Surrebuttal Testimony and Schedules
George E. Tyson II

State of Minnesota
Before the Office of Administrative Hearings
For the Minnesota Public Utilities Commission

In the Matter of a Petition by Excelsior Energy Inc. for Approval of a Power Purchase Agreement Under Minn. Stat. § 216B.1694, Determination of Least Cost Technology, and Establishment of a Clean Energy Technology Minimum Under Minn. Stat. § 216B.1693

OAH Docket No. 12-2500-17260-2
PUC Docket No. E6472/M-05-1993

Financial Impacts

October 31, 2006

Table of Contents

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME.

A. My name is George E. Tyson II.

Q. HAVE YOU PROVIDED DIRECT TESTIMONY IN THIS CASE?

A. Yes. I provided Direct Testimony regarding credit rating implications of the Mesaba 1 PPA.

II. PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?

A. I respond to the Rebuttal Testimony of Ms. Margaret Meal, Mr. Roger Gale, and Ms. Renee Sass, each of whom offers testimony regarding the financial risks of the Mesaba 1 PPA.

Q. OVERALL, WHAT IS YOUR RESPONSE TO THESE WITNESSES?

A. Nothing in their testimonies causes me to change my conclusions that the Mesaba 1 PPA will have a severe, adverse effect on Xcel Energy's credit rating that will raise costs significantly for our customers. Thus, I continue to support the conclusions and recommendations offered in my Direct Testimony.

Q. HOW DO YOU PRESENT YOUR SURREBUTTAL TESTIMONY?

A. I present my testimony in the following major sections:

- *Risk Assessment,* where I elaborate on the risks and associated financial impacts posed by the Mesaba 1 PPA.
- *Remedies,* where I discuss the likely effect direct cost recovery mechanisms would have on these risks and costs.
- *Advisory Credit Ratings,* where I provide additional information regarding the benefits of the advisory credit rating process.
- *Conclusions.*

III. ASSESSMENT

A. Risk Assessment

Q. PLEASE SUMMARIZE MS. MEAL'S TESTIMONY REGARDING THE RISKS ASSOCIATED WITH THE MESABA 1 PPA.

A. Ms. Meal asserts that:

- The credit ratings impact of the Mesaba 1 PPA will be less severe than I estimated in my Direct Testimony.
- The Mesaba 1 PPA poses less credit rating risk than construction by Xcel Energy.
- The credit rating impact of the Mesaba 1 PPA should be given less weight, given that the current financial obligations of Xcel Energy and XEI also affect Xcel Energy's credit ratings.
- Assurances of cost recovery will fully resolve the credit ratings impacts.

Q. DO YOU AGREE?

A. No. First, Ms. Meal bases her arguments on inaccurate comparisons with other alternatives and an overly optimistic perspective of the likely assessment of the Mesaba 1 PPA by the credit rating agencies. Second, while I agree that certain measures could partially mitigate the financial implications of the Mesaba 1 PPA, those measures will not resolve the out-of-market terms and price that the credit rating agencies will consider when evaluating Mesaba 1 LLC's proposal.

Q. DOES THE AMENDED PPA OFFERED BY MR. THOMAS OSTERAAS ELIMINATE OR REDUCE ANY OF THESE CONCERNS?

A. No. As discussed in the Surrebuttal Testimony of Ms. Karen Hyde, Mr. John Reed, and Mr. Marvin McDaniel, the amended PPA does not change the balance of risk between the project developer and the purchasing utility in any meaningful way. Consequently, the amended PPA will not address any of my concerns.

1. Risk Factors

Q. IS MS. MEAL CORRECT THAT THE MESABA 1 PPA WILL REDUCE BUSINESS RISKS AND THUS OFFSET ANY ADDITIONAL FINANCIAL RISKS?

A. No. Ms. Meal argues that the credit rating agencies will perceive reduced business risk for Xcel Energy as a result of the Mesaba 1 PPA, a reduction that will offset any increased financial risk. I disagree. Credit rating agencies have significant experience in evaluating PPAs, and they will recognize the out-of-market features of the Mesaba 1 PPA discussed by Ms. Karen Hyde and Mr. John Reed (regarding the PPA's terms) and Ms. Elizabeth Engelking (regarding the size and timing of our customers' need for base load resources).

Q. MS. MEAL ASSERTS THAT S&P IS LIKELY TO APPLY A 30% OR LOWER RISK FACTOR WHEN IMPUTING DEBT FOR THE MESABA 1 PPA. DO YOU AGREE?

A. No. To the contrary, credit rating agencies will recognize the increased risks from the Mesaba 1 PPA due to the combination of: (i) its very large size; (ii) its timing, which is before Xcel Energy needs base load capacity; and (iii) its out-of-market price and terms that transfer risk from the project developer to Xcel Energy. These features of the Mesaba 1 PPA compound – rather than relieve – the adverse financial implications recognized by credit rating agencies.

Q. MS. MEAL QUESTIONS YOUR POSITION THAT CREDIT RATING AGENCIES WILL CONSIDER THE MESABA 1 PPA UPON SIGNATURE. IS SHE CORRECT?

A. No. Credit rating agencies do not defer consideration of PPAs until payments become due, but rather recognize the impact in their first review after signature of the PPA. Further, I believe the size and terms of the Mesaba 1 PPA and the corresponding impacts would be sufficient to cause each rating agency to initiate an immediate credit review.

Q. WHAT IS THE BASIS FOR MS. MEAL'S CONCLUSION THAT THE S&P RISK FACTOR WOULD BE 30% OR LESS?

A. Ms. Meal assumes that the legislation at issue in this proceeding is the type that S&P indicates in its article on purchased power that would lower the risk factor from 50% to 30%. That assumption is incorrect. The legislation required to reduce the risk factor must provide direct cost recovery for the utility, which is not addressed by either the Clean Energy Technology or Innovative Energy Project statutes that govern this proceeding. S&P has stated that:

> For utilities in supportive jurisdictions with precedent for timely and full cost recovery of fuel and purchased power costs, a risk factor of as low as 30% could be used.

> In certain cases, Standard & Poor's may consider a lower risk factor of 10% to 20% for *distribution utilities where recovery of certain costs, including stranded assets has been legislated.*[1] (Emphasis added.)

The Clean Energy Technology and Innovative Energy Project statutes do not address or provide cost recovery for Xcel Energy, much less provide assurances of recovery of stranded costs, as noted by S&P. Accordingly, these statutes will not affect S&P's assessment of Xcel Energy's risk of cost recovery. While current Minnesota law provides for direct recovery of the energy-related payments made under PPAs, it does not allow for direct recovery of capacity payments made under PPAs. Clearly, those statutory provisions have not led S&P to apply a lower risk rating than Xcel Energy's current 30% risk rating.

In addition, Xcel Energy is not a "distribution utility" (as we own generation, transmission, and distribution assets), so it would not qualify for the possible 10-20% risk factors noted by S&P. Thus, even with specific cost recovery legislation, Xcel Energy would not fit within the S&P criterion for a 10-20% risk factor.

Finally, S&P has informed us that a 30% risk rating is the lowest risk rating that will be available to Xcel Energy. Similarly, at Public Service Company of Colorado, a 60% equity ratio and a purchased capacity cost rider have not been sufficient to reduce the risk factor for existing, standard market-based purchased power contracts to below 30%.

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[1] Standard & Poor's, *"Buy vs. Build"; Debt Aspects of Purchased-Power Agreements*, May 8, 2003.

Q. DO YOU AGREE WITH MS. MEAL THAT MORE FAVORABLE COST RECOVERY LEGISLATION COULD BE PURSUED?

A. While such legislation can be pursued – and would likely be essential if Xcel Energy were required to enter into the Mesaba 1 PPA – the rating agencies will not consider the mere possibility of future legislation to be material to the current risk rating. Instead, the implications of the Mesaba 1 PPA should be assessed and evaluated under current law and requirements.

Q. IS MS. MEAL CORRECT IN SUGGESTING THAT THE ADJUSTED DEBT RATIO IS NOT AS SIGNIFICANT TO S&P AS OTHER CREDIT METRICS?

A. No. S&P's own statements note the significance of "leverage," which is the ratio of S&P adjusted debt to total capital. For example, in its recent discussion of Xcel Energy's rating, S&P indicates in regards to XEI:

> The rating also reflects a *heavily leveraged financial profile in which adjusted debt represents 62% of total capital*, well above the 55% benchmark for a solid 'BBB' rating.[2] (Emphasis added.)

Q. WHAT, THEN, DO YOU CONCLUDE REGARDING MS. MEAL'S ASSESSMENT OF THE FINANCIAL IMPACTS DUE TO THE MESABA 1 PPA?

A. I believe that Ms. Meal's assessment is unrealistic. Her assertion that the imputed debt could be as little as $400 million is based on a 10-20% risk rating. Further, even if the current 30% risk factor applied to the Mesaba 1 PPA – which is unlikely as I discussed in my Direct Testimony – the impacts would be severe, amounting to $1.126 billion in additional debt. This will increase the adjusted debt to total capital ratio from 51% to 60% for Xcel Energy, and increase the adjusted debt to total capital ratio from 61% to 64%

for XEI. Exhibit___(GET-2), Schedule 1 shows the effects on Xcel Energy and XEI.

Q. IS THERE A BASIS TO HELP PLACE THE IMPACTS OF THESE DEBT LEVELS AND EQUITY RATIOS IN PERSPECTIVE?

A. Yes. S&P has noted its particular concern with the impact of purchased power obligations of Public Service Company of Colorado ("PSCo"), which is an affiliate of Xcel Energy. In discussing Xcel Energy's rating, S&P recently described the debt leverage in XEI's consolidated debt:

> This degree of leverage is due, in nearly equal measure, to debt at the holding company and to *substantial purchased-power obligations, particularly at Public Service of Colorado*. The risk-adjusted debt equivalent of purchased power obligations adds just over $1 billion to the total debt.[3] (Emphasis added.)

The level of PPA obligations of PSCo that were noted by S&P at year-end 2005 was approximately $750 million and increased the adjusted debt to total capital ratio from 48% to 55% for PSCo. The Mesaba 1 PPA increases Xcel Energy's debt to total capital ratio to 60% (even at a 30% risk rating), which is considerably more severe than the impact of all PPAs on PSCo that has concerned S&P. Such dramatic impacts must be taken seriously when evaluating the Mesaba 1 PPA.

Q. DO YOU AGREE WITH MS. MEAL'S DISCUSSION OF CREDIT METRICS?

A. No. Ms. Meal's discussion of credit metrics is based on her belief that Xcel Energy's risk rating would be 30% or lower. For the reasons I discussed in

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[2] Standard & Poor's, Research *Summary: Northern States Power Company*, April 20, 2006

[3] *Id.*

my Direct Testimony, there is a significant probability that S&P will increase the risk rating to 50%, which would significantly worsen those metrics. Certainly there is no possibility of improving Xcel Energy's S&P business rating from 5 to 4, contrary to Ms. Meal's suggestion. At a 50% risk rating, the Mesaba 1 PPA will increase Xcel Energy's debt to total capital ratio to 64%, which is even higher than Xcel Energy's 60% ratio (at a 30% risk rating) and PSCo's 55% ratio, which has been a concern to S&P.

While no single metric controls a credit rating, I believe S&P would raise similar, if not more significant concerns, if Xcel Energy was required to enter into the Mesaba 1 PPA, because of the combination of: (i) the very substantial impact of the Mesaba 1 PPA, both in absolute terms and in comparison to PSCo; (ii) the history of S&P's concern with PPA levels; and (iii) the price and terms of the Mesaba 1 PPA.

Q. DO YOU AGREE WITH MS. MEAL'S ASSERTION THAT MOODY'S WILL REACT POSITIVELY TO THE MESABA 1 PPA?

No, I do not. Ms. Meal assumes that Xcel Energy's only resource alternative is to build a base load coal plant of equivalent size to Mesaba Unit 1 immediately. That assumption is not correct based on the projected resource need. Xcel Energy's current capital expenditure plan includes projects that do add additional generation capacity to the system over time. Moreover, as I described in my direct testimony, Moody's determines the credit impact of PPAs based on a specific set of criteria regarding the project and the PPA, including: (i) contract term (long-term versus short-term); (ii) conditional or unconditional payment obligation; (iii) base load versus seasonal or peaking requirement; (iv) whether the contract price is in market or out-of-market;

(iv) whether the project is completed or in development; (vii) technology and fuel risk; (viii) the magnitude of the rate increase required to absorb the fixed and variable costs; (ix) and the degree of automatic recovery for the utility. The Mesaba Unit 1 project and the Mesaba 1 PPA are high risk on all of these criteria. Accordingly, it is not realistic to believe that Moody's will view the Mesaba Unit 1 project and the Mesaba 1 PPA as a reduction in business risk for Xcel Energy.

Q. DO YOU AGREE WITH MS. MEAL'S ASSERTION THAT FITCH WILL REACT POSITIVELY TO THE MESABA 1 PPA?

No, I do not. As in the case of Moody's, Fitch will consider the Mesaba Unit 1 project and the Mesaba 1 PPA in light of the timing and size of Xcel Energy's resource need and relative to other alternatives available to Xcel Energy. With respect to PPAs, Fitch focuses on two primary indicators of financial risk in determining whether to impute debt for a PPA. These two indicators are: (i) whether there is a high likelihood of recovering all of the costs incurred under the PPA from the utility's customers; and (ii) whether the PPA is in-the-money or out-of-the-money for the purchase based on Fitch's wholesale power forecast for the region. Even with a high probability of cost recovery for an out-of-the-money PPA, Fitch may require the utility to have additional liquidity over and above its normal level.

Q. WHY DOES XCEL ENERGY PLACE AN EMPHASIS ON S&P'S RATINGS?

A. Xcel Energy focuses on S&P's ratings and methodology because: (i) S&P's ratings are required for commercial paper, bank loans and capital market debt issuances, along with Moody's rating, while a rating from Fitch is not an underwriting requirement in these markets; (ii) Xcel Energy's senior unsecured rating is at BBB-, one notch above non-investment grade; (iii) a non-investment grade rating from S&P alone is sufficient to disrupt the Company's access to commercial paper borrowing, to affect the availability and cost of direct bank borrowing, and to increase the cost of long-term bonds. Short-term liquidity is a particular concern to Xcel Energy given the substantial short-term borrowing requirements that Xcel Energy has for winter natural gas purchases. I will discuss the potential impacts on access to short-tem debt later in my testimony.

2. Comparison to Self-Build Options

Q. PLEASE RESPOND TO MS. MEAL'S ASSERTION THAT THE MESABA 1 PPA POSES LESS CREDIT RATING RISK THAN OTHER ALTERNATIVES, PARTICULARLY A XCEL ENERGY SELF-BUILD OPTION.

A. Ms. Meal bases her conclusions on an inaccurate comparison – that is, that Xcel Energy either builds base load capacity in approximately the 2011 time frame or runs the risk of having inadequate capacity. Neither is true. Ms. Engelking presents the projected need for additional base load capacity as determined by the Commission in our approved 2004 Resource Plan, in which the Commission required us to file either a PPA or Certificate of Need for meeting that need by November 1, 2006. Our proposal – including its financial impacts – will be evaluated in this upcoming proceeding. However, Ms. Meal's conclusions assume that we would build too much capacity prior to the time that our customers need it, which is an inaccurate assumption.

Q. IF XCEL ENERGY HAD A NEED FOR, AND CONSTRUCTED BASE LOAD CAPACITY, WOULD MS. MEALS' CONCLUSION BE VALID?

A. No. The core financial risk issue associated with a large-scale PPA like the one proposed by Mesaba 1 LLC would remain, that is, the addition of imputed debt without any offsetting equity on Xcel Energy's balance sheet. In my Direct Testimony, I explain that S&P would attribute approximately $1.9 billion of imputed debt for the Mesaba 1 PPA based on a 50% risk factor to both the Xcel Energy and the XEI consolidated balance sheets, compared to the typical 50/50 debt-equity ratio associated with utility construction projects. The resulting adjusted balance sheet will be "out of balance" by approximately $950 million of additional imputed debt – debt that poses additional risk and cost for our customers. In addition, the severely out-of-market price and terms of the Mesaba 1 PPA would remain unchanged, which also have adverse credit rating implications. These direct impacts of the Mesaba 1 PPA must be considered when assessing whether it offers a least-cost resource for our customers and is consistent with the public interest.

Q. SHOULD THE COMMISSION LIMIT ITS WEIGHTING OF THE CREDIT RATING IMPACT OF THE MESABA 1 PPA, GIVEN THAT XCEL ENERGY'S CREDIT RATINGS ARE AFFECTED BY THE EXISTING DEBT OBLIGATIONS OF XEI AND PSCO?

A. No. The issue before the Commission is whether the Mesaba 1 PPA offers a least-cost resource that is consistent with the public interest. That issue arises in Xcel Energy's existing factual context. To make that determination, I believe that the Commission should weigh the full costs associated with Mesaba 1 LLC's proposal, including the incremental financial and credit rating implications posed by the Mesaba 1 PPA in Xcel Energy's existing credit rating context.

3. *Other Financial Impacts*

Q. IS THE IMPACT OF THE MESABA 1 PPA LIMITED TO A POSSIBLE INCREASE IN THE COST OF DEBT FOR XCEL ENERGY, AS MS. MEAL SUGGESTS?

A. No. As I explained in my Direct Testimony, a reduction in the credit rating of Xcel Energy will have impacts far beyond the increased cost of debt.

Q. WHAT ARE THOSE IMPACTS?

A. A reduction in Xcel Energy's credit rating to below investment grade could cause a very serious strain on liquidity, increasing the need for short-term liquidity (as suppliers demand more stringent terms and faster payment), while simultaneously denying Xcel Energy access to sufficient amounts of relatively low cost short-term funding in the commercial paper market. Exhibit___(GET-2), Schedule 2 shows the correlation of commercial paper rating to corporate credit ratings. Access to commercial paper funding becomes limited when the commercial paper rating falls to A-3/P-3, which corresponds to a corporate credit rating of BBB-. As my Direct Testimony demonstrated, it is very possible that Xcel Energy's corporate credit rating could fall to that level if we were required to enter into the Mesaba 1 PPA. As Dr. Amit notes, the impacts of a downgrade in Xcel Energy's long-term credit rating include higher costs of both debt and equity.

Q. WOULD THE MESABA 1 PPA LIKELY HAVE AN EFFECT ON PRICES FOR XCEL ENERGY'S OUTSTANDING BONDS?

A. Yes. A decline in credit ratings affects the value of existing bonds that have been issued. Xcel Energy currently has $2.3 billion of long-term bonds outstanding with a weighted average duration of approximately nine years. This means that for every 100 basis point increase in market interest rates, the value of the bond portfolio declines by 9%, or $207 million. A widening of the credit spread on the existing bonds as a result of a credit rating downgrade can therefore result in a material loss of value for existing bond holders, which include insurance companies, pension funds and other institutional investors. Given that Xcel Energy needs to access the long-term debt market over the next several years to fund its investment plan, actions that can result in a significant loss to current bondholders need to be considered carefully because this type of long-term investor either will likely not participate in future debt offerings or will require significantly higher compensation for credit risk. In addition, there is a greater probability of introducing investors with a less stable investment orientation, such as hedge funds. This will increase Xcel Energy's cost of capital for future long-term debt issuances.

B. Remedies

Q. MR. GALE INDICATES THAT RATING AGENCIES' CONCERNS WOULD BE FULLY RESOLVED IF XCEL ENERGY WERE PROVIDED ASSURANCES OF FULL AND TIMELY RECOVERY OF MESABA 1 PPA'S COSTS. DO YOU AGREE?

A. No. As I already discussed, full and timely cost recovery would be essential for ensuring a minimum level of financial integrity for Xcel Energy, but such recovery would not eliminate the credit agencies' concerns with the out-of-market price and terms of the Mesaba 1 PPA and the fact that Xcel Energy does not need the base load capacity of the Mesaba 1 PPA, or eliminate the implications of imputed debt and its resulting higher costs for customers. Credit rating agencies recognize that out-of-market prices and terms and obligations to purchase unneeded capacity can interfere with future cost recovery and they factor this risk into their assessment of credit ratings.

Q. WHAT OTHER REMEDIES ARE AVAILABLE?

A. I recommended in my Direct Testimony that the Commission allow Xcel Energy to increase its equity ratio if the Mesaba 1 PPA is approved. While this increase would not remedy the fundamental flaws in the Mesaba 1 PPA and would be needed even if the PPA's terms and prices were consistent with market norms, it would be a necessary feature of addressing the impact of the Mesaba 1 PPA on Xcel Energy's total debt in a reasonable way.

Q. DO MS. MEAL AND MR. GALE AGREE WITH THIS RECOMMENDATION?

A. No. They offer a variety of criticisms of this proposal.

Q. WHAT IS YOUR RESPONSE?

A. First, I do not agree that allowing the offsetting increase in equity ratio imposes excessive costs when compared to the scope of Mesaba 1 LLC's proposal. The Mesaba 1 PPA is intended to provide the financial security necessary for lenders and investors to fund the development of Mesaba Unit 1. Obviously, providing financial security for such an ambitious undertaking will necessarily come with a significant cost to ratepayers. This fact highlights the importance of recognizing and addressing this cost, rather than ignoring it.

Second, contrary to Ms. Meal's arguments and Mr. Gale's arguments, it is not realistic to wait until a rate case to consider the implications of the Mesaba 1 PPA or to implement solutions. By that time, the credit rating impacts will already have occurred, the long-term commitment of the Mesaba 1 PPA would have been made, and the opportunity to prevent severe harm would have passed.

C. Advisory Credit Rating

Q. BOTH MR. GALE AND MS. MEAL OFFER OPINIONS REGARDING LIKELY CREDIT RATING IMPACT. CAN YOU COMMENT?

A. Yes. Credit rating agency determinations are complex and must be based on detailed analysis of a company and its financial obligations, which would in this case include the very substantial Mesaba 1 PPA. It is also very important to understand the issues that a company has had to address with the rating agencies to form an opinion about how the rating agencies are likely to react to a specific situation. Dealing with credit rating agencies and managing credit ratings represents a substantial part of my responsibilities for Xcel Energy and its affiliates. I have been working directly on behalf of Xcel Energy, XEI and its other utility subsidiaries since July 2003 when I became the Assistant Treasurer to address very specific concerns raised by S&P with respect to the level of PPAs at PSCo. While Moody's has not adjusted its credit ratios, Moody's has discussed the very high level of purchased capacity at PSCo, and has monitored the steps we have taken to address it.

While it is not possible to predict ratings precisely, the size and terms of the Mesaba 1 PPA are such that I am confident of my assessment that the rating agencies are going to have significant concerns with the Mesaba 1 PPA and could react negatively, particularly in the context of the work we have taken to mitigate the credit ratings impact of purchased capacity for the past three years.

I therefore continue to recommend that the Commission seek an advisory credit rating before requiring Xcel Energy to enter into the Mesaba 1 PPA, given the enormous implications of the transaction.

Q. MS. SASS RAISES A SERIES OF QUESTIONS REGARDING THE USE OF THE ADVISORY RATINGS PROCESS. CAN YOU RESPOND?

A. Yes. To clarify, I envision the following process for obtaining an advisory credit rating for use in this proceeding:

- The Commission (or the Department acting under direction by the Commission) would oversee the process, which would be initiated before requiring Xcel Energy to enter into a PPA for the output of Mesaba Unit 1. Parties could participate by providing additional data or participating in any meetings with the rating agencies.
- Transparency would be achieved by relying primarily on written submissions (for example, financial data regarding Xcel Energy and XEI) and the PPA under consideration (such as the amended PPA offered by Mr. Osteraas). In addition, a limited number of variations could be submitted. The rating agencies would use the same information used in actual ratings, including other capital investment plans, to ensure comparability with actual ratings.
- Credit rating agencies do not testify regarding ratings, and advisory ratings are no different. Thus, the credit rating agencies would provide the advisory ratings in writing, which would be included in the post-hearing record, subject to appropriate confidentiality provisions. All parties would be allowed to comment on the ratings and any differences between the various agencies' ratings.

- The Commission would determine the significance and use of both the advisory ratings and any differences between the agencies when deciding the case. The process would be completed before the Commission makes a final determination in this proceeding.

Such an approach offers fair participation from all parties and consideration of all relevant information while providing the Commission with a clear, unbiased perspective on the financial implications of the Mesaba 1 PPA. Given the potential enormous implications of Mesaba 1 LLC's proposal, I believe it is critical that the Commission obtain this expert information before deciding this case.

IV. CONCLUSION

Q. PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.

A. The Rebuttal Testimony offered by Mesaba 1 LLC does not resolve the concerns. Consequently, I continue to conclude that:

- The Mesaba 1 PPA would likely cause significant credit rating downgrades that would significantly increase the cost of capital at a time when Xcel Energy is substantially expanding its investments.
- Financial consolidation or capital lease treatment would increase the adverse effects on the value of Xcel Energy's bonds and the stock and bonds of XEI.
- The amended Mesaba 1 PPA still would result in significant additional debt imputed to Xcel Energy's balance sheet, requiring corresponding amounts of additional revenues and earnings to offset the resulting financial implications. The cumulative impact of these revenue increases,

plus the increases from other investments may lead to total rate increases that are not feasible and could result in deferral of planned investments.

- Because of the possible severity and lasting effect of such consequences, advisory credit rating impacts should be obtained before the Commission makes any final decision to proceed with the Mesaba 1 PPA.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

Xcel Energy and XEI Adjusted Capital Structures

Xcel Energy

	Projected 2006	Percentage	Mesaba 1 PPA Impact	Total	Percentage
Balance Sheet Debt	$2,373	42%		$2,373	35%
PPAs	$445	8%	$1,126	$1,571	23%
Other Off-Balance Sheet Debt	$55	1%		$55	1%
Total S&P Debt	$2,873	51%	$1,126	$3,999	60%
Common Equity	$2,715	49%		$2,715	40%
Total Capital	$5,588	100%		$6,714	100%

XEI

	Projected 2006	Percentage	Mesaba 1 PPA Impact	Total	Percentage
Balance Sheet Debt	$7,721	52%		$7,721	49%
PPAs	$1,235	8%	$1,126	$2,361	15%
Other Off-Balance Sheet Debt	$145	1%		$145	1%
Total S&P Debt	$9,101	61%	$1,126	$10,228	64%
Preferred Equity	$105	1%		$105	1%
Common Equity	$5,648	38%		$5,648	36%
Total Capital	$14,854	100%		$15,876	100%

Chart 1

Correlation of Long- and Short-term Ratings

The standard correlation of CP ratings with long-term ratings is shown below. A rating assigned to CP issued without credit enhancements, such as letters of credit guarantee, represents Standard & Poor's opinion of the issuer's fundamental credit quality.