Section A

20:10:13:51. Statement A -- Balance sheet. Statement A shall include balance sheets in the form prescribed in the FERC's uniform systems of accounts for public utilities and licensees or for gas companies, 18 C.F.R. 101 (April 1, 1985), and in any other form if ordered by the commission. They shall be as of the beginning and end of the test period and the most recently available balance sheet containing any applicable footnotes.

Source: 2 SDR 90, effective July 7, 1976; 12 SDR 86, effective November 24, 1985; 12 SDR 151, 12 SDR 155, effective July 1, 1986.

General Authority: SDCL 49-34A-4.

Law Implemented: SDCL 49-34A-7, 49-34A-10, 49-34A-12, 49-34A-41.

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Northern States Power Company (Minnesota)	(1) [X] An Original (2) [ ] A Resubmission	04/11/2014	End of 2013/Q4

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200-201	15,246,277,586	13,963,254,525
3	Construction Work in Progress (107)	200-201	931,134,611	959,875,838
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		16,177,412,197	14,923,130,363
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	6,212,124,931	5,982,276,181
6	Net Utility Plant (Enter Total of line 4 less 5)		9,965,287,266	8,940,854,182
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203	93,587,261	140,109,570
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		73,340,425	78,123,441
9	Nuclear Fuel Assemblies in Reactor (120.3)		536,658,563	503,259,359
10	Spent Nuclear Fuel (120.4)		1,483,212,541	1,369,308,199
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	1,842,687,779	1,744,598,410
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		344,111,011	346,202,159
14	Net Utility Plant (Enter Total of lines 6 and 13)		10,309,398,277	9,287,056,341
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		8,794,455	8,273,927
19	(Less) Accum. Prov. for Depr. and Amort. (122)		6,966,718	6,296,040
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	2,721,746	2,568,667
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	0	0
24	Other Investments (124)		28,329,811	24,613,672
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		1,627,026,261	1,489,542,002
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		36,881,262	66,480,292
31	Long-Term Portion of Derivative Assets – Hedges (176)		15,926	47,218
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		1,696,802,743	1,585,229,738
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		9,943,937	9,805,397
36	Special Deposits (132-134)		0	0
37	Working Fund (135)		136,300	136,310
38	Temporary Cash Investments (136)		32,439,355	18,806,058
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		258,301,879	295,944,860
41	Other Accounts Receivable (143)		60,437,591	53,341,167
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		20,216,089	20,419,924
43	Notes Receivable from Associated Companies (145)		0	0
44	Accounts Receivable from Assoc. Companies (146)		35,893,303	36,003,360
45	Fuel Stock (151)	227	86,079,535	84,523,062
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	143,060,772	134,384,355
49	Merchandise (155)	227	1,079,083	560,311
50	Other Materials and Supplies (156)	227	0	6,862
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158.1 and 158.2)	228-229	0	0

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Northern States Power Company (Minnesota)	(1) [X] An Original (2) [ ] A Resubmission	04/11/2014	End of 2013/Q4

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)(Continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		0	0
54	Stores Expense Undistributed (163)	227	0	0
55	Gas Stored Underground - Current (164.1)		41,974,601	33,140,432
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		7,720,530	8,142,676
57	Prepayments (165)		83,964,342	77,088,789
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		23,829	0
60	Rents Receivable (172)		660,419	658,428
61	Accrued Utility Revenues (173)		255,412,372	229,664,147
62	Miscellaneous Current and Accrued Assets (174)		2,825,909	2,248,823
63	Derivative Instrument Assets (175)		103,558,755	122,659,645
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		36,881,262	66,480,292
65	Derivative Instrument Assets - Hedges (176)		64,308	99,498
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		15,926	47,218
67	Total Current and Accrued Assets (Lines 34 through 66)		1,066,463,543	1,020,266,746
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		32,573,131	30,550,744
70	Extraordinary Property Losses (182.1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	69,667,890	67,590,096
72	Other Regulatory Assets (182.3)	232	2,607,705,963	2,449,226,343
73	Prelim. Survey and Investigation Charges (Electric) (183)		210,275	1,323,992
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)		0	0
75	Other Preliminary Survey and Investigation Charges (183.2)		0	0
76	Clearing Accounts (184)		0	0
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	83,680,028	83,482,652
79	Def. Losses from Disposition of Utility Plt. (187)		0	0
80	Research, Devel. and Demonstration Expend. (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		19,223,643	21,151,454
82	Accumulated Deferred Income Taxes (190)	234	731,071,701	634,992,067
83	Unrecovered Purchased Gas Costs (191)		23,593,967	20,249,454
84	Total Deferred Debits (lines 69 through 83)		3,567,726,598	3,308,566,802
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		16,640,391,161	15,201,119,627

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Northern States Power Company (Minnesota)	(1) X An Original (2) __ A Resubmission	04/11/2014	2013/Q4

FOOTNOTE DATA

Schedule Page: 110 Line No.: 57 Column: c

Prepayments (Account No. 165). The Form 1 reports prepayments at the total Company level, at the beginning of the year and at the end of the year. The Company uses the average of the beginning of the year and the end of the year prepayments balance in the formula. In addition, since prepayments are reported in the Form 1 at the total Company level, they are allocated to the electric utility based on the ratio of electric net plant to the sum of electric and gas net plant as reported in the Form 1, page 200. The formula allocates the electric prepayments to the transmission function using a gross plant allocator.

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
Northern States Power Company (Minnesota)	(1) [X] An Original (2) [ ] A Resubmission	04/11/2014	end of 2013/Q4

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	10,000	10,000
3	Preferred Stock Issued (204)	250-251	0	0
4	Capital Stock Subscribed (202, 205)		0	0
5	Stock Liability for Conversion (203, 206)		0	0
6	Premium on Capital Stock (207)		2,866,603,438	2,581,501,205
7	Other Paid-In Capital (208-211)	253	0	0
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254b	0	0
11	Retained Earnings (215, 215.1, 216)	118-119	1,638,480,300	1,480,781,014
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	-2,570,659	-2,723,946
13	(Less) Reaquired Capital Stock (217)	250-251	0	0
14	Noncorporate Proprietorship (Non-major only) (218)		0	0
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	-21,729,106	-23,199,329
16	Total Proprietary Capital (lines 2 through 15)		4,480,793,973	4,036,368,944
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	3,900,000,000	3,500,000,000
19	(Less) Reaquired Bonds (222)	256-257	0	0
20	Advances from Associated Companies (223)	256-257	0	0
21	Other Long-Term Debt (224)	256-257	47,711	2,415
22	Unamortized Premium on Long-Term Debt (225)		0	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		11,315,904	11,361,863
24	Total Long-Term Debt (lines 18 through 23)		3,888,731,807	3,488,640,552
25	OTHER NONCURRENT LIABILITIES			
26	Obligations Under Capital Leases - Noncurrent (227)		0	0
27	Accumulated Provision for Property Insurance (228.1)		0	0
28	Accumulated Provision for Injuries and Damages (228.2)		1,765,514	1,346,612
29	Accumulated Provision for Pensions and Benefits (228.3)		273,934,000	390,301,000
30	Accumulated Miscellaneous Operating Provisions (228.4)		0	0
31	Accumulated Provision for Rate Refunds (229)		6,711,765	686,237
32	Long-Term Portion of Derivative Instrument Liabilities		151,667,288	174,517,881
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	0
34	Asset Retirement Obligations (230)		1,732,763,030	1,655,402,223
35	Total Other Noncurrent Liabilities (lines 26 through 34)		2,166,841,597	2,222,253,953
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		131,000,000	221,000,000
38	Accounts Payable (232)		601,312,293	402,949,830
39	Notes Payable to Associated Companies (233)		35,740,000	1,740,000
40	Accounts Payable to Associated Companies (234)		65,951,129	69,738,823
41	Customer Deposits (235)		3,572,807	4,232,729
42	Taxes Accrued (236)	262-263	186,725,885	175,657,324
43	Interest Accrued (237)		59,332,131	58,134,714
44	Dividends Declared (238)		58,751,752	58,757,488
45	Matured Long-Term Debt (239)		0	0

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
Northern States Power Company (Minnesota)	(1) [X] An Original (2) [ ] A Resubmission	04/11/2014	end of 2013/Q4

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)(continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
46	Matured Interest (240)		0	0
47	Tax Collections Payable (241)		17,398,799	22,480,168
48	Miscellaneous Current and Accrued Liabilities (242)		17,987,034	8,865,755
49	Obligations Under Capital Leases-Current (243)		0	0
50	Derivative Instrument Liabilities (244)		164,733,177	194,635,356
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		151,667,288	174,517,881
52	Derivative Instrument Liabilities - Hedges (245)		0	0
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		1,190,837,719	1,043,674,306
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		8,453,481	5,600,985
57	Accumulated Deferred Investment Tax Credits (255)	266-267	29,202,463	30,304,167
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	282,859,745	248,504,656
60	Other Regulatory Liabilities (254)	278	1,683,548,958	1,528,065,164
61	Unamortized Gain on Reaquired Debt (257)		0	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	37,477,632	37,047,572
63	Accum. Deferred Income Taxes-Other Property (282)		2,668,018,433	2,359,069,378
64	Accum. Deferred Income Taxes-Other (283)		203,625,353	201,589,950
65	Total Deferred Credits (lines 56 through 64)		4,913,186,065	4,410,181,872
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		16,640,391,161	15,201,119,627

Name of Respondent	This Report Is:	Date of Report	Year/Period of Report
Northern States Power Company (Minnesota)	(1) [X] An Original (2) [ ] A Resubmission	04/11/2014	End of 2013/Q4

NOTES TO FINANCIAL STATEMENTS

1. Use the space below for important notes regarding the Balance Sheet, Statement of Income for the year, Statement of Retained Earnings for the year, and Statement of Cash Flows, or any account thereof. Classify the notes according to each basic statement, providing a subheading for each statement except where a note is applicable to more than one statement.
2. Furnish particulars (details) as to any significant contingent assets or liabilities existing at end of year, including a brief explanation of any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or of a claim for refund of income taxes of a material amount initiated by the utility. Give also a brief explanation of any dividends in arrears on cumulative preferred stock.
3. For Account 116, Utility Plant Adjustments, explain the origin of such amount, debits and credits during the year, and plan of disposition contemplated, giving references to Cormmission orders or other authorizations respecting classification of amounts as plant adjustments and requirements as to disposition thereof.
4. Where Accounts 189, Unamortized Loss on Reacquired Debt, and 257, Unamortized Gain on Reacquired Debt, are not used, give an explanation, providing the rate treatment given these items. See General Instruction 17 of the Uniform System of Accounts.
5. Give a concise explanation of any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.
6. If the notes to financial statements relating to the respondent company appearing in the annual report to the stockholders are applicable and furnish the data required by instructions above and on pages 114-121, such notes may be included herein.
7. For the 3Q disclosures, respondent must provide in the notes sufficient disclosures so as to make the interim information not misleading. Disclosures which would substantially duplicate the disclosures contained in the most recent FERC Annual Report may be omitted.
8. For the 3Q disclosures, the disclosures shall be provided where events subsequent to the end of the most recent year have occurred which have a material effect on the respondent. Respondent must include in the notes significant changes since the most recently completed year in such items as: accounting principles and practices; estimates inherent in the preparation of the financial statements; status of long-term contracts; capitalization including significant new borrowings or modifications of existing financing agreements; and changes resulting from business combinations or dispositions. However were material contingencies exist, the disclosure of such matters shall be provided even though a significant change since year end may not have occurred.
9. Finally, if the notes to the financial statements relating to the respondent appearing in the annual report to the stockholders are applicable and furnish the data required by the above instructions, such notes may be included herein.

PAGE 122 INTENTIONALLY LEFT BLANK
SEE PAGE 123 FOR REQUIRED INFORMATION.

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Northern States Power Company (Minnesota)	(1) X An Original (2) __ A Resubmission	04/11/2014	2013/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies

Business and System of Accounts — Northern States Power Co., a Minnesota corporation (NSP-Minnesota) is principally engaged in the regulated generation, purchase, transmission, distribution and sale of electricity and in the regulated purchase, transportation, distribution and sale of natural gas. NSP-Minnesota is subject to regulation by the Federal Energy Regulatory Commission (FERC) and state utility commissions.

The electric production and transmission system of NSP-Minnesota and Northern States Power Co., a Wisconsin corporation (NSP-Wisconsin) (collectively, NSP System) is operated on an integrated basis and managed by NSP-Minnesota and NSP-Wisconsin. The electric production and transmission costs of the NSP System are shared by NSP-Minnesota and NSP-Wisconsin. A FERC approved Interchange Agreement between the two companies provides for the sharing of all generation and transmission costs of the NSP System. Such costs include current and potential obligations of NSP-Minnesota related to its nuclear generating facilities.

Basis of Accounting — The accompanying financial statements were prepared in accordance with the accounting requirements of the FERC as set forth in the Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP). The following areas represent the significant differences between the Uniform System of Accounts and GAAP:

Current maturities of long-term debt are included as long-term debt, while GAAP requires such maturities to be classified as current liabilities.

Accumulated deferred income taxes are shown as long-term assets and liabilities at their gross amounts in the FERC presentation, in contrast to the GAAP presentation as net current and long-term assets and liabilities.

Regulatory assets and liabilities are classified as current and noncurrent for GAAP, while the FERC classifies all regulatory assets and liabilities as noncurrent deferred debits and credits, respectively.

Unrecognized tax benefits are recorded for temporary differences in accounts established for accumulated deferred income taxes in the FERC presentation, in contrast to the GAAP presentation as taxes accrued and noncurrent other liabilities.

Removal costs for future removal obligations are classified as accumulated depreciation within the utility plant accounts in the FERC presentation and as regulatory liabilities in the GAAP presentation.

For certain capital projects where there is recovery of a return on construction work in progress (CWIP), certain amounts of allowance for funds used during construction (AFUDC) are not recognized in CWIP for GAAP, while for the FERC presentation, they are recorded in CWIP but the benefit is deferred as a deferred liability and amortized over the life of the property as a reduction of costs.

Certain commodity trading purchases and sales transactions are presented gross as expenses and revenues for the FERC presentation; however the net margin is reported as net sales for the GAAP presentation.

Various expenses such as donations, lobbying, and other non-regulatory expenses are presented as other income and deductions for the FERC presentation and reported as operating expenses for the GAAP presentation.

Income tax expense related to utility operations is shown as a component of utility operating expenses in the FERC presentation, in contrast to the GAAP presentation as a below-the-line deduction from operating income.

Wholly-owned subsidiaries are reported using the equity method of accounting in the FERC presentation and are required to be consolidated for GAAP.

Adjustments to theoretical excess depreciation reserves are recorded as a regulatory asset and an increase to regulatory credits for FERC presentation, in contrast to a reduction to both accumulated depreciation and depreciation expense for GAAP presentation.

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Northern States Power Company (Minnesota)	(1) X An Original (2) __ A Resubmission	04/11/2014	2013/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

If GAAP were followed, these financial statement line items would have values greater/(lesser) than those shown by the FERC presentation of:

(Thousands of Dollars)		
Balance Sheet:		
Net utility plant	$	280,124
Current assets		288,411
Current liabilities		128,110
Other long-term assets		(2,514,028)
Long-term debt and other long-term liabilities		(2,073,603)
Statement of Income:		
Operating revenues	$	6,102
Operating expenses		(184,529)
Other income and deductions		(8,765)
Statement of Cash Flows:		
Cash provided by operating activities	$	(2,278)
Cash used in investing activities		2,584
Cash provided by financing activities		(1)

Use of Estimates — In recording transactions and balances resulting from business operations, NSP-Minnesota uses estimates based on the best information available. Estimates are used for such items as plant depreciable lives, asset retirement obligations (AROs), regulatory assets and liabilities, tax provisions, uncollectible amounts, environmental costs, unbilled revenues, jurisdictional fuel and energy cost allocations and actuarially determined benefit costs. The recorded estimates are revised when better information becomes available or when actual amounts can be determined. Those revisions can affect operating results.

Regulatory Accounting — NSP-Minnesota accounts for certain income and expense items in accordance with accounting guidance for regulated operations. Under this guidance:

Certain costs, which would otherwise be charged to expense or other comprehensive income (OCI), are deferred as regulatory assets based on the expected ability to recover the costs in future rates; and

Certain credits, which would otherwise be reflected as income, are deferred as regulatory liabilities based on the expectation the amounts will be returned to customers in future rates, or because the amounts were collected in rates prior to the costs being incurred.

Estimates of recovering deferred costs and returning deferred credits are based on specific ratemaking decisions or precedent for each item. Regulatory assets and liabilities are amortized consistent with the treatment in the rate setting process.

If restructuring or other changes in the regulatory environment occur, NSP-Minnesota may no longer be eligible to apply this accounting treatment, and may be required to eliminate regulatory assets and liabilities from its balance sheet. Such changes could have a material effect on NSP-Minnesota’s financial condition, results of operations and cash flows. See Note 11 for further discussion of regulatory assets and liabilities.

Revenue Recognition — Revenues related to the sale of energy are generally recorded when service is rendered or energy is delivered to customers. However, the determination of the energy sales to individual customers is based on the reading of their meter, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is recognized. NSP-Minnesota presents its revenues net of any excise or other fiduciary-type taxes or fees.

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Northern States Power Company (Minnesota)	(1) X An Original (2) __ A Resubmission	04/11/2014	2013/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

NSP-Minnesota participates in Midcontinent Independent Transmission System Operator, Inc. (MISO). The revenues and charges from MISO related to serving retail and wholesale electric customers comprising the native load of NSP-Minnesota are recorded on a net basis within cost of sales. Revenues and charges for energy transacted through MISO are recorded based upon our evaluation each hour as to whether we are a net seller or a net buyer based upon the total volumes. The real time and day-ahead market are each evaluated separately. If NSP-Minnesota is a net seller the transaction is recorded on a gross basis in electric revenues and cost of sales. If NSP-Minnesota is a net buyer the transaction is recorded on a net basis in cost of sales.

NSP-Minnesota has various rate-adjustment mechanisms in place that provide for the recovery of natural gas, electric fuel and purchased energy costs. These cost-adjustment tariffs may increase or decrease the level of revenue collected from customers and are revised periodically for differences between the total amount collected under the clauses and the costs incurred. When applicable, under governing regulatory commission rate orders, fuel cost over-recoveries (the excess of fuel revenue billed to customers over fuel costs incurred) are deferred as regulatory liabilities and under-recoveries (the excess of fuel costs incurred over fuel revenues billed to customers) are deferred as regulatory assets.

Conservation Programs — NSP-Minnesota has implemented programs in its retail jurisdictions to assist customers in conserving energy and reducing peak demand on the electric and natural gas systems. These programs include commercial process efficiency and lighting updates, as well as residential rebates for participation in air conditioning interruption and energy-efficient appliances.

The costs incurred for conservation improvement programs (CIP) programs are deferred if it is probable future revenue will be provided to permit recovery of the incurred cost. For incentive programs designed to allow adjustments of future rates for recovery of lost margins and/or conservation performance incentives, recorded revenues are limited to those amounts expected to be collected within 24 months following the end of the annual period in which they are earned.

NSP-Minnesota's CIP program costs are recovered through a combination of base rate revenue and rider mechanisms. The revenue billed to customers recovers incurred costs for conservation programs and also incentive amounts that are designed to encourage NSP-Minnesota's achievement of energy conservation goals and to compensate for related lost sales margin. NSP-Minnesota recognizes regulatory assets to reflect the amount of costs or earned incentives that have not yet been collected from customers.

Property, Plant and Equipment and Depreciation — Property, plant and equipment is stated at original cost. The cost of plant includes direct labor and materials, contracted work, overhead costs and AFUDC. The cost of plant retired is charged to accumulated depreciation and amortization. Significant additions or improvements extending asset lives are capitalized, while repairs and maintenance costs are charged to expense as incurred. Maintenance and replacement of items determined to be less than a unit of property are charged to operating expenses as incurred. Planned major maintenance activities are charged to operating expense unless the cost represents the acquisition of an additional unit of property or the replacement of an existing unit of property. Property, plant and equipment also includes costs associated with property held for future use. The depreciable lives of certain plant assets are reviewed annually and revised, if appropriate. Property, plant and equipment that is required to be decommissioned early by a regulator is reclassified as plant to be retired.

Property, plant and equipment is tested for impairment when it is determined that the carrying value of the assets may not be recoverable. Recently completed property, plant and equipment that is disallowed for cost recovery is expensed in the current period. For investments in property, plant and equipment that are not expected to go into service, incurred costs and related deferred tax amounts are compared to the discounted estimated future rate recovery, and a loss on abandonment is recognized, if necessary.

NSP-Minnesota records depreciation expense related to its plant using the straight-line method over the plant's useful life. Actuarial and semi-actuarial life studies are performed on a periodic basis and submitted to the state and federal commissions for review. Upon acceptance by the various commissions, the resulting lives and net salvage rates are used to calculate depreciation. Depreciation expense, expressed as a percentage of average depreciable property, was approximately 2.9 percent for the years ended Dec. 31, 2013 and 2012.

Leases — NSP-Minnesota evaluates a variety of contracts for lease classification at inception, including purchased power agreements (PPAs) and rental arrangements for office space, vehicles, and equipment. Contracts determined to contain a lease because of per unit pricing that is other than fixed or market price, terms regarding the use of a particular asset, and other factors are evaluated further to determine if the arrangement is a capital lease. See Note 9 for further discussion of leases.

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AFUDC — AFUDC represents the cost of capital used to finance utility construction activity. AFUDC is computed by applying a composite financing rate to qualified CWIP. The amount of AFUDC capitalized as a utility construction cost is credited to nonoperating income (for equity capital) and interest charges (for debt capital). AFUDC amounts capitalized are included in NSP-Minnesota's rate base for establishing utility service rates. In addition to construction-related amounts, cost of capital also is recorded to reflect returns on capital used to finance conservation programs in Minnesota.

Generally AFUDC costs are recovered from customers as the related property is depreciated. However, in some cases, including certain wind and transmission projects, the Minnesota Public Utilities Commission (MPUC) has approved a more current recovery of the cost of capital associated with large capital projects, through various riders, resulting in a lower recognition of AFUDC.

AROs — NSP-Minnesota accounts for AROs under accounting guidance that requires a liability for the fair value of an ARO to be recognized in the period in which it is incurred if it can be reasonably estimated, with the offsetting associated asset retirement costs capitalized as a long-lived asset. The liability is generally increased over time by applying the effective interest method of accretion, and the capitalized costs are depreciated over the useful life of the long-lived asset. Changes resulting from revisions to the timing or amount of expected asset retirement cash flows are recognized as an increase or a decrease in the ARO. The recording of the obligation for regulated operations has no income statement impact due to the deferral of the amounts through the establishment of a regulatory asset and recovery in rates. NSP-Minnesota also recovers through rates certain future plant removal costs in addition to AROs. See Note 9 for further discussion of AROs.

Nuclear Decommissioning — Nuclear decommissioning studies estimate NSP-Minnesota's ultimate costs of decommissioning its nuclear power plants and are performed at least every three years and submitted to the MPUC and other state commissions for approval. The MPUC approved NSP-Minnesota's most recent triennial nuclear decommissioning studies in December 2012. These studies reflect NSP-Minnesota's plans, under the current operating licenses, for prompt dismantlement of the Monticello and Prairie Island facilities. These studies assume that NSP-Minnesota will be storing spent fuel on site pending removal to a United States government facility.

For rate making purposes, NSP-Minnesota recovers the total decommissioning costs related to its nuclear power plants over each facility's expected service life based on the triennial decommissioning studies filed with the MPUC and other state commissions. The studies consider estimated future costs of decommissioning and the market value of investments in trust funds, and recommend annual funding amounts. Amounts collected in rates are deposited in the trust funds. See Note 10 for further discussion of the approved nuclear decommissioning studies and funded amounts. For financial reporting purposes, NSP-Minnesota accounts for nuclear decommissioning as an ARO as described above.

Restricted funds for the payment of future decommissioning expenditures for NSP-Minnesota's nuclear facilities are included in the nuclear decommissioning fund on the balance sheets. See Note 7 for further discussion of the nuclear decommissioning fund.

Nuclear Fuel Expense — Nuclear fuel expense, which is recorded as NSP-Minnesota's nuclear generating plants use fuel, includes the cost of fuel used in the current period (including AFUDC), as well as future disposal costs of spent nuclear fuel and costs associated with the end-of-life fuel segments.

Nuclear Refueling Outage Costs — NSP-Minnesota uses a deferral and amortization method for nuclear refueling operation costs. This method amortizes refueling outage costs over the period between refueling outages consistent with how the costs are recovered ratably in electric rates.

Income Taxes — NSP-Minnesota accounts for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. NSP-Minnesota defers income taxes for all temporary differences between pretax financial and taxable income, and between the book and tax bases of assets and liabilities. NSP-Minnesota uses the tax rates that are scheduled to be in effect when the temporary differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

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Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. In making such a determination, all available evidence is considered, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations.

Due to the effects of past regulatory practices, when deferred taxes were not required to be recorded due to the use of flow through accounting for ratemaking purposes, the reversal of some temporary differences are accounted for as current income tax expense. Investment tax credits are deferred and their benefits amortized over the book depreciable lives of the related property. Utility rate regulation also has resulted in the recognition of certain regulatory assets and liabilities related to income taxes, which are summarized in Note 11.

NSP-Minnesota follows the applicable accounting guidance to measure and disclose uncertain tax positions that it has taken or expects to take in its income tax returns. NSP-Minnesota recognizes a tax position in its financial statements when it is more likely than not that the position will be sustained upon examination based on the technical merits of the position. Recognition of changes in uncertain tax positions are reflected as a component of income tax.

Interest and penalties are recorded separately to their respective line items in the income statement.

Xcel Energy Inc. and its subsidiaries, including NSP-Minnesota, file consolidated federal income tax returns as well as combined or separate state income tax returns. Federal income taxes paid by Xcel Energy Inc. are allocated to Xcel Energy Inc.'s subsidiaries based on separate company computations of tax. A similar allocation is made for state income taxes paid by Xcel Energy Inc. in connection with combined state filings. Xcel Energy Inc. also allocates its own income tax benefits to its direct subsidiaries which are recorded directly in equity by the subsidiaries based on the relative positive tax liabilities of the subsidiaries.

See Note 5 for further discussion of income taxes.

Types of and Accounting for Derivative Instruments — NSP-Minnesota uses derivative instruments in connection with its interest rate, utility commodity price, vehicle fuel price, short-term wholesale and commodity trading activities, including forward contracts, futures, swaps and options. All derivative instruments not designated and qualifying for the normal purchases and normal sales exception, as defined by the accounting guidance for derivatives and hedging, are recorded on the balance sheets at fair value as derivative instruments. This includes certain instruments used to mitigate market risk for the utility operations including transmission in organized markets and all instruments related to the commodity trading operations. The classification of changes in fair value for those derivative instruments is dependent on the designation of a qualifying hedging relationship. Changes in fair value of derivative instruments not designated in a qualifying hedging relationship are reflected in current earnings or as a regulatory asset or liability. The classification as a regulatory asset or liability is based on commission approved regulatory recovery mechanisms.

Gains or losses on commodity trading transactions are recorded as a component of electric operating revenues; hedging transactions for vehicle fuel costs are recorded as a component of capital projects or operation costs; and interest rate hedging transactions are recorded as a component of interest expense. NSP-Minnesota is allowed to recover in electric or natural gas rates the costs of certain financial instruments purchased to reduce commodity cost volatility. For further information on derivatives entered to mitigate commodity price risk on behalf of electric and natural gas customers, see Note 7.

Cash Flow Hedges — Certain qualifying hedging relationships are designated as a hedge of a forecasted transaction or future cash flow (cash flow hedge). Changes in the fair value of a derivative designated as a cash flow hedge, to the extent effective are included in OCI, or deferred as a regulatory asset or liability based on recovery mechanisms until earnings are affected by the hedged transaction.

Normal Purchases and Normal Sales — NSP-Minnesota enters into contracts for the purchase and sale of commodities for use in its business operations. Derivatives and hedging accounting guidance requires a company to evaluate these contracts to determine whether the contracts are derivatives. Certain contracts that meet the definition of a derivative may be exempted from derivative accounting if designated as normal purchases or normal sales.

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NSP-Minnesota evaluates all of its contracts at inception to determine if they are derivatives and if they meet the normal purchases and normal sales designation requirements. None of the contracts entered into within the commodity trading operations qualify for a normal purchases and normal sales designation.

See Note 7 for further discussion of NSP-Minnesota's risk management and derivative activities.

Commodity Trading Operations — All applicable gains and losses related to commodity trading activities, whether or not settled physically, are shown on a net basis in electric operating revenues in the statements of income.

Pursuant to the joint operating agreement approved by the FERC, some of NSP-Minnesota's commodity trading margins are apportioned to Public Service Company of Colorado (PSCo) and Southwestern Public Service Company (SPS). Commodity trading activities are not associated with energy produced from NSP-Minnesota's generation assets or energy and capacity purchased to serve native load. Commodity trading contracts are recorded at fair market value and commodity trading results include the impact of all margin-sharing mechanisms. For further information, see Note 7.

Fair Value Measurements — NSP-Minnesota presents cash equivalents, interest rate derivatives, commodity derivatives and nuclear decommissioning fund assets at estimated fair values in its financial statements. Cash equivalents are recorded at cost plus accrued interest; money market funds are measured using quoted net asset values. For interest rate derivatives, quoted prices based primarily on observable market interest rate curves are used as a primary input to establish fair value. For commodity derivatives, the most observable inputs available are generally used to determine the fair value of each contract. In the absence of a quoted price for an identical contract in an active market, NSP-Minnesota may use quoted prices for similar contracts or internally prepared valuation models to determine fair value. For the nuclear decommissioning fund, published trading data and pricing models, generally using the most observable inputs available, are utilized to estimate fair value for each class of security. For further information, see Note 7.

Cash and Cash Equivalents — NSP-Minnesota considers investments in certain instruments, including commercial paper and money market funds, with a remaining maturity of 3 months or less at the time of purchase, to be cash equivalents.

Accounts Receivable and Allowance for Bad Debts **—** Accounts receivable are stated at the actual billed amount net of an allowance for bad debts. NSP-Minnesota establishes an allowance for uncollectible receivables based on a policy that reflects its expected exposure to the credit risk of customers.

Inventory — All inventory is recorded at average cost.

Renewable Energy Credits (RECs) — RECs are marketable environmental instruments that represent proof that energy was generated from eligible renewable energy sources. RECs are awarded upon delivery of the associated energy and can be bought and sold. RECs are typically used as a form of measurement of compliance to renewable portfolio standards enacted by those states that are encouraging construction and consumption from renewable energy sources, but can also be sold separately from the energy produced. NSP-Minnesota acquires RECs from the generation or purchase of renewable power.

When RECs are purchased or acquired in the course of generation they are recorded as inventory at cost. The cost of RECs that are utilized for compliance purposes is recorded as electric fuel and purchased power expense.

Sales of RECs that are purchased or acquired in the course of generation are recorded in electric utility operating revenues on a gross basis. The cost of these RECs, related transaction costs, and amounts credited to customers under margin-sharing mechanisms are recorded in electric fuel and purchased power expense. The sales of RECs for trading purposes are recorded in electric utility operating revenues, net of the cost of the RECs, transaction costs, and amounts credited to customers under margin-sharing mechanisms.

Emission Allowances — Emission allowances, including the annual sulfur dioxide (SO_2) and nitrogen oxide (NOx) emission allowance entitlement received from the United States Environmental Protection Agency (EPA), are recorded at cost plus associated broker commission fees. NSP-Minnesota follows the inventory accounting model for all emission allowances. Sales of emission allowances are included in electric utility operating revenues and the operating activities section of the statements of cash flows.

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Environmental Costs — Environmental costs are recorded when it is probable NSP-Minnesota is liable for remediation costs and the liability can be reasonably estimated. Costs are deferred as a regulatory asset if it is probable that the costs will be recovered from customers in future rates. Otherwise, the costs are expensed. If an environmental expense is related to facilities currently in use, such as emission-control equipment, the cost is capitalized and depreciated over the life of the plant.

Estimated remediation costs, excluding inflationary increases, are recorded. The estimates are based on experience, an assessment of the current situation and the technology currently available for use in the remediation. The recorded costs are regularly adjusted as estimates are revised and remediation proceeds. If other participating potentially responsible parties (PRPs) exist and acknowledge their potential involvement with a site, costs are estimated and recorded only for NSP-Minnesota's expected share of the cost. Any future costs of restoring sites where operation may extend indefinitely are treated as a capitalized cost of plant retirement. The depreciation expense levels recoverable in rates include a provision for removal expenses, which may include final remediation costs.

See Note 9 for further discussion of environmental costs.

Benefit Plans and Other Postretirement Benefits — NSP-Minnesota maintains pension and postretirement benefit plans for eligible employees. Recognizing the cost of providing benefits and measuring the projected benefit obligation of these plans under applicable accounting guidance requires management to make various assumptions and estimates.

Based on regulatory recovery mechanisms, certain unrecognized actuarial gains and losses and unrecognized prior service costs or credits are recorded as regulatory assets and liabilities, rather than OCI.

See Note 6 for further discussion of benefit plans and other postretirement benefits.

Guarantees — NSP-Minnesota recognizes, upon issuance or modification of a guarantee, a liability for the fair market value of the obligation that has been assumed in issuing the guarantee. This liability includes consideration of specific triggering events and other conditions which may modify the ongoing obligation to perform under the guarantee.

The obligation recognized is reduced over the term of the guarantee as NSP-Minnesota is released from risk under the guarantee. See Note 9 for specific details of issued guarantees.

Subsequent Events — Management has evaluated the impact of events occurring after Dec. 31, 2013 up to Feb. 24, 2014, the date NSP-Minnesota's GAAP financial statements were issued. These statements contain all necessary adjustments and disclosures resulting from that evaluation.

2. Investments Accounted for by the Equity Method

In accordance with FERC regulations, NSP-Minnesota's investment in and income from all of its wholly owned subsidiaries are presented using the equity method of accounting. Subsidiaries accounted for under the equity method include:

Name	Geographic Area	Economic Interest
United Power & Land	United States	100%
NSP-Nuclear Corp.	United States	100%

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Summarized Financial Information of Unconsolidated Investees:

Summarized financial information for all equity-method subsidiaries and projects, including interests owned by NSP-Minnesota was as follows:

(Thousands of dollars)	Dec. 31, 2013	Dec. 31, 2012
Financial Position		
Current assets	$ 2,273	$ 1,901
Other assets	1,028	1,134
Total assets	$ 3,301	$ 3,035
Current liabilities	$ 566	$ 277
Other liabilities	14	190
Equity	2,721	2,568
Total liabilities and equity	$ 3,301	$ 3,035

(Thousands of dollars)	Twelve months ended Dec. 31, 2013
Results of Operations	
Operating revenues	$ 18
Operating income	11
Net loss	(153)

	Twelve months ended Dec. 31, 2012
Operating revenues	$ 16
Operating income	7
Net loss	(148)

3. Borrowings and Other Financing Instruments

Short-Term Borrowings

Money Pool — Xcel Energy Inc. and its utility subsidiaries have established a money pool arrangement that allows for short-term investments in and borrowings between the utility subsidiaries. Xcel Energy Inc. 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 Xcel Energy Inc. Money pool borrowings for NSP-Minnesota were as follows:

(Amounts in Millions, Except Interest Rates)	Twelve Months Ended Dec. 31, 2013	Twelve Months Ended Dec. 31, 2012
Borrowing limit	$ 250	$ 250
Amount outstanding at period end	34	—
Average amount outstanding	42	56
Maximum amount outstanding	211	236
Weighted average interest rate, computed on a daily basis	0.14 %	0.33 %
Weighted average interest rate at period end	0.25	N/A

Commercial Paper — NSP-Minnesota meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings under its credit facility. Commercial paper outstanding for NSP-Minnesota was as follows:

(Amounts in Millions, Except Interest Rates)	Twelve Months Ended Dec. 31, 2013	Twelve Months Ended Dec. 31, 2012
Borrowing limit	$ 500	$ 500
Amount outstanding at period end	131	221
Average amount outstanding	97	59
Maximum amount outstanding	347	302
Weighted average interest rate, computed on a daily basis	0.34 %	0.39 %
Weighted average interest rate at end of period	0.25	0.39

Letters of Credit — NSP-Minnesota uses letters of credit, generally with terms of one-year, to provide financial guarantees for certain operating obligations. At Dec. 31, 2013 and 2012, there were $15.9 million and $10.2 million of letters of credit outstanding, respectively, under the credit facility. The contract amounts of these letters of credit approximate their fair value and are subject to fees.

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Credit Facility — In order to use its commercial paper program to fulfill short-term funding needs, NSP-Minnesota must have a revolving credit facility in place at least equal to the amount of its commercial paper borrowing limit and cannot issue commercial paper in an amount exceeding available capacity under this credit facility. The line of credit provides short-term financing in the form of notes payable to banks, letters of credit and back-up support for commercial paper borrowings.

NSP-Minnesota has a five-year credit agreement with a syndicate of banks. The total size of the credit facility is $500 million and the credit facility terminates in July 2017.

NSP-Minnesota has the right to request an extension of the revolving termination date for two additional one-year periods. All extension requests are subject to majority bank group approval.

Other features of NSP-Minnesota's credit facility include:

NSP-Minnesota may increase its credit facility by up to $100 million.
The credit facility has a financial covenant requiring that the debt-to-total capitalization ratio be less than or equal to 65 percent. NSP-Minnesota was in compliance as its debt-to-total capitalization ratio was 47 percent at Dec. 31, 2013. If NSP-Minnesota does not comply with the covenant, an event of default may be declared, and if not remedied, any outstanding amounts due under the facility can be declared due by the lender.
The credit facility has a cross-default provision that provides NSP-Minnesota will be in default on its borrowings under the facility if NSP-Minnesota or any of its subsidiaries whose total assets exceed 15 percent of NSP-Minnesota's total assets, default on certain indebtedness in an aggregate principal amount exceeding $75 million.
The interest rates under the line of credit are based on Eurodollar borrowing margins ranging from 87.5 to 175 basis points per year based on the applicable long-term credit ratings.
The commitment fees, also based on applicable long-term credit ratings, are calculated on the unused portion of the lines of credit at a range of 7.5 to 27.5 basis points per year.

At Dec. 31, 2013, NSP-Minnesota had the following committed credit facility available (in millions):

Credit Facility [(a)]	Drawn [(b)]	Available
$ 500.0	$ 146.9	$ 353.1

(a) Credit facility expires in July 2017.

(b) Includes outstanding commercial paper and letters of credit.

All credit facility bank borrowings, outstanding letters of credit and outstanding commercial paper reduce the available capacity under the credit facility. NSP-Minnesota had no direct advances on the credit facility outstanding at Dec. 31, 2013 and 2012.

Long-Term Borrowings and Other Financing Instruments

Generally, all real and personal property of NSP-Minnesota is subject to the lien of its first mortgage indenture. Debt premiums, discounts and expenses are amortized over the life of the related debt. The premiums, discounts and expenses associated with refinanced debt are deferred and amortized over the life of the related new issuance, in accordance with regulatory guidelines.

In May 2013, NSP-Minnesota issued $400 million of 2.60 percent first mortgage bonds due May 15, 2023. In August 2012, NSP-Minnesota issued $300 million of 2.15 percent first mortgage bonds due Aug. 15, 2022 and $500 million of 3.40 percent first mortgage bonds, due Aug. 15, 2042.

During the next five years, NSP-Minnesota has long-term debt maturities of $250 million and $500 million due in 2015 and 2018, respectively.

Deferred Financing Costs — Deferred debits include deferred financing costs of approximately $32.6 million and $30.6 million, net of amortization, at Dec. 31, 2013 and 2012, respectively. NSP-Minnesota is amortizing these financing costs over the remaining maturity periods of the related debt.

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Dividend and Other Capital-Restrictions — NSP-Minnesota's dividends are subject to the FERC's jurisdiction under the Federal Power Act, which prohibits the payment of dividends out of capital accounts; payment of dividends is allowed out of retained earnings only.

NSP-Minnesota's first mortgage indenture places certain restrictions on the amount of cash dividends it can pay to Xcel Energy Inc., the holder of its common stock. Even with this restriction, NSP-Minnesota could have paid more than $1.4 billion and $1.3 billion in additional cash dividends on common stock at Dec. 31, 2013 and 2012, respectively.

The most restrictive dividend limitation for NSP-Minnesota is imposed by its state regulatory commissions. NSP-Minnesota's state regulatory commissions indirectly limit the amount of dividends NSP-Minnesota can pay to Xcel Energy Inc. by requiring an equity-to-total capitalization ratio between 46.8 percent and 57.2 percent. NSP-Minnesota's equity-to-total capitalization ratio was 52.5 percent at Dec. 31, 2013 and $912 million in retained earnings was not restricted. Total capitalization for NSP-Minnesota was $8.5 billion at Dec. 31, 2013, which did not exceed the limits imposed by the commissions of $9.0 billion.

4. Joint Ownership of Generation and Transmission Facilities

Following are the investments by NSP-Minnesota in jointly owned generation and transmission facilities and the related ownership percentages as of Dec. 31, 2013:

(Thousands of Dollars)	Plant in Service	Accumulated Depreciation [(a)]	Construction Work in Progress	Ownership %
Electric Generation:				
Sherco Unit 3	$ 596,314	$ 371,925	$ 4,533	59.0 %
Sherco Common Facilities Units 1, 2 and 3	145,579	87,289	61	80.0 %
Sherco Substation	4,790	2,884	—	59.0 %
Electric Transmission:				
Grand Meadow Line and Substation	10,647	1,225	—	50.0 %
CapX2020	340,333	77,803	503,714	53.3 %
Total	$ 1,097,663	$ 541,126	$ 508,308	

(a) Asset retirement obligation is not included.

NSP-Minnesota has approximately 500 megawatts (MW) of jointly owned generating capacity. NSP-Minnesota's share of operating expenses and construction expenditures are included in the applicable utility accounts. Each of the respective owners is responsible for providing its own financing.

5. Income Taxes

Federal Tax Loss Carryback Claims — In 2012 and 2013, NSP-Minnesota identified certain expenses related to 2009, 2010, 2011 and 2013 that qualify for an extended carryback beyond the typical two-year carryback period. As a result of a higher tax rate in prior years, NSP-Minnesota recognized a tax benefit of approximately $15 million in 2012 and $12 million in 2013.

Federal Audit — NSP-Minnesota is a member of the Xcel Energy affiliated group that files a consolidated federal income tax return. The statute of limitations applicable to Xcel Energy's 2008 federal income tax return expired in September 2012. The statute of limitations applicable to Xcel Energy's 2009 federal income tax return expires in June 2015. In the third quarter of 2012, the Internal Revenue Service (IRS) commenced an examination of tax years 2010 and 2011, including the 2009 carryback claim. As of Dec. 31, 2013, the IRS had proposed an adjustment to the federal tax loss carryback claims that would result in $10 million of income tax expense for the 2009 through 2011 claims and the anticipated claim for 2013. Xcel Energy is continuing to work through the audit process, but the outcome and timing of a resolution are uncertain.

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State Audits — NSP-Minnesota is a member of the Xcel Energy affiliated group that files consolidated state income tax returns. As of Dec. 31, 2013, NSP-Minnesota's earliest open tax year that is subject to examination by state taxing authorities under applicable statutes of limitations is 2009. There are currently 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 effective tax rate (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.

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

(Millions of Dollars)	Dec. 31, 2013	Dec. 31, 2012
Unrecognized tax benefit — Permanent tax positions	$ 8.5	$ 2.8
Unrecognized tax benefit — Temporary tax positions	16.7	16.7
Total unrecognized tax benefit	$ 25.2	$ 19.5

A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows:

(Millions of Dollars)	2013	2012
Balance at Jan. 1	$ 19.5	$ 16.7
Additions based on tax positions related to the current year	8.1	1.7
Reductions based on tax positions related to the current year	—	(2.2)
Additions for tax positions of prior years	11.6	6.4
Reductions for tax positions of prior years	(1.9)	(3.1)
Settlements with taxing authorities	(12.1)	—
Balance at Dec. 31	$ 25.2	$ 19.5

The unrecognized tax benefit amounts were reduced by the tax benefits associated with net operating losses (NOLs) and tax credit carryforwards. The amounts of tax benefits associated with NOL and tax credit carryforwards are as follows:

(Millions of Dollars)	Dec. 31, 2013	Dec. 31, 2012
NOL and tax credit carryforwards	$ (12.4)	$ (16.8)

It is reasonably possible that NSP-Minnesota's amount of unrecognized tax benefits could significantly change in the next 12 months as the IRS audit progresses and state audits resume. As the IRS examination moves closer to completion, it is reasonably possible that the amount of unrecognized tax benefit could decrease up to approximately $14 million.

The payable for interest related to unrecognized tax benefits is partially offset by the interest benefit associated with NOL and tax credit carryforwards. The payables for interest related to unrecognized tax benefits at Dec. 31, 2013 and 2012 were not material. No amounts were accrued for penalties related to unrecognized tax benefits as of Dec. 31, 2013 or 2012.

Uncertainty in Income Taxes — The FERC has not fully adopted the accounting guidance for uncertainty in income taxes. Accordingly, NSP-Minnesota has recorded its unrecognized tax benefits for temporary adjustments, including net operating loss and tax credit carryforwards, in accounts established for accumulated deferred income taxes.

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Tangible Property Regulations — In September 2013, the U.S. Treasury issued final regulations addressing the tax consequences associated with the acquisition, production and improvement of tangible property. As NSP-Minnesota had adopted certain utility-specific guidance previously issued by the IRS, the issuance is not expected to have a material impact on its financial statements.

***Other Income Tax Matters* —** NOL amounts represent the amount of the tax loss that is carried forward and tax credits represent the deferred tax asset. NOL and tax credit carryforwards as of Dec. 31 were as follows:

(Millions of Dollars)	2013	2012
Federal NOL carryforward	$ 601.3	$ 437.0
Federal tax credit carryforwards	112.2	74.1
State tax credit carryforwards, net of federal detriment	2.6	2.0

The federal carryforward periods expire between 2021 and 2033. The state carryforward periods expire between 2017 and 2028.

Total income tax expense from operations differs from the amount computed by applying the statutory federal income tax rate to income before income tax expense. The following reconciles such differences for the years ending Dec. 31:

	2013	2012
Federal statutory rate	35.0 %	35.0 %
Increases (decreases) in tax from:		
State income taxes, net of federal income tax benefit	5.6	8.5
Tax credits recognized, net of federal income tax expense	(5.3)	(4.6)
NOL carryback	(2.0)	(2.9)
Regulatory differences — utility plant items	(1.8)	(1.6)
Other, net	0.1	(0.3)
Effective income tax rate	31.6 %	34.1 %

The components of income tax expense for the years ending Dec. 31 were:

(Thousands of Dollars)	2013	2012
Current federal tax benefit	$ (6,266)	$ (85,181)
Current state tax expense	11,170	19,615
Current change in unrecognized tax expense (benefit)	5,734	(546)
Deferred federal tax expense	135,542	196,569
Deferred state tax expense	37,381	47,869
Deferred investment tax credits	(1,813)	(2,700)
Total income tax expense	$ 181,748	$ 175,626

The components of deferred income tax expense for the years ending Dec. 31 were:

(Thousands of Dollars)	2013	2012
Deferred tax expense excluding items below	$ 215,334	$ 290,183
Amortization and adjustments to deferred income taxes on income tax regulatory assets and liabilities	(41,366)	(51,917)
Tax (expense) benefit allocated to other comprehensive income and other	(1,045)	6,172
Deferred tax expense	$ 172,923	$ 244,438

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The components of the deferred debits and deferred credits at Dec. 31 were as follows:

(Thousands of Dollars)	2013	2012
Deferred tax liabilities:		
Differences between book and tax bases of property	$ 2,663,953	$ 2,382,076
Regulatory assets	169,391	156,166
Other	75,777	59,465
Total deferred tax liabilities	$ 2,909,121	$ 2,597,707
Deferred tax assets:		
Differences between book and tax bases of property	$ 280,550	$ 257,575
NOL carryforward	214,421	165,506
Tax credit carryforward	114,817	76,040
Employee benefits	61,484	62,679
Regulatory liabilities	16,212	14,522
Deferred investment tax credits	12,951	13,487
Property tax	—	17,569
Other	30,637	27,614
Total deferred tax assets	$ 731,072	$ 634,992
Net deferred tax liability	$ 2,178,049	$ 1,962,715

6. Benefit Plans and Other Postretirement Benefits

Consistent with the process for rate recovery of pension and postretirement benefits for its employees, NSP-Minnesota accounts for its participation in, and related costs of, pension and other postretirement benefit plans sponsored by Xcel Energy Inc. as multiple employer plans. NSP-Minnesota is responsible for its share of cash contributions, plan costs and obligations and is entitled to its share of plan assets; accordingly, NSP-Minnesota accounts for its pro rata share of these plans, including pension expense and contributions, resulting in accounting consistent with that of a single employer plan exclusively for NSP-Minnesota employees.

Xcel Energy, which includes NSP-Minnesota, offers various benefit plans to its employees. Approximately 60 percent of employees that receive benefits are represented by several local labor unions under several collective-bargaining agreements. At Dec. 31, 2013, NSP-Minnesota had 2,022 bargaining employees covered under a collective-bargaining agreement, which expires at the end of 2016. NSP-Minnesota also had an additional 248 nuclear operation bargaining employees covered under several collective-bargaining agreements, which expire at various dates in 2015 and 2016.

The plans invest in various instruments which are disclosed under the accounting guidance for fair value measurements which establishes a hierarchical framework for disclosing the observability of the inputs utilized in measuring fair value. The three levels in the hierarchy and examples of each level are as follows:

Level 1 — Quoted prices are available in active markets for identical assets as of the reporting date. The types of assets included in Level 1 are highly liquid and actively traded instruments with quoted prices.

Level 2 — Pricing inputs are other than quoted prices in active markets, but are either directly or indirectly observable as of the reporting date. The types of assets included in Level 2 are typically either comparable to actively traded securities or contracts, or priced with models using highly observable inputs.

Level 3 — Significant inputs to pricing have little or no observability as of the reporting date. The types of assets included in Level 3 are those with inputs requiring significant management judgment or estimation.

Specific valuation methods include the following:

Cash equivalents — The fair values of cash equivalents are generally based on cost plus accrued interest; money market funds are measured using quoted net asset values.

Insurance contracts — Insurance contract fair values take into consideration the value of the investments in separate accounts of the insurer, which are priced based on observable inputs.

Investments in equity securities and other funds — Equity securities are valued using quoted prices in active markets. The fair values for commingled funds, private equity investments and real estate investments are measured using net asset values, which take into consideration the value of underlying fund investments, as well as the other accrued assets and liabilities of a fund, in order to determine a per share market value. The investments in commingled funds may be redeemed for net asset value with proper notice. Proper notice varies by fund and can range from daily with one or two days notice to annually with 90 days notice. Private equity investments require approval of the fund for any unscheduled redemption, and such redemptions may be approved or denied by the fund at its sole discretion. Unscheduled distributions from real estate investments may be redeemed with proper notice, which is typically quarterly with 45-90 days notice; however, withdrawals from real estate investments may be delayed or discounted as a result of fund illiquidity. Based on the plan’s evaluation of its ability to redeem private equity and real estate investments, fair value measurements for private equity and real estate investments have been assigned a Level 3.

Investments in debt securities — Fair values for debt securities are determined by a third party pricing service using recent trades and observable spreads from benchmark interest rates for similar securities.

Derivative Instruments — Fair values for foreign currency derivatives are determined using pricing models based on the prevailing forward exchange rate of the underlying currencies. The fair values of interest rate derivatives are based on broker quotes that utilize current market interest rate forecasts.

Pension Benefits

Xcel Energy, which includes NSP-Minnesota, has several noncontributory, defined benefit pension plans that cover almost all employees. Benefits are based on a combination of years of service, the employee’s average pay and social security benefits. Xcel Energy Inc.’s and NSP-Minnesota’s policy is to fully fund into an external trust the actuarially determined pension costs recognized for ratemaking and financial reporting purposes, subject to the limitations of applicable employee benefit and tax laws.

In addition to the qualified pension plans, Xcel Energy maintains a supplemental executive retirement plan (SERP) and a nonqualified pension plan. The SERP is maintained for certain executives that were participants in the plan in 2008, when the SERP was closed to new participants. The nonqualified pension plan provides unfunded, nonqualified benefits for compensation that is in excess of the limits applicable to the qualified pension plans. The total obligations of the SERP and nonqualified plan as of Dec. 31, 2013 and 2012 were $36.5 million and $39.4 million, respectively, of which $5.3 million and $5.7 million was attributable to NSP-Minnesota. In 2013 and 2012, Xcel Energy recognized net benefit cost for financial reporting for the SERP and nonqualified plans of $6.6 million and $15.6 million, respectively, of which $0.5 million and $0.6 million was attributable to NSP-Minnesota. Benefits for these unfunded plans are paid out of Xcel Energy’s operating cash flows.

Xcel Energy Inc. and NSP-Minnesota base the investment-return assumption on expected long-term performance for each of the investment types included in the pension asset portfolio and consider the historical returns achieved by the asset portfolio over the past 20-year or longer period, as well as the long-term return levels projected and recommended by investment experts. The pension cost determination assumes a forecasted mix of investment types over the long term. Investment returns in 2013 were below the assumed level of 7.25 percent. Investment returns in 2012 were above the assumed level of 7.50. Xcel Energy Inc. and NSP-Minnesota continually review pension assumptions. In 2014, NSP-Minnesota’s expected investment-return assumption is 7.25 percent.

The assets are invested in a portfolio according to Xcel Energy Inc.'s and NSP-Minnesota's return, liquidity and diversification objectives to provide a source of funding for plan obligations and minimize the necessity of contributions to the plan, within appropriate levels of risk. The principal mechanism for achieving these objectives is the projected allocation of assets to selected asset classes, given the long-term risk, return, and liquidity characteristics of each particular asset class. There were no significant concentrations of risk in any particular industry, index, or entity. Market volatility can impact even well-diversified portfolios and significantly affect the return levels achieved by pension assets in any year.

The following table presents the target pension asset allocations for NSP-Minnesota:

	2013	2012
Domestic and international equity securities	31 %	29 %
Long-duration fixed income and interest rate swap securities	29	30
Short-to-intermediate term fixed income securities	16	12
Alternative investments	22	27
Cash	2	2
Total	100 %	100 %

The ongoing investment strategy is based on plan-specific investment recommendations that seek to minimize potential investment and interest rate risk as a plan's funded status increases over time. The investment recommendations result in a greater percentage of long-duration fixed income securities being allocated to specific plans having relatively higher funded status ratios, and a greater percentage of growth assets being allocated to plans having relatively lower funded status ratios. The aggregate projected asset allocation presented in the table above for the master pension trust results from the plan-specific strategies.

Pension Plan Assets

The following tables present, for each of the fair value hierarchy levels, NSP-Minnesota's pension plan assets that are measured at fair value as of Dec. 31, 2013 and 2012:

	Dec. 31, 2013			
(Thousands of Dollars)	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 28,078	$ —	$ —	$ 28,078
Derivatives	—	6,073	—	6,073
Government securities	—	43,501	—	43,501
Corporate bonds	—	161,761	—	161,761
Asset-backed securities	—	1,991	—	1,991
Mortgage-backed securities	—	4,436	—	4,436
Common stock	29,384	—	—	29,384
Private equity investments	—	—	48,633	48,633
Commingled funds	—	546,863	—	546,863
Real estate	—	—	14,904	14,904
Securities lending collateral obligation and other	—	2,018	—	2,018
Total	$ 57,462	$ 766,643	$ 63,537	$ 887,642

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(Thousands of Dollars)	Dec. 31, 2012 Level 1	Level 2	Level 3	Total
Cash equivalents	$ 50,360	$ —	$ —	$ 50,360
Derivatives	—	2,471	—	2,471
Government securities	—	59,541	—	59,541
Corporate bonds	—	158,535	—	158,535
Asset-backed securities	—	—	4,741	4,741
Mortgage-backed securities	—	—	13,472	13,472
Common stock	25,173	—	—	25,173
Private equity investments	—	—	54,091	54,091
Commingled funds	—	483,598	—	483,598
Real estate	—	—	21,978	21,978
Securities lending collateral obligation and other	—	(9,630)	—	(9,630)
Total	$ 75,533	$ 694,515	$ 94,282	$ 864,330

The following tables present the changes in NSP-Minnesota's Level 3 pension plan assets for the years ended Dec. 31, 2013 and 2012:

(Thousands of Dollars)	Jan. 1, 2013	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Purchases, Issuances and Settlements, Net	Transfers out of Level 3 (a)	Dec. 31, 2013
Asset-backed securities	$ 4,741	$ —	$ —	$ —	$ (4,741)	$ —
Mortgage-backed securities	13,472	—	—	—	(13,472)	—
Private equity investments	54,091	7,018	(11,403)	(1,073)	—	48,633
Real estate	21,978	(833)	1,860	2,920	(11,021)	14,904
Total	$ 94,282	$ 6,185	$ (9,543)	$ 1,847	$ (29,234)	$ 63,537

(a) Transfers out of Level 3 into Level 2 were principally due to diminished use of unobservable inputs that were previously significant to these fair value measurements and were subsequently sold during 2013.

(Thousands of Dollars)	Jan. 1, 2012	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Purchases, Issuances and Settlements, Net	Transfers out of Level 3	Dec. 31, 2012
Asset-backed securities	$ 10,188	$ 1,249	$ (1,744)	$ (4,952)	$ —	$ 4,741
Mortgage-backed securities	24,413	588	(705)	(10,824)	—	13,472
Private equity investments	54,499	5,985	(7,724)	1,331	—	54,091
Real estate	12,967	6	2,141	6,864	—	21,978
Total	$ 102,067	$ 7,828	$ (8,032)	$ (7,581)	$ —	$ 94,282

Benefit Obligations — A comparison of the actuarially computed pension benefit obligation and plan assets for NSP-Minnesota is presented in the following table:

(Thousands of Dollars)	2013	2012
Accumulated Benefit Obligation at Dec. 31	$ 1,002,737	$ 1,081,074
Change in Projected Benefit Obligation:		
Obligation at Jan. 1	$ 1,139,356	$ 1,031,594
Service cost	33,167	29,411
Interest cost	43,734	49,813
Plan amendments	(3,637)	230
Actuarial (gain) loss	(41,173)	120,770
Benefit payments	(108,814)	(92,462)
Obligation at Dec. 31	$ 1,062,633	$ 1,139,356

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(Thousands of Dollars)	2013	2012
Change in Fair Value of Plan Assets:		
Fair value of plan assets at Jan. 1	$ 864,330	$ 783,529
Actual return on plan assets	59,714	93,679
Employer contributions	72,412	79,584
Benefit payments	(108,814)	(92,462)
Fair value of plan assets at Dec. 31	$ 887,642	$ 864,330

(Thousands of Dollars)	2013	2012
Funded Status of Plans at Dec. 31:		
Funded status [(a)]	$ (174,991)	$ (275,026)

(a) Amounts are recognized in other noncurrent liabilities on NSP-Minnesota's balance sheet.

(Thousands of Dollars)	2013	2012
Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost:		
Net loss	$ 574,062	$ 664,795
Prior service cost	6,582	12,266
Total	$ 580,644	$ 677,061

(Thousands of Dollars)	2013	2012
Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost Have Been Recorded as Follows Based Upon Expected Recovery in Rates:		
Other regulatory assets	$ 580,644	$ 677,061
Total	$ 580,644	$ 677,061
Measurement date	Dec. 31, 2013	Dec. 31, 2012

	2013	2012
Significant Assumptions Used to Measure Benefit Obligations:		
Discount rate for year-end valuation	4.75 %	4.00 %
Expected average long-term increase in compensation level	3.75 %	3.75 %
Mortality table	RP 2000	RP 2000

Cash Flows **—** Cash funding requirements can be impacted by changes to actuarial assumptions, actual asset levels and other calculations prescribed by the funding requirements of income tax and other pension-related regulations. Required contributions were made in 2012 and 2013 to meet minimum funding requirements.

The following are the pension funding contributions, both voluntary and required, made by Xcel Energy for 2012 through January 2014:

- In January 2014, contributions of $130.0 million were made across three of Xcel Energy's pension plans, of which $52.1 million was attributable to NSP-Minnesota;
- In 2013, contributions of $192.4 million were made across four of Xcel Energy's pension plans, of which $72.4 million was attributable to NSP-Minnesota;
- In 2012, contributions of $198.1 million were made across four of Xcel Energy's pension plans, of which $79.6 million was attributable to NSP-Minnesota;
- For future years, Xcel Energy and NSP-Minnesota anticipate contributions will be made as necessary.

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***Plan Amendments* —**Xcel Energy, which includes NSP-Minnesota, amended the plan in 2013 resulting in a decrease of the projected benefit obligation due to fully insuring the long-term disability benefit for NSP bargaining participants. This decrease was partially offset by an increase to the projected benefit obligation resulting from a change in the discount rate basis for lump sum conversion of annuities for participants in the Xcel Energy Pension Plan. In 2012, the plan was amended to allow a one time transfer of a portion of qualifying obligations from the nonqualified pension plan into the qualified pension plans. Xcel Energy and NSP-Minnesota also modified the benefit formula for nonbargaining new hires beginning in 2012 to a reduced benefit level.

Benefit Costs — The components of NSP-Minnesota's net periodic pension cost were:

(Thousands of Dollars)	2013	2012
Service cost	$ 33,167	$ 29,411
Interest cost	43,734	49,813
Expected return on plan assets	(63,152)	(67,315)
Amortization of prior service cost	2,057	11,819
Amortization of net loss	52,988	41,147
Net periodic pension cost	68,794	64,875
Costs not recognized due to effects of regulation	(35,455)	(34,917)
Net benefit cost recognized for financial reporting	$ 33,339	$ 29,958

	2013	2012
Significant Assumptions Used to Measure Costs:		
Discount rate	4.00 %	5.00 %
Expected average long-term increase in compensation level	3.75 %	4.00 %
Expected average long-term rate of return on assets	7.25 %	7.50 %

In addition to the benefit costs in the table above, for the pension plans sponsored by Xcel Energy, Inc., costs are allocated to NSP-Minnesota based on Xcel Energy Services Inc. employees' labor costs. Amounts allocated to NSP-Minnesota were $12.9 million and $10.8 million in 2013 and 2012, respectively. Pension costs include an expected return impact for the current year that may differ from actual investment performance in the plan. The return assumption used for 2014 pension cost calculations is 7.25 percent. The cost calculation uses a market-related valuation of pension assets. Xcel Energy, including NSP-Minnesota, uses a calculated value method to determine the market-related value of the plan assets. The market-related value begins with the fair market value of assets as of the beginning of the year. The market-related value is determined by adjusting the fair market value of assets to reflect the investment gains and losses (the difference between the actual investment return and the expected investment return on the market-related value) during each of the previous five years at the rate of 20 percent per year. As these differences between actual investment returns and the expected investment returns are incorporated into the market-related value, the differences are recognized over the expected average remaining years of service for active employees.

Defined Contribution Plans

Xcel Energy, which includes NSP-Minnesota, maintains 401(k) and other defined contribution plans that cover substantially all employees. The expense to these plans for NSP-Minnesota was approximately $10.4 million in 2013 and $9.0 million in 2012.

Postretirement Health Care Benefits

Xcel Energy, which includes NSP-Minnesota, has a contributory health and welfare benefit plan that provides health care and death benefits to certain Xcel Energy retirees. The former NSP, which includes NSP-Minnesota, discontinued contributing toward health care benefits for nonbargaining employees retiring after 1998 and for bargaining employees who retired after 1999.

In 1993, Xcel Energy Inc. and NSP-Minnesota adopted accounting guidance regarding other non-pension postretirement benefits and elected to amortize the unrecognized accumulated postretirement benefit obligation (APBO) on a straight-line basis over 20 years.

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Regulatory agencies for nearly all retail and wholesale utility customers have allowed rate recovery of accrued postretirement benefit costs.

Plan Assets — Certain state agencies that regulate Xcel Energy Inc.'s utility subsidiaries also have issued guidelines related to the funding of postretirement benefit costs. Also, a portion of the assets contributed on behalf of nonbargaining retirees has been funded into a sub-account of the Xcel Energy pension plans. These assets are invested in a manner consistent with the investment strategy for the pension plan.

Xcel Energy Inc. and NSP-Minnesota base investment-return assumptions for the postretirement health care fund assets on expected long-term performance for each of the investment types included in the asset portfolio. The assets are invested in a portfolio according to Xcel Energy Inc.'s and NSP-Minnesota's return, liquidity and diversification objectives to provide a source of funding for plan obligations and minimize the necessity of contributions to the plan, within appropriate levels of risk. The principal mechanism for achieving these objectives is the projected allocation of assets to selected asset classes, given the long-term risk, return, correlation and liquidity characteristics of each particular asset class. There were no significant concentrations of risk in any particular industry, index, or entity. Investment-return volatility is not considered to be a material factor in postretirement health care costs.

The following tables present, for each of the fair value hierarchy levels, NSP-Minnesota's postretirement benefit plan assets that are measured at fair value as of Dec. 31, 2013 and 2012:

	Dec. 31, 2013			
(Thousands of Dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents	$ 179	$ —	$ —	$ 179
Derivatives	—	(3)	—	(3)
Government securities	—	510	—	510
Insurance contracts	—	461	—	461
Corporate bonds	—	453	—	453
Asset-backed securities	—	29	—	29
Mortgage-backed securities	—	212	—	212
Commingled funds	—	2,606	—	2,606
Other	—	(148)	—	(148)
Total	$ 179	$ 4,120	$ —	$ 4,299

	Dec. 31, 2012			
(Thousands of Dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents	$ 1,105	$ —	$ —	$ 1,105
Derivatives	—	889	—	889
Government securities	—	605	—	605
Corporate bonds	—	530	—	530
Asset-backed securities	—	—	9	9
Mortgage-backed securities	—	—	483	483
Commingled funds	—	2,764	—	2,764
Other	—	(567)	—	(567)
Total	$ 1,105	$ 4,221	$ 492	$ 5,818

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The following tables present the changes in NSP-Minnesota's Level 3 postretirement benefit plan assets for the years ended Dec. 31, 2013 and 2012:

(Thousands of Dollars)	Jan. 1, 2013	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Purchases, Issuances and Settlements, Net	Transfers out of Level 3[(a)]	Dec. 31, 2013
Asset-backed securities	$ 9	$ —	$ —	$ —	$ (9)	$ —
Mortgage-backed securities	483	—	—	—	(483)	—
Total	$ 492	$ —	$ —	$ —	$ (492)	$ —

(a) Transfers out of Level 3 into Level 2 were principally due to diminished use of unobservable inputs that were previously significant to these fair value measurements and were subsequently sold during 2013.

(Thousands of Dollars)	Jan. 1, 2012	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Purchases, Issuances and Settlements, Net	Transfers Out of Level 3	Dec. 31, 2012
Asset-backed securities	$ 119	$ (4)	$ 28	$ (134)	$ —	$ 9
Mortgage-backed securities	415	(9)	57	20	—	483
Total	$ 534	$ (13)	$ 85	$ (114)	$ —	$ 492

Benefit Obligations — A comparison of the actuarially computed benefit obligation and plan assets for NSP-Minnesota is presented in the following table:

(Thousands of Dollars)	2013	2012
Change in Projected Benefit Obligation:		
Obligation at Jan. 1	$ 124,986	$ 146,043
Service cost	120	96
Interest cost	4,901	7,129
Medicare subsidy reimbursements	126	748
Plan amendments	—	(29,776)
Plan participants' contributions	2,367	5,216
Actuarial (gain) loss	(13,385)	13,706
Benefit payments	(10,883)	(18,176)
Obligation at Dec. 31	$ 108,232	$ 124,986

(Thousands of Dollars)	2013	2012
Change in Fair Value of Plan Assets:		
Fair value of plan assets at Jan. 1	$ 5,818	$ 6,493
Actual return on plan assets	15	263
Plan participants' contributions	2,367	5,216
Employer contributions	6,982	12,022
Benefit payments	(10,883)	(18,176)
Fair value of plan assets at Dec. 31	$ 4,299	$ 5,818

(Thousands of Dollars)	2013	2012
Funded Status of Plans at Dec. 31:		
Funded status	$ (103,933)	$ (119,168)
Other noncurrent liabilities	(103,933)	(119,168)
Net postretirement amounts recognized on balance sheets	$ (103,933)	$ (119,168)

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(Thousands of Dollars)	2013	2012
Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost:		
Net loss	$ 56,899	$ 75,153
Prior service credit	(27,541)	(30,577)
Transition obligation	2	35
Total	$ 29,360	$ 44,611

(Thousands of Dollars)	2013	2012
Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost Have Been Recorded as Follows Based Upon Expected Recovery in Rates:		
Other regulatory assets	$ 27,479	$ 41,856
Accumulated other comprehensive income	1,881	2,755
Total	$ 29,360	$ 44,611
Measurement date	Dec. 31, 2013	Dec. 31, 2012

	2013	2012
Significant Assumptions Used to Measure Benefit Obligations:		
Discount rate for year-end valuation	4.82 %	4.10 %
Mortality table	RP 2000	RP 2000
Health care costs trend rate — initial	7.00 %	7.50 %

Effective Jan. 1, 2014, the initial medical trend rate was decreased from 7.5 percent to 7.0 percent. The ultimate trend assumption remained at 4.5 percent. The period until the ultimate rate is reached is five years. Xcel Energy Inc. and NSP-Minnesota base the medical trend assumption on the long-term cost inflation expected in the health care market, considering the levels projected and recommended by industry experts, as well as recent actual medical cost increases experienced by the retiree medical plan.

A one-percent change in the assumed health care cost trend rate would have the following effects on NSP-Minnesota:

	One Percentage Point	
(Thousands of Dollars)	Increase	Decrease
APBO	$ 11,189	$ (9,376)
Service and interest components	496	(392)

Cash Flows **—** The postretirement health care plans have no funding requirements under income tax and other retirement-related regulations other than fulfilling benefit payment obligations, when claims are presented and approved under the plans. Additional cash funding requirements are prescribed by certain state and federal rate regulatory authorities, as discussed previously. Xcel Energy, which includes NSP-Minnesota, contributed $17.6 million and $47.1 million during 2013 and 2012, respectively, of which $7.0 million and $12.0 million were attributable to NSP-Minnesota. Xcel Energy expects to contribute approximately $13.3 million during 2014, of which $9.3 million is attributable to NSP-Minnesota.

Plan Amendments **—** The 2012 decrease of the projected Xcel Energy and NSP-Minnesota postretirement health and welfare benefit obligation for plan amendments is due to the expected transition of certain participant groups to an external plan administrator.

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Benefit Costs — The components of NSP-Minnesota's net periodic postretirement benefit cost were:

(Thousands of Dollars)	2013	2012
Service cost	$ 120	$ 96
Interest cost	4,901	7,129
Expected return on plan assets	(417)	(438)
Amortization of transition obligation	33	1,346
Amortization of prior service credit	(3,036)	(117)
Amortization of net loss	5,272	3,204
Net periodic postretirement benefit cost	$ 6,873	$ 11,220

	2013	2012
Significant Assumptions Used to Measure Costs:		
Discount rate	4.10 %	5.00 %
Expected average long-term rate of return on assets	7.11 %	6.75 %

In addition to the benefit costs in the table above, for the postretirement health care plans sponsored by Xcel Energy, Inc., costs are allocated to NSP-Minnesota based on Xcel Energy Services Inc. employees' labor costs.

Projected Benefit Payments

The following table lists NSP-Minnesota's projected benefit payments for the pension and postretirement benefit plans:

(Thousands of Dollars)	Projected Pension Benefit Payments	Gross Projected Postretirement Health Care Benefit Payments	Expected Medicare Part D Subsidies	Net Projected Postretirement Health Care Benefit Payments
2014	$ 129,101	$ 9,359	$ 70	$ 9,289
2015	93,988	9,108	75	9,033
2016	95,716	9,018	77	8,941
2017	96,798	8,728	79	8,649
2018	93,542	8,595	77	8,518
2019-2023	432,905	39,271	351	38,920

Multiemployer Plans

NSP-Minnesota contributes to several union multiemployer pension and other postretirement benefit plans, none of which are individually significant. These plans provide pension and postretirement health care benefits to certain union employees, including electrical workers, boilermakers, and other construction and facilities workers who may perform services for more than one employer during a given period and do not participate in the NSP-Minnesota sponsored pension and postretirement health care plans. Contributing to these types of plans creates risk that differs from providing benefits under NSP-Minnesota sponsored plans, in that if another participating employer ceases to contribute to a multiemployer plan, additional unfunded obligations may need to be funded over time by remaining participating employers.

Contributions to multiemployer plans were as follows for the years ended Dec. 31, 2013 and 2012. The average number of NSP-Minnesota union employees covered by the multiemployer pension plans increased to approximately 1,100 in 2013 from approximately 800 in 2012. There were no other significant changes to the nature or magnitude of the participation of NSP-Minnesota in multiemployer plans for the years presented:

(Thousands of Dollars)	2013	2012
Multiemployer plan contributions:		
Pension	$ 23,515	$ 14,984
Other postretirement benefits	390	197
Total	$ 23,905	$ 15,181

7. Fair Value of Financial Assets and Liabilities

Fair Value Measurements

The accounting guidance for fair value measurements and disclosures provides a single definition of fair value and requires certain disclosures about assets and liabilities measured at fair value. A hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value is established by this guidance. The three levels in the hierarchy are as follows:

Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices.

Level 2 — Pricing inputs are other than quoted prices in active markets, but are either directly or indirectly observable as of the reporting date. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, or priced with models using highly observable inputs.

Level 3 — Significant inputs to pricing have little or no observability as of the reporting date. The types of assets and liabilities included in Level 3 are those valued with models requiring significant management judgment or estimation.

Specific valuation methods include the following:

Cash equivalents — The fair values of cash equivalents are generally based on cost plus accrued interest; money market funds are measured using quoted net asset values.

Investments in equity securities and other funds — Equity securities are valued using quoted prices in active markets. The fair values for commingled funds, international equity funds, private equity investments and real estate investments are measured using net asset values, which take into consideration the value of underlying fund investments, as well as the other accrued assets and liabilities of a fund, in order to determine a per-share market value. The investments in commingled funds and international equity funds may be redeemed for net asset value with proper notice. Proper notice varies by fund and can range from daily with one or two days notice to annually with 90 days notice. Private equity investments require approval of the fund for any unscheduled redemption, and such redemptions may be approved or denied by the fund at its sole discretion. Unscheduled distributions from real estate investments may be redeemed with proper notice, which is typically quarterly with 45-90 days notice; however, withdrawals from real estate investments may be delayed or discounted as a result of fund illiquidity. Based on NSP-Minnesota’s evaluation of its ability to redeem private equity and real estate investments, fair value measurements for private equity and real estate investments have been assigned a Level 3.

Investments in debt securities — Fair values for debt securities are determined by a third party pricing service using recent trades and observable spreads from benchmark interest rates for similar securities.

Interest rate derivatives — The fair values of interest rate derivatives are based on broker quotes that utilize current market interest rate forecasts.

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Commodity derivatives — The methods used to measure the fair value of commodity derivative forwards and options utilize forward prices and volatilities, as well as pricing adjustments for specific delivery locations, and are generally assigned a Level 2. When contractual settlements extend to periods beyond those readily observable on active exchanges or quoted by brokers, the significance of the use of less observable forecasts of long-term forward prices and volatilities on a valuation is evaluated, and may result in Level 3 classification.

Electric commodity derivatives held by NSP-Minnesota include transmission congestion instruments purchased from MISO, PJM Interconnection, LLC (PJM), Electric Reliability Counsil of Texas (ERCOT) and New Yourk Independent System Operator (NYISO), generally referred to as financial transmission rights (FTRs). FTRs purchased from a regional transmission organization (RTO) are financial instruments that entitle or obligate the holder to monthly revenues or charges based on transmission congestion across a given transmission path. The value of an FTR is derived from, and designed to offset, the cost of energy congestion, which is caused by overall transmission load and other transmission constraints. In addition to overall transmission load, congestion is also influenced by the operating schedules of power plants and the consumption of electricity pertinent to a given transmission path. Unplanned plant outages, scheduled plant maintenance, changes in the relative costs of fuels used in generation, weather and overall changes in demand for electricity can each impact the operating schedules of the power plants on the transmission grid and the value of an FTR. NSP-Minnesota's valuation process for FTRs utilizes complex iterative modeling to predict the impacts of forecasted changes in these drivers of transmission system congestion on the historical pricing of FTR purchases.

If forecasted costs of electric transmission congestion increase or decrease for a given FTR path, the value of that particular FTR instrument will likewise increase or decrease. Given the limited observability of management's forecasts for several of the inputs to this complex valuation model – including expected plant operating schedules and retail and wholesale demand, fair value measurements for FTRs have been assigned a Level 3. Non-trading monthly FTR settlements are included in fuel and purchased energy cost recovery mechanisms, and therefore changes in the fair value of the yet to be settled portions of most FTRs are deferred as a regulatory asset or liability. Given this regulatory treatment and the limited magnitude of NSP-Minnesota's FTRs relative to its electric utility operations, the numerous unobservable quantitative inputs to the complex model used for valuation of FTRs are insignificant to the financial statements of NSP-Minnesota.

Non-Derivative Instruments Fair Value Measurements

The Nuclear Regulatory Commission (NRC) requires NSP-Minnesota to maintain a portfolio of investments to fund the costs of decommissioning its nuclear generating plants. Together with all accumulated earnings or losses, the assets of the nuclear decommissioning fund are legally restricted for the purpose of decommissioning the Monticello and Prairie Island nuclear generating plants. The fund contains cash equivalents, debt securities, equity securities and other investments – all classified as available-for-sale. NSP-Minnesota plans to reinvest matured securities until decommissioning begins. NSP-Minnesota uses the MPUC approved asset allocation for the escrow and investment targets by asset class for both the escrow and qualified trust.

NSP-Minnesota recognizes the costs of funding the decommissioning of its nuclear generating plants over the lives of the plants, assuming rate recovery of all costs. Given the purpose and legal restrictions on the use of nuclear decommissioning fund assets, realized and unrealized gains on fund investments over the life of the fund are deferred as an offset of NSP-Minnesota's regulatory asset for nuclear decommissioning costs. Consequently, any realized and unrealized gains and losses on securities in the nuclear decommissioning fund, including any other-than-temporary impairments, are deferred as a component of the regulatory asset for nuclear decommissioning.

Unrealized gains for the nuclear decommissioning fund were $240.3 million and $135.8 million at Dec. 31, 2013 and 2012, respectively, and unrealized losses and amounts recorded as other-than-temporary impairments were $58.5 million and $46.4 million at Dec. 31, 2013 and 2012, respectively.

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The following tables present the cost and fair value of NSP-Minnesota's non-derivative instruments with recurring fair value measurements in the nuclear decommissioning fund at Dec. 31, 2013 and 2012:

	Dec. 31, 2013				
		Fair Value			
(Thousands of Dollars)	Cost	Level 1	Level 2	Level 3	Total
Nuclear decommissioning fund					
Cash equivalents	$ 33,281	$ 33,281	$ —	$ —	$ 33,281
Commingled funds	457,986	—	452,227	—	452,227
International equity funds	78,812	—	81,671	—	81,671
Private equity investments	52,143	—	—	62,696	62,696
Real estate	45,564	—	—	57,368	57,368
Debt securities:					
Government securities	34,304	—	27,628	—	27,628
U.S. corporate bonds	80,275	—	83,538	—	83,538
International corporate bonds	15,025	—	15,358	—	15,358
Municipal bonds	241,112	—	232,016	—	232,016
Asset-backed securities	—	—	—	—	—
Mortgage-backed securities	—	—	—	—	—
Equity securities:					
Common stock	406,695	581,243	—	—	581,243
Total	$ 1,445,197	$ 614,524	$ 892,438	$ 120,064	$ 1,627,026

	Dec. 31, 2012				
		Fair Value			
(Thousands of Dollars)	Cost	Level 1	Level 2	Level 3	Total
Nuclear decommissioning fund					
Cash equivalents	$ 246,904	$ 237,938	$ 8,966	$ —	$ 246,904
Commingled funds	396,681	—	417,583	—	417,583
International equity funds	66,452	—	69,481	—	69,481
Private equity investments	27,943	—	—	33,250	33,250
Real estate	32,561	—	—	39,074	39,074
Debt securities:					
Government securities	21,092	—	21,521	—	21,521
U.S. corporate bonds	162,053	—	169,488	—	169,488
International corporate bonds	15,165	—	16,052	—	16,052
Municipal bonds	21,392	—	23,650	—	23,650
Asset-backed securities	2,066	—	—	2,067	2,067
Mortgage-backed securities	28,743	—	—	30,209	30,209
Equity securities:					
Common stock	379,093	420,263	—	—	420,263
Total	$ 1,400,145	$ 658,201	$ 726,741	$ 104,600	$ 1,489,542

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The following tables present the changes in Level 3 nuclear decommissioning fund investments:

(Thousands of Dollars)	Jan. 1, 2013	Purchases	Settlements	Gains Recognized as Regulatory Liabilities	Transfers Out of Level 3 [(a)]	Dec. 31, 2013
Private equity investments	$ 33,250	$ 24,201	$ —	$ 5,245	$ —	$ 62,696
Real estate	$ 39,074	31,626	(18,622)	5,290	—	57,368
Asset-backed securities	$ 2,067	—	—	—	(2,067)	—
Mortgage-backed securities	$ 30,209	—	—	—	(30,209)	—
Total	$ 104,600	$ 55,827	$ (18,622)	$ 10,535	$ (32,276)	$ 120,064

(a) Transfers out of Level 3 into Level 2 were principally due to diminished use of unobservable inputs that were previously significant to these fair value measurements and were subsequently sold during 2013.

(Thousands of Dollars)	Jan. 1, 2012	Purchases	Settlements	Gains Recognized as Regulatory Liabilities	Transfers Out of Level 3	Dec. 31, 2012
Private equity investments	$ 9,203	$ 20,671	$ (1,931)	$ 5,307	$ —	$ 33,250
Real estate	$ 26,395	9,777	(3,611)	6,513	—	39,074
Asset-backed securities	$ 16,501	—	(14,450)	16	—	2,067
Mortgage-backed securities	$ 78,664	33,016	(79,899)	(1,572)	—	30,209
Total	$ 130,763	$ 63,464	$ (99,891)	$ 10,264	$ —	$ 104,600

The following table summarizes the final contractual maturity dates of the debt securities in the nuclear decommissioning fund, by asset class, at Dec. 31, 2013:

	Final Contractual Maturity				
(Thousands of Dollars)	Due in 1 Year or Less	Due in 1 to 5 Years	Due in 5 to 10 Years	Due after 10 Years	Total
Government securities	$ —	$ —	$ —	$ 27,628	$ 27,628
U.S. corporate bonds	780	17,850	63,089	1,819	83,538
International corporate bonds	—	2,222	13,136	—	15,358
Municipal bonds	3,554	25,663	33,109	169,690	232,016
Asset-backed securities	—	—	—	—	—
Mortgage-backed securities	—	—	—	—	—
Debt securities	$ 4,334	$ 45,735	$ 109,334	$ 199,137	$ 358,540

Derivative Instruments Fair Value Measurements

NSP-Minnesota enters into derivative instruments, including forward contracts, futures, swaps and options, for trading purposes and to manage risk in connection with changes in interest rates, utility commodity prices and vehicle fuel prices.

Interest Rate Derivatives — NSP-Minnesota enters 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 an anticipated debt issuance for a specific period. These derivative instruments are generally designated as cash flow hedges for accounting purposes.

At Dec. 31, 2013, accumulated other comprehensive losses related to interest rate derivatives included $0.8 million of net losses expected to be reclassified into earnings during the next 12 months as the related hedged interest rate transactions impact earnings, including forecasted amounts for unsettled hedges, as applicable.

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In conjunction with the NSP-Minnesota debt issuance in August 2012, NSP-Minnesota settled interest rate hedging instruments with a notional amount of $225 million with cash payments of $45.0 million. This loss is classified as a component of accumulated other comprehensive loss on the balance sheet, net of tax, and is being reclassified to earnings over the term of the hedged interest payments. See Note 3 for further discussion of long-term borrowings.

Wholesale and Commodity Trading Risk — NSP-Minnesota conducts various wholesale and commodity trading activities, including the purchase and sale of electric capacity, energy and energy-related instruments. NSP-Minnesota'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.

Commodity Derivatives — NSP-Minnesota enters into derivative instruments to manage variability of future cash flows from changes in commodity prices in its 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, natural gas for resale, and vehicle fuel.

At Dec. 31, 2013, NSP-Minnesota had various vehicle fuel contracts designated as cash flow hedges extending through December 2016. NSP-Minnesota also enters 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. NSP-Minnesota recorded immaterial amounts to income related to the ineffectiveness of cash flow hedges for the years ended Dec. 31, 2013 and 2012.

At Dec. 31, 2013, net gains related to commodity derivative cash flow hedges recorded as a component of accumulated other comprehensive losses included an immaterial amount of net gains expected to be reclassified into earnings during the next 12 months as the hedged transactions occur.

Additionally, NSP-Minnesota enters into commodity derivative instruments for trading purposes not directly related to commodity price risks associated with serving its electric and natural gas customers. Changes in the fair value of these commodity derivatives are recorded in electric operating revenue, net of amounts credited to customers under margin-sharing mechanisms.

The following table details the gross notional amounts of commodity forwards, options and FTRs at Dec. 31, 2013 and 2012:

(Amounts in Thousands) [(a)(b)]	Dec. 31, 2013	Dec. 31, 2012
Megawatt hours (MWh) of electricity	52,107	55,163
Million British thermal units (MMBtu) of natural gas	2,470	26
Gallons of vehicle fuel	265	375

(a) Amounts are not reflective of net positions in the underlying commodities.

(b) Notional amounts for options are included on a gross basis, but are weighted for the probability of exercise.

Consideration of Credit Risk and Concentrations — NSP-Minnesota continuously monitors the creditworthiness of the counterparties to its interest rate derivatives and commodity derivative contracts prior to settlement, and assesses each counterparty's ability to perform on the transactions set forth in the contracts. Given this assessment, as well as an assessment of the impact of NSP-Minnesota's own credit risk when determining the fair value of derivative liabilities, the impact of considering credit risk was immaterial to the fair value of unsettled commodity derivatives presented in the balance sheets.

NSP-Minnesota employs additional credit risk control mechanisms when appropriate, such as letters of credit, parental guarantees, standardized master netting agreements and termination provisions that allow for offsetting of positive and negative exposures. Credit exposure is monitored and, when necessary, the activity with a specific counterparty is limited until credit enhancement is provided.

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NSP-Minnesota's most significant concentrations of credit risk with particular entities or industries are contracts with counterparties to its wholesale, trading and non-trading commodity activities. At Dec. 31, 2013, six of NSP-Minnesota's 10 most significant counterparties for these activities, comprising $26.3 million or 27 percent of this credit exposure, had investment grade credit ratings from Standard & Poor's Ratings Services, Moody's Investor Services or Fitch Ratings. The remaining four significant counterparties, comprising $18.4 million or 19 percent of this credit exposure at Dec. 31, 2013, were not rated by these agencies, but based on NSP-Minnesota's internal analysis, had credit quality consistent with investment grade. All 10 of these significant counterparties are municipal or cooperative electric entities, or other utilities.

Financial Impact of Qualifying Cash Flow Hedges — The impact of qualifying interest rate and vehicle fuel cash flow hedges on NSP-Minnesota's accumulated other comprehensive loss, included in the statements of common stockholder's equity and in the statements of comprehensive income, is detailed in the following table:

(Thousands of Dollars)	2013	2012
Accumulated other comprehensive loss related to cash flow hedges at Jan. 1	$ (21,393)	$ (11,729)
After-tax net unrealized gains (losses) related to derivatives accounted for as hedges	5	(9,889)
After-tax net realized losses on derivative transactions reclassified into earnings	779	225
Accumulated other comprehensive loss related to cash flow hedges at Dec. 31	$ (20,609)	$ (21,393)

The following tables detail the impact of derivative activity during the years ended Dec. 31, 2013 and 2012 on accumulated other comprehensive loss, regulatory assets and liabilities, and income:

	Year Ended Dec. 31, 2013				
	Pre-Tax Fair Value Gains (Losses) Recognized During the Period in:		Pre-Tax (Gains) Losses Reclassified into Income During the Period from:		
(Thousands of Dollars)	Accumulated Other Comprehensive Loss	Regulatory (Assets) and Liabilities	Accumulated Other Comprehensive Loss	Regulatory Assets and (Liabilities)	Pre-Tax Gains (Losses) Recognized During the Period in Income
Derivatives designated as cash flow hedges					
Interest rate	$ —	$ —	$ 1,388 (a)	$ —	$ —
Vehicle fuel and other commodity	15	—	(49) (b)	—	—
Total	$ 15	$ —	$ 1,339	$ —	$ —
Other derivative instruments					
Commodity trading	—	—	—	—	11,220 (c)
Electric commodity	—	65,884	—	(52,796) (d)	—
Natural gas commodity	$ —	$ 1,039	$ —	$ 368 (e)	$ (393) (d)
Total	$ —	$ 66,923	$ —	$ (52,428)	$ 10,827

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	Year Ended Dec. 31, 2012				
	Pre-Tax Fair Value Gains (Losses) Recognized During the Period in:		Pre-Tax (Gains) Losses Reclassified into Income During the Period from:		
(Thousands of Dollars)	Accumulated Other Comprehensive Loss	Regulatory (Assets) and Liabilities	Accumulated Other Comprehensive Loss	Regulatory Assets and (Liabilities)	Pre-Tax Gains Recognized During the Period in Income
Derivatives designated as cash flow hedges					
Interest rate	$ (16,832)	$ —	$ 490 (a)	$ —	$ —
Vehicle fuel and other commodity	58	—	(109) (b)	—	—
Total	$ (16,774)	$ —	$ 381	$ —	$ —
Other derivative instruments					
Commodity trading	—	—	—	—	12,224 (c)
Electric commodity	—	44,162	—	(39,999) (d)	—
Natural gas commodity	$ —	$ (2,662)	$ —	$ 16,158 (e)	$ —
Total	$ —	$ 41,500	$ —	$ (23,841)	$ 12,224

(a) Amounts are recorded to interest charges.

(b) Amounts are recorded to operation expenses.

(c) Amounts are recorded to electric operating revenues. Portions of these gains and losses are subject to sharing with electric customers through margin-sharing mechanisms and deducted from gross revenue, as appropriate.

(d) Amounts are recorded to operation expenses. These derivative settlement gains and losses are shared with electric customers through fuel and purchased energy cost-recovery mechanisms, and reclassified out of income as regulatory assets or liabilities, as appropriate.

(e) Amounts are recorded to operation expenses. These derivative settlement gains and losses are shared with natural gas customers through purchased natural gas cost-recovery mechanisms, and reclassified out of income as regulatory assets or liabilities, as appropriate.

NSP-Minnesota had no derivative instruments designated as fair value hedges during the years ended Dec. 31, 2013 and 2012. Therefore, no gains or losses from fair value hedges or related hedged transactions were recognized for these periods.

Credit Related Contingent Features — Contract provisions for derivative instruments that NSP-Minnesota enters into, including those recorded to the balance sheet at fair value, as well as those accounted for as normal purchase-normal sale contracts and therefore not reflected on the balance sheet, may require the posting of collateral or settlement of the contracts for various reasons, including if NSP-Minnesota is unable to maintain its credit ratings. At Dec. 31, 2013 and 2012, no derivative instruments in a liability position would have required the posting of collateral or settlement of outstanding contracts if the credit ratings of NSP-Minnesota were downgraded below investment grade.

Certain derivative instruments are also subject to contract provisions that contain adequate assurance clauses. These provisions allow counterparties to seek performance assurance, including cash collateral, in the event that NSP-Minnesota's ability to fulfill its contractual obligations is reasonably expected to be impaired. NSP-Minnesota had no collateral posted related to adequate assurance clauses in derivative contracts as of Dec. 31, 2013 and 2012.

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Recurring Fair Value Measurements — The following table presents for each of the fair value hierarchy levels, NSP-Minnesota's derivative assets and liabilities measured at fair value on a recurring basis at Dec. 31, 2013:

	Dec. 31, 2013					
	Fair Value					
(Thousands of Dollars)	Level 1	Level 2	Level 3	Fair Value Total	Counterparty Netting [b]	Total
Current derivative assets						
Derivatives designated as cash flow hedges:						
Vehicle fuel and other commodity	$ —	$ 48	$ —	$ 48	$ —	$ 48
Other derivative instruments:						
Commodity trading	—	17,854	1,167	19,021	(6,718)	12,303
Electric commodity	—	—	30,692	30,692	(1,723)	28,969
Natural gas commodity	—	1,986	—	1,986	—	1,986
Total current derivative assets	$ —	$ 19,888	$ 31,859	$ 51,747	$ (8,441)	43,306
PPAs [a]						23,420
Current derivative instruments						$ 66,726
Noncurrent derivative assets						
Derivatives designated as cash flow hedges:						
Vehicle fuel and other commodity	$ —	$ 16	$ —	$ 16	$ (16)	$ —
Other derivative instruments:						
Commodity trading	—	32,074	3,395	35,469	(9,071)	26,398
Total noncurrent derivative assets	$ —	$ 32,090	$ 3,395	$ 35,485	$ (9,087)	26,398
PPAs [a]						10,483
Noncurrent derivative instruments						$ 36,881
Current derivative liabilities						
Other derivative instruments:						
Commodity trading	$ —	$ 8,108	$ 1,804	$ 9,912	$ (9,912)	$ —
Electric commodity	—	—	1,723	1,723	(1,723)	—
Total current derivative liabilities	$ —	$ 8,108	$ 3,527	$ 11,635	$ (11,635)	—
PPAs [a]						13,066
Current derivative instruments						$ 13,066
Noncurrent derivative liabilities						
Other derivative instruments:						
Commodity trading	$ —	$ 14,382	$ —	$ 14,382	$ (10,137)	$ 4,245
Total noncurrent derivative liabilities	$ —	$ 14,382	$ —	$ 14,382	$ (10,137)	4,245
PPAs [a]						147,406
Noncurrent derivative instruments						$ 151,651

(a) In 2003, as a result of implementing new guidance on the normal purchase exception for derivative accounting, NSP-Minnesota began recording several long-term PPAs at fair value due to accounting requirements related to underlying price adjustments. As these purchases are recovered through normal regulatory recovery mechanisms in the respective jurisdictions, the changes in fair value for these contracts were offset by regulatory assets and liabilities. During 2006, NSP-Minnesota qualified these contracts under the normal purchase exception. Based on this qualification, the contracts are no longer adjusted to fair value and the previous carrying value of these contracts will be amortized over the remaining contract lives along with the offsetting regulatory assets and liabilities.

(b) NSP-Minnesota nets derivative instruments and related collateral in its balance sheet when supported by a legally enforceable master netting agreement, and all derivative instruments and related collateral amounts were subject to master netting agreements at Dec. 31, 2013. At Dec. 31, 2013, derivative assets and liabilities include no obligations to return cash collateral and rights to reclaim cash collateral of $4.2 million. The counterparty netting amounts presented exclude settlement receivables and payables and non-derivative amounts that may be subject to the same master netting agreements.

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The following table presents for each of the fair value hierarchy levels, NSP-Minnesota's derivative assets and liabilities measured at fair value on a recurring basis at Dec. 31, 2012:

	Dec. 31, 2012					
	Fair Value					
(Thousands of Dollars)	Level 1	Level 2	Level 3	Fair Value Total	Counterparty Netting [(b)]	Total
Current derivative assets						
Derivatives designated as cash flow hedges:						
Vehicle fuel and other commodity	$ —	$ 52	$ —	$ 52	$ —	$ 52
Other derivative instruments:						
Commodity trading	—	19,871	692	20,563	(3,374)	17,189
Electric commodity	—	—	16,724	16,724	(843)	15,881
Total current derivative assets	$ —	$ 19,923	$ 17,416	$ 37,339	$ (4,217)	33,122
PPAs [(a)]						23,110
Current derivative instruments						$ 56,232
Noncurrent derivative assets						
Derivatives designated as cash flow hedges:						
Vehicle fuel and other commodity	$ —	$ 47	$ —	$ 47	$ (47)	$ —
Other derivative instruments:						
Commodity trading	—	37,513	76	37,589	(2,616)	34,973
Total noncurrent derivative assets	$ —	$ 37,560	$ 76	$ 37,636	$ (2,663)	34,973
PPAs [(a)]						31,507
Noncurrent derivative instruments						$ 66,480
Current derivative liabilities						
Other derivative instruments:						
Commodity trading	$ —	$ 12,664	$ —	$ 12,664	$ (6,400)	$ 6,264
Electric commodity	—	—	843	843	(843)	—
Natural gas commodity	—	2	—	2	—	2
Total current derivative liabilities	$ —	$ 12,666	$ 843	$ 13,509	$ (7,243)	6,266
PPAs [(a)]						13,851
Current derivative instruments						$ 20,117
Noncurrent derivative liabilities						
Other derivative instruments:						
Commodity trading	$ —	$ 17,966	$ —	$ 17,966	$ (2,664)	$ 15,302
Total noncurrent derivative liabilities	$ —	$ 17,966	$ —	$ 17,966	$ (2,664)	15,302
PPAs [(a)]						159,169
Noncurrent derivative instruments						$ 174,471

(a) In 2003, as a result of implementing new guidance on the normal purchase exception for derivative accounting, NSP-Minnesota began recording several long-term PPAs at fair value due to accounting requirements related to underlying price adjustments. As these purchases are recovered through normal regulatory recovery mechanisms in the respective jurisdictions, the changes in fair value for these contracts were offset by regulatory assets and liabilities. During 2006, NSP-Minnesota qualified these contracts under the normal purchase exception. Based on this qualification, the contracts are no longer adjusted to fair value and the previous carrying value of these contracts will be amortized over the remaining contract lives along with the offsetting regulatory assets and liabilities.

(b) NSP-Minnesota nets derivative instruments and related collateral in its balance sheet when supported by a legally enforceable master netting agreement, and all derivative instruments and related collateral amounts were subject to master netting agreements at Dec. 31, 2012. At Dec. 31, 2012, derivative assets and liabilities include no obligations to return cash collateral and rights to reclaim cash collateral of $3.0 million. The counterparty netting amounts presented exclude settlement receivables and payables and non-derivative amounts that may be subject to the same master netting agreements.

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The following table presents the changes in Level 3 commodity derivatives for the years ended Dec. 31, 2013 and 2012:

(Thousands of Dollars)	2013	2012
Balance at Jan. 1	$ 16,649	$ 12,417
Purchases	51,541	37,595
Settlements	(45,199)	(44,950)
Net transactions recorded during the period:		
Gains recognized in earnings [(a)]	3,947	463
Gains recognized as regulatory assets and liabilities	4,789	11,124
Balance at Dec. 31	$ 31,727	$ 16,649

(a) These amounts relate to commodity derivatives held at the end of the period.

NSP-Minnesota recognizes transfers between levels as of the beginning of each period. There were no transfers of amounts between levels for derivative instruments for the years ended Dec. 31, 2013 and 2012.

Fair Value of Long-Term Debt

As of Dec. 31, 2013 and 2012, other financial instruments for which the carrying amount did not equal fair value were as follows:

	2013		2012	
(Thousands of Dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including current portion	$ 3,888,732	$ 4,099,745	$ 3,488,640	$ 4,181,580

The fair value of NSP-Minnesota's long-term debt is estimated based on recent trades and observable spreads from benchmark interest rates for similar securities. The fair value estimates are based on information available to management as of Dec. 31, 2013 and 2012, and given the observability of the inputs to these estimates, the fair values presented for long-term debt have been assigned a Level 2.

8. Rate Matters

Pending and Recently Concluded Regulatory Proceedings — MPUC

Minnesota 2014 Multi-Year Electric Rate Case — On Nov. 4, 2013, NSP-Minnesota filed a two-year, electric rate case with the MPUC. The rate case is based on a requested return on equity (ROE) of 10.25 percent, a 52.5 percent equity ratio, a 2014 average electric rate base of $6.67 billion and an additional average rate base of $412 million in 2015.

The NSP-Minnesota electric rate case reflects an overall increase in revenues of approximately $193 million or 6.9 percent in 2014 and an additional $98 million or 3.5 percent in 2015. The request includes a proposed rate moderation plan for 2014 and 2015. After reflecting interim rate adjustments, the impact of NSP-Minnesota's request on customer bills would result in a 4.6 percent increase in 2014 and an additional 5.6 percent in 2015.

NSP-Minnesota's moderation plan includes the acceleration of the eight-year amortization of the excess theoretical depreciation reserve which the MPUC approved in NSP-Minnesota's last electric rate case and the use of expected funds from the United States Department of Energy (DOE) for settlement of certain claims. These DOE refunds would be in excess of amounts needed to fund its decommissioning expense. The interim rate adjustments are primarily associated with ROE, Monticello life cycle management (LCM)/ extended power uprate (EPU) project costs and NSP-Minnesota's request to amortize amounts associated with the canceled Prairie Island EPU project. NSP-Minnesota plans to file a petition for deferred accounting regarding these Monticello costs in the first quarter of 2014.

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The rate request, moderation plan, interim rate adjustments, customer bill impacts and certain impacts on expenses are detailed in the table below:

(Millions of Dollars)	2014	Percentage Increase	2015	Percentage Increase
Pre-moderation deficiency	**$ 274**		**$ 81**	
Moderation change compared to prior year:				
Excess theoretical depreciation reserve	(81)		53	
DOE settlement proceeds	—		(36)	
Filed rate request	**193**	**6.9 %**	**98**	**3.5 %**
Interim rate adjustments	(66)		66	
Impact on customer bill	**127**	**4.6 %**	**164**	**5.6 %**
Potential expense deferral (Monticello/Prairie Island EPU projects)	16		—	
Depreciation expense - reduction/(increase)	81		(46)	
Recognition of DOE settlement proceeds	—		36	
Pre-tax impact on operating income	**$ 224**		**$ 154**	

On Dec. 12, 2013, the MPUC approved interim rates of $127 million as requested, effective Jan. 3, 2014, subject to refund. The MPUC determined that the costs of Sherco Unit 3 would be allowed in interim rates, and that NSP-Minnesota's request to accelerate the theoretical depreciation reserve amortization was a permissible adjustment to its interim rate request even though it differed from the MPUC's 2013 Minnesota rate case order.

The next steps in the procedural schedule are expected to be as follows:

Direct Testimony — June 5, 2014;
Rebuttal Testimony — July 7, 2014;
Surrebuttal Testimony — Aug. 4, 2014;
Evidentiary Hearing — Aug. 11-18, 2014;
Reply Brief — Oct. 14, 2014; and
Administrative law judge (ALJ) Report — Dec. 22, 2014.

A final MPUC decision is anticipated in March 2015.

Minnesota 2013 Electric Rate Case — In November 2012, NSP-Minnesota filed a request with the MPUC for an increase in annual revenues of approximately $285 million, or 10.7 percent. The rate filing was based on a 2013 forecast test year (FTY), a requested ROE of 10.6 percent, an average electric rate base of approximately $6.3 billion and an equity ratio of 52.56 percent. In January 2013, interim rates of approximately $251 million became effective, subject to refund.

In May 2013, NSP-Minnesota subsequently revised the requested annual revenue increase to approximately $209 million, or 7.8 percent, based on an ROE of 10.6 percent, a rate base of approximately $6.3 billion an equity ratio of 52.56 percent. The revenue requirement reflected a requested deficiency of $259 million combined with $50 million of rate mitigation through deferral mechanisms.

In September 2013, the MPUC issued an order approving a rate increase of approximately $103 million, or 3.8 percent, based on a 9.83 percent ROE and 52.56 percent equity ratio. In addition, the MPUC authorized approximately $20 million in deferrals, as well as a $24 million reduction in revenue and depreciation expense.

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The table below reconciles NSP-Minnesota's original request to the final MPUC order:

(Millions of Dollars)	MPUC Order
NSP-Minnesota original request	$ 285
ROE	(43)
Sherco Unit 3	(34)
Reduced recovery for nuclear plants	(15)
Incentive compensation	(4)
Sales forecast	(26)
Pension	(13)
Employee benefits	(6)
Black Dog remediation	(5)
Estimated impact of the theoretical depreciation reserve	(24)
NSP-Wisconsin wholesale allocation	(7)
Other, net	(5)
Recommended rate increase	**103**
Estimated impact of cost deferrals	20
Estimated impact of the theoretical depreciation reserve	24
Impact on pre-tax income	**$ 147**

NSP-Minnesota filed its final rate implementation and interim rate refund compliance filing on Sept. 19, 2013, requesting final rates be implemented Dec. 1, 2013, with interim rate refunds of approximately $132.2 million, including interest, to begin by January 2014. On Nov. 19, 2013, the MPUC approved the final rate implementation plan, new rates began Dec. 1, 2013 and interim rate refunds were applied to customer accounts starting Dec. 16, 2013.

Nuclear Project Prudence Investigation — The MPUC has initiated an investigation to determine whether the costs in excess of those included in the certificate of need (CON) for NSP-Minnesota's Monticello LCM/EPU project were prudent. In October 2013, NSP-Minnesota filed a summary report to further support the change and prudence of the incurred costs. The filing indicated the increase in costs was primarily attributable to three factors: (1) the original estimate was based on a high level conceptual design and the project scope increased as the actual conditions of the plant were incorporated into the design; (2) implementation difficulties, including the amount of work that occurred in confined and radioactive or electrically sensitive spaces and NSP-Minnesota's and its vendors' ability to attract and retain experienced workers; and (3) additional NRC licensing related requests over the five-plus year application process. NSP-Minnesota has provided information that the cost deviation is in line with similar upgrade projects undertaken by other utilities and the project remains economically beneficial to customers. The results and any recommendations from the conclusion of this prudence proceeding are expected to be considered by the MPUC in NSP-Minnesota's 2014 Minnesota electric rate case.

The next steps in the procedural schedule are expected to be as follows:

Direct Testimony — July 2, 2014;
Rebuttal Testimony — Aug. 26, 2014;
Surrebuttal Testimony — Sept. 19, 2014;
Hearing — Sept. 29-Oct. 3, 2014;
Reply Brief — Nov. 21, 2014; and
ALJ Report — Dec. 31, 2014.

A final MPUC decision is anticipated in the first quarter of 2015.

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2012 Transmission Cost Recovery Rate Filing — In January 2012, the 2012 NSP-Minnesota transmission cost recovery adjustment (TCR) filing was submitted to the MPUC, requesting recovery of $29.6 million of transmission investment costs. As project costs have decreased and certain transmission project costs have been removed and included in base rates, the anticipated revenue requirement for 2012 was modified to approximately $22.9 million. In December 2013, the MPUC approved the 2012 TCR filing, with a few adjustments, for approximately $22.7 million.

2013/14 Transmission Cost Recovery Rate Filing — In December 2013, the 2013/14 NSP-Minnesota TCR filing was filed with the MPUC, requesting recovery of $20.7 million of 2013 transmission investment costs and $37.3 million of 2014 transmission investment costs not previously included in electric base rates. An MPUC decision is anticipated in late 2014, with implementation of new rates soon after approval.

Prairie Island Nuclear Plant EPU — In 2009, the MPUC granted NSP-Minnesota a CON for an EPU project at the Prairie Island nuclear generating plant. The total estimated cost of the EPU was $294 million, of which approximately $78.9 million had been incurred, including AFUDC of approximately $12.8 million. Subsequently, NSP-Minnesota made a change of circumstances filing notifying the MPUC that there were changes in the size, timing and cost estimates for this project, revisions to economic and project design analysis and changes due to the estimated impact of revised scheduled outages. The information indicated reductions to the estimated benefit of the uprate project. As a result, NSP-Minnesota concluded that further investment in this project would not benefit customers. In February 2013, the MPUC issued an order terminating the CON for the Prairie Island EPU project.

NSP-Minnesota plans to address recovery of incurred costs in rate cases for each of the NSP-Minnesota jurisdictions and to file a request with the FERC for approval to recover a portion of the costs from NSP-Wisconsin through the Interchange Agreement. NSP-Wisconsin plans to seek cost recovery in a future rate case. Based on the outcome of the December 2012 MPUC decision, EPU costs incurred to date were compared to the discounted value of the estimated future rate recovery based on past jurisdictional precedent, resulting in a $10.1 million pretax charge in December 2012 which is included in other deductions for that year.

Pending and Recently Concluded Regulatory Proceedings — North Dakota Public Service Commission (NDPSC)

North Dakota 2013 Electric Rate Case — In December 2012, NSP-Minnesota filed a request with the NDPSC to increase annual retail electric rates approximately $16.9 million, or 9.25 percent. The rate filing was based on a 2013 FTY, a requested ROE of 10.6 percent, an electric rate base of approximately $377.6 million and an equity ratio of 52.56 percent. In January 2013, the NDPSC approved an interim electric increase of $14.7 million, effective Feb. 16, 2013, subject to refund.

In August 2013, NSP-Minnesota filed rebuttal testimony revising the requested increase in retail electric rates to approximately $14.9 million, based on a revised ROE of 10.25 percent and incorporating updated information.

In December 2013, a comprehensive settlement agreement between NSP-Minnesota and the NDPSC Staff was filed for approval, proposing resolution to the rate case and resolution of various regulatory proceedings for wind and natural gas generating resources pending before the NDPSC. The settlement agreement provided for a four-year rate plan including a 5.0 percent annual increase in retail revenues in North Dakota, effective Feb. 16, 2013 through Dec. 31, 2015, with no increase in 2016. As filed, the estimated 2013 settlement impact was $11.6 million. On Feb. 18, 2014, NSP-Minnesota filed an amended settlement agreement revising the annual increase to 4.9 percent, effective Feb. 16, 2013 through Dec. 31, 2015, with no increase in 2016.

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The table below reflects the amended settlement's 2013 impact.

(Millions of Dollars)	Amended Settlement Impact
Proposed 12 month settlement base rate increase	$ 9.0
Pre-effective period impact (Jan. 1, 2013 - Feb. 15, 2013)	(1.6)
2013 proposed settlement base rate increase	7.4
Retention of DOE settlement proceeds	3.9
Other, net	(0.3)
Amended settlement's impact	**$ 11.0**

Additional settlement terms include:

An approval of two new rate rider tariff mechanisms to recover transmission and North Dakota renewable costs;
An authorized ROE of 9.75, 10.0, 10.0 and 10.25 percent in 2013 through 2016, respectively;
A 50 percent earnings sharing mechanism for amounts earned in excess of the authorized ROEs during the term of the settlement;
The continued use of a 12 month coincident peak demand allocator for certain rate base and operating expenses;
A commitment to develop a generation cost allocation mechanism over the next 16 months that reflects North Dakota energy policy; providing for the exclusion of resources deemed inconsistent with North Dakota energy policy beginning in 2016 (such as certain Minnesota wind and biomass purchase power agreements) and reflecting replacement of those costs based on either system average costs or like resource costs (base load for base load generation, etc.) and recognizing the time needed to address complexity among multiple jurisdictions by providing that a plan for this mechanism be filed by June 2015;
The commitment to construct up to 400 MW of thermal generation in North Dakota by 2036 subject to least-cost resource planning principles; and
The retention of DOE settlement proceeds received in 2012, 2013 and expected in 2014.

A final NDPSC decision on the case is anticipated in the first quarter of 2014.

Recently Concluded Regulatory Proceedings — South Dakota Public Utilities Commission (SDPUC)

South Dakota 2012 Electric Rate Case — In March 2013, NSP-Minnesota and the SDPUC Staff reached a settlement agreement that provides for a base rate increase of approximately $11.6 million and the implementation of a new rider. On Oct. 1, 2013, NSP-Minnesota filed its compliance report consistent with the settlement to recover the revenue requirement on the specific major capital additions and incremental property tax resulting in recovery of $8.7 million for 2014. In December 2013, the SDPUC approved recovery of $8.5 million, reflecting updates made during review of the compliance filing.

Electric, Purchased Gas and Resource Adjustment Clauses

CIP and CIP Rider — In December 2012, the MPUC approved reductions to the CIP financial incentive mechanisms effective for the 2013 through 2015 program years. Based on the approved savings goals, the estimated average annual electric and natural gas incentives are $30.6 million and $3.6 million, respectively.

CIP expenses are recovered through base rates and a rider that is adjusted annually. In November 2013, the MPUC approved NSP-Minnesota's 2012 CIP electric financial incentives totaling $54.0 million, as well as NSP-Minnesota's proposed 2013 to 2014 electric CIP rider. In October 2013, the MPUC approved NSP-Minnesota's 2012 CIP natural gas financial incentive of $2.7 million, as well as NSP-Minnesota's proposed 2013 to 2014 natural gas CIP rider. NSP-Minnesota estimates 2014 recovery of $83.9 million of electric CIP expenses and $11.7 million of natural gas CIP expenses. This proposed recovery through the riders is in addition to an estimated $87.2 million and $3.1 million through electric and gas base rates, respectively.

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9. Commitments and Contingencies

Commitments

Capital Commitments — NSP-Minnesota has made commitments in connection with a portion of its projected capital expenditures. NSP-Minnesota's capital commitments primarily relate to the following major projects:

CapX2020 — CapX2020 is an alliance of electric cooperatives, municipals and investor-owned utilities in the upper Midwest, including the NSP System that has proposed several groups of transmission projects to be complete by 2020. Group 1 project investments consist of four transmission lines. Major construction began in 2010 on the Group 1 transmission lines with an expected completion date in 2015. NSP System's investment depends on the routes and configurations approved by affected state commissions and on the allocation of costs borne by other participating utilities in the upper Midwest.

NSP-Minnesota Wind Projects **—** In October 2013, the MPUC approved two projects totaling 350 MW that will be owned by NSP-Minnesota. A NDSPC decision is anticipated in early 2014. The Pleasant Valley wind farm in Minnesota and the Border Winds wind farm projects in North Dakota are anticipated to be operational by 2015.

Fuel Contracts — NSP-Minnesota has entered into various long-term commitments for the purchase and delivery of a significant portion of its current coal, nuclear fuel and natural gas requirements. These contracts expire in various years between 2014 and 2033. NSP-Minnesota is required to pay additional amounts depending on actual quantities shipped under these agreements.

The estimated minimum purchases for NSP-Minnesota under these contracts as of Dec. 31, 2013, are as follows:

(Millions of Dollars)	Coal	Nuclear fuel	Natural gas supply	Natural gas storage and transportation
2014	$ 337.3	$ 128.8	$ 74.5	$ 99.4
2015	262.5	79.9	6.1	96.2
2016	123.4	121.5	6.0	96.8
2017	30.0	127.5	3.2	82.5
2018	29.9	69.4	—	35.6
Thereafter	—	697.6	—	244.6
Total [(a)]	$ 783.1	$ 1,224.7	$ 89.8	$ 655.1

(a) Includes amounts allocated to NSP-Wisconsin through intercompany charges.

Additional expenditures for fuel and natural gas storage and transportation will be required to meet expected future electric generation and natural gas needs. NSP-Minnesota's risk of loss, in the form of increased costs from market price changes in fuel, is mitigated through the use of natural gas and energy cost-rate adjustment mechanisms, which provide for pass-through of most fuel, storage and transportation costs to customers.

PPAs — NSP-Minnesota has entered into PPAs with other utilities and energy suppliers with expiration dates through 2033 for purchased power to meet system load and energy requirements and to meet operating reserve obligations. In general, these agreements provide for energy payments, based on actual energy delivered and capacity payments. Certain PPAs accounted for as executory contracts also contain minimum energy purchase commitments. Capacity and energy 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. The effects of price adjustments on our financial results are mitigated through purchased energy cost recovery mechanisms.

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Included in electric fuel and purchased power expenses for PPAs, accounted for as executory contracts, were payments for capacity of $106.0 million and $106.2 million in 2013 and 2012, respectively. At Dec. 31, 2013, the estimated future payments for capacity and energy that NSP-Minnesota is obligated to purchase pursuant to these executory contracts, subject to availability, are as follows:

(Millions of Dollars)	Capacity	Energy [(a)]
2014	$ 119.5	$ 78.3
2015	115.5	83.7
2016	100.3	81.6
2017	92.6	87.3
2018	55.8	93.2
Thereafter	429.1	866.7
Total [(b)]	$ 912.8	$ 1,290.8

(a) Excludes contingent energy payments for renewable energy PPAs.

(b) Includes amounts allocated to NSP-Wisconsin through intercompany charges.

Additional energy payments under these PPAs and PPAs accounted for as operating leases will be required to meet expected future electric demand.

Leases — NSP-Minnesota leases a variety of equipment and facilities used in the normal course of business. These leases, primarily for office space, railcars, generating facilities, trucks, aircraft, cars and power-operated equipment, are accounted for as operating leases. Total expenses under operating lease obligations were approximately $79.6 million and $78.5 million for 2013 and 2012, respectively. These expenses include capacity payments for PPAs accounted for as operating leases of $59.1 million and $59.0 million in 2013 and 2012, respectively, recorded to electric fuel and purchased power expenses.

Under certain railcar lease agreements accounted for as operating leases, NSP-Minnesota guarantees the lessor's proceeds from sale of the leased assets at the end of the lease term will at least equal the guaranteed residual value. NSP-Minnesota's maximum potential loss under these residual value guarantees is $9.2 million assuming the fair market value of the assets is zero at the end of the lease term; however, NSP-Minnesota expects sale proceeds to exceed the guaranteed amounts. These lease agreements expire in 2014 and 2015.

Included in the future commitments under operating leases are estimated future capacity payments under PPAs that have been accounted for as operating leases in accordance with the applicable accounting guidance. Future commitments under all operating leases are:

(Millions of Dollars)	Operating Leases	PPA Operating Leases [(a) (b)]	Total Operating Leases
2014	$ 7.4	$ 61.1	$ 68.5
2015	6.6	62.1	68.7
2016	6.4	63.1	69.5
2017	6.9	64.2	71.1
2018	6.6	65.2	71.8
Thereafter	72.7	489.2	561.9

(a) Amounts do not include PPAs accounted for as executory contracts.

(b) PPA operating leases contractually expire through 2026.

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Environmental Contingencies

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

Site Remediation — Various federal and state environmental laws impose liability, without regard to the legality of the original conduct, where hazardous substances or other regulated materials have been released to the environment. NSP-Minnesota may sometimes pay all or a portion of the cost to remediate sites where past activities of NSP-Minnesota or other parties have caused environmental contamination. Environmental contingencies could arise from various situations, including sites of former manufactured gas plants (MGPs) operated by NSP-Minnesota, its predecessors, or other entities; and third-party sites, such as landfills, for which NSP-Minnesota is alleged to be a PRP that sent hazardous materials and wastes to that site.

MGP Sites — NSP-Minnesota is currently involved in investigating and/or remediating several MGP sites where hazardous or other regulated materials may have been deposited. NSP-Minnesota has identified three sites, where former MGP activities have or may have resulted in site contamination and are under current investigation and/or remediation. At some or all of these MGP sites, there are other parties that may have responsibility for some portion of any remediation. NSP-Minnesota anticipates that the majority of the remediation at these sites will continue through at least 2014. NSP-Minnesota had accrued $0.1 million for all of these sites at Dec. 31, 2012 and an immaterial amount as of Dec. 31, 2013. There may be insurance recovery and/or recovery from other PRPs that will offset any costs incurred. NSP-Minnesota anticipates that any amounts spent will be fully recovered from customers.

Environmental Requirements

<u>Water and waste</u>
Asbestos Removal — Some of NSP-Minnesota's facilities contain asbestos. Most asbestos will remain undisturbed until the facilities that contain it are demolished or removed. NSP-Minnesota has recorded an estimate for final removal of the asbestos as an ARO. 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 not expected to be material and is recorded as incurred as operating expenses for maintenance projects, capital expenditures for construction projects or removal costs for demolition projects.

Federal Clean Water Act (CWA) Effluent Limitations Guidelines (ELG) — In June 2013, the EPA published a proposed ELG rule for power plants that use coal, natural gas, oil or nuclear materials as fuel and discharge treated effluent to surface waters as well as utility-owned landfills that receive coal combustion residuals. Refuse derived fuel, biomass and other alternatively fueled power plants are not addressed by the proposed revisions. The proposed rule identifies four potential regulatory options and invites comments on those regulatory approaches. The options differ in the number of waste streams covered, size of the units controlled and stringency of controls. It is not yet known when the EPA will issue a finalized rule. Under the current proposed rule, facilities would need to comply as soon as possible after July 2017 but no later than July 2022. The impact of this rule on NSP-Minnesota is uncertain at this time.

Federal CWA Section 316 (b) — The federal CWA requires the EPA to regulate cooling water intake structures to assure that these structures reflect the best technology available for minimizing adverse environmental impacts to aquatic species. In 2011, the EPA published the proposed rule that sets standards for minimization of aquatic species impingement, but leaves entrainment reduction requirements at the discretion of the permit writer and the regional EPA office. A final rule is anticipated in April 2014. It is not possible to provide an accurate estimate of the overall cost of this rulemaking at this time due to the uncertainty of the final regulatory requirements.

NSP-Minnesota submitted its Black Dog CWA compliance plan for the MPCA's review and approval in 2010. The MPCA is currently reviewing the proposal in consultation with the EPA.

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Proposed Coal Ash Regulation — NSP-Minnesota's operations are subject to federal and state laws that impose requirements for handling, storage, treatment and disposal of hazardous waste. In 2010, the EPA published a proposed rule on whether to regulate coal combustion byproducts (coal ash) as hazardous or nonhazardous waste. Coal ash is currently exempt from hazardous waste regulation. NSP-Minnesota's costs for the management and disposal of coal ash would significantly increase and the beneficial reuse of coal ash would be negatively impacted if the EPA ultimately issues a rule under which coal ash is regulated as hazardous waste. The EPA has entered into a consent decree to act on final regulations by December 2014. The timing, scope and potential cost of any final rule that might be implemented are not determinable at this time.

Air

EPA Greenhouse Gas (GHG) Regulation — In 2009, the EPA issued its "endangerment" finding that GHG emissions pose a threat to public health and welfare. This finding required the EPA to adopt GHG emission standards for mobile sources. In 2011, new EPA permitting requirements became effective for GHG emissions of new and modified large stationary sources, which are applicable to the construction of new power plants or power plant modifications that increase emissions above a certain threshold. These rules were upheld on appeal to the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit). The U.S. Supreme Court has granted review on one issue related to these rules, specifically whether the EPA's regulation of GHG emissions from mobile sources triggered, by operation of law, new source review permitting requirements for stationary sources, which was the EPA's basis for adopting the 2011 permitting rules. The Court is scheduled to hear arguments in February 2014. A ruling is anticipated by June 2014. NSP-Minnesota is unable to determine the cost of compliance with these new EPA requirements as it is not clear whether these requirements will apply to future changes at NSP-Minnesota's power plants.

GHG Emission Standard for Existing Sources and New Source Performance Standard Proposal (NSPS) Proposal — In June 2013, President Obama issued a memorandum directing the EPA to develop GHG emission standards for existing power plants. The memorandum anticipates the EPA will issue a proposed GHG emission standard for existing power plants in June 2014. It is not possible to evaluate the impact of existing source standards until the upcoming proposal and final requirements are known.

In January 2014, the EPA re-proposed a GHG NSPS for newly constructed power plants which seeks to establish carbon dioxide (CO_2) emission rates for coal-fired power plants that reflect emission reductions using partial carbon capture and storage technology (CCS). The EPA's proposed CO_2 emission limits for gas-fired power plants reflect emissions levels from combined cycle technology with no CCS. The EPA continues to propose that the NSPS not apply to modified or reconstructed existing power plants. In addition, installation of control equipment on existing plants would not constitute a "modification" to those plants under the NSPS program. It is not possible to evaluate the impact of the re-proposed NSPS until its final requirements are known.

Cross-State Air Pollution Rule (CSAPR) — In 2011, the EPA issued the CSAPR to address long range transport of particulate matter (PM) and ozone by requiring reductions in SO_2 and NOx from utilities in the eastern half of the United States, including Minnesota. The CSAPR would have set more stringent requirements than the proposed Clean Air Transport Rule. The rule also would have created an emissions trading program.

In August 2012, the D.C. Circuit vacated the CSAPR and remanded it back to the EPA. The D.C. Circuit stated that the EPA must continue administering the Clean Air Interstate Rule (CAIR) pending adoption of a valid replacement. In December 2013, the U.S. Supreme Court heard oral arguments on the D.C. Circuit's 2012 decision to vacate the CSAPR. A decision is anticipated by June 2014. It is not yet known whether the D.C. Circuit's decision will be upheld, or how the EPA might approach a replacement rule. Therefore, it is not known what requirements may be imposed in the future.

CAIR — In 2005, the EPA issued the CAIR to further regulate SO_2 and NOx emissions. The CAIR does not currently apply to Minnesota.

Electric Generating Unit (EGU) Mercury and Air Toxics Standards (MATS) Rule — The final EGU MATS rule became effective in April 2012. The EGU MATS rule sets emission limits for acid gases, mercury and other hazardous air pollutants and requires coal-fired utility facilities greater than 25 MW to demonstrate compliance within three to four years of the effective date. NSP-Minnesota expects to comply with the EGU MATS rule through a combination of mercury and other emission control projects. NSP-Minnesota believes EGU MATS costs will be recoverable through regulatory mechanisms and does not expect a material impact on results of operations, financial position or cash flows.

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Minnesota Mercury Legislation — NSP-Minnesota installed sorbent control systems at the Sherco Unit 3 and A.S. King generating plants and has obtained MPUC approval to install mercury controls on Sherco Units 1 and 2 by the end of 2014. NSP-Minnesota projects installation costs of $12.0 million for the mercury controls on the units and believes these costs will be recoverable through regulatory mechanisms.

Regional Haze Rules — In 2005, the EPA amended the best available retrofit technology (BART) requirements of its regional haze rules, which require the installation and operation of emission controls for industrial facilities emitting air pollutants that reduce visibility in certain national parks and wilderness areas. In its first regional haze state implementation plan (SIP), Minnesota identified the NSP-Minnesota facilities that will have to reduce SO_2, NOx and PM emissions under BART and set emissions limits for those facilities.

In 2009, the Minnesota Pollution Control Agency (MPCA) approved a SIP and submitted it to the EPA for approval. The MPCA's source-specific BART limits for Sherco Units 1 and 2 require combustion controls for NOx and scrubber upgrades for SO_2. The MPCA concluded selective catalytic reduction (SCRs) should not be required because the minor visibility benefits derived from SCRs do not outweigh the substantial costs. The combustion controls have been installed and the scrubber upgrades, to be completed by January 2015, are underway. These emission controls are projected to cost approximately $50 million, of which $40.3 million has already been spent. NSP-Minnesota anticipates these costs will be fully recoverable in rates.

After the CSAPR was adopted in 2011, the MPCA supplemented its SIP, determining that CSAPR meets BART requirements, but also implementing its source-specific BART determination for Sherco Units 1 and 2 from the 2009 SIP. In June 2012, the EPA approved the SIP for EGUs and also approved the source-specific emission limits for Sherco Units 1 and 2 as strengthening the SIP, but avoided characterizing them as BART limits.

In August 2012, the National Parks Conservation Association, Sierra Club, Voyageurs National Park Association, Friends of the Boundary Waters Wilderness, Minnesota Center for Environmental Advocacy and Fresh Energy appealed the EPA's approval of the Minnesota SIP to the U.S. Court of Appeals for the Eighth Circuit. NSP-Minnesota and other regulated parties were denied intervention. In June 2013, the Court ordered this case to be held in abeyance until the U.S. Supreme Court decides on the CSAPR. If this litigation results in further EPA proceedings concerning the SIP, such proceedings may consider whether SCRs should be required for Sherco Units 1 and 2.

Reasonably Attributable Visibility Impairment (RAVI) — Additional visibility rules relate to a program called the RAVI program. In 2009, the United States Department of the Interior certified that a portion of the visibility impairment in Voyageurs and Isle Royale National Parks is reasonably attributable to emissions from 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 RAVI and, if so, whether the level of controls required by the MPCA is appropriate. The EPA has stated it plans to issue a separate notice on the issue of BART for Sherco Units 1 and 2 under the RAVI program. It is not yet known when the EPA will publish a proposal under RAVI or what that proposal will entail.

In December 2012, a lawsuit against the EPA was filed in the U.S. District Court for the District of Minnesota by the following organizations: National Parks Conservation Association, Minnesota Center for Environmental Advocacy, Friends of the Boundary Waters Wilderness, Voyageurs National Park Association, Fresh Energy and Sierra Club. The lawsuit alleges the EPA has failed to perform a nondiscretionary duty to determine BART for Sherco Units 1 and 2 under the RAVI program. The EPA filed an answer denying the allegations. The Court denied NSP-Minnesota's motion to intervene in July 2013. NSP-Minnesota appealed this decision to the U.S. Court of Appeals for the Eighth Circuit. Oral arguments have been scheduled for March 2014.

Revisions to National Ambient Air Quality Standards (NAAQS) for PM — In December 2012, the EPA lowered the primary health-based NAAQS for annual average fine PM and retained the current daily standard for fine PM. In areas where NSP-Minnesota operates power plants, current monitored air concentrations are below the level of the final annual primary standard. The EPA is expected to designate non-compliant locations by December 2014. States would then study the sources of the nonattainment and make emission reduction plans to attain the standards. It is not possible to evaluate the impact of this regulation further until the final designations have been made.

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Notice of Violation (NOV) — In 2011, NSP-Minnesota received an NOV from the EPA alleging violations of the New Source Review (NSR) requirements of the Clean Air Act (CAA) at the Sherco plant and Black Dog plant in Minnesota. The NOV alleges that various maintenance, repair and replacement projects at the plants in the mid 2000s should have required a permit under the NSR process. NSP-Minnesota believes it has acted in full compliance with the CAA and NSR process. NSP-Minnesota also 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. NSP-Minnesota disagrees with the assertions contained in the NOV and intends to vigorously defend its position. It is not known whether any costs would be incurred as a result of this NOV.

Asset Retirement Obligations

Recorded AROs **—** AROs have been recorded for property related to the following: electric production (nuclear, steam, wind, other and hydro), electric distribution and transmission, natural gas transmission and distribution, and general property. The electric production obligations include asbestos, ash-containment facilities, radiation sources, storage tanks, control panels and decommissioning. The asbestos recognition associated with the steam production includes certain plants. NSP-Minnesota also recorded asbestos recognition for its general office building. This asbestos abatement removal obligation originated in 1973 with the CAA, which applied to the demolition of buildings or removal of equipment containing asbestos that can become airborne on removal. AROs also have been recorded for NSP-Minnesota steam production related to ash-containment facilities such as bottom ash ponds, evaporation ponds and solid waste landfills. The origination dates on the ARO recognition for ash-containment facilities at steam plants was the in-service dates of the various facilities. NSP-Minnesota has also recorded AROs for the retirement and removal of assets at certain wind production facilities for which the land is leased and removal is required by contract, with the origination dates being the in-service date of the various facilities.

NSP-Minnesota has recognized AROs for the retirement costs of natural gas mains and for the removal of electric transmission and distribution equipment, which consists of many small potential obligations associated with polychlorinated biphenyls, mineral oil, storage tanks, treated poles, lithium batteries, mercury and street lighting lamps. The common general AROs include small obligations related to storage tanks, radiation sources and office buildings. These assets have numerous in-service dates for which it is difficult to assign the obligation to a particular year. Therefore, the obligation was measured using an average service life.

For the nuclear assets, the AROs associated with the decommissioning of the NSP-Minnesota nuclear generating plants, Monticello and Prairie Island, originated with the in-service date of the facility. See Note 10 for further discussion of nuclear obligations.

A reconciliation of NSP-Minnesota's AROs is shown in the tables below for the years ended Dec. 31, 2013 and 2012, respectively:

(Thousands of Dollars)	Beginning Balance Jan. 1, 2013	Accretion	Revisions to Prior Estimates	Ending Balance Dec. 31, 2013 (a)
Electric plant				
Nuclear production decommissioning	$ 1,546,358	$ 81,940	$ —	$ 1,628,298
Steam and other production ash containment	47,926	1,361	(340)	48,947
Steam and other production asbestos	12,789	514	—	13,303
Wind production	32,936	1,575	—	34,511
Electric distribution	12,443	358	(7,930)	4,871
Steam and hydro production miscellaneous	555	56	556	1,167
Electric transmission	537	59	(422)	174
Steam production radiation sources	45	3	1	49
Natural gas plant				
Gas transmission and distribution	339	23	(29)	333
Common and other property				
Common general plant asbestos	1,197	66	(783)	480
Common miscellaneous	277	27	326	630
Total liability	$ 1,655,402	$ 85,982	$ (8,621)	$ 1,732,763

(a) There were no new ARO liabilities recognized or settled during the 12 months ended Dec. 31, 2013.

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The aggregate fair value of NSP-Minnesota's legally restricted assets, for purposes of funding future nuclear decommissioning, was $1.6 billion as of Dec. 31, 2013, consisting of external investment funds.

In 2013, NSP-Minnesota revised asbestos, ash containment facilities, radiation sources, miscellaneous electric production, electric transmission and distribution, natural gas transmission and distribution and common general AROs due to revised estimated cash flows.

(Thousands of Dollars)	Beginning Balance Jan. 1, 2012	Accretion	Revisions to Prior Estimates	Ending Balance Dec. 31, 2012 [a]
Electric plant				
Nuclear production decommissioning	$ 1,482,741	$ 75,301	$ (11,684)	$ 1,546,358
Steam and other production ash containment	30,989	1,065	15,872	47,926
Steam and other production asbestos	10,479	459	1,851	12,789
Wind production	40,515	2,068	(9,647)	32,936
Electric distribution	14,372	522	(2,451)	12,443
Steam and hydro production miscellaneous	533	19	3	555
Electric transmission	503	18	16	537
Steam production radiation sources	42	3	—	45
Natural gas plant				
Gas transmission and distribution	320	19	—	339
Common and other property				
Common general plant asbestos	1,135	62	—	1,197
Common miscellaneous	267	10	—	277
Total liability	$ 1,581,896	$ 79,546	$ (6,040)	$ 1,655,402

(a) There were no new ARO liabilities recognized or settled during the 12 months ended Dec. 31, 2012.

The aggregate fair value of NSP-Minnesota's legally restricted assets, for purposes of funding future nuclear decommissioning, was $1.5 billion as of Dec. 31, 2012, consisting of external investment funds.

In 2012, NSP-Minnesota incurred revisions for nuclear decommissioning, asbestos, ash-containment facilities, wind facilities and electric transmission and distribution AROs due to revised estimated cash flows.

Nuclear Insurance

NSP-Minnesota's public liability for claims resulting from any nuclear incident is limited to $13.6 billion under the Price-Anderson amendment to the Atomic Energy Act. NSP-Minnesota has secured $375 million of coverage for its public liability exposure with a pool of insurance companies. The remaining $13.2 billion of exposure is funded by the Secondary Financial Protection Program, available from assessments by the federal government in case of a nuclear accident. NSP-Minnesota is subject to assessments of up to $127.3 million per reactor per accident for each of its three licensed reactors, to be applied for public liability arising from a nuclear incident at any licensed nuclear facility in the United States. The maximum funding requirement is $19.0 million per reactor during any one year. These maximum assessment amounts are both subject to inflation adjustment by the NRC and state premium taxes. The NRC's last adjustment was effective September 2013.

NSP-Minnesota purchases insurance for property damage and site decontamination cleanup costs from Nuclear Electric Insurance Ltd. (NEIL). The coverage limits are $2.3 billion for each of NSP-Minnesota's two nuclear plant sites. NEIL also provides business interruption insurance coverage, including the cost of replacement power obtained during certain prolonged accidental outages of nuclear generating units. Premiums are expensed over the policy term. All companies insured with NEIL are subject to retroactive premium adjustments if losses exceed accumulated reserve funds. Capital has been accumulated in the reserve funds of NEIL to the extent that NSP-Minnesota would have no exposure for retroactive premium assessments in case of a single incident under the business interruption and the property damage insurance coverage. However, in each calendar year, NSP-Minnesota could be subject to maximum assessments of approximately $16.1 million for business interruption insurance and $40.2 million for property damage insurance if losses exceed accumulated reserve funds.

Legal Contingencies

NSP-Minnesota is involved in various litigation matters that are being defended and handled in the ordinary course of business. The assessment of whether a loss is probable or is a reasonable possibility, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. Management maintains accruals for such losses that are probable of being incurred and subject to reasonable estimation. Management is sometimes unable to estimate an amount or range of a reasonably possible loss in certain situations, including but not limited to when (1) the damages sought are indeterminate, (2) the proceedings are in the early stages, or (3) the matters involve novel or unsettled legal theories. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including a possible eventual loss. For current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on NSP-Minnesota's financial statements. Unless otherwise required by GAAP, legal fees are expensed as incurred.

Employment, Tort and Commercial Litigation

Merricourt Wind Project Litigation — In April 2011, NSP-Minnesota terminated its agreements with enXco Development Corporation (enXco) for the development of a 150 MW wind project in southeastern North Dakota. NSP-Minnesota's decision to terminate the agreements was based in large part on the adverse impact this project could have on endangered or threatened species protected by federal law and the uncertainty in cost and timing in mitigating this impact. NSP-Minnesota also terminated the agreements due to enXco's nonperformance of certain other conditions, including failure to obtain a Certificate of Site Compatibility and the failure to close on the contracts by an agreed upon date of March 31, 2011. NSP-Minnesota recorded a $101 million deposit in the first quarter of 2011, which was collected in April 2011. In May 2011, NSP-Minnesota filed a declaratory judgment action in the U.S. District Court in Minnesota to obtain a determination that it acted properly in terminating the agreements. enXco also filed a separate lawsuit in the same court seeking approximately $240 million for an alleged breach of contract. NSP-Minnesota believes enXco's lawsuit is without merit. In October 2012, NSP-Minnesota filed a motion for summary judgment. In April 2013, the U.S. District Court granted NSP-Minnesota's motion and entered judgment in its favor. In April 2013, enXco filed a notice of appeal to the Eighth Circuit. It is uncertain when the Eighth Circuit will decide this appeal. Although Xcel Energy believes the likelihood of loss is remote based on existing case law and the U.S. District Court's April 2013 decision, it is not possible to estimate the amount or range of reasonably possible loss in the event of an adverse outcome of this matter. No accrual has been recorded for this matter.

Nuclear Power Operations and Waste Disposal

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 DOE's failure to begin accepting spent nuclear fuel by Jan. 31, 1998, as required by the contract between the United States and NSP-Minnesota. NSP-Minnesota sought contract damages in this lawsuit through Dec. 31, 2004. In September 2007, the court awarded NSP-Minnesota $116.5 million in damages. In August 2007, NSP-Minnesota filed a second complaint; this lawsuit claimed damages for the period Jan. 1, 2005 through Dec. 31, 2008.

In July 2011, the United States and NSP-Minnesota executed a settlement agreement resolving both lawsuits, providing an initial $100 million payment from the United States to NSP-Minnesota, and providing a method by which NSP-Minnesota can recover its spent fuel storage costs through 2013, estimated to be an additional $100 million. In January 2014, the United States proposed, and NSP-Minnesota accepted, an extension to the settlement agreement which will allow NSP-Minnesota to recover spent fuel storage costs through 2016. The extension does not address costs for used fuel storage after 2016; such costs could be the subject of future litigation. NSP-Minnesota received the initial $100 million payment in August 2011, the second installment of $18.6 million in March 2012, the third installment of $20.7 million in October 2012, and the fourth installment of $42.6 million in November 2013. Amounts received from the installments were subsequently credited to customers, except for approved reductions such as legal costs, customer credits still in process at Dec. 31, 2013, and amounts set aside to be credited through another regulatory mechanism.

Other Contingencies

See Note 8 for further discussion.

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10. Nuclear Obligations

Fuel Disposal — NSP-Minnesota is responsible for temporarily storing used or spent nuclear fuel from its nuclear plants. The DOE is responsible for permanently storing spent fuel from NSP-Minnesota's nuclear plants as well as from other U.S. nuclear plants. NSP-Minnesota has funded its portion of the DOE's permanent disposal program since 1981. The fuel disposal fees are based on a charge of 0.1 cent per kilowatt hour (KWh) sold to customers from nuclear generation. In January 2014, the DOE sent its court mandated proposal to adjust the current fee to zero. The Nuclear Waste Policy Act provides that a proposal by the Secretary of Energy to adjust the fee shall be effective after a period of 90 days of continuous session unless either House of Congress adopts a resolution disapproving the Secretary's proposed adjustment.

Fuel expense includes the DOE fuel disposal assessments of approximately $10 million in 2013 and $12 million in 2012. In total, NSP-Minnesota had paid approximately $444.8 million to the DOE through Dec. 31, 2013. See Note 9 — Nuclear Waste Disposal Litigation for further discussion.

NSP-Minnesota has its own temporary on-site storage facilities for spent fuel at its Monticello and Prairie Island nuclear plants, which consist of storage pools and dry cask facilities at both sites. The amount of spent fuel storage capacity currently authorized by the NRC and the MPUC will allow NSP-Minnesota to continue operation of its Prairie Island nuclear plant until the end of its renewed licenses terms in 2033 for Unit 1 and 2034 for Unit 2 and its Monticello nuclear plant until the end of its renewed operating license in 2030. Other alternatives for spent fuel storage are being investigated until a DOE facility is available, including pursuing the establishment of a private facility for interim storage of spent nuclear fuel as part of a consortium of electric utilities.

Regulatory Plant Decommissioning Recovery — Decommissioning of NSP-Minnesota's nuclear facilities is planned for the period from cessation of operations through at least 2091, assuming the prompt dismantlement method. NSP-Minnesota is currently recording the costs for decommissioning over the MPUC-approved cost-recovery period. The total decommissioning cost obligation is recorded as an ARO in accordance with the applicable accounting guidance.

Monticello received its initial operating license in 1970 and began commercial operation in 1971. With its renewed operating license and CON for spent fuel capacity to support 20 years of extended operation, Monticello can operate until 2030. The Monticello 20-year depreciation life extension until September 2030 was granted by the MPUC in 2007. The Monticello dry-cask storage facility currently stores 15 of the 30 canisters authorized by the MPUC.

Prairie Island Units 1 and 2 received their initial operating license and began commercial operations in 1973 and 1974. With its renewed operating license from the NRC, Prairie Island Units 1 and 2 can operate until 2033 and 2034, respectively. The MPUC approved depreciation life for Prairie Island is consistent with the remaining life of the NRC approved operating license. The Prairie Island dry-cask storage facility currently stores 35 of the 64 casks authorized by the MPUC

NSP-Minnesota previously recorded annual decommissioning accruals based on periodic site-specific cost studies and a presumed level of dedicated funding consistent with cost-recovery in utility customer rates. Cost studies quantify decommissioning costs in current dollars. This study presumed that costs will escalate in the future at a rate of 3.63 percent per year during operations and radiological portion of decommissioning and 2.63 percent during the independent spent fuel storage installation and site restoration portion of decommissioning. The total estimated decommissioning costs that will ultimately be paid, net of income earned by the external decommissioning trust fund, is currently being accrued using an annuity approach over the approved plant-recovery period. This annuity approach uses an assumed rate of return on funding, which is an after-tax return between 4.57 percent and 5.53 percent, depending on production unit and time frame for external funding. The net unrealized gain or loss on nuclear decommissioning investments is deferred as a regulatory asset or liability.

The total obligation for decommissioning currently is expected to be funded 100 percent by the external decommissioning trust fund, as approved by the MPUC, when decommissioning commences. The external funds are held in trust and in escrow. The portion in escrow is subject to refund if approved by the various commissions. In November 2012, the MPUC approved NSP-Minnesota's most recent nuclear decommissioning study which used 2011 cost data. The MPUC approved the use of a 60-year decommissioning scenario. This resulted in an approved annual accrual of $14.2 million for Minnesota retail customers, to be held in our external escrow fund.

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As of Dec. 31, 2013, NSP-Minnesota has accumulated $1.6 billion of assets held in external decommissioning trusts. The following table summarizes the funded status of NSP-Minnesota's decommissioning obligation based on approved regulatory recovery parameters from the most recently approved decommissioning study. Xcel Energy believes future decommissioning cost expense, if necessary, will continue to be recovered in customer rates. These amounts are not those recorded in the financial statements for the ARO.

	Regulatory Basis	
(Thousands of Dollars)	**2013**	**2012**
Estimated decommissioning cost obligation from most recently approved study (2011 dollars for 2012 and 2008 dollars for 2011)	$ 2,694,079	$ 2,694,079
Effect of escalating costs (to 2012 and 2011 dollars, respectively, at 3.63/2.63 percent for 2012 and 2.89 percent for 2011)	189,924	93,327
Estimated decommissioning cost obligation (in current dollars)	2,884,003	2,787,406
Effect of escalating costs to payment date (3.63/2.63 percent for 2012 and 2.89 percent for 2011)	5,697,285	5,793,882
Estimated future decommissioning costs (undiscounted)	8,581,288	8,581,288
Effect of discounting obligation (using risk-free interest rate)	(6,215,050)	(6,243,332)
Discounted decommissioning cost obligation	$ 2,366,238	$ 2,337,956
Assets held in external decommissioning trust	$ 1,627,026	$ 1,489,542
Underfunding of external decommissioning fund compared to the discounted decommissioning obligation	$ 739,212	$ 848,414

Decommissioning expenses recognized as a result of regulation include the following components:

(Thousands of Dollars)	**2013**	**2012**
Annual decommissioning recorded as depreciation expense: [(a)]		
Externally funded	$ 6,402	$ —
Internally funded (including interest costs)	—	(1,251)
Net decommissioning expense recorded	$ 6,402	$ (1,251)

(a) Decommissioning expense does not include depreciation of the capitalized nuclear asset retirement costs.

Reductions to expense for internally-funded portions in 2012 are a direct result of the 2008 decommissioning study jurisdictional allocation and 100 percent external funding approval, effectively unwinding the remaining internal fund over the previously licensed operating life of the unit (2010 for Monticello, 2013 for Prairie Island Unit 1 and 2014 for Prairie Island Unit 2). Due to the immaterial amount remaining in the internal fund, the entire remaining amount was unwound for Prairie Island 1 and 2 in 2012. As of December 2013, there is no balance remaining in the internally funded decommissioning account. The 2011 nuclear decommissioning filing approved in 2012 has been used for the regulatory presentation.

11. Regulatory Assets and Liabilities

NSP-Minnesota's financial statements are prepared in accordance with the applicable accounting guidance, as discussed in Note 1. Under this guidance, regulatory assets and liabilities are created for amounts that regulators may allow to be collected, or may require to be paid back to customers in future electric and natural gas rates. Any portion of the business that is not rate regulated cannot establish regulatory assets and liabilities. If changes in the utility industry or the business of NSP-Minnesota no longer allow for the application of regulatory accounting guidance under GAAP, NSP-Minnesota would be required to recognize the write-off of regulatory assets and liabilities in net income or OCI.

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The components of regulatory assets shown on the balance sheets of NSP-Minnesota at Dec. 31, 2013 and 2012 are:

(Thousands of Dollars)	2013	2012
Regulatory Assets		
Asset retirement recovery	$ 1,633,342	$ 1,538,774
Pension and retiree medical obligations [(a)]	315,469	390,709
Recoverable deferred taxes on AFUDC recorded in plant	198,698	183,572
Contract valuation adjustments [(b)]	136,919	127,663
Nuclear refueling outage costs	122,811	78,682
Renewable resources and environmental initiatives	40,510	30,614
Purchased power contracts costs	38,113	34,971
Theoretical depreciation reserve surplus	35,989	—
Conservation programs [(c)]	30,578	32,115
Sherco Unit 3 Deferral	10,566	—
Other	44,711	32,126
Total regulatory assets	$ 2,607,706	$ 2,449,226

(a) Includes $303.3 million and $330.3 million for the regulatory recognition of pension expense at Dec. 31, 2013 and 2012, respectively. Also included are $2.3 million and $2.1 million of regulatory assets related to the non-qualified pension plan at Dec. 31, 2013 and 2012, respectively.

(b) Includes the fair value of certain long-term purchase power agreements used to meet energy capacity requirements and valuation adjustments on natural gas commodity purchases.

(c) Includes costs for conservation programs, as well as incentives allowed in certain jurisdictions.

The components of regulatory liabilities shown on the balance sheets of NSP-Minnesota at Dec. 31, 2013 and 2012 are:

(Thousands of Dollars)	2013	2012
Regulatory Liabilities		
Plant removal costs	$ 1,403,705	$ 1,358,383
DOE Settlement	32,696	15,326
Deferred income tax adjustment	28,100	29,715
Unrealized gains on nuclear decommissiong trust investments	131,218	64,514
Investment tax credit deferrals	21,898	22,821
Contract valuation adjustments [(a)]	39,632	25,139
Deferred electric energy costs	6,390	6,424
Other	19,910	5,743
Total regulatory liabilities	$ 1,683,549	$ 1,528,065

(a) Includes the fair value of certain long-term purchase power agreements used to meet energy capacity requirements and valuation adjustments on natural gas commodity purchases.

At Dec. 31, 2013 and 2012, approximately $140 million and $115 million of NSP-Minnesota's regulatory assets represented past expenditures not currently earning a return, respectively. This amount primarily includes Prairie Island EPU costs and recoverable purchased natural gas and electric energy costs.

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12. Other Comprehensive Income

Changes in accumulated other comprehensive loss, net of tax, for the year ended Dec. 31, 2013 were as follows:

(Thousands of Dollars)	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Marketable Securities	Defined Benefit Pension and Postretirement Items	Total
Accumulated other comprehensive loss at Jan. 1	$ (21,393)	$ (99)	$ (1,707)	$ (23,199)
Other comprehensive gain before reclassifications	5	172	423	600
Losses reclassified from net accumulated other comprehensive loss	779	—	91	870
Net current period OCI	784	172	514	1,470
Accumulated other comprehensive gain (loss) at Dec. 31	$ (20,609)	$ 73	$ (1,193)	$ (21,729)

Reclassifications from accumulated other comprehensive loss for the year ended Dec. 31, 2013 were as follows:

(Thousands of Dollars)	Amounts Reclassified from Accumulated Other Comprehensive Loss	
(Gains) losses on cash flow hedges:		
Interest rate derivatives	$ 1,388	(a)
Vehicle fuel derivatives	(49)	(b)
Total, pre-tax	1,339	
Tax benefit	(560)	
Total, net of tax	779	
Defined benefit pension and postretirement (gains) losses:		
Amortization of net loss	340	(c)
Prior service cost	(188)	(c)
Transition obligation	2	(c)
Total, pre-tax	154	
Tax benefit	(63)	
Total, net of tax	91	
Total amounts reclassified, net of tax	$ 870	

(a) Included in interest charges.

(b) Included in operation expenses.

(c) Included in the computation of net periodic pension and post retirement benefit costs. See Note 6 for details regarding these benefit plans.

13. Related Party Transactions

Xcel Energy Services Inc. provides management, administrative and other services for the subsidiaries of Xcel Energy Inc., including NSP-Minnesota. The services are provided and billed to each subsidiary in accordance with service agreements executed by each subsidiary. NSP-Minnesota uses the services provided by Xcel Energy Services Inc. whenever possible. Costs are charged directly to the subsidiary and are allocated if they cannot be directly assigned.

Xcel Energy Inc., NSP-Minnesota, PSCo and SPS have established a utility money pool arrangement. See Note 4 for further discussion.

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The electric production and transmission costs of the entire NSP System are shared by NSP-Minnesota and NSP-Wisconsin. The Interchange Agreement provides for the sharing of all costs of generation and transmission facilities of the system, including capital costs.

The table below contains significant affiliate transactions among the companies and related parties including billings under the Interchange Agreement for the years ended Dec. 31:

(Thousands of Dollars)	2013	2012
Operating revenues:		
Electric	$ 458,633	$ 449,958
Gas	97	116
Operating expenses:		
Purchased power	68,518	65,426
Transmission expense	68,398	59,918
Other operating expenses — paid to Xcel Energy Services Inc.	387,902	345,522
Interest expense	272	322
Interest income	2	2

Accounts receivable and payable with affiliates at Dec. 31 were:

	2013		2012	
(Thousands of Dollars)	Accounts Receivable	Accounts Payable	Accounts Receivable	Accounts Payable
NSP-Wisconsin	$ 18,584	$ —	$ 26,632	$ —
PSCo	—	18,065	—	23,214
SPS	—	3,462	—	3,820
Other subsidiaries of Xcel Energy Inc.	17,309	44,424	9,371	42,705
	$ 35,893	$ 65,951	$ 36,003	$ 69,739

14. Supplementary Cash Flow Data

(Thousands of Dollars)	2013	2012
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amounts capitalized)	$ (167,020)	$ (187,652)
Cash received (paid) for income taxes, net	2,043	(5,252)
Supplemental disclosure of non-cash investing transactions:		
Property, plant and equipment additions in accounts payable	$ 234,686	$ 125,948

15. Energy Storage Assets (FERC Order No. 784)

The FERC issued Order No. 784 in July 2013 addressing accounting and reporting guidance for new electric storage technologies. In February 2014, FERC issued guidance on complying with Order No. 784 in the 2013 Form No. 1 since the new account numbers required under the order are not available in the Form No. 1. That guidance included a requirement to disclosure information about energy storage technologies in the notes to financial statements. This information is presented below.

The Luverne Wind2Battery project is a one MW sodium sulfur battery storage facility that is operating in conjunction with the 11 MW Minwind wind power generating facility near Luverne, Minn. It is being used to store, control and dispatch energy when needed for supply or transmission stability purposes. The purpose of the facility is to provide NSP-Minnesota with experience and information that will allow us to assess and improve upon the viability of scaling up battery storage on our system as more wind power is added to meet the renewable policies.

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Northern States Power Company (Minnesota)	(1) X An Original (2) _ A Resubmission	04/11/2014	2013/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

Energy Plant Account
Energy storage assets are currently recorded in Account 342 in the amount of $4,128,902 at Dec. 31, 2013. These amounts would have been recorded in Account 348 in accordance with FERC Order No. 784.

Power Purchased Account
Energy storage-related purchased power costs are recorded in Account 555 in the amount of $3,814 for the year ended Dec. 31, 2013. These amounts would have been recorded in Account 555.1 in accordance with FERC Order No. 784.

Operation and Maintenance Expense Accounts
Energy storage-related operating expenses are recorded in Account 548 in the amount of $1,096 for the year ended Dec. 31, 2013. These amounts would have been recorded in Account 548.1 in accordance with FERC Order No. 784.

Energy storage-related maintenance expenses are recorded in Account 553 in the amount of $71,573 for the year ended Dec. 31, 2013. These amounts would have been recorded in Account 553.1 in accordance with FERC Order No. 784.

The following table presents NSP-Minnesota's Energy Storage Operations for small plants as of and for the year ended Dec. 31, 2013, as required by FERC Order No. 784:

Line no.	Name of Energy Storage Project	Functional Classification	Location of the Project	Project Cost	Operations (Excluding Fuel used in Storage Operations)	Maintenance	Cost of fuel used in storage operations	Account No. 555.1, Power Purchased for Storage Operations	Other Expenses
1	Luverne Minn. Wind2Battery Project	Production	Luverne, Minn.	$4,128,902	$ 1,096	$ 71,573	$ —	$ 3,814	$ —

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Northern States Power Company (Minnesota)	(1) [X] An Original (2) [ ] A Resubmission	05/23/2014	End of 2014/Q1

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200-201	15,466,242,851	15,246,277,586
3	Construction Work in Progress (107)	200-201	903,584,212	931,134,611
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		16,369,827,063	16,177,412,197
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	6,292,968,630	6,212,124,931
6	Net Utility Plant (Enter Total of line 4 less 5)		10,076,858,433	9,965,287,266
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203	100,331,897	93,587,261
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		0	73,340,425
9	Nuclear Fuel Assemblies in Reactor (120.3)		539,557,612	536,658,563
10	Spent Nuclear Fuel (120.4)		1,553,654,506	1,483,212,541
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	1,871,550,014	1,842,687,779
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		321,994,001	344,111,011
14	Net Utility Plant (Enter Total of lines 6 and 13)		10,398,852,434	10,309,398,277
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		8,691,654	8,794,455
19	(Less) Accum. Prov. for Depr. and Amort. (122)		7,233,683	6,966,718
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	2,686,844	2,721,746
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	0	0
24	Other Investments (124)		29,407,283	28,329,811
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		1,663,810,725	1,627,026,261
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		21,949,375	36,881,262
31	Long-Term Portion of Derivative Assets – Hedges (176)		9,636	15,926
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		1,719,321,834	1,696,802,743
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		26,490,542	9,943,937
36	Special Deposits (132-134)		0	0
37	Working Fund (135)		135,200	136,300
38	Temporary Cash Investments (136)		45,866,567	32,439,355
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		417,880,444	258,301,879
41	Other Accounts Receivable (143)		42,001,229	60,437,591
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		21,355,956	20,216,089
43	Notes Receivable from Associated Companies (145)		0	0
44	Accounts Receivable from Assoc. Companies (146)		24,437,569	35,893,303
45	Fuel Stock (151)	227	58,296,938	86,079,535
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	144,957,657	143,060,772
49	Merchandise (155)	227	1,119,162	1,079,083
50	Other Materials and Supplies (156)	227	0	0
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158.1 and 158.2)	228-229	0	0

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Northern States Power Company (Minnesota)	(1) [X] An Original (2) [ ] A Resubmission	05/23/2014	End of 2014/Q1

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)(Continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		0	0
54	Stores Expense Undistributed (163)	227	-171,878	0
55	Gas Stored Underground - Current (164.1)		1,184,319	41,974,601
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		2,631,832	7,720,530
57	Prepayments (165)		102,193,210	83,964,342
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		0	23,829
60	Rents Receivable (172)		203,973	660,419
61	Accrued Utility Revenues (173)		217,709,761	255,412,372
62	Miscellaneous Current and Accrued Assets (174)		2,562,141	2,825,909
63	Derivative Instrument Assets (175)		76,165,568	103,558,755
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		21,949,375	36,881,262
65	Derivative Instrument Assets - Hedges (176)		41,369	64,308
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		9,636	15,926
67	Total Current and Accrued Assets (Lines 34 through 66)		1,120,390,636	1,066,463,543
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		31,912,117	32,573,131
70	Extraordinary Property Losses (182.1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	69,970,065	69,667,890
72	Other Regulatory Assets (182.3)	232	2,618,902,037	2,607,705,963
73	Prelim. Survey and Investigation Charges (Electric) (183)		256,699	210,275
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)		0	0
75	Other Preliminary Survey and Investigation Charges (183.2)		0	0
76	Clearing Accounts (184)		70,465	0
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	58,021,343	83,680,028
79	Def. Losses from Disposition of Utility Plt. (187)		0	0
80	Research, Devel. and Demonstration Expend. (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		18,748,292	19,223,643
82	Accumulated Deferred Income Taxes (190)	234	734,340,293	731,071,701
83	Unrecovered Purchased Gas Costs (191)		70,052,276	23,593,967
84	Total Deferred Debits (lines 69 through 83)		3,602,273,587	3,567,726,598
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		16,840,838,491	16,640,391,161

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Northern States Power Company (Minnesota)	(1) X An Original (2) __ A Resubmission	05/23/2014	2014/Q1

FOOTNOTE DATA

Schedule Page: 110 Line No.: 54 Column: c

Credit balance due to timing of transactions.

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
Northern States Power Company (Minnesota)	(1) [X] An Original (2) [ ] A Resubmission	05/23/2014	end of 2014/Q1

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	10,000	10,000
3	Preferred Stock Issued (204)	250-251	0	0
4	Capital Stock Subscribed (202, 205)		0	0
5	Stock Liability for Conversion (203, 206)		0	0
6	Premium on Capital Stock (207)		2,961,603,438	2,866,603,438
7	Other Paid-In Capital (208-211)	253	0	0
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254b	0	0
11	Retained Earnings (215, 215.1, 216)	118-119	1,687,139,107	1,638,480,300
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	-2,605,561	-2,570,659
13	(Less) Reaquired Capital Stock (217)	250-251	0	0
14	Noncorporate Proprietorship (Non-major only) (218)		0	0
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	-21,497,620	-21,729,106
16	Total Proprietary Capital (lines 2 through 15)		4,624,649,364	4,480,793,973
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	3,900,000,000	3,900,000,000
19	(Less) Reaquired Bonds (222)	256-257	0	0
20	Advances from Associated Companies (223)	256-257	0	0
21	Other Long-Term Debt (224)	256-257	47,711	47,711
22	Unamortized Premium on Long-Term Debt (225)		0	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		11,117,199	11,315,904
24	Total Long-Term Debt (lines 18 through 23)		3,888,930,512	3,888,731,807
25	OTHER NONCURRENT LIABILITIES			
26	Obligations Under Capital Leases - Noncurrent (227)		0	0
27	Accumulated Provision for Property Insurance (228.1)		0	0
28	Accumulated Provision for Injuries and Damages (228.2)		1,340,514	1,765,514
29	Accumulated Provision for Pensions and Benefits (228.3)		222,646,827	273,934,000
30	Accumulated Miscellaneous Operating Provisions (228.4)		0	0
31	Accumulated Provision for Rate Refunds (229)		4,445,135	6,711,765
32	Long-Term Portion of Derivative Instrument Liabilities		144,194,046	151,667,288
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	0
34	Asset Retirement Obligations (230)		1,754,874,611	1,732,763,030
35	Total Other Noncurrent Liabilities (lines 26 through 34)		2,127,501,133	2,166,841,597
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		130,000,000	131,000,000
38	Accounts Payable (232)		444,324,581	601,312,293
39	Notes Payable to Associated Companies (233)		151,650,000	35,740,000
40	Accounts Payable to Associated Companies (234)		76,261,865	65,951,129
41	Customer Deposits (235)		3,771,461	3,572,807
42	Taxes Accrued (236)	262-263	235,984,713	186,725,885
43	Interest Accrued (237)		40,242,008	59,332,131
44	Dividends Declared (238)		59,739,852	58,751,752
45	Matured Long-Term Debt (239)		0	0

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
Northern States Power Company (Minnesota)	(1) [X] An Original (2) [ ] A Resubmission	05/23/2014	end of 2014/Q1

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)(continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
46	Matured Interest (240)		0	0
47	Tax Collections Payable (241)		17,903,738	17,398,799
48	Miscellaneous Current and Accrued Liabilities (242)		8,302,673	17,987,034
49	Obligations Under Capital Leases-Current (243)		0	0
50	Derivative Instrument Liabilities (244)		157,121,265	164,733,177
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		144,194,046	151,667,288
52	Derivative Instrument Liabilities - Hedges (245)		0	0
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		1,181,108,110	1,190,837,719
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		8,184,835	8,453,481
57	Accumulated Deferred Investment Tax Credits (255)	266-267	28,747,377	29,202,463
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	296,220,969	282,859,745
60	Other Regulatory Liabilities (254)	278	1,717,424,563	1,683,548,958
61	Unamortized Gain on Reaquired Debt (257)		0	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	37,277,972	37,477,632
63	Accum. Deferred Income Taxes-Other Property (282)		2,711,805,522	2,668,018,433
64	Accum. Deferred Income Taxes-Other (283)		218,988,134	203,625,353
65	Total Deferred Credits (lines 56 through 64)		5,018,649,372	4,913,186,065
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		16,840,838,491	16,640,391,161

Name of Respondent	This Report Is:	Date of Report	Year/Period of Report
Northern States Power Company (Minnesota)	(1) [X] An Original (2) [ ] A Resubmission	05/23/2014	End of 2014/Q1

NOTES TO FINANCIAL STATEMENTS

1. Use the space below for important notes regarding the Balance Sheet, Statement of Income for the year, Statement of Retained Earnings for the year, and Statement of Cash Flows, or any account thereof. Classify the notes according to each basic statement, providing a subheading for each statement except where a note is applicable to more than one statement.
2. Furnish particulars (details) as to any significant contingent assets or liabilities existing at end of year, including a brief explanation of any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or of a claim for refund of income taxes of a material amount initiated by the utility. Give also a brief explanation of any dividends in arrears on cumulative preferred stock.
3. For Account 116, Utility Plant Adjustments, explain the origin of such amount, debits and credits during the year, and plan of disposition contemplated, giving references to Cormmission orders or other authorizations respecting classification of amounts as plant adjustments and requirements as to disposition thereof.
4. Where Accounts 189, Unamortized Loss on Reacquired Debt, and 257, Unamortized Gain on Reacquired Debt, are not used, give an explanation, providing the rate treatment given these items. See General Instruction 17 of the Uniform System of Accounts.
5. Give a concise explanation of any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.
6. If the notes to financial statements relating to the respondent company appearing in the annual report to the stockholders are applicable and furnish the data required by instructions above and on pages 114-121, such notes may be included herein.
7. For the 3Q disclosures, respondent must provide in the notes sufficient disclosures so as to make the interim information not misleading. Disclosures which would substantially duplicate the disclosures contained in the most recent FERC Annual Report may be omitted.
8. For the 3Q disclosures, the disclosures shall be provided where events subsequent to the end of the most recent year have occurred which have a material effect on the respondent. Respondent must include in the notes significant changes since the most recently completed year in such items as: accounting principles and practices; estimates inherent in the preparation of the financial statements; status of long-term contracts; capitalization including significant new borrowings or modifications of existing financing agreements; and changes resulting from business combinations or dispositions. However were material contingencies exist, the disclosure of such matters shall be provided even though a significant change since year end may not have occurred.
9. Finally, if the notes to the financial statements relating to the respondent appearing in the annual report to the stockholders are applicable and furnish the data required by the above instructions, such notes may be included herein.

PAGE 122 INTENTIONALLY LEFT BLANK
SEE PAGE 123 FOR REQUIRED INFORMATION.

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Northern States Power Company (Minnesota)	(1) X An Original (2) __ A Resubmission	05/23/2014	2014/Q1

NOTES TO FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies

The significant accounting policies set forth in Note 1 to the consolidated financial statements in the Northern States Power Co., a Minnesota corporation (NSP-Minnesota) Annual Report on Federal Energy Regulatory Commission (FERC) Form 1 for the year ended Dec. 31, 2013, appropriately represent, in all material respects, the current status of accounting policies and are incorporated herein by reference.

The electric production and transmission system of NSP-Minnesota and Northern States Power Co., a Wisconsin corporation (NSP-Wisconsin) (collectively, NSP System) is operated on an integrated basis and managed by NSP-Minnesota and NSP-Wisconsin. The electric production and transmission costs of the NSP System are shared by NSP-Minnesota and NSP-Wisconsin. A FERC approved Interchange Agreement between the two companies provides for the sharing of all generation and transmission costs of the NSP System. Such costs include current and potential obligations of NSP-Minnesota related to its nuclear generating facilities.

Basis of Accounting — The accompanying financial statements were prepared in accordance with the accounting requirements of the FERC as set forth in the Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP). The following areas represent the significant differences between the Uniform System of Accounts and GAAP:

- Current maturities of long-term debt are included as long-term debt, while GAAP requires such maturities to be classified as current liabilities.
- Accumulated deferred income taxes are shown as long-term assets and liabilities at their gross amounts in the FERC presentation, in contrast to the GAAP presentation as net current and long-term assets and liabilities.
- Regulatory assets and liabilities are classified as current and noncurrent for GAAP, while the FERC classifies all regulatory assets and liabilities as noncurrent deferred debits and credits, respectively.
- Unrecognized tax benefits are recorded for temporary differences in accounts established for accumulated deferred income taxes in the FERC presentation, in contrast to the GAAP presentation as taxes accrued and noncurrent other liabilities.
- Removal costs for future removal obligations are classified as accumulated depreciation within the utility plant accounts in the FERC presentation and as regulatory liabilities in the GAAP presentation.
- For certain capital projects where there is recovery of a return on construction work in progress (CWIP), certain amounts of allowance for funds used during construction (AFUDC) are not recognized in CWIP for GAAP, while for the FERC presentation, they are recorded in CWIP but the benefit is deferred as a deferred liability and amortized over the life of the property as a reduction of costs.
- Certain commodity trading purchases and sales transactions are presented gross as expenses and revenues for the FERC presentation; however the net margin is reported as net sales for the GAAP presentation.
- Various expenses such as donations, lobbying, and other non-regulatory expenses are presented as other income and deductions for the FERC presentation and reported as operating expenses for the GAAP presentation.
- Income tax expense related to utility operations is shown as a component of utility operating expenses in the FERC presentation, in contrast to the GAAP presentation as a below-the-line deduction from operating income.
- Wholly-owned subsidiaries are reported using the equity method of accounting in the FERC presentation and are required to be consolidated for GAAP.
- Adjustments to theoretical excess depreciation reserves are recorded as a regulatory asset and an increase to regulatory credits for FERC presentation, in contrast to a reduction to both accumulated depreciation and depreciation expense for GAAP presentation.

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Northern States Power Company (Minnesota)	(1) X An Original (2) __ A Resubmission	05/23/2014	2014/Q1

NOTES TO FINANCIAL STATEMENTS (Continued)

If GAAP were followed, these financial statement line items would have values greater/(lesser) than those shown by the FERC presentation of:

(Thousands of Dollars)

Balance Sheet:		
Net utility plant	$	314,105
Current assets		308,337
Current liabilities		154,906
Other long-term assets		(2,611,823)
Long-term debt and other long-term liabilities		(2,144,287)
Statement of Income:		
Operating revenues	$	(12,390)
Operating expenses		(71,699)
Other income and deductions		(1,708)
Statement of Cash Flows:		
Cash provided by operating activities	$	(179)
Cash used in investing activities		90
Cash provided by financing activities		-

Subsequent Events — Management has evaluated the impact of events occurring after March 31, 2014 through May 5, 2014, the date NSP-Minnesota's GAAP financial statements were issued. These statements contain all necessary adjustments and disclosures resulting from that evaluation.

2. Income Taxes

Except to the extent noted below, the circumstances set forth in Note 5 to the financial statements included in the NSP-Minnesota Annual Report on FERC Form 1 for the year ended Dec. 31, 2013 appropriately represent, in all material respects, the current status of other income tax matters, and are incorporated herein by reference.

Federal Tax Loss Carryback Claims — In 2012 and 2013, NSP-Minnesota identified certain expenses related to 2009, 2010, 2011 and 2013 that qualify for an extended carryback beyond the typical two-year carryback period. As a result of a higher tax rate in prior years, NSP-Minnesota recognized a tax benefit of approximately $15 million in 2012 and $12 million in 2013.

Federal Audit — NSP-Minnesota is a member of the Xcel Energy affiliated group that files a consolidated federal income tax return. The statute of limitations applicable to Xcel Energy's 2008 federal income tax return expired in September 2012. The statute of limitations applicable to Xcel Energy's 2009 federal income tax return expires in June 2015. In the third quarter of 2012, the Internal Revenue Service (IRS) commenced an examination of tax years 2010 and 2011, including the 2009 carryback claim. As of March 31, 2014, the IRS had proposed an adjustment to the federal tax loss carryback claims that would result in $10 million of income tax expense for the 2009 through 2011 claims and the anticipated claim for 2013. Xcel Energy is continuing to work through the audit process, but the outcome and timing of a resolution is uncertain.

State Audits — NSP-Minnesota is a member of the Xcel Energy affiliated group that files consolidated state income tax returns. As of March 31, 2014, NSP-Minnesota's earliest open tax year that is subject to examination by state taxing authorities under applicable statutes of limitations is 2009. There are currently 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 effective tax rate (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.

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Northern States Power Company (Minnesota)	(1) X An Original (2) __ A Resubmission	05/23/2014	2014/Q1

NOTES TO FINANCIAL STATEMENTS (Continued)

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

(Millions of Dollars)	March 31, 2014	Dec. 31, 2013
Unrecognized tax benefit — Permanent tax positions	$ 5.5	$ 8.5
Unrecognized tax benefit — Temporary tax positions	16.4	16.7
Total unrecognized tax benefit	$ 21.9	$ 25.2

The unrecognized tax benefit amounts were reduced by the tax benefits associated with net operating loss (NOL) and tax credit carryforwards. The amounts of tax benefits associated with NOL and tax credit carryforwards are as follows:

(Millions of Dollars)	March 31, 2014	Dec. 31, 2013
NOL and tax credit carryforwards	$ (12.5)	$ (12.4)

It is reasonably possible that NSP-Minnesota's amount of unrecognized tax benefits could significantly change in the next 12 months as the IRS audit progresses and state audits resume. As the IRS examination moves closer to completion, it is reasonably possible that the amount of unrecognized tax benefit could decrease up to approximately $6 million.

The payable for interest related to unrecognized tax benefits is partially offset by the interest benefit associated with NOL and tax credit carryforwards. The payables for interest related to unrecognized tax benefits at March 31, 2014 and Dec. 31, 2013 were not material. No amounts were accrued for penalties related to unrecognized tax benefits as of March 31, 2014 or Dec. 31, 2013.

3. Rate Matters

Except to the extent noted below, the circumstances set forth in Note 8 to the financial statements included in NSP-Minnesota's Annual Report on FERC Form 1 for the year ended Dec. 31, 2013 appropriately represent, in all material respects, the current status of other rate matters, and are incorporated herein by reference.

Pending Regulatory Proceedings — Minnesota Public Utilities Commission (MPUC)

Minnesota 2014 Multi-Year Electric Rate Case — In November 2013, NSP-Minnesota filed a two-year electric rate case with the MPUC. The rate case is based on a requested return on equity (ROE) of 10.25 percent, a 52.5 percent equity ratio, a 2014 average electric rate base of $6.67 billion and an additional average rate base of $412 million in 2015.

The NSP-Minnesota electric rate case reflects an overall increase in revenues of approximately $193 million or 6.9 percent in 2014 and an additional $98 million or 3.5 percent in 2015. The request includes a proposed rate moderation plan for 2014 and 2015. After reflecting interim rate adjustments, NSP-Minnesota is requesting a rate increase of $127 million or 4.6 percent in 2014 and an incremental rate increase of $164 million or 5.6 percent in 2015.

NSP-Minnesota's moderation plan includes the acceleration of the eight-year amortization of the excess depreciation reserve which the MPUC approved in NSP-Minnesota's last electric rate case and the use of expected funds from the U.S. Department of Energy (DOE) for settlement of certain claims. These DOE refunds would be in excess of amounts needed to fund NSP-Minnesota's decommissioning expense. The interim rate adjustments are primarily associated with ROE, Monticello life cycle management (LCM)/extended power uprate (EPU) project costs and NSP-Minnesota's request to amortize amounts associated with the canceled Prairie Island EPU project. NSP-Minnesota may file a petition for deferred accounting regarding these Monticello costs later in 2014.

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The rate request, moderation plan, interim rate adjustments, customer bill impacts and certain impacts on expenses are detailed in the table below:

(Millions of Dollars)	2014	Percentage Increase	2015	Percentage Increase
Pre-moderation deficiency	**$ 274**		**$ 81**	
Moderation change compared to prior year:				
Depreciation reserve	(81)		53	
DOE settlement proceeds	—		(36)	
	(81)		17	
Filed rate request	**193**	**6.9 %**	**98**	**3.5 %**
Interim rate adjustments	(66)		66	
Impact on customer bill	**127**	**4.6 %**	**164**	**5.6 %**
Potential expense deferral	16		—	
Depreciation expense - reduction/(increase)	81		(46)	
Recognition of DOE settlement proceeds	—		36	
Pre-tax impact on operating income	$ 224		$ 154	

In December 2013, the MPUC approved interim rates of $127 million effective Jan. 3, 2014, subject to refund. The MPUC determined that the costs of Sherco Unit 3 would be allowed in interim rates, and that NSP-Minnesota's request to accelerate the depreciation reserve amortization was a permissible adjustment to its interim rate request.

The next steps in the procedural schedule are expected to be as follows:

- Direct Testimony — June 5, 2014;
- Rebuttal Testimony — July 7, 2014;
- Surrebuttal Testimony — Aug. 4, 2014;
- Evidentiary Hearing — Aug. 11-18, 2014;
- Reply Brief — Oct. 14, 2014; and
- Administrative Law Judge (ALJ) Report — Dec. 22, 2014.

A final MPUC decision is anticipated in March 2015.

NSP-Minnesota Nuclear Project Prudence Investigation — The MPUC has initiated an investigation to determine whether the costs in excess of the $320 million included in the certificate of need (CON) for NSP-Minnesota's Monticello LCM/EPU project were prudent. The final costs for the Monticello LCM/EPU project were approximately $665 million.

In October 2013, NSP-Minnesota filed a report to further support the change and prudence of the incurred costs. The filing indicated the increase in costs was primarily attributable to three factors: (1) the original estimate was based on a high level conceptual design and the project scope increased as the actual conditions of the plant were incorporated into the design; (2) implementation difficulties, including the amount of work that occurred in confined and radioactive or electrically sensitive spaces and NSP-Minnesota's and its vendors' ability to attract and retain experienced workers; and (3) additional Nuclear Regulatory Commission (NRC) licensing related requests over the five-plus year application process. NSP-Minnesota has provided information that the cost deviation is in line with similar upgrade projects undertaken by other utilities and the project remains economically beneficial to customers. NSP-Minnesota has received all necessary licenses from the NRC for the Monticello EPU, and has begun the process to comply with the license requirements for higher power levels, subject to NRC oversight and review.

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At the direction of the MPUC, the Minnesota Department of Commerce (DOC) has retained a consultant to assist in their review. The consultant, Global Energy and Water Consulting, LLC is covering the cost split between LCM and EPU; reasons for the cost increases; project management and oversight; and the prudence of scope changes among others. The results and any recommendations from the conclusion of this prudence proceeding are expected to be considered by the MPUC in NSP-Minnesota's 2014 Minnesota electric rate case. The next steps in the procedural schedule are expected to be as follows:

- Direct Testimony — July 2, 2014;
- Rebuttal Testimony — Aug. 26, 2014;
- Surrebuttal Testimony — Sept. 19, 2014;
- Hearing — Sept. 29 - Oct. 3, 2014;
- Reply Brief — Nov. 21, 2014; and
- ALJ Report — Dec. 31, 2014.

A final MPUC decision is anticipated in the first quarter of 2015.

Recently Concluded Regulatory Proceedings — North Dakota Public Service Commission (NDPSC)

North Dakota 2013 Electric Rate Case — In December 2012, NSP-Minnesota filed a request with the NDPSC to increase annual retail electric rates approximately $16.9 million, or 9.25 percent. The rate filing was based on a 2013 forecast test year, a requested ROE of 10.6 percent, an electric rate base of approximately $377.6 million and an equity ratio of 52.56 percent. In January 2013, the NDPSC approved an interim electric increase of $14.7 million, effective Feb. 16, 2013, subject to refund.

In February 2014, the NDPSC approved a four-year rate plan settlement. The approved plan will provide increased revenues of approximately $7.4 million, $9.4 million and $10.1 million, an annual rate increase of 4.9 percent for 2013, 2014 and 2015 respectively, with no increase in 2016. Additionally, the rate plan includes a gradually increasing ROE of 9.75, 10.0, 10.0 and 10.25 percent for 2013 through 2016, respectively. Final rates for 2013 and the 2014 rate increase went into effect May 1, 2014. The 2015 rate increase will take effect Jan. 1, 2015.

4. Commitments and Contingencies

Except to the extent noted below and in Note 3, the circumstances set forth in Notes 8, 9 and 10 to the financial statements included in the NSP-Minnesota Annual Report on FERC Form 1 for the year ended Dec. 31, 2013 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 NSP-Minnesota's financial position.

Guarantees — Under certain railcar lease agreements accounted for as operating leases, NSP-Minnesota guarantees the lessor's proceeds from sale of the leased assets at the end of the lease term will at least equal the guaranteed residual value. The guarantees issued by NSP-Minnesota limit their exposure to a maximum amount stated in the guarantees; however, NSP-Minnesota expects sale proceeds to exceed the guaranteed amounts. These lease agreements expire in 2014 and 2019.

The following table presents the guarantee issued and outstanding for NSP-Minnesota:

(Millions of Dollars)	March 31, 2014	Dec 31, 2013
Guarantee issued and outstanding	$ 8.1	$ 9.2

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Environmental Contingencies

Environmental Requirements

Water and waste

Federal Clean Water Act (CWA) Effluent Limitations Guidelines (ELG) — In June 2013, the U.S. Environmental Protection Agency (EPA) published a proposed ELG rule for power plants that use coal, natural gas, oil or nuclear materials as fuel and discharge treated effluent to surface waters as well as utility-owned landfills that receive coal combustion residuals. The final rule is now expected in September 2015. Under the current proposed rule, facilities would need to comply as soon as possible after July 2017 but no later than July 2022. The impact of this rule on NSP-Minnesota is uncertain at this time.

Federal CWA Section 316 (b) — The federal CWA requires the EPA to regulate cooling water intake structures to assure that these structures reflect the best technology available for minimizing adverse environmental impacts to aquatic species. In 2011, the EPA published the proposed rule that sets standards for minimization of aquatic species impingement, but leaves entrainment reduction requirements at the discretion of the permit writer and the regional EPA office. A final rule is anticipated in May 2014. It is not possible to provide an accurate estimate of the overall cost of this rulemaking at this time due to the uncertainty of the final regulatory requirements.

NSP-Minnesota submitted its Black Dog CWA compliance plan for the Minnesota Pollution Control Agency's (MPCA) review and approval in 2010. The MPCA is currently reviewing the proposal in consultation with the EPA.

Air

Cross-State Air Pollution Rule (CSAPR) — In 2011, the EPA issued the CSAPR to address long range transport of particulate matter (PM) and ozone by requiring reductions in sulfur dioxide (SO_2) and nitrous oxide (NOx) from utilities in the eastern half of the United States, including Minnesota. The CSAPR would set more stringent requirements than the proposed Clean Air Transport Rule. The rule would also create an emissions trading program.

In August 2012, the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit) vacated the CSAPR and remanded it back to the EPA. The D.C. Circuit stated the EPA must continue administering the Clean Air Interstate Rule (CAIR) pending adoption of a valid replacement. In April 2014, the U.S. Supreme Court reversed and remanded the case to the D.C. Circuit. The Court held that the EPA's rule design did not violate the Clean Air Act and that states had received adequate opportunity to develop their own plans. Because the D.C. Circuit overturned the CSAPR on two over-arching issues, there are many other issues the D.C. Circuit did not rule on that will now need to be considered on remand. Because it is not yet known how the litigation over the remaining issues will be resolved, it is not yet known what requirements may be imposed in the future, or their timing.

CAIR — In 2005, the EPA issued the CAIR to further regulate SO_2 and NOx emissions. The CAIR does not currently apply to Minnesota.

Regional Haze Rules — In 2005, the EPA amended the best available retrofit technology (BART) requirements of its regional haze rules, which require the installation and operation of emission controls for industrial facilities emitting air pollutants that reduce visibility in certain national parks and wilderness areas. In its first regional haze state implementation plan (SIP), Minnesota identified the NSP-Minnesota facilities that will have to reduce SO_2, NOx and PM emissions under BART and set emissions limits for those facilities.

In 2009, the MPCA approved a SIP and submitted it to the EPA for approval. The MPCA's source-specific BART limits for Sherco Units 1 and 2 require combustion controls for NOx and scrubber upgrades for SO_2. The MPCA concluded selective catalytic reduction (SCRs) should not be required because the minor visibility benefits derived from SCRs do not outweigh the substantial costs. The combustion controls have been installed and the scrubber upgrades, to be completed by January 2015, are underway. These emission controls are projected to cost approximately $50 million, of which $42.5 million has already been spent. NSP-Minnesota anticipates these costs will be fully recoverable in rates.

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After the CSAPR was adopted in 2011, the MPCA supplemented its SIP, determining that CSAPR meets BART requirements, but also implementing its source-specific BART determination for Sherco Units 1 and 2 from the 2009 SIP. In June 2012, the EPA approved the SIP for electric generating units and also approved the source-specific emission limits for Sherco Units 1 and 2 as strengthening the SIP, but avoided characterizing them as BART limits.

In August 2012, the National Parks Conservation Association, Sierra Club, Voyageurs National Park Association, Friends of the Boundary Waters Wilderness, Minnesota Center for Environmental Advocacy and Fresh Energy appealed the EPA's approval of the Minnesota SIP to the U.S. Court of Appeals for the Eighth Circuit. NSP-Minnesota and other regulated parties were denied intervention. In June 2013, the Court ordered this case to be held in abeyance until the U.S. Supreme Court decides on the CSAPR. It is not yet known how the U.S. Supreme Court's April 2014 decision on the CSAPR will impact the Eighth Circuit's proceedings on the SIP. If this litigation ultimately results in further EPA proceedings concerning the SIP, such proceedings may consider whether SCRs should be required for Sherco Units 1 and 2.

Reasonably Attributable Visibility Impairment (RAVI) — Additional visibility rules relate to a program called the RAVI program. In 2009, the U.S. Department of the Interior (DOI) certified that a portion of the visibility impairment in Voyageurs and Isle Royale National Parks is reasonably attributable to emissions from 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 RAVI and, if so, whether the level of controls required by the MPCA is appropriate. The EPA has stated it plans to issue a separate notice on the issue of BART for Sherco Units 1 and 2 under the RAVI program. It is not yet known when the EPA will publish a proposal under RAVI or what that proposal will entail.

In December 2012, a lawsuit against the EPA was filed in the U.S. District Court for the District of Minnesota by the following organizations: National Parks Conservation Association, Minnesota Center for Environmental Advocacy, Friends of the Boundary Waters Wilderness, Voyageurs National Park Association, Fresh Energy and Sierra Club. The lawsuit alleges the EPA has failed to perform a nondiscretionary duty to determine BART for Sherco Units 1 and 2 under the RAVI program. The EPA filed an answer denying the allegations. The Court denied NSP-Minnesota's motion to intervene in July 2013. NSP-Minnesota appealed this decision to the U.S. Court of Appeals for the Eighth Circuit. Oral arguments were held in March 2014. The court is expected to issue an opinion in the next few months.

Legal Contingencies

NSP-Minnesota is involved in various litigation matters that are being defended and handled in the ordinary course of business. The assessment of whether a loss is probable or is a reasonable possibility, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. Management maintains accruals for such losses that are probable of being incurred and subject to reasonable estimation. Management is sometimes unable to estimate an amount or range of a reasonably possible loss in certain situations, including but not limited to when (1) the damages sought are indeterminate, (2) the proceedings are in the early stages, or (3) the matters involve novel or unsettled legal theories. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including a possible eventual loss. For current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on NSP-Minnesota's financial statements. Unless otherwise required by GAAP, legal fees are expensed as incurred.

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Employment, Tort and Commercial Litigation

Merricourt Wind Project Litigation — In April 2011, NSP-Minnesota terminated its agreements with enXco Development Corporation (enXco) for the development of a 150 megawatt (MW) wind project in southeastern North Dakota. NSP-Minnesota's decision to terminate the agreements was based in large part on the adverse impact this project could have on endangered or threatened species protected by federal law and the uncertainty in cost and timing in mitigating this impact. NSP-Minnesota also terminated the agreements due to enXco's nonperformance of certain other conditions, including failure to obtain a Certificate of Site Compatibility and the failure to close on the contracts by an agreed upon date of March 31, 2011. NSP-Minnesota recorded a $101 million deposit in the first quarter of 2011, which was collected in April 2011. In May 2011, NSP-Minnesota filed a declaratory judgment action in the U.S. District Court in Minnesota to obtain a determination that it acted properly in terminating the agreements. enXco also filed a separate lawsuit in the same court seeking approximately $240 million for an alleged breach of contract. NSP-Minnesota believes enXco's lawsuit is without merit. In October 2012, NSP-Minnesota filed a motion for summary judgment. In April 2013, the U.S. District Court granted NSP-Minnesota's motion and entered judgment in its favor. In April 2013, enXco filed a notice of appeal to the Eighth Circuit. It is uncertain when the Eighth Circuit will decide this appeal. Although Xcel Energy believes the likelihood of loss is remote based on existing case law and the U.S. District Court's April 2013 decision, it is not possible to estimate the amount or range of reasonably possible loss in the event of an adverse outcome of this matter. No accrual has been recorded for this matter.

Biomass Fuel Handling Reimbursement — NSP-Minnesota has a purchase power agreement (PPA) through which it procures energy from Fibrominn, LLC (Fibrominn). Under this agreement, NSP-Minnesota is charged for certain costs of transporting biomass fuels that are delivered to Fibrominn's generation facility. Fibrominn has demanded that NSP-Minnesota provide additional cost reimbursement for the period from September 2007 through March 2014, totaling approximately $19 million. NSP-Minnesota has evaluated Fibrominn's claim and based on the terms of the PPA with Fibrominn and its current understanding of the facts, NSP-Minnesota disputes the validity of Fibrominn's claim, on the ground that, among other things, it seeks to impose contractual obligations on NSP-Minnesota that are neither supported by the terms nor the intent of the PPA. NSP-Minnesota has concluded that a loss is reasonably possible with respect to this matter; however, given the surrounding uncertainties, NSP-Minnesota is currently unable to determine the amount of reasonably possible loss. If a loss were sustained, NSP-Minnesota would attempt to recover these fuel-related costs. No accrual has been recorded for this matter.

Nuclear Power Operations and Waste Disposal

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 DOE's failure to begin accepting spent nuclear fuel by Jan. 31, 1998, as required by the contract between the United States and NSP-Minnesota. NSP-Minnesota sought contract damages in this lawsuit through Dec. 31, 2004. In September 2007, the court awarded NSP-Minnesota $116.5 million in damages. In August 2007, NSP-Minnesota filed a second complaint; this lawsuit claimed damages for the period Jan. 1, 2005 through Dec. 31, 2008.

In July 2011, the United States and NSP-Minnesota executed a settlement agreement resolving both lawsuits, providing an initial $100 million payment from the United States to NSP-Minnesota, and providing a method by which NSP-Minnesota can recover its spent fuel storage costs through 2013, estimated to be an additional $100 million. In January 2014, the United States proposed, and NSP-Minnesota accepted, an extension to the settlement agreement which will allow NSP-Minnesota to recover spent fuel storage costs through 2016. The extension does not address costs for used fuel storage after 2016; such costs could be the subject of future litigation. NSP-Minnesota has received a total of $181.9 million of settlement proceeds as of March 31, 2014. Amounts received from the installments will be subsequently credited to customers, except for approved reductions such as legal costs and amounts set aside to be credited through another regulatory mechanism.

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5. Borrowings and Other Financing Instruments

Short-Term Borrowings

Money Pool — Xcel Energy Inc. and its utility subsidiaries have established a money pool arrangement that allows for short-term investments in and borrowings between the utility subsidiaries. Xcel Energy Inc. 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 Xcel Energy Inc. Money pool borrowings for NSP-Minnesota were as follows:

(Amounts in Millions, Except Interest Rates)	Three Months Ended March 31, 2014	Twelve Months Ended Dec. 31, 2013
Borrowing limit	$ 250	$ 250
Amount outstanding at period end	150	34
Average amount outstanding	47	42
Maximum amount outstanding	150	211
Weighted average interest rate, computed on a daily basis	0.21 %	0.14 %
Weighted average interest rate at period end	0.21 %	0.25 %

Commercial Paper — NSP-Minnesota meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings under its credit facility. Commercial paper outstanding for NSP-Minnesota was as follows:

(Amounts in Millions, Except Interest Rates)	Three Months Ended March 31, 2014	Twelve Months Ended Dec. 31, 2013
Borrowing limit	$ 500	$ 500
Amount outstanding at period end	130	131
Average amount outstanding	249	97
Maximum amount outstanding	397	347
Weighted average interest rate, computed on a daily basis	0.25 %	0.34 %
Weighted average interest rate at period end	0.24 %	0.25 %

Letters of Credit — NSP-Minnesota uses letters of credit, generally with terms of one year, to provide financial guarantees for certain operating obligations. At March 31, 2014 and Dec. 31, 2013, there were $18.9 million and $15.9 million of letters of credit outstanding, respectively, under the credit facility. The contract amounts of these letters of credit approximate their fair value and are subject to fees.

Credit Facility — In order to use its commercial paper program to fulfill short-term funding needs, NSP-Minnesota must have a revolving credit facility in place at least equal to the amount of its commercial paper borrowing limit and cannot issue commercial paper in an amount exceeding available capacity under this credit facility. The line of credit provides short-term financing in the form of notes payable to banks, letters of credit and back-up support for commercial paper borrowings.

At March 31, 2014, NSP-Minnesota had the following committed credit facility available (in millions):

Credit Facility [(a)]	Drawn [(b)]	Available
$ 500.0	$ 148.9	$ 351.1

(a) Credit facility expires in July 2017.
(b) Includes outstanding commercial paper and letters of credit.

All credit facility bank borrowings, outstanding letters of credit and outstanding commercial paper reduce the available capacity under the credit facility. NSP-Minnesota had no direct advances on the credit facility outstanding at March 31, 2014 and Dec. 31, 2013.

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6. Fair Value of Financial Assets and Liabilities

Fair Value Measurements

The accounting guidance for fair value measurements and disclosures provides a single definition of fair value and requires certain disclosures about assets and liabilities measured at fair value. A hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value is established by this guidance. The three levels in the hierarchy are as follows:

> Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices.
>
> Level 2 — Pricing inputs are other than quoted prices in active markets, but are either directly or indirectly observable as of the reporting date. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, or priced with models using highly observable inputs.
>
> Level 3 — Significant inputs to pricing have little or no observability as of the reporting date. The types of assets and liabilities included in Level 3 are those valued with models requiring significant management judgment or estimation.

Specific valuation methods include the following:

Cash equivalents — The fair values of cash equivalents are generally based on cost plus accrued interest; money market funds are measured using quoted net asset values.

Investments in equity securities and other funds — Equity securities are valued using quoted prices in active markets. The fair values for commingled funds, international equity funds, private equity investments and real estate investments are measured using net asset values, which take into consideration the value of underlying fund investments, as well as the other accrued assets and liabilities of a fund, in order to determine a per-share market value. The investments in commingled funds and international equity funds may be redeemed for net asset value with proper notice. Proper notice varies by fund and can range from daily with one or two days notice to annually with 90 days notice. Private equity investments require approval of the fund for any unscheduled redemption, and such redemptions may be approved or denied by the fund at its sole discretion. Unscheduled distributions from real estate investments may be redeemed with proper notice, which is typically quarterly with 45-90 days notice; however, withdrawals from real estate investments may be delayed or discounted as a result of fund illiquidity. Based on NSP-Minnesota’s evaluation of its redemption rights, fair value measurements for private equity and real estate investments have been assigned a Level 3.

Investments in debt securities — Fair values for debt securities are determined by a third party pricing service using recent trades and observable spreads from benchmark interest rates for similar securities.

Interest rate derivatives — The fair values of interest rate derivatives are based on broker quotes that utilize current market interest rate forecasts.

Commodity derivatives — The methods used to measure the fair value of commodity derivative forwards and options utilize forward prices and volatilities, as well as pricing adjustments for specific delivery locations, and are generally assigned a Level 2. When contractual settlements extend to periods beyond those readily observable on active exchanges or quoted by brokers, the significance of the use of less observable forecasts of long-term forward prices and volatilities on a valuation is evaluated, and may result in Level 3 classification.

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Electric commodity derivatives held by NSP-Minnesota include transmission congestion instruments purchased from Midcontinent Independent Transmission System Operator, Inc. (MISO), PJM Interconnection, LLC (PJM), Electric Reliability Council of Texas, Southwest Power Pool, Inc. (SPP) and New York Independent System Operator, generally referred to as financial transmission rights (FTRs). FTRs purchased from a regional transmission organization (RTO) are financial instruments that entitle or obligate the holder to monthly revenues or charges based on transmission congestion across a given transmission path. The value of an FTR is derived from, and designed to offset, the cost of energy congestion, which is caused by overall transmission load and other transmission constraints. In addition to overall transmission load, congestion is also influenced by the operating schedules of power plants and the consumption of electricity pertinent to a given transmission path. Unplanned plant outages, scheduled plant maintenance, changes in the relative costs of fuels used in generation, weather and overall changes in demand for electricity can each impact the operating schedules of the power plants on the transmission grid and the value of an FTR. NSP-Minnesota's valuation process for FTRs utilizes complex iterative modeling to predict the impacts of forecasted changes in these drivers of transmission system congestion on the historical pricing of FTR purchases.

If forecasted costs of electric transmission congestion increase or decrease for a given FTR path, the value of that particular FTR instrument will likewise increase or decrease. Given the limited observability of management's forecasts for several of the inputs to this complex valuation model – including expected plant operating schedules and retail and wholesale demand, fair value measurements for FTRs have been assigned a Level 3. Non-trading monthly FTR settlements are included in fuel and purchased energy cost recovery mechanisms, and therefore changes in the fair value of the yet to be settled portions of most FTRs are deferred as a regulatory asset or liability. Given this regulatory treatment and the limited magnitude of NSP-Minnesota's FTRs relative to its electric utility operations, the numerous unobservable quantitative inputs to the complex model used for valuation of FTRs are insignificant to the financial statements of NSP-Minnesota.

Non-Derivative Instruments Fair Value Measurements

The NRC requires NSP-Minnesota to maintain a portfolio of investments to fund the costs of decommissioning its nuclear generating plants. Together with all accumulated earnings or losses, the assets of the nuclear decommissioning fund are legally restricted for the purpose of decommissioning the Monticello and Prairie Island nuclear generating plants. The fund contains cash equivalents, debt securities, equity securities and other investments – all classified as available-for-sale. NSP-Minnesota plans to reinvest matured securities until decommissioning begins. NSP-Minnesota uses the MPUC approved asset allocation for the escrow and investment targets by asset class for both the escrow and qualified trust.

NSP-Minnesota recognizes the costs of funding the decommissioning of its nuclear generating plants over the lives of the plants, assuming rate recovery of all costs. Given the purpose and legal restrictions on the use of nuclear decommissioning fund assets, realized and unrealized gains on fund investments over the life of the fund are deferred as an offset of NSP-Minnesota's regulatory asset for nuclear decommissioning costs. Consequently, any realized and unrealized gains and losses on securities in the nuclear decommissioning fund, including any other-than-temporary impairments, are deferred as a component of the regulatory asset for nuclear decommissioning.

Unrealized gains for the nuclear decommissioning fund were $258.6 million and $240.3 million at March 31, 2014 and Dec. 31, 2013, respectively, and unrealized losses and amounts recorded as other-than-temporary impairments were $45.8 million and $58.5 million at March 31, 2014 and Dec. 31, 2013, respectively.

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The following tables present the cost and fair value of NSP-Minnesota's non-derivative instruments with recurring fair value measurements, in the nuclear decommissioning fund, at March 31, 2014 and Dec. 31, 2013:

	March 31, 2014				
		Fair Value			
(Thousands of Dollars)	Cost	Level 1	Level 2	Level 3	Total
Nuclear decommissioning fund					
Cash equivalents	$ 15,854	$ 15,854	$ —	$ —	$ 15,854
Commingled funds	476,011	—	483,409	—	483,409
International equity funds	78,812	—	82,710	—	82,710
Private equity investments	60,912	—	—	73,801	73,801
Real estate	49,224	—	—	62,954	62,954
Debt securities:					
Government securities	34,176	—	28,822	—	28,822
U.S. corporate bonds	78,362	—	81,827	—	81,827
International corporate bonds	15,223	—	15,685	—	15,685
Municipal bonds	261,106	—	260,044	—	260,044
Equity securities:					
Common stock	380,896	558,289	—	—	558,289
Total	$ 1,450,576	$ 574,143	$ 952,497	$ 136,755	$ 1,663,395

	Dec. 31, 2013				
		Fair Value			
(Thousands of Dollars)	Cost	Level 1	Level 2	Level 3	Total
Nuclear decommissioning fund					
Cash equivalents	$ 33,281	$ 33,281	$ —	$ —	$ 33,281
Commingled funds	457,986	—	452,227	—	452,227
International equity funds	78,812	—	81,671	—	81,671
Private equity investments	52,143	—	—	62,696	62,696
Real estate	45,564	—	—	57,368	57,368
Debt securities:					
Government securities	34,304	—	27,628	—	27,628
U.S. corporate bonds	80,275	—	83,538	—	83,538
International corporate bonds	15,025	—	15,358	—	15,358
Municipal bonds	241,112	—	232,016	—	232,016
Equity securities:					
Common stock	406,695	581,243	—	—	581,243
Total	$ 1,445,197	$ 614,524	$ 892,438	$ 120,064	$ 1,627,026

The following tables present the changes in Level 3 nuclear decommissioning fund investments for the three months ended March 31, 2014 and 2013:

(Thousands of Dollars)	Jan. 1, 2014	Purchases	Settlements	Gains Recognized as Regulatory Assets	Transfers Out of Level 3	March 31, 2014
Private equity investments	$ 62,696	$ 8,769	$ —	$ 2,336	$ —	$ 73,801
Real estate	57,368	3,660	—	1,926	—	62,954
Total	$ 120,064	$ 12,429	$ —	$ 4,262	$ —	$ 136,755

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(Thousands of Dollars)	Jan. 1, 2013	Purchases	Settlements	Gains Recognized as Regulatory Assets	Transfers Out of Level 3 [(a)]	March 31, 2013
Private equity investments	$ 33,250	$ 1,256	$ —	$ —	$ —	$ 34,506
Real estate	39,074	4,786	(4,299)	845	—	40,406
Asset-backed securities	2,067	—	—	—	(2,067)	—
Mortgage-backed securities	30,209	—	—	—	(30,209)	—
Total	$ 104,600	$ 6,042	$ (4,299)	$ 845	$ (32,276)	$ 74,912

(a) Transfers out of Level 3 into Level 2 were principally due to diminished use of unobservable inputs that were previously significant to these fair value measurements.

The following table summarizes the final contractual maturity dates of the debt securities in the nuclear decommissioning fund, by asset class, at March 31, 2014:

	Final Contractual Maturity				
(Thousands of Dollars)	Due in 1 Year or Less	Due in 1 to 5 Years	Due in 5 to 10 Years	Due after 10 Years	Total
Government securities	$ —	$ —	$ —	$ 28,822	$ 28,822
U.S. corporate bonds	311	15,816	64,341	1,359	81,827
International corporate bonds	—	3,762	11,923	—	15,685
Municipal bonds	3,088	25,410	38,770	192,776	260,044
Debt securities	$ 3,399	$ 44,988	$ 115,034	$ 222,957	$ 386,378

Derivative Instruments Fair Value Measurements

NSP-Minnesota enters into derivative instruments, including forward contracts, futures, swaps and options, for trading purposes and to manage risk in connection with changes in interest rates, utility commodity prices and vehicle fuel prices.

Interest Rate Derivatives — NSP-Minnesota enters 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 an anticipated debt issuance for a specific period. These derivative instruments are generally designated as cash flow hedges for accounting purposes.

At March 31, 2014, accumulated other comprehensive losses related to interest rate derivatives included $0.8 million of net losses expected to be reclassified into earnings during the next 12 months as the related hedged interest rate transactions impact earnings, including forecasted amounts for any unsettled hedges, as applicable.

Wholesale and Commodity Trading Risk — NSP-Minnesota conducts various wholesale and commodity trading activities, including the purchase and sale of electric capacity, energy and energy-related instruments. NSP-Minnesota'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.

Commodity Derivatives — NSP-Minnesota enters into derivative instruments to manage variability of future cash flows from changes in commodity prices in its 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, natural gas for resale, FTRs and vehicle fuel.

At March 31, 2014, NSP-Minnesota had various vehicle fuel contracts designated as cash flow hedges extending through December 2016. NSP-Minnesota also enters 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 other comprehensive income or deferred as a regulatory asset or liability. The classification as a regulatory asset or liability is based on commission approved regulatory recovery mechanisms. NSP-Minnesota recorded immaterial amounts to income related to the ineffectiveness of cash flow hedges for the three months ended March 31, 2014 and 2013.

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At March 31, 2014, net gains related to commodity derivative cash flow hedges recorded as a component of accumulated other comprehensive losses included an immaterial amount of net gains expected to be reclassified into earnings during the next 12 months as the hedged transactions occur.

Additionally, NSP-Minnesota enters into commodity derivative instruments for trading purposes not directly related to commodity price risks associated with serving its electric and natural gas customers. Changes in the fair value of these commodity derivatives are recorded in electric operating revenue, net of amounts credited to customers under margin-sharing mechanisms.

The following table details the gross notional amounts of commodity forwards, options and FTRs at March 31, 2014 and Dec. 31, 2013:

(Amounts in Thousands) [(a)(b)]	March 31, 2014	Dec. 31, 2013
Megawatt hours of electricity	28,381	52,107
Million British thermal units of natural gas	—	2,470
Gallons of vehicle fuel	238	265

(a) Amounts are not reflective of net positions in the underlying commodities.
(b) Notional amounts for options are included on a gross basis, but are weighted for the probability of exercise.

The following tables detail the impact of derivative activity during the three months ended March 31, 2014 and 2013 on accumulated other comprehensive loss, regulatory assets and liabilities and income:

	Three Months Ended March 31, 2014				
	Pre-Tax Fair Value Gains (Losses) Recognized During the Period in:		Pre-Tax (Gains) Losses Reclassified into Income During the Period from:		
(Thousands of Dollars)	Accumulated Other Comprehensive Loss	Regulatory (Assets) and Liabilities	Accumulated Other Comprehensive Loss	Regulatory Assets and (Liabilities)	Pre-Tax Losses Recognized During the Period in Income
Derivatives designated as cash flow hedges					
Interest rate	$ —	$ —	$ 342 (a)	$ —	$ —
Vehicle fuel and other commodity	(7)	—	(15) (b)	—	—
Total	$ (7)	$ —	$ 327	$ —	$ —
Other derivative instruments					
Commodity trading	$ —	$ —	$ —	$ —	$ (2,253) (c)
Electric commodity	—	4,899	—	(17,926) (d)	—
Natural gas commodity	—	7,901	—	(9,306) (e)	(580) (e)
Total	$ —	$ 12,800	$ —	$ (27,232)	$ (2,833)

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	Three Months Ended March 31, 2013				
	Pre-Tax Fair Value Gains (Losses) Recognized During the Period in:		Pre-Tax (Gains) Losses Reclassified into Income During the Period from:		
(Thousands of Dollars)	Accumulated Other Comprehensive Loss	Regulatory (Assets) and Liabilities	Accumulated Other Comprehensive Loss	Regulatory Assets and (Liabilities)	Pre-Tax Gains Recognized During the Period in Income
Derivatives designated as cash flow hedges					
Interest rate	$ —	$ —	$ 342 (a)	$ —	$ —
Vehicle fuel and other commodity	13	—	(14) (b)	—	—
Total	$ 13	$ —	$ 328	$ —	$ —
Other derivative instruments					
Commodity trading	$ —	$ —	$ —	$ —	$ 2,776 (c)
Electric commodity	—	6,419	—	(15,229) (d)	—
Natural gas commodity	—	2	—	—	—
Total	$ —	$ 6,421	$ —	$ (15,229)	$ 2,776

(a) Amounts are recorded to interest charges.
(b) Amounts are recorded to operation expenses.
(c) Amounts are recorded to electric operating revenues. Portions of these gains and losses are subject to sharing with electric customers through margin-sharing mechanisms and deducted from gross revenue, as appropriate.
(d) Amounts are recorded to operation expenses. These derivative settlement gains and losses are shared with electric customers through fuel and purchased energy cost-recovery mechanisms, and reclassified out of income as regulatory assets or liabilities, as appropriate.
(e) Amounts are recorded to operation expenses. These derivative settlement gains and losses are shared with natural gas customers through purchased natural gas cost-recovery mechanisms, and reclassified out of income as regulatory assets or liabilities, as appropriate.

NSP-Minnesota had no derivative instruments designated as fair value hedges during the three months ended March 31, 2014 and 2013. Therefore, no gains or losses from fair value hedges or related hedged transactions were recognized for these periods.

Consideration of Credit Risk and Concentrations — NSP-Minnesota continuously monitors the creditworthiness of the counterparties to its interest rate derivatives and commodity derivative contracts prior to settlement, and assesses each counterparty's ability to perform on the transactions set forth in the contracts. Given this assessment, as well as an assessment of the impact of NSP-Minnesota's own credit risk when determining the fair value of derivative liabilities, the impact of considering credit risk was immaterial to the fair value of unsettled commodity derivatives presented in the balance sheets.

NSP-Minnesota employs additional credit risk control mechanisms when appropriate, such as letters of credit, parental guarantees, standardized master netting agreements and termination provisions that allow for offsetting of positive and negative exposures. Credit exposure is monitored and, when necessary, the activity with a specific counterparty is limited until credit enhancement is provided.

NSP-Minnesota's most significant concentrations of credit risk with particular entities or industries are contracts with counterparties to its wholesale, trading and non-trading commodity and transmission activities. At March 31, 2014, seven of NSP-Minnesota's 10 most significant counterparties for these activities, comprising $21.0 million or 25 percent of this credit exposure, had investment grade credit ratings from Standard & Poor's Ratings Services, Moody's Investor Services or Fitch Ratings. The remaining three significant counterparties, comprising $10.3 million or 12 percent of this credit exposure, were not rated by these agencies, but based on NSP-Minnesota's internal analysis, had credit quality consistent with investment grade. All 10 of these significant counterparties are municipal or cooperative electric entities, or other utilities.

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Credit Related Contingent Features — Contract provisions for derivative instruments that NSP-Minnesota enters into, including those recorded to the balance sheet at fair value, as well as those accounted for as normal purchase-normal sale (NPNS) contracts and therefore not reflected on the balance sheet, may require the posting of collateral or settlement of the contracts for various reasons, including if NSP-Minnesota is unable to maintain its credit ratings. At March 31, 2014 and Dec. 31, 2013, no derivative instruments in a liability position would have required the posting of collateral or settlement of applicable outstanding contracts if the credit ratings of NSP-Minnesota were downgraded below investment grade.

Certain derivative instruments are also subject to contract provisions that contain adequate assurance clauses. These provisions allow counterparties to seek performance assurance, including cash collateral, in the event that NSP-Minnesota's ability to fulfill its contractual obligations is reasonably expected to be impaired. NSP-Minnesota had no collateral posted related to adequate assurance clauses in derivative contracts as of March 31, 2014 and Dec. 31, 2013.

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Recurring Fair Value Measurements — The following table presents for each of the fair value hierarchy levels, NSP-Minnesota's derivative assets and liabilities measured at fair value on a recurring basis at March 31, 2014:

	March 31, 2014					
	Fair Value					
(Thousands of Dollars)	Level 1	Level 2	Level 3	Fair Value Total	Counterparty Netting [(b)]	Total
Current derivative assets						
Derivatives designated as cash flow hedges:						
Vehicle fuel and other commodity	$ —	$ 32	$ —	$ 32	$ —	$ 32
Other derivative instruments:						
Commodity trading	—	19,827	944	20,771	(5,917)	14,854
Electric commodity	—	—	16,207	16,207	(265)	15,942
Total current derivative assets	$ —	$ 19,859	$ 17,151	$ 37,010	$ (6,182)	30,828
PPAs [(a)]						23,420
Current derivative instruments						$ 54,248
Noncurrent derivative assets						
Derivatives designated as cash flow hedges:						
Vehicle fuel and other commodity	$ —	$ 10	$ —	$ 10	$ —	$ 10
Other derivative instruments:						
Commodity trading	—	15,718	1,932	17,650	(407)	17,243
Total noncurrent derivative assets	$ —	$ 15,728	$ 1,932	$ 17,660	$ (407)	17,253
PPAs [(a)]						4,706
Noncurrent derivative instruments						$ 21,959
Current derivative liabilities						
Other derivative instruments:						
Commodity trading	$ —	$ 10,875	$ 392	$ 11,267	$ (11,267)	$ —
Electric commodity	—	—	265	265	(265)	—
Total current derivative liabilities	$ —	$ 10,875	$ 657	$ 11,532	$ (11,532)	—
PPAs [(a)]						12,927
Current derivative instruments						$ 12,927
Noncurrent derivative liabilities						
Other derivative instruments:						
Commodity trading	$ —	$ 1,707	$ —	$ 1,707	$ (1,596)	$ 111
Total noncurrent derivative	$ —	$ 1,707	$ —	$ 1,707	$ (1,596)	111
PPAs [(a)]						144,083
Noncurrent derivative instruments						$ 144,194

(a) In 2003, as a result of implementing new guidance on the normal purchase exception for derivative accounting, NSP-Minnesota began recording several long-term purchased power agreements at fair value due to accounting requirements related to underlying price adjustments. As these purchases are recovered through normal regulatory recovery mechanisms in the respective jurisdictions, the changes in fair value for these contracts were offset by regulatory assets and liabilities. During 2006, NSP-Minnesota qualified these contracts under the normal purchase exception. Based on this qualification, the contracts are no longer adjusted to fair value and the previous carrying value of these contracts will be amortized over the remaining contract lives along with the offsetting regulatory assets and liabilities.

(b) NSP-Minnesota nets derivative instruments and related collateral in its balance sheet when supported by a legally enforceable master netting agreement, and all derivative instruments and related collateral amounts were subject to master netting agreements at March 31, 2014. At March 31, 2014, derivative assets and liabilities include no obligations to return cash collateral and rights to reclaim cash collateral of $6.5 million. The counterparty netting amounts presented exclude settlement receivables and payables and non-derivative amounts that may be subject to the same master netting agreements.

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The following table presents for each of the fair value hierarchy levels, NSP-Minnesota's derivative assets and liabilities measured at fair value on a recurring basis at Dec. 31, 2013:

	Dec. 31, 2013					
	Fair Value			Fair Value	Counterparty	
(Thousands of Dollars)	Level 1	Level 2	Level 3	Total	Netting [(b)]	Total
Current derivative assets						
Derivatives designated as cash flow hedges:						
Vehicle fuel and other commodity	$ —	$ 48	$ —	$ 48	$ —	$ 48
Other derivative instruments:						
Commodity trading	—	17,854	1,167	19,021	(6,718)	12,303
Electric commodity	—	—	30,692	30,692	(1,723)	28,969
Natural gas commodity	—	1,986	—	1,986	—	1,986
Total current derivative assets	$ —	$ 19,888	$ 31,859	$ 51,747	$ (8,441)	43,306
PPAs [(a)]						23,420
Current derivative instruments						$ 66,726
Noncurrent derivative assets						
Derivatives designated as cash flow hedges:						
Vehicle fuel and other commodity	$ —	$ 16	$ —	$ 16	$ (16)	$ —
Other derivative instruments:						
Commodity trading	—	32,074	3,395	35,469	(9,071)	26,398
Total noncurrent derivative assets	$ —	$ 32,090	$ 3,395	$ 35,485	$ (9,087)	26,398
PPAs [(a)]						10,483
Noncurrent derivative instruments						$ 36,881
Current derivative liabilities						
Other derivative instruments:						
Commodity trading	$ —	$ 8,108	$ 1,804	$ 9,912	$ (9,912)	$ —
Electric commodity	—	—	1,723	1,723	(1,723)	—
Total current derivative liabilities	$ —	$ 8,108	$ 3,527	$ 11,635	$ (11,635)	—
PPAs [(a)]						13,066
Current derivative instruments						$ 13,066
Noncurrent derivative liabilities						
Other derivative instruments:						
Commodity trading	$ —	$ 14,382	$ —	$ 14,382	$ (10,137)	$ 4,245
Total noncurrent derivative liabilities	$ —	$ 14,382	$ —	$ 14,382	$ (10,137)	4,245
PPAs [(a)]						147,406
Noncurrent derivative instruments						$ 151,651

(a) In 2003, as a result of implementing new guidance on the normal purchase exception for derivative accounting, NSP-Minnesota began recording several long-term purchased power agreements at fair value due to accounting requirements related to underlying price adjustments. As these purchases are recovered through normal regulatory recovery mechanisms in the respective jurisdictions, the changes in fair value for these contracts were offset by regulatory assets and liabilities. During 2006, NSP-Minnesota qualified these contracts under the normal purchase exception. Based on this qualification, the contracts are no longer adjusted to fair value and the previous carrying value of these contracts will be amortized over the remaining contract lives along with the offsetting regulatory assets and liabilities.

(b) NSP-Minnesota nets derivative instruments and related collateral in its balance sheet when supported by a legally enforceable master netting agreement, and all derivative instruments and related collateral amounts were subject to master netting agreements at Dec. 31, 2013. At Dec. 31, 2013, derivative assets and liabilities include no obligations to return cash collateral and rights to reclaim cash collateral of $4.2 million. The counterparty netting amounts presented exclude settlement receivables and payables and non-derivative amounts that may be subject to the same master netting agreements.

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The following table presents the changes in Level 3 commodity derivatives for the three months ended March 31, 2014 and 2013:

(Thousands of Dollars)	Three Months Ended March 31 2014	2013
Balance at Jan. 1	$ 31,727	$ 16,649
Purchases	—	—
Settlements	(52,708)	(12,449)
Net transactions recorded during the period:		
Gains (losses) recognized in earnings [(a)]	999	(62)
Gains recognized as regulatory assets and liabilities	38,408	3,504
Balance at March 31	$ 18,426	$ 7,642

(a) These amounts relate to commodity derivatives held at the end of the period.

NSP-Minnesota recognizes transfers between levels as of the beginning of each period. There were no transfers of amounts between levels for derivative instruments for the three months ended March 31, 2014 and 2013.

Fair Value of Long-Term Debt

As of March 31, 2014 and Dec. 31, 2013, other financial instruments for which the carrying amount did not equal fair value were as follows:

(Thousands of Dollars)	March 31, 2014 Carrying Amount	March 31, 2014 Fair Value	Dec. 31, 2013 Carrying Amount	Dec. 31, 2013 Fair Value
Long-term debt, including current portion	$ 3,888,930	$ 4,258,313	$ 3,888,732	$ 4,099,745

The fair value of NSP-Minnesota's long-term debt is estimated based on recent trades and observable spreads from benchmark interest rates for similar securities. The fair value estimates are based on information available to management as of March 31, 2014 and Dec. 31, 2013, and given the observability of the inputs to these estimates, the fair values presented for long-term debt have been assigned a Level 2.

7. Benefit Plans and Other Postretirement Benefits

Components of Net Periodic Benefit Cost

(Thousands of Dollars)	Three Months Ended March 31 — Pension Benefits 2014	Pension Benefits 2013	Postretirement Health Care Benefits 2014	Postretirement Health Care Benefits 2013
Service cost	$ 7,425	$ 8,292	$ 47	$ 30
Interest cost	11,827	10,934	1,248	1,225
Expected return on plan assets	(15,730)	(15,788)	(75)	(104)
Amortization of transition obligation	—	—	—	8
Amortization of prior service cost (credit)	234	514	(759)	(759)
Amortization of net loss	11,196	13,247	854	1,318
Net periodic benefit cost	14,952	17,199	1,315	1,718
Costs not recognized due to the effects of regulation	(7,759)	(6,772)	—	—
Net benefit cost recognized for financial reporting	$ 7,193	$ 10,427	$ 1,315	$ 1,718

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In January 2014, contributions of $130.0 million were made across three of Xcel Energy's pension plans, of which $52.1 million was attributable to NSP-Minnesota. Xcel Energy does not expect additional pension contributions during 2014.

8. Other Comprehensive Income

Changes in accumulated other comprehensive gain (loss), net of tax, for the three months ended March 31, 2014 and 2013 were as follows:

	Three Months Ended March 31, 2014			
(Thousands of Dollars)	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Marketable Securities	Defined Benefit Pension and Postretirement Items	Total
Accumulated other comprehensive gain (loss) at Jan. 1	$ (20,609)	$ 73	$ (1,193)	$ (21,729)
Other comprehensive gain (loss) before reclassifications	(4)	37	—	33
Losses reclassified from net accumulated other	193	—	5	198
Net current period other comprehensive income	189	37	5	231
Accumulated other comprehensive gain (loss) at March 31	$ (20,420)	$ 110	$ (1,188)	$ (21,498)

	Three Months Ended March 31, 2013			
(Thousands of Dollars)	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Marketable Securities	Defined Benefit Pension and Postretirement Items	Total
Accumulated other comprehensive loss at Jan. 1	$ (21,393)	$ (99)	$ (1,707)	$ (23,199)
Other comprehensive gain (loss) before reclassifications	5	(32)	—	(27)
Losses reclassified from net accumulated other	193	—	24	217
Net current period other comprehensive income (loss)	198	(32)	24	190
Accumulated other comprehensive loss at March 31	$ (21,195)	$ (131)	$ (1,683)	$ (23,009)

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Reclassifications from accumulated other comprehensive gain (loss) for the three months ended March 31, 2014 and 2013 were as follows:

	Amounts Reclassified from Accumulated Other Comprehensive Gain (Loss)	
(Thousands of Dollars)	**Three Months Ended March 31, 2014**	**Three Months Ended March 31, 2013**
(Gains) losses on cash flow hedges:		
Interest rate derivatives	$ 342 [(a)]	$ 342 [(a)]
Vehicle fuel derivatives	(15) [(b)]	(14) [(b)]
Total, pre-tax	327	328
Tax benefit	(134)	(135)
Total, net of tax	193	193
Defined benefit pension and postretirement (gains) losses:		
Amortization of net loss	58 [(c)]	85 [(c)]
Prior service credit	(49) [(c)]	(47) [(c)]
Transition obligation	— [(c)]	1 [(c)]
Total, pre-tax	9	39
Tax benefit	(4)	(15)
Total, net of tax	5	24
Total amounts reclassified, net of tax	$ 198	$ 217

(a) Included in interest charges.
(b) Included in operation expenses.
(c) Included in the computation of net periodic pension and postretirement benefit costs. See Note 7 for details regarding these benefit plans.

9. Supplementary Cash Flow Data

	Three Months Ended March 31	
(Thousands of Dollars)	**2014**	**2013**
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amounts capitalized)	$ (63,250)	$ (61,357)
Cash (paid) received for income taxes, net	(10,807)	31,357
Supplemental disclosure of non-cash investing transactions:		
Property, plant and equipment additions in accounts payable	$ 126,685	$ 120,689

10. Energy Storage Assets (FERC Order No. 784)

The FERC issued Order No. 784 in July 2013 addressing accounting and reporting guidance for new electric storage technologies. In February 2014, FERC issued guidance on complying with Order No. 784 in the 2013 FERC Form 1 since the new account numbers required under the order are not available in the FERC Form 1. That guidance included a requirement to include disclosure information related to energy storage technologies in the notes to the financial statements. This information is presented below.

The Luverne Wind2Battery project is a one MW sodium sulfur battery storage facility that is operating in conjunction with the 11 MW Minwind wind power generating facility near Luverne, Minn. It is being used to store, control and dispatch energy when needed for supply or transmission stability purposes. The purpose of the facility is to provide NSP-Minnesota with experience and information that will allow NSP-Minnesota to assess and improve upon the viability of scaling up battery storage on the system as more wind power is added to meet the renewable policies.

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Energy Plant Account
Energy storage assets are currently recorded in Account 342 in the amount of $4,128,902 at March 31, 2014. These amounts would have been recorded in Account 348 in accordance with FERC Order No. 784.

Power Purchased Account
Energy storage-related purchased power costs are recorded in Account 555 in the amount of $7,218 for the three months ended March 31, 2014. These amounts would have been recorded in Account 555.1 in accordance with FERC Order No. 784.

Operation and Maintenance Expense Accounts
Energy storage-related operating expenses are recorded in Account 548 in the amount of $0 for the three months ended March 31, 2014. These amounts would have been recorded in Account 548.1 in accordance with FERC Order No. 784.

Energy storage-related maintenance expenses are recorded in Account 553 in the amount of $610 for the three months ended March 31, 2014. These amounts would have been recorded in Account 553.1 in accordance with FERC Order No. 784.

The following table presents NSP-Minnesota's Energy Storage Operations for small plants as of and for the three months ended March 31, 2014, as required by FERC Order No. 784:

Line no.	Name of Energy Storage Project	Functional Classification	Location of the Project	Project Cost	Operations (Excluding Fuel used in Storage Operations)	Maintenance	Cost of fuel used in storage operations	Account No. 555.1, Power Purchased for Storage Operations	Other Expenses
1	Luverne Minn. Wind2Battery Project	Production	Luverne, Minn.	$4,128,902	$ —	$ 610	$ —	$ 7,218	$ —