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total annual returns of 6%-8%. Earnings growth in the 5%-7% range would lower the payout to 61% by 2011, down from 68% in 2007.

The stock's primary attraction is its yield. Our 12-month price target is \$25.

NRG Bankruptcy

In 2001, Xcel reported ongoing earnings of \$2.13 a share, paid dividends of \$1.50 a share and yielded 5.4%. One year later, Xcel's price fell 60% from \$27.74 to \$11.00 a share, its dividend was cut in half to \$0.75 a share, and book value declined 35% from \$17.91 to \$11.70 a share. The yield on the lowered dividend rose to 6.8%. Xcel's woes stemmed from NRG Corp. (NRG-currently \$41), once its 82%-owned, non-regulated generation and trading subsidiary. NRG eventually sought bankruptcy protection following fallout from Enron, trading scandals, falling energy prices, slowing growth rates and debt obligations that triggered a series of cash collateral calls once the company's debt ratings dropped below investment grade.

Total Return Outlook - 6%-8% Annually

Post-NRG, management developed a "back to the basics" strategy that stressed opportunities in the regulated utilities' businesses and an environmentally friendly expansion program. From an ongoing earnings standpoint, profits have yet to return to the \$1.37 a share (ex NRG) reported for 2002: \$1.27 a share – 2003; \$1.27 a share – 2004; \$1.20 a share – 2005 and \$1.35 a share - 2006. Guidance is \$1.38-\$1.42 a share for 2007, excluding settlement of the COLI dispute with the IRS (negative \$0.08 a share). Guidance for 2008 is \$1.45-\$1.55 a share. Management's often repeated goal is to grow earnings per share 5%-7% annually and the dividend 2%-4% per annum. Total return using the traditional dividend discount valuation (4.2% yield plus dividend growth) works out to 6%-8% annually.

Street Recommendations & Major Holders

According to Bloomberg Financial Service, Xcel Energy has 13 active sell side recommendations: 5 buys, 8 holds, 0 sells. Buy and/or outperform recommendations are maintained by Dahlman Rose, BofA, Robert Baird, Matrix USA and Argus Research. Its largest holders profile includes: Vanguard (19.8 million shares), Capital Research (19.7 million), BofA (19.0 million), Pictet Asset Management (18.5 million) and State Street Corporation (17.5 million).

Rate Base

Xcel Energy is the product of the 2001 merger of Northern States Power and New Century Energies (Public Service Colorado – Southwestern Public Service). Consolidated 2006 rate base of \$11,718 million included Public Service of Colorado (\$4,816 million-41% of total), NSP Minnesota (\$4,531 million-39%), Southwestern Public Service (\$1,692 million-14%) and NSP Wisconsin (\$679 million-6%).

Management's earnings goals correlate closely with growth in rate base. Construction expenditures are budgeted at \$10.5 billion over the 2007-2011 period. Internally generated funds are expected to provide 65% of capital needs. New money financings should approach \$3.5 billion. Common stock financing, including the debt conversions of \$290 million, are estimated at \$720 million. Our forecast assumes the common equity component of consolidated capitalization is maintained at 43.3%. Longer term, earnings growth hinges on rate relief, which is needed to erase short falls caused by the gap between sales increases averaging 1%-2% annually and rate base expansion of 7.5% per annum. The Source & Use of Funds statement in Table 3 implies rate increases averaging 2%-3% annually.

Xcel subsidiaries typically seek returns on common in the 11%-plus area and are granted returns of 10%-plus. Assuming each subsidiary earned 10.5% on common (splitting the difference requested and allowed), regulatory earnings power in 2006 was \$1.58 a share. Regulated earnings less parent debt and preferred costs of \$0.17 a share worked out to consolidated 2006 earnings power of \$1.41 a share.

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Table 1
Estimated Regulated Earnings Power
2006

Column	(1)	(2)	(3)	(4)	(5)
	2006			Equity	
Rate Base \$-Millions	\$-mil	% Total	Equity %	\$-mil	% Total
NSP Minnesota	4,531	39%	51.6%	2,338	36%
NSP Wisconsin	679	6%	56.1%	381	6%
PS Colorado	4,816	41%	60.3%	2,904	45%
SPS	1,692	14%	50.1%	848	13%
Total	11,718		55%	6,471	
Estimated Return				10.5%	
Earnings Power				679	
Shares	430			1.58	

Accounting Items Boost Earnings

Nuclear Life Extensions: Similar to most companies owning nuclear generation, management has sought and been granted life extension from the original 40 years to 60 years. Coincident with the extension is a reduction in depreciation. In 2007, depreciation charges at the 575 megawatt Monticello unit were reduced by \$30 million, increasing reported earnings by \$0.05 a share. Management will soon seek extensions at the two 550 megawatt Prairie Island plants. The earnings benefit, probably in 2010, could exceed \$60 million pretax, or \$0.10 a share. The investment community has generally treated earnings via accounting for life extensions as real gains in operating results.

Allowance For Funds Used During Construction: Accompanying a "back to the basics" strategy and increased construction expenditures is the growing influence of Allowance for Funds Used during Construction. The concept is simple. Regulated accounting allows companies to capitalize financing charges, including cost of equity associated with construction work in process. Once the investment is rate based, financing costs are recovered over its life. In the interim, income statement earnings benefit from a non-cash reduction in interest charges (AFC-Debt) and a non-cash increase in other income (AFC-Equity). Xcel AFC entries totaled \$0.13 a share (\$56 million) in 2005, up from \$0.10 a share (\$43 million) in 2004. Assuming a 50/50 balance between debt and equity, AFC entries could increase to \$0.18 a share (\$80 million) in 2007 and double in 2008 to \$0.36 a share (\$160 million).

The following table takes management guidance for 2007 and 2008 and reduces the forecast by the 2007 change in depreciation rates and for estimates in the changes in AFUDC debt and equity. Earnings net of those adjustments remain relatively flat over the 2006-08 periods.

Table 2
Earnings Net of Depreciation Reduction & AFUDC

	2006	2007	Est.	2008	Est.
Regulated Utilities	1.41	1.51	1.55	1.61	1.71
Less Depreciation Change		0.05		0.05	
AFUDC Change					
Debt	0.02	0.02		0.09	
Equity	0.01	0.03		0.09	
Regulated Net	1.38	1.41	1.45	1.38	1.48
Holding Expenses	0.06	0.13		0.16	
Operating Earnings	1.32	1.28	1.32	1.22	1.32

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Table 3
Source & Use of Funds
2006-11

Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
\$-Millions	2006	2007E	2008E	2009E	2010E	2011E	07/11E
Net income	572	608	650	686	763	799	3,505
Adjustments							
(Loss) dis.	(3)						
D&A	857	872	937	984	1033	1085	4,911
Nuclear "A"	48	50	50	50	50	50	250
Cash dis.	(51)						
Deferred Inc. Txs.	(60)	190	100	100	100	100	590
Amortization ITC	(10)						
Undist. Equity	(3)	(3)	(3)	(3)	(3)	(3)	(15)
Write off Asts for Sale	(6)						
Total Adjustments	772	1,109	1,084	1,131	1,180	1,232	5,736
Gross Cash	1,344	1,717	1,734	1,817	1,943	2,031	9,241
Less							
AFC-Total	56	80	160	150	160	160	710
Preferred Div.	4	4	4	4	4	4	21
Common Div.	355	404	419	443	463	485	2,214
Total Adjustments	415	489	584	598	627	649	2,946
Net Cash	928	1,228	1,150	1,220	1,316	1,382	6,295
Utility Construction	1,682	2,090	2,150	1,900	2,000	2,350	10,490
Less AFC	56	80	160	150	160	160	710
Non regulated	2						0
Net Construction	1,628	2,010	1,990	1,750	1,840	2,190	9,780
% Internal	53.4%	61.1%	57.8%	69.7%	71.5%	63.1%	64.4%
Financing Needed	812	782	840	530	524	808	3,484
Debt	(79)	507	686	422	468	619	2,701
Asset Sales	25		15	15	15	15	60
Preferred		(5)	8	5	(11)	7	3
Common	16	237	175	88	53	168	720
Total Financings	(38)	739	883	530	524	808	3,484
Capitalization-Debt	7,412	7,919	8,605	9,027	9,495	10,114	
Preferred	105	100	108	113	102	108	
Common	5,817	6,253	6,653	6,980	7,328	7,806	
Total	13,334	14,315	15,366	16,120	16,925	18,028	
% Change	2.7%	7.4%	7.3%	4.9%	5.0%	6.5%	
Structure-Debt	55.6%	55.6%	56.0%	56.0%	56.1%	56.1%	
Preferred	0.8%	0.7%	0.7%	0.7%	0.6%	0.6%	
Common	43.6%	43.7%	43.3%	43.3%	43.3%	43.3%	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

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Source & Use Continued

Column	(1)	(2)	(3)	(4)	(5)	(6)
\$-Millions	2006	2007E	2008E	2009E	2010E	2011E
Earnings						
Shares Diluted	430	439	447	450	452	459
Average Shares	430	434	443	448	451	456
Earnings Diluted	1.35	1.39	1.46	1.52	1.68	1.74
% Change	12.5%	2.9%	4.9%	4.3%	10.5%	3.8%
Return average Common	9.8%	10.0%	10.0%	10.0%	10.6%	10.5%
Market						
Price	23.06	23.07	24.14	25.12	26.25	27.57
% change		0.1%	4.6%	4.1%	4.5%	5.0%
Book Value	13.54	14.24	14.90	15.50	16.20	17.02
Price/book	1.7	1.62	1.62	1.62	1.62	1.62
Price/Earnings	17.1	16.6	16.6	16.5	15.6	15.8
Yield	3.9%	4.0%	3.9%	3.9%	3.9%	3.9%
Dividend plus Price	23.95	24.01	25.08	26.10	27.27	28.63
Total Return		0.2%	4.5%	4.1%	4.5%	5.0%
Dividends						
Per Share	0.89	0.93	0.95	0.99	1.03	1.06
Payout ratio	66%	67%	65%	65%	61%	61%
Cash Flow Dividends	1,344	1,717	1,734	1,817	1,943	2,031
Per Average Share	3.13	3.95	3.92	4.05	4.31	4.46
Fixed Income						
Preferred Rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Interest Expense	487	522	563	600	630	667
Average Rate	6.6%	6.8%	6.8%	6.8%	6.8%	6.8%
Cash Avail. Interest	1,775	2,159	2,136	2,267	2,413	2,538
Coverage	3.64	4.14	3.80	3.78	3.83	3.80
% Average Debt	23.9%	28.2%	25.9%	25.7%	26.1%	25.9%
% Average Capitalization	13.3%	15.6%	14.4%	14.4%	14.6%	14.5%
Other						
Tax Rate	26.3%	32.0%	32.0%	32.0%	32.0%	32.0%
Total Kwh	110,545	112,223	113,345	114,479	115,623	116,780
% Change	3.1%	1.5%	1.0%	1.0%	1.0%	1.0%
Rev per kwh	6.88	7.07	7.15	7.35	7.56	7.74
% Change	1.9%	2.7%	1.2%	2.7%	2.9%	2.4%
\$ Relief		211	95	223	245	212
Fuel & PP kwh	3.71	3.71	3.71	3.71	3.71	3.71
Gas Sales	343,661	343,661	343,661	343,661	343,661	343,661
% Change	-2.8%	0.0%	0.0%	0.0%	0.0%	0.0%
Rev per mcf	6.27	6.27	6.27	6.27	6.27	6.27
Gas Dis mcf	4.79	4.79	4.79	4.79	4.79	4.79

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**Table 4
Income Statement
2005-2011**

Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	2005	2006	2007	2008	2009	2010	2011
Revenues							
Electric	7,244	7,608	7,935	8,109	8,414	8,742	9,042
Natural gas	2,307	2,156	2,155	2,155	2,155	2,155	2,155
Non regulated	74	76	42	32	22	22	22
Total	9,625	9,840	10,131	10,296	10,590	10,919	11,218
Operating expenses							
Fuel & PP	3,922	4,103	4,163	4,205	4,247	4,290	4,333
Gas S&T	1,823	1,645	1,646	1,646	1,646	1,646	1,646
Cos non regulated	25	24	22	22	22	22	22
Total C of S	5,770	5,772	5,832	5,873	5,915	5,958	6,001
GM Electric	3,321	3,505	3,780	3,913	4,175	4,461	4,718
GM Gas	484	511	500	500	500	500	500
GM Non-Reg	50	52	20	10	0	0	0
Total GM	3,856	4,068	4,300	4,423	4,675	4,961	5,218
O&M-Utility	1,679	1,743	1,813	1,886	1,961	2,040	2,121
O&M Non regulated	28	30	10	5	0	0	0
D&A	767	822	871	923	979	1,038	1,100
Other Taxes	288	296	313	332	352	373	396
Operating exp.	2,763	2,891	3,008	3,146	3,292	3,451	3,617
Operating income	1,093	1,177	1,292	1,276	1,383	1,511	1,601
Interest charges	463	487	522	563	600	630	667
Coverage	2.36	2.42	2.48	2.27	2.30	2.40	2.40
Income After Interest	629	690	770	714	783	880	934
Income taxes	174	181	246	228	250	282	299
Tax Rate	27.6%	26.3%	32.0%	32.0%	32.0%	32.0%	32.0%
After Tax Income	456	509	524	485	532	599	635
Other Income							
Interest and other	1	4	4	4	4	4	4
AFC Equity	22	25	40	80	75	80	80
AFC Debt	21	31	40	80	75	80	80
Total AFC	43	56	80	160	150	160	160
Total Other Inc.	43	60	84	164	154	164	164
Cont Oper	499	569	608	650	686	763	799
Preferred div.	4	4	4	4	4	4	4
Bal.to Common	495	565	603	645	682	758	795
Earnings PS	1.20	1.35	1.39	1.46	1.52	1.68	1.74
% change		12.5%	2.9%	4.9%	4.3%	10.5%	3.8%

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I Raymond E. Moore certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report.

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Market Perform & Hold Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

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Hold	82%	0%
Sell	0%	0%

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