to visibility impairment and, if so, whether the level of controls proposed by MPCA is appropriate.

The MPCA determined that this certification does not alter the proposed SIP. The SIP proposes BART controls for the Sherco generating facilities that are designed to improve visibility in the national parks, but does not require Selective Catalytic Reduction (SCR) on Units 1 and 2. The MPCA concluded that the minor visibility benefits derived from SCR do not outweigh the substantial costs. In December 2009, the MPCA Citizens Board approved the SIP, which has been submitted to the EPA for approval. The EPA is expected to complete its review of the SIP, as well as the Sherco Units 1 and 2 BART determination before the end of 2010.

Federal Clean Water Act The federal Clean Water Act (CWA) requires the EPA to regulate cooling water intake structures to assure that these structures reflect the best technology available (BTA) for minimizing adverse environmental impacts. In July 2004, the EPA published phase II of the rule, which applies to existing cooling water intakes at steam-electric power plants. Several lawsuits were filed against the EPA challenging the phase II rulemaking. In April 2009, the U. S. Supreme Court issued a decision in *Entergy Corp. v. Riverkeeper, Inc.*, concluding that the EPA can consider a cost benefit analysis when establishing BTA. The decision overturned only one aspect of the Court of Appeals earlier opinion, and gives the EPA the discretion to consider costs and benefits when it reconsiders its phase II rules. Until the EPA fully responds, the rule's compliance requirements and associated deadlines will remain unknown. As such, it is not possible to provide an accurate estimate of the overall cost of this rulemaking at this time.

Edgar Filing: XCEL ENERGY INC - Form 10-Q

As part of NSP-Minnesota's 2009 CWA permit renewal for Black Dog plant, the MPCA required that the plant submit a plan for compliance with the CWA. The compliance plan was submitted for MPCA review and approval in April 2010. The MPCA is currently reviewing the proposal in consultation with the EPA. Xcel Energy anticipates approval of the plan by the end of 2010.

Proposed Coal Ash Regulation In June 2010, the EPA published a proposed rule seeking comment on whether to regulate coal combustion byproducts (often referred to as coal ash) as a special waste (subject to many of the requirements for hazardous waste) or as a solid (nonhazardous) waste. Coal ash is currently exempt from hazardous waste regulation. The EPA's proposal would result in more comprehensive and expensive requirements related to management and disposal of coal ash. There is a 90-day comment deadline to submit comments on the rule, but requests for extension of time to submit comments have been submitted to the EPA. The EPA is also seeking comment on what regulations are appropriate for the beneficial reuse of coal ash. The timing, scope and potential cost of any final rule that might be implemented are not determinable at this time.

Table of Contents

PSCo Notice of Violation (NOV) In July 2002, PSCo received an NOV from the EPA alleging violations of the New Source Review (NSR) requirements of the CAA at the Comanche Station and Pawnee Station in Colorado. The NOV specifically alleges that various maintenance, repair and replacement projects undertaken at the plants in the mid to late 1990s should have required a permit under the NSR process. PSCo believes it has acted in full compliance with the CAA and NSR process. PSCo believes that the projects identified in the NOV fit within the routine maintenance, repair and replacement exemption contained within the NSR regulations or are otherwise not subject to the NSR requirements. PSCo disagrees with the assertions contained in the NOV and intends to vigorously defend its position.

Cunningham Draft Compliance Order On Feb. 18, 2010, SPS received a draft compliance order from the New Mexico Environment Department (NMED) for Cunningham Station. In the draft order, NMED alleges that Cunningham exceeded its permit limits for NOx on 7,336 occasions and failed to report these exceedances as required by its permit. The draft order included a proposed penalty of \$16.1 million. SPS denies these allegations and is negotiating with the NMED regarding the alleged violations and proposed penalty prior to the issuance of a final order.

Legal Contingencies

Lawsuits and claims arise in the normal course of business. Management, after consultation with legal counsel, has recorded an estimate of the probable cost of settlement or other disposition of them. The ultimate outcome of these matters cannot presently be determined. Accordingly, the ultimate resolution of these matters could have a material adverse effect on Xcel Energy's financial position and results of operations.

Gas Trading Litigation

e prime, inc. (eprime) is a wholly owned subsidiary of Xcel Energy. e prime was in the business of natural gas trading and marketing. e prime has not engaged in natural gas trading or marketing activities since 2003. Thirteen lawsuits have been commenced against e prime and Xcel Energy (and NSP-Wisconsin, in one instance); alleging fraud and anticompetitive activities in conspiring to restrain the trade of natural gas and manipulate natural gas prices. Xcel Energy, e prime, and NSP-Wisconsin deny these allegations, believe they are without merit and will vigorously defend against these lawsuits, including seeking dismissal and summary judgment.

The initial gas-trading lawsuit, a purported class action brought by wholesale natural gas purchasers, was filed in November 2003 in the United States District Court in the Eastern District of California. e prime is one of several defendants named in the complaint. This case is captioned *Texas-Ohio Energy vs. CenterPoint Energy et al.* The other twelve cases arising out of the same or similar set of facts are captioned *Fairhaven Power Company vs. EnCana Corporation et al.*; *Ableman Art Glass vs. EnCana Corporation et al.*; *Utility Savings and Refund Services LLP vs. Reliant Energy Services Inc. et al.*; *Sinclair Oil Corporation vs. e prime and Xcel Energy Inc.*; *Ever-Bloom Inc. vs. Xcel Energy Inc. and e prime et al.*; *Learjet, Inc. vs. e prime and Xcel Energy Inc et al.*; *J.P. Morgan Trust Company vs. e prime and Xcel Energy Inc. et al.*; *Breckenridge Brewery vs. e prime and Xcel Energy Inc. et al.*; *Missouri Public Service Commission vs. e prime, inc. and Xcel Energy Inc. et al.*; *Arandell vs. e prime, Xcel Energy, NSP-Wisconsin et al.*; *NewPage Wisconsin System Inc vs. e prime, Xcel Energy, NSP-Wisconsin et al.* and *Heartland Regional Medical Center vs. e prime, Xcel Energy et al.* Many of these cases involve multiple defendants and have been transferred to Judge Phillip Pro of the U. S. District Court in Nevada, who is the judge assigned to the Western Area Wholesale Natural Gas Antitrust Litigation.

Edgar Filing: XCEL ENERGY INC - Form 10-Q

e prime and some other defendants were dismissed from the *Breckenridge Brewery* lawsuit in February 2008, but Xcel Energy remains a defendant in that lawsuit and e prime Energy Marketing was added as a defendant in February 2008.

No trial dates have been set for any of these lawsuits. In 2009, the parties reached a settlement agreement in the *Abelman Art Glass, Ever Bloom, Fairhaven Power Company, Texas-Ohio Energy, and Utility Savings and Refund Services* cases. The terms of the settlement did not have a material financial effect upon Xcel Energy. Discovery in most of the remaining cases was completed by Dec. 5, 2009. Trial for all cases venued in Nevada will likely be set for 2011 if pending motions to dismiss are not granted.

In November 2007, the *Missouri Public Service Commission* case was remanded to Missouri state court. On Jan. 13, 2009, the Missouri state court granted defendants' motion to dismiss plaintiff's complaint for lack of standing. Plaintiffs filed an appeal and on Dec. 8, 2009, the Missouri Court of Appeals affirmed the dismissal. The Missouri Supreme Court subsequently granted plaintiff's motion for transfer and the matter is currently pending before the Missouri Supreme Court.

In March 2009, *Newpage Wisconsin System Inc.* commenced a lawsuit in state court in Wood County, Wis. The allegations are substantially similar to *Arandell* and name several of the same defendants, including Xcel Energy, e prime and NSP-Wisconsin. In September 2009, Plaintiffs moved to consolidate the *Newpage* and *Arandell* matters. In June 2010, the court denied defendants' motions to dismiss the *Newpage* lawsuit on statute of limitations grounds and granted the motion to consolidate *New Page* and *Arandell*.

Table of Contents

Environmental Litigation

Carbon Dioxide (CO₂) Emissions Lawsuit In 2004, the attorneys general of eight states and New York City, as well as several environmental groups, filed lawsuits in U. S. District Court in the Southern District of New York against five utilities, including Xcel Energy, to force reductions in CO₂ emissions. The other utilities include American Electric Power Co., Southern Co., Cinergy Corp. and Tennessee Valley Authority. The lawsuits allege that CO₂ emitted by each company is a public nuisance. The lawsuits do not demand monetary damages. Instead, the lawsuits ask the court to order each utility to cap and reduce its CO₂ emissions. On Sept. 19, 2005, the court granted a motion to dismiss on constitutional grounds. On appeal in September 2009, the U. S. Court of Appeals for the Second Circuit reversed the lower court decision. Defendants anticipate filing a petition for review with the U. S. Supreme Court.

Comer vs. Xcel Energy Inc. et al. In 2006, Xcel Energy received notice of a purported class action lawsuit filed in U. S. District Court in the Southern District of Mississippi. The lawsuit names more than 45 oil, chemical and utility companies, including Xcel Energy, as defendants and alleges that defendants' CO₂ emissions were a proximate and direct cause of the increase in the destructive capacity of Hurricane Katrina. Plaintiffs allege negligence and public and private nuisance and seek damages related to the loss resulting from the hurricane. Xcel Energy believes this lawsuit is without merit and intends to vigorously defend itself against these claims. In August 2007, the court dismissed the lawsuit in its entirety against all defendants on constitutional grounds. Plaintiffs filed a notice of appeal to the U. S. Court of Appeals for the Fifth Circuit. In October 2009, the U. S. Court of Appeals for the Fifth Circuit reversed the district court decision, in part, concluding that the plaintiffs pleaded sufficient facts to overcome the constitutional challenges that formed the basis for dismissal by the district court. A subsequent petition by defendants, including Xcel Energy, for en banc review was granted. On May 28, 2010, the U. S. Court of Appeals for the Fifth Circuit ruled that it lacked an en banc quorum of nine active members to hear the case. It dismissed the appeal, which resulted in the reinstatement of the district court's opinion dismissing the case.

Native Village of Kivalina vs. Xcel Energy Inc. et al. In 2008, the City and Native Village of Kivalina, Alaska, filed a lawsuit in U. S. District Court for the Northern District of California against Xcel Energy and 23 other utilities, oil, gas and coal companies. Plaintiffs claim that defendants' emission of CO₂ and other GHGs contribute to global warming, which is harming their village. Xcel Energy believes the claims asserted in this lawsuit are without merit and joined with other utility defendants in filing a motion to dismiss on June 30, 2008. In October 2009, the U. S. District Court dismissed the lawsuit on constitutional grounds. In November 2009, plaintiffs filed a notice of appeal to the U. S. Court of Appeals for the Ninth Circuit. It is unknown when the Ninth Circuit will render a final opinion.

Comanche Unit 3 CAA Lawsuit In July 2009, WildEarth Guardians (WEG) filed a lawsuit in the U. S. District Court in Colorado against PSCo alleging that PSCo violated the CAA by constructing Comanche Unit 3 without a final MACT determination from the Colorado Department of Public Health and Environment, Air Pollution Control Division (APCD). PSCo disputes these claims and filed a motion to dismiss the suit. Comanche Unit 3 was constructed with state-of-the-art emission controls and pursuant to a valid air permit issued by the APCD. In January 2010, WEG sought to enjoin PSCo from constructing, modifying, or operating Comanche Unit 3 prior to receiving a final MACT determination. The court denied WEG's request for a temporary restraining order on Jan. 26, 2010. In March 2010, the court partially granted and partially denied PSCo's motion to dismiss. The court requested additional briefing on certain issues related to the MACT determination. Briefing has now been completed, and the court is expected to issue a final ruling in due course.

United States vs. Xcel Energy Inc. et al. In June 2010, the U. S. Department of Justice and the EPA filed a complaint in the U. S. District Court in Minnesota against Xcel Energy, alleging that Xcel Energy has failed to fully respond to certain information requests issued by the EPA. Over the last ten years, Xcel Energy has responded to numerous information requests from the EPA pursuant to section 114 of the CAA. The requests focused on projects undertaken at Xcel Energy's Sherco and Black Dog plants to determine whether these projects were carried out in compliance with the New Source Review. Xcel Energy has complied with these requests and produced thousands of pages of documents. In

Edgar Filing: XCEL ENERGY INC - Form 10-Q

June 2009, the EPA issued a supplemental information request which, among other things, asked for documents related to projects that may be undertaken in the future at the plants. Xcel Energy believes that the request for future project information exceeds the EPA's CAA authority and serves no legitimate investigative purpose. The EPA's information-request authority is limited to information that is necessary and appropriate to determine whether or not Xcel Energy is in compliance with the CAA. Planned future projects, on which construction has not begun and which may never be implemented, cannot be the basis of a CAA violation. Xcel Energy believes that it has complied with its obligation to provide information and has filed a motion to dismiss the lawsuit.

Table of Contents

Employment, Tort and Commercial Litigation

Siewert vs. Xcel Energy In 2004, plaintiffs, the owners and operators of a Minnesota dairy farm, brought an action in Minnesota state court against NSP-Minnesota alleging negligence in the handling, supplying, distributing and selling of electrical power systems; negligence in the construction and maintenance of distribution systems; and failure to warn or adequately test such systems. Plaintiffs allege decreased milk production, injury, and damage to a dairy herd as a result of stray voltage resulting from NSP-Minnesota's distribution system. Plaintiffs claim losses of approximately \$7 million. NSP-Minnesota denies all allegations. In December 2008, the Court of Appeals issued a decision ordering dismissal of plaintiffs' claims for injunctive relief, but otherwise rejecting NSP-Minnesota's contentions and ordering the matter remanded for trial. The Minnesota Supreme Court subsequently granted NSP-Minnesota's petition for further review and heard oral arguments in December 2009. It is uncertain when the Minnesota Supreme Court will render a decision.

Qwest vs. Xcel Energy Inc. In 2004, an employee of PSCo was seriously injured when a pole owned by Qwest malfunctioned. In September 2005, the employee commenced an action against Qwest in Colorado state court in Denver. In April 2006, Qwest filed a third party complaint against PSCo based on terms in a joint pole use agreement between Qwest and PSCo. In May 2007, the matter was tried and the jury found Qwest solely liable for the accident and this determination resulted in an award of damages in the amount of approximately \$90 million. In April 2009, the Colorado Court of Appeals affirmed the jury verdict insofar as it relates to claims asserted by Qwest against PSCo. Qwest filed a petition for rehearing with the Colorado Supreme Court in June 2009. In February 2010, the Colorado Supreme Court agreed to review the Court of Appeals' decision as to the punitive damages issue but will not review the Court of Appeals' decision as it relates to PSCo. It is unknown when the Colorado Supreme Court will render a decision.

MGP Insurance Coverage Litigation In October 2003, NSP-Wisconsin initiated discussions with its insurers regarding the availability of insurance coverage for costs associated with the remediation of four former MGP sites located in Ashland, Chippewa Falls, Eau Claire and La Crosse, Wis. In lieu of participating in discussions, in October 2003, two of NSP-Wisconsin's insurers, St. Paul Fire & Marine Insurance Co. and St. Paul Mercury Insurance Co., commenced litigation against NSP-Wisconsin in Minnesota state district court. In November 2003, NSP-Wisconsin commenced suit in Wisconsin state court against St. Paul Fire & Marine Insurance Co. and its other insurers. Subsequently, the Minnesota court enjoined NSP-Wisconsin from pursuing the Wisconsin litigation. In July of 2007, the Minnesota trial court granted defendant's motion for summary judgment, which was affirmed on appeal in August 2009. Pursuant to defendant's motion, the Wisconsin action was dismissed in March 2010. In April 2010, NSP-Wisconsin appealed this decision to the Wisconsin Court of Appeals. It is unknown when the Wisconsin Court of Appeals will render a decision.

NSP-Wisconsin has reached settlements with 22 insurers, and these insurers have been dismissed from both the Minnesota and Wisconsin actions. NSP-Wisconsin has also reached settlements in principle with Ranger Insurance Company, TIG Insurance Company, Royal Indemnity Company and Globe Indemnity Company.

The PSCW has established a deferral process whereby clean-up costs associated with the remediation of former MGP sites are deferred and, if approved by the PSCW, recovered from ratepayers. Carrying charges associated with these clean-up costs are not subject to the deferral process and are not recoverable from ratepayers. Any insurance proceeds received by NSP-Wisconsin will be credited to ratepayers. None of the aforementioned lawsuit settlements are expected to have a material effect on Xcel Energy's consolidated financial statements.

Nuclear Waste Disposal Litigation In 1998, NSP-Minnesota filed a complaint in the U. S. Court of Federal Claims against the United States requesting breach of contract damages for the U. S. Department of Energy's (DOE) failure to begin accepting spent nuclear fuel by Jan. 31, 1998,

Edgar Filing: XCEL ENERGY INC - Form 10-Q

as required by the contract between the DOE and NSP-Minnesota. At trial, NSP-Minnesota claimed damages in excess of \$100 million through Dec. 31, 2004. In September 2007, the court awarded NSP-Minnesota \$116.5 million in damages. In December 2007, the court denied the DOE's motion for reconsideration. In February 2008, the DOE filed an appeal to the U. S. Court of Appeals for the Federal Circuit, and NSP-Minnesota cross-appealed on the cost of capital issue. It is uncertain when the Court will issue a decision. Results of the judgment will not be recorded in earnings until the appeal, regulatory treatment and amounts to be shared with ratepayers have been resolved. Given the uncertainties, it is unclear as to how much, if any, of this judgment will ultimately have a net impact on earnings.

In August 2007, NSP-Minnesota filed a second complaint against the DOE in the U. S. Court of Federal Claims (NSP II), again claiming breach of contract damages for the DOE's continuing failure to abide by the terms of the contract. This lawsuit will claim damages for the period Jan. 1, 2005 through Dec. 31, 2008, which includes costs associated with the storage of spent nuclear fuel at Prairie Island and Monticello, as well as the costs of complying with state regulation relating to the storage of spent nuclear fuel. Per the court's scheduling order, NSP-Minnesota believes that it has suffered damages in excess of \$250 million. The DOE claims NSP-Minnesota is entitled to at most approximately \$55 million. Trial is expected to take place in late 2011.

Table of Contents

Mallon vs. Xcel Energy Inc. In August 2007, Xcel Energy, PSCo and PSRI (Plaintiffs) commenced a lawsuit in Colorado state court against Theodore Mallon and TransFinancial Corporation seeking damages for, among other things, breach of contract and breach of fiduciary duties associated with the sale of COLI policies. In May 2008, Plaintiffs filed an amended complaint that, among other things, adds Provident Life & Accident Insurance Company (Provident) as a defendant and asserts claims for breach of contract, unjust enrichment and fraudulent concealment against the insurance company. In November 2009, Plaintiffs reached a settlement with Mallon and TransFinancial Corporation, where Mallon agreed to pay Plaintiffs a specified amount of money and the parties agreed to mutually release each other from all claims.

On July 6, 2010, Plaintiffs entered into a settlement agreement with Provident. Under the terms of the settlement, Provident and Reassure America Life Insurance Company paid Plaintiffs \$25 million. Xcel Energy will record this settlement of \$25 million in the third quarter of 2010. See additional information set forth in Note 17 to the consolidated financial statements in this Quarterly Report on Form 10-Q.

Cabin Creek Hydro Generating Station Accident In October 2007, employees of RPI Coatings Inc. (RPI), a contractor retained by PSCo, were applying an epoxy coating to the inside of a penstock at PSCo's Cabin Creek Hydro Generating Station near Georgetown, Colo. A fire occurred inside a pipe used to deliver water from a reservoir to the hydro facility. Five RPI employees were unable to exit the pipe and rescue crews confirmed their deaths. The accident was investigated by several state and federal agencies, including the federal Occupational Safety and Health Administration (OSHA) and the U. S. Chemical Safety Board and the Colorado Bureau of Investigations.

In March 2008, OSHA proposed penalties totaling \$189,900 for 22 serious violations and three willful violations arising out of the accident. In April 2008, Xcel Energy notified OSHA of its decision to contest all of the proposed citations. On May 28, 2008, the Secretary of Labor filed its complaint, and Xcel Energy subsequently filed its answer on June 17, 2008. The Court ordered this proceeding stayed until March 3, 2009 and has subsequently extended the stay until the criminal proceedings have concluded.

A lawsuit was filed in Colorado state court in Denver on behalf of four of the deceased workers and four of the injured workers (Foster, et. al. v. PSCo, et. al.). PSCo and Xcel Energy were named as defendants in that case, along with RPI Coatings and related companies and the two other contractors who also performed work in connection with the relining project at Cabin Creek. A second lawsuit (Ledbetter et. al vs. PSCo et. al) was also filed in Colorado state court in Denver on behalf of three employees allegedly injured in the accident. A third lawsuit was filed on behalf of one of the deceased RPI workers in the California state court (Aguirre v. RPI, et. al.), naming PSCo, RPI, and the two other contractors as defendants. The court subsequently dismissed the Aguirre lawsuit. Settlements were subsequently reached in all three lawsuits. These confidential settlements did not have a material effect on the financial statements of Xcel Energy or its subsidiaries.

On Aug. 28, 2009, the U. S. Government announced that Xcel Energy and PSCo have been charged with five misdemeanor counts in federal court in Colorado for violation of an OSHA regulation related to the accident at Cabin Creek in October 2007. RPI Coatings, the contractor performing the work at the plant, and two individuals employed by RPI have also been indicted. On Sept. 22, 2009, both Xcel Energy and PSCo entered a not guilty plea, and both will vigorously defend against these charges. In December 2009, Xcel Energy and PSCo filed two separate motions to dismiss. On March 29, 2010, the court issued an order denying both motions. No trial date has yet been set.

Stone & Webster, Inc. vs. PSCo In July 2009, Stone & Webster, Inc. (Shaw) filed a complaint against PSCo in State District Court in Denver, Colo. for damages allegedly arising out of its construction work on the Comanche Unit 3 coal fired plant. Shaw, a contractor retained to perform certain engineering, procurement and construction work on Comanche Unit 3, alleges, among other things, that PSCo mismanaged the construction of Comanche Unit 3. Shaw further claims that this alleged mismanagement caused delays and damages in excess of \$55 million. The complaint also alleges that Xcel Energy and related entities guaranteed Shaw \$10 million in future profits under the terms of a 2003

Edgar Filing: XCEL ENERGY INC - Form 10-Q

settlement agreement. Shaw alleges that it will not receive the \$10 million to which it is entitled. Accordingly, Shaw seeks an amount up to \$10 million relating to the 2003 settlement agreement. PSCo denies these allegations and believes the claims are without merit. PSCo filed an answer and counterclaim in August 2009, denying the allegations in the complaint and alleging that Shaw has failed to discharge its contractual obligations and has caused delays, and that PSCo is entitled to liquidated damages and excess costs incurred. In June 2010, PSCo exercised its contractual right to draw on Shaw's letter of credit in the total amount of approximately \$29.6 million. Trial is scheduled for Oct. 18, 2010.

Table of Contents

Fru-Con Construction Corporation (Fru-Con) vs. Utility Engineering Corporation (UE) et al. In March 2005, Fru-Con commenced a lawsuit in U. S. District Court in the Eastern District of California against UE and the Sacramento Municipal Utility District (SMUD) for damages allegedly suffered during the construction of a natural gas-fired, combined-cycle power plant in Sacramento County. Fru-Con's complaint alleges that it entered into a contract with SMUD to construct the power plant and further alleges that UE was negligent with regard to the design services it furnished to SMUD. In August 2005, the court granted UE's motion to dismiss. Because SMUD remains a defendant in this action, the court has not entered a final judgment subject to an appeal with respect to its order to dismiss UE from the lawsuit. Because this lawsuit was commenced prior to the April 2005, closing of the sale of UE to Zachry, Xcel Energy is obligated to indemnify Zachry for damages related to this case up to \$17.5 million. Pursuant to the terms of its professional liability policy, UE is insured up to \$35 million.

Connie DeWeese vs. PSCo In November 2008, there was an explosion in Pueblo, Colo., which destroyed a tavern and a neighboring store. The explosion killed one person and injured seven people. The Pueblo Fire Department and the Federal Bureau of Alcohol, Tobacco and Firearms have determined a natural gas leak from a pipeline under the street led to the explosion. In February 2010, a wrongful death/personal injury lawsuit was filed in Colorado District Court in Pueblo, Colorado against PSCo and the City of Pueblo by several parties that were allegedly injured, as a result of this explosion. The plaintiffs are also alleging economic and noneconomic damages. The lawsuit alleges that the accident occurred as a result of PSCo's negligence. A related lawsuit was filed in March 2010 by Seneca Insurance Company, which insured Branch Inn, LLC and Branch Inn Enterprises, LLC. The Plaintiffs are alleging destruction of the building and disruption of the business. Both lawsuits allege that the accident occurred as a result of PSCo's negligence. PSCo denies liability for this accident. The cases have been consolidated. In June 2010, the court granted, in part, PSCo's motion to dismiss certain of plaintiffs' claims related to, among other things, strict liability. In July 2010, a third related lawsuit was filed by Truck Insurance Exchange against PSCo and the City of Pueblo to recover damages allegedly paid by the plaintiff insurance company to its insured as a result of the explosion. PSCo will file a response denying liability in due course.

8. Short-Term Borrowings and Other Financing Instruments

Commercial Paper The following table presents commercial paper outstanding for Xcel Energy:

(Millions of Dollars)	June 30, 2010	Dec. 31, 2009
Commercial paper outstanding	\$ 129	\$ 459
Weighted average interest rate	0.41%	0.36%
Commercial paper borrowing limit	\$ 2,177	\$ 2,177

Credit Facility Bank Borrowings Xcel Energy and its subsidiaries had no credit facility bank borrowings at June 30, 2010 and Dec. 31, 2009.

Money Pool Xcel Energy and its utility subsidiaries have established a money pool arrangement that allows for short-term investments in and borrowings from the utilities between each other. The holding company may make investments in the utility subsidiaries at market-based interest rates; however, the money pool arrangement does not allow the utility subsidiaries to make investments in the holding company. The money pool investments and borrowings are eliminated upon consolidation.

9. Long-Term Borrowings and Other Financing Instruments

In February 2010, SPS redeemed its \$25.0 million pollution control obligations, securing pollution control revenue bonds, due July 1, 2016.

In May 2010, Xcel Energy issued \$550 million of 4.70 percent unsecured senior notes, due May 15, 2020. Xcel Energy added the net proceeds from the sale of the notes to its general funds and used the proceeds to repay commercial paper and fund equity investments in its utility subsidiaries.

10. Derivative Instruments and Fair Value Measurements

Xcel Energy and its utility subsidiaries enter into derivative instruments, including forward contracts, futures, swaps and options, for trading purposes and to reduce risk in connection with changes in interest rates, utility commodity prices and vehicle fuel prices, as well as variances in forecasted weather.

Table of Contents

Short-Term Wholesale and Commodity Trading Risk Xcel Energy's utility subsidiaries conduct various short-term wholesale and commodity trading activities, including the purchase and sale of electric capacity, energy and energy-related instruments. Xcel Energy's risk management policy allows management to conduct these activities within guidelines and limitations as approved by its risk management committee, which is made up of management personnel not directly involved in the activities governed by this policy.

Interest Rate Derivatives Xcel Energy and its utility subsidiaries enter into various instruments that effectively fix the interest payments on certain floating rate debt obligations or effectively fix the yield or price on a specified benchmark interest rate for a specific period. These derivative instruments are generally designated as cash flow hedges for accounting purposes.

At June 30, 2010, accumulated other comprehensive income (OCI) related to interest rate derivatives included \$0.7 million of net losses expected to be reclassified into earnings during the next 12 months as the related hedged interest rate transactions impact earnings.

Commodity Derivatives Xcel Energy's utility subsidiaries enter into derivative instruments to manage variability of future cash flows from changes in commodity prices in their electric and natural gas operations, as well as for trading purposes. This could include the purchase or sale of energy or energy-related products, natural gas to generate electric energy, gas for resale and vehicle fuel.

At June 30, 2010, Xcel Energy had various vehicle fuel related contracts designated as cash flow hedges extending through December 2012. Xcel Energy's utility subsidiaries also enter into derivative instruments that mitigate commodity price risk on behalf of electric and natural gas customers but are not designated as qualifying hedging transactions. Changes in the fair value of non-trading commodity derivative instruments are recorded in OCI or deferred as a regulatory asset or liability. The classification as a regulatory asset or liability is based on commission approved regulatory recovery mechanisms. Xcel Energy recorded immaterial amounts to income related to the ineffectiveness of cash flow hedges for the three and six months ended June 30, 2010.

At June 30, 2010, accumulated OCI related to commodity derivative cash flow hedges included \$1.7 million of net losses expected to be reclassified into earnings during the next 12 months as the hedged transactions occur.

Additionally, Xcel Energy's utility subsidiaries enter into commodity derivative instruments for trading purposes not directly related to commodity price risks associated with serving their electric and natural gas customers. Changes in the fair value of these commodity derivatives are recorded in income, subject to applicable customer margin-sharing mechanisms.

The following table details the gross notional amounts of commodity forwards, options, and financial transmission rights (FTRs) at June 30, 2010 and Dec. 31, 2009:

(Amounts in Thousands) (a)(b)	June 30, 2010	Dec. 31, 2009
Megawatt hours (MWh) of electricity	72,349	