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	/ /	End of 2008/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	10,906,942,774	10,217,431,889
3	Construction Work in Progress (107)	200-201	633,750,862	850,744,503
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		11,540,693,636	11,068,176,392
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	5,256,400,834	5,045,671,232
6	Net Utility Plant (Enter Total of line 4 less 5)		6,284,292,802	6,022,505,160
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203	131,327,109	43,989,509
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		0	50,730,550
9	Nuclear Fuel Assemblies in Reactor (120.3)		307,037,358	252,502,943
10	Spent Nuclear Fuel (120.4)		1,172,828,794	1,124,006,098
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	1,355,572,641	1,291,369,594
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		255,620,620	179,859,506
14	Net Utility Plant (Enter Total of lines 6 and 13)		6,539,913,422	6,202,364,666
15	Utility Plant Adjustments (116)	122	0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		8,455,374	8,221,365
19	(Less) Accum. Prov. for Depr. and Amort. (122)		5,413,057	5,034,614
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	1,750,394	3,611,071
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)		9,532,624	11,633,851
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		1,075,294,351	1,596,399,896
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		129,604,515	156,974,542
31	Long-Term Portion of Derivative Assets – Hedges (176)		0	0
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		1,219,224,201	1,771,806,111
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		0	0
36	Special Deposits (132-134)		1,648,462	88,600
37	Working Fund (135)		236,500	247,100
38	Temporary Cash Investments (136)		11,616,750	16,611,221
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		336,842,121	372,167,311
41	Other Accounts Receivable (143)		59,827,947	37,446,906
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		25,698,811	20,103,141
43	Notes Receivable from Associated Companies (145)		380,000	58,600,000
44	Accounts Receivable from Assoc. Companies (146)		12,418,057	31,088,001
45	Fuel Stock (151)	227	145,713,731	88,282,924
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	97,471,938	92,740,941
49	Merchandise (155)	227	459,272	1,090,653
50	Other Materials and Supplies (156)	227	13,389	13,389
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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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	1	1
55	Gas Stored Underground - Current (164.1)		91,122,695	76,180,206
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		11,121,641	12,322,216
57	Prepayments (165)		60,131,668	63,960,358
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		0	0
60	Rents Receivable (172)		966,496	679,827
61	Accrued Utility Revenues (173)		248,451,387	226,401,459
62	Miscellaneous Current and Accrued Assets (174)		2,065,857	4,717,202
63	Derivative Instrument Assets (175)		161,374,914	187,704,865
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		129,604,515	156,974,542
65	Derivative Instrument Assets - Hedges (176)		38,481,617	20,502,326
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		0	0
67	Total Current and Accrued Assets (Lines 34 through 66)		1,125,041,117	1,113,767,823
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		21,303,455	18,206,447
70	Extraordinary Property Losses (182.1)	230	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230	0	0
72	Other Regulatory Assets (182.3)	232	2,058,913,137	1,606,012,330
73	Prelim. Survey and Investigation Charges (Electric) (183)		0	0
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)		-1	-1
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	1,558,746	2,208,444
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)		26,081,631	28,665,431
82	Accumulated Deferred Income Taxes (190)	234	371,855,418	346,566,513
83	Unrecovered Purchased Gas Costs (191)		30,061,810	32,966,086
84	Total Deferred Debits (lines 69 through 83)		2,509,774,196	2,034,625,250
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		11,393,952,936	11,122,563,850

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Northern States Power Company (Minnesota)	(1) [X] An Original (2) [ ] A Rresubmission	/ /	end of 2008/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)	252	0	0
5	Stock Liability for Conversion (203, 206)	252	0	0
6	Premium on Capital Stock (207)	252	1,915,856,608	1,711,993,537
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)	254	0	0
11	Retained Earnings (215, 215.1, 216)	118-119	1,153,074,830	1,100,586,035
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	-3,242,219	-3,228,691
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)	204,740	6,268,332
16	Total Proprietary Capital (lines 2 through 15)		3,065,903,959	2,815,629,213
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	2,721,900,000	2,221,900,000
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	250,107,167	250,030,563
22	Unamortized Premium on Long-Term Debt (225)		0	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		9,257,796	8,821,529
24	Total Long-Term Debt (lines 18 through 23)		2,962,749,371	2,463,109,034
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)		0	0
29	Accumulated Provision for Pensions and Benefits (228.3)		238,959,090	162,650,000
30	Accumulated Miscellaneous Operating Provisions (228.4)		0	0
31	Accumulated Provision for Rate Refunds (229)		5,500,487	3,826,272
32	Long-Term Portion of Derivative Instrument Liabilities		219,421,415	234,546,761
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	2,285,569
34	Asset Retirement Obligations (230)		1,055,689,152	1,264,367,941
35	Total Other Noncurrent Liabilities (lines 26 through 34)		1,519,570,144	1,667,676,543
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		65,000,000	341,500,000
38	Accounts Payable (232)		360,020,217	342,839,097
39	Notes Payable to Associated Companies (233)		63,500,000	115,100,000
40	Accounts Payable to Associated Companies (234)		52,378,892	61,882,908
41	Customer Deposits (235)		1,831,439	1,335,901
42	Taxes Accrued (236)	262-263	128,562,585	127,152,698
43	Interest Accrued (237)		67,989,956	59,977,637
44	Dividends Declared (238)		58,414,593	56,093,719
45	Matured Long-Term Debt (239)		0	0

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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)		13,299,408	10,609,386
48	Miscellaneous Current and Accrued Liabilities (242)		52,384,250	18,013,227
49	Obligations Under Capital Leases-Current (243)		0	0
50	Derivative Instrument Liabilities (244)		238,807,851	253,915,925
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		219,421,415	234,546,761
52	Derivative Instrument Liabilities - Hedges (245)		20,429,401	6,227,004
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	2,285,569
54	Total Current and Accrued Liabilities (lines 37 through 53)		903,197,177	1,157,815,172
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		2,142,774	2,065,329
57	Accumulated Deferred Investment Tax Credits (255)	266-267	40,253,724	43,757,126
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	192,778,030	159,444,443
60	Other Regulatory Liabilities (254)	278	1,365,366,880	1,568,257,906
61	Unamortized Gain on Reaquired Debt (257)		0	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	7,079,027	10,020
63	Accum. Deferred Income Taxes-Other Property (282)		1,242,755,908	1,163,605,628
64	Accum. Deferred Income Taxes-Other (283)		92,155,942	81,193,436
65	Total Deferred Credits (lines 56 through 64)		2,942,532,285	3,018,333,888
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		11,393,952,936	11,122,563,850

Name of Respondent	This Report Is:	Date of Report	Year/Period of Report
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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.

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NOTES TO FINANCIAL STATEMENTS (Continued)

1. Accounting Policies

Business and System of Accounts — NSP-Minnesota is principally engaged in the generation, purchase, transmission, distribution and sale of electricity and in the purchase, transportation, distribution and sale of natural gas. NSP-Minnesota is subject to regulation by the FERC and state utility commissions. All of NSP-Minnesota's accounting records conform to the FERC uniform system of accounts or to systems required by various state regulatory commissions, which are the same in all material respects.

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). As required by the FERC, NSP-Minnesota accounts for its investment in majority-owned subsidiaries using the equity method rather than consolidating the assets, liabilities, revenues, and expenses of these subsidiaries as required by GAAP. Deferred 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 or long-term assets and liabilities. Estimated removal costs for future removal obligations are classified as accumulated depreciation on the utility plant in the FERC presentation and regulatory liabilities in the GAAP presentation. Also, all Allowance for Funds Used During Construction (AFDC) is included in construction work in process with an offsetting other deferred liability for costs associated with the Metropolitan Emissions Reduction Project (MERP) project for FERC presentation, in contrast to the GAAP presentation where costs associated with MERP are shown as net construction work in process. Accounting for the investments in majority-owned subsidiaries on the equity method and classifying certain deferred income taxes as long-term assets or long-term liabilities, rather than in accordance with GAAP, have no effect on net income and no material effect on retained earnings. In 2007, FASB Interpretation 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48), was adopted. As a result of adopting the recognition and measurement provisions of FIN 48 for GAAP reporting, the amount of benefit recognized on the balance sheet may differ from the amount taken or expected to be taken in a tax return, resulting in unrecognized tax benefits. A liability is created for an unrecognized tax benefit or the amount of a net operating loss carryforward or amount refundable is reduced. The liability is recorded in accounts separate from the accounts established for accumulated deferred income taxes, as required by FIN 48. Conversely, FERC reporting requires uncertainties from tax positions involving temporary differences to recorded in accounts established for accumulated deferred income taxes.

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

($ in thousands)		
Net utility plant	$	264,881
Current assets		93,032
Current liabilities		295,880
Other long-term assets		(1,664,588)
Long-term debt and other long-term liabilities		(1,602,557)

NSP-Minnesota reports its net margin (revenues less expenses) from trading activities as revenue for GAAP reporting but it reports revenues and expenses separately for FERC reporting. Income tax expense is shown as a component of operating expense in the FERC presentation, in contrast to its GAAP presentation as a below-the-line deduction from operating income. This classification difference has no impact on net income.

($ in thousands)		
Operating revenues	$	(78,075)
Operating expenses		(235,802)
Other income and deductions		20,681
Cash provided by operating activities		(20,685)
Cash used in investing activities		13,407
Cash used in financing activities		—

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

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NOTES TO FINANCIAL STATEMENTS (Continued)

of the last meter reading are estimated and the corresponding unbilled revenue is estimated. NSP-Minnesota presents its revenue net of any excise or other fiduciary-type taxes or fees.

NSP-Minnesota has various rate-adjustment mechanisms in place that currently provide for the recovery of purchased natural gas and electric fuel and purchased energy costs. These cost-adjustment tariffs may increase or decrease the level of costs recovered through base rates, and are revised periodically for any difference between the total amount collected under the clauses and the recoverable costs incurred. Where applicable under governing state regulatory commission rate orders, fuel costs over-recoveries (the excess of fuel revenue billed to customers over fuel costs incurred) are deferred as current regulatory liabilities and under-recoveries (the excess of fuel costs incurred over fuel revenues billed to customers) are deferred as current regulatory assets. A summary of significant rate adjustment mechanisms follows:

- NSP-Minnesota's rates include a cost-of-fuel-and-purchased-energy and a cost-of-gas recovery mechanism allowing recovery of the respective costs, which are trued-up on a two-month and annual basis, respectively. The electric cost-of-fuel-and-purchased-energy mechanism in Minnesota and North Dakota also provides a sharing among shareholders and customers of certain margins on short-term wholesale and commodity trading.
- NSP-Minnesota operates under various service quality standards, which could require customer refunds if certain criteria are not met. NSP-Minnesota's rates in Minnesota include monthly adjustments for the recovery of conservation and energy-management program costs, which are reviewed annually. NSP-Minnesota is allowed to recover certain costs associated with new transmission facilities to deliver renewable energy resources and certain costs associated with production facilities through rate riders.
- NSP-Minnesota sells firm power and energy in wholesale markets, which are regulated by the FERC. Certain of these rates include monthly wholesale fuel cost-recovery mechanisms.

Commodity Trading Operations — Pursuant to the JOA approved by the FERC, some of the commodity trading margins from NSP-Minnesota are apportioned to PSCo and 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 in accordance with SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). In addition, commodity trading results include the impact of all margin-sharing mechanisms. For more information, see Note 9 to the financial statements.

Fair Value Measurements — NSP-Minnesota presents cash equivalents, commodity derivatives and nuclear decommissioning fund assets at estimated fair values in its financial statements. Cash equivalents are recorded at cost plus accrued interest to approximate fair value. Changes in the observed trading prices and liquidity of cash equivalents, including commercial paper and money market funds, are also monitored as additional support for determining fair value, and losses are recorded in earnings if fair value falls below recorded cost. 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 as primary inputs 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.

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 SFAS No. 133, are recorded on the balance sheets at fair value as derivative instruments valuation. This includes certain instruments used to mitigate market risk for the utility operations 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 is dependent on the applicability of specific regulation.

Gains or losses on hedging transactions for the sales of energy or energy-related products are primarily recorded as a component of revenue; hedging transactions for fuel used in energy generation are recorded as a component of fuel costs; hedging transactions for natural gas purchased for resale are recorded as a component of natural gas costs; vehicle fuel costs are recorded as a component of capital project or O&M 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

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NOTES TO FINANCIAL STATEMENTS (Continued)

volatility.

Cash Flow Hedges — Qualifying hedging relationships are designated as a hedge of a forecasted transaction or future cash flow (cash flow hedge). The designation of a cash flow hedge permits changes in fair value to be recorded within other comprehensive income (OCI), to the extent the hedge is effective, or deferred as a regulatory asset or liability.

SFAS No. 133 requires that the hedging relationship be highly effective and that a company formally designate a hedging relationship to apply hedge accounting. NSP-Minnesota formally documents all hedging relationships in accordance with SFAS No. 133. The documentation includes, among other factors, the identification of the hedging instrument and the hedged transaction, as well as the risk management objectives and strategies for undertaking the hedging transaction. In addition, at inception and on a quarterly basis, NSP-Minnesota formally assesses whether the derivative instruments being used are highly effective in offsetting changes in the cash flows of the hedged items.

Changes in the fair value of a derivative designated and qualified as a cash flow hedge, to the extent effective are included in OCI, or deferred as a regulatory asset or liability until earnings are affected by the hedged transaction. NSP-Minnesota discontinues hedge accounting prospectively when it has determined that a derivative no longer qualifies as an effective hedge, or when it is no longer probable that the hedged forecasted transaction will occur. To test the effectiveness of hedges, a hypothetical hedge is used to mirror all the critical terms of the hedged transaction and the dollar-offset method is utilized to assess the effectiveness of the actual hedge at inception and on an ongoing basis. Gains and losses related to discontinued hedges that were previously deferred in OCI or deferred as regulatory assets or liabilities will remain deferred until the hedged transaction is reflected in earnings, unless it is probable that the hedged forecasted transaction will not occur, in which case, associated deferred amounts are immediately recognized in current earnings.

Normal Purchases and Normal Sales — NSP-Minnesota enters into contracts for the purchase and sale of commodities for use in their business operations. SFAS No. 133 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 SFAS No. 133 as normal purchases or normal sales.

NSP-Minnesota evaluates all of its contracts at inception to determine if they are derivatives and, if so, if they qualify to meet the normal purchases and normal sales designation requirements under SFAS No. 133. None of the contracts entered into within the commodity trading operations qualify for a normal purchases and normal sales designation.

For further discussion of NSP-Minnesota's risk management and derivative activities, see Note 9 to the financial statements.

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 applicable interest expense. 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 units 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.

NSP-Minnesota records depreciation expense related to its plant by 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, for the years ended Dec. 31, 2008 and 2007 was 3.6 percent and 3.6 percent, respectively.

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

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Generally AFDC costs are recovered from customers, in future rates, as the related property is depreciated. In 2003, the MPUC voted to approve NSP-Minnesota's MERP proposal to convert two coal-fueled electric generating plants located in the Minneapolis-St. Paul metropolitan area to natural gas and to install advanced pollution control equipment at a third coal-fired plant. These improvements are expected to significantly reduce air emissions from these facilities, while increasing the capacity at system peak by 300 MW. The first of these projects began operating in July 2007, the second of these projects began operating in June 2008 and the remaining projects are expected to begin operations in 2009, at a cumulative investment of approximately $1 billion. The MPUC has approved a more current recovery of the financing costs related to the MERP. The in-service plant costs, including the financing costs during construction, are recovered from customers through a MERP rider resulting in a lower recognition of AFDC.

Decommissioning — NSP-Minnesota accounts for the future cost of decommissioning, or retirement, of its nuclear generating plants through annual depreciation accruals using an annuity approach designed to provide for full rate recovery of the future decommissioning costs. The decommissioning calculation covers all expenses, including decontamination and removal of radioactive material and extends over the estimated lives of the plants. The calculation assumes that NSP-Minnesota will recover those costs through rates. The fair value of external nuclear decommissioning fund investments is determined based on quoted market prices for those or similar investments. For more information on nuclear decommissioning, see Note 14 to the financial statements.

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 AFDC), as well as future disposal costs of spent nuclear fuel, costs associated with the end-of-life fuel segments and fees assessed by the DOE for NSP-Minnesota's portion of the cost of decommissioning the DOE's fuel enrichment facility.

Nuclear Refueling Outage Costs — Prior to the third quarter of 2008, NSP-Minnesota expensed the costs associated with refueling outages as incurred at its nuclear plants. In September 2008, the MPUC authorized NSP-Minnesota to use a deferral and amortization method for the nuclear refueling operating and maintenance costs effective Jan. 1, 2008. This method amortizes refueling outage costs over the period between refueling outages to better match revenues and expenses.

Environmental Costs — Environmental costs are recorded on an undiscounted basis when it is probable NSP-Minnesota is liable for the costs and the liability can be reasonably estimated. Costs may be 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, assuming the costs are recoverable in future rates or future cash flow.

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 several designated responsible parties exist, 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. Removal costs recovered in rates are classified as a regulatory liability.

Legal Costs — Litigation accruals are recorded when it is probable NSP-Minnesota is liable for the costs and the liability can be reasonably estimated. External legal fees related to settlements are expensed as incurred.

Income Taxes — NSP-Minnesota accounts for income taxes using the asset and liability method under FAS 109, 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 turn around, or 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. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, 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 positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations, is considered.

Due to the effects of past regulatory practices, when deferred taxes were not required to be recorded, the reversal of some temporary

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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 created certain regulatory assets and liabilities related to income taxes, which are summarized in Note 15 to the financial statements. For more information on income taxes, see Note 7 to the financial statements.

In July 2006, the FASB issued FIN 48, which prescribes how a company should recognize, measure, present and disclose uncertain tax positions that such company has taken or expects to take in its income tax returns. FIN 48 requires that only income tax benefits that meet the "more likely than not" recognition threshold be recognized or continue to be recognized on its effective date. As required, NSP-Minnesota adopted FIN 48 as of Jan. 1, 2007 and the initial derecognition amounts were reported as a cumulative effect of a change in accounting principle. The cumulative effect of the change, which was reported as an adjustment to the beginning balance of retained earnings, was not material. Following implementation, the ongoing recognition of changes in measurement of uncertain tax positions will be reflected as a component of income tax expense.

NSP-Minnesota reports interest and penalties related to income taxes within the interest charges section in the statements of income.

Xcel Energy and its subsidiaries, including NSP- Minnesota, file federal income tax returns and combined and separate state income tax returns. Federal income taxes paid by Xcel Energy, as parent of the Xcel Energy group, are allocated to the Xcel Energy subsidiaries based on separate company computations of tax. Xcel Energy makes a similar allocation for state income taxes paid in connection with combined state filings. The holding company also allocates its own net income tax benefits to its direct subsidiaries based on the positive tax liability of each company.

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, AROs, decommissioning, 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. The depreciable lives of certain plant assets are reviewed annually and revised, if appropriate.

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

Restricted Cash — At Dec. 31, 2007, NSP-Minnesota had restricted cash of $8.4 million. The restricted cash balance primarily represents margin deposits held in conjunction with short-term wholesale and commodity trading activities. This balance is presented as a component of other investments on the balance sheets.

Inventory — All inventory for NSP-Minnesota is recorded at average cost.

Regulatory Accounting — NSP-Minnesota accounts for certain income and expense items in accordance with SFAS No. 71-- *Accounting for the Effects of Certain Types of Regulation* (SFAS No. 71). Under SFAS No. 71:

- Certain costs, which would otherwise be charged to expense, are deferred as regulatory assets based on the expected ability to recover them in future rates; and
- Certain credits, which would otherwise be reflected as income, are deferred as regulatory liabilities based on the expectation they will be returned to customers in future rates.

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 period of expected regulatory treatment. 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 such regulatory assets and liabilities from its balance sheet. Such changes could have a material effect on NSP-Minnesota's results of operations in the period the write-off is recorded. See more discussion of regulatory assets and liabilities at Note 15 to the financial statements.

Deferred Financing Costs —Deferred financing costs, net of amortization, totaled approximately $21.3 million and $18.2 million at

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Dec. 31, 2008 and 2007, respectively. NSP-Minnesota is amortizing these financing costs over the remaining maturity periods of the related debt.

Debt premiums, discounts, expenses and amounts received or paid to settle hedges are amortized over the life of the related debt. The premiums and costs associated with refinanced debt are deferred and amortized over the life of the related new issuance, in accordance with regulatory guidelines. If NSP-Minnesota extinguishes the debt, all unamortized balances shall be expensed at the time of the redemption.

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

Renewable Energy Credits (RECs) — RECs are marketable environmental commodities 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 (RPS) enacted by those states that are encouraging construction and consumption of renewable energy, but can also be sold separately from the energy produced. Currently, NSP-Minnesota acquires RECs from the generation or purchase of renewable power.

When RECs are acquired in the course of generation or purchase as a result of meeting the load obligation, they are recorded as inventory at actual cost. RECs acquired for trading purposes are recorded as other investments at actual cost. The cost of RECs that are retired for compliance purposes is recorded as electric fuel and purchased power expense. The net margin on sales of RECs for trading purposes is recorded as electric utility operating revenues, net of any margin sharing requirements.

Emission Allowances — Emission allowances are recorded at cost, including the annual SO_2 and NOx emission allowance entitlement received at no cost from the EPA. NSP-Minnesota follows the inventory accounting model for all allowances. The sales of allowances are reported in the operating activities section of the statements of cash flows. The net margin on sales of emission allowances is included in electric utility operating revenues as it is integral to the production process of energy and our revenue optimization strategy for our utility operations.

2. Accounting Pronouncements

Recently Issued

Business Combinations (SFAS No. 141 (revised 2007)) — In December 2007, the FASB issued SFAS No. 141R, which establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of an entity's fiscal year that begins on or after Dec. 15, 2008. NSP-Minnesota will apply SFAS No. 141R to business combinations occurring subsequent to Jan. 1, 2009.

Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 (SFAS No. 160) — In December 2007, the FASB issued SFAS No. 160, which establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of earnings; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently as equity transactions. This statement is effective for fiscal years and interim periods beginning on or after Dec. 15, 2008. NSP-Minnesota does not expect the implementation of SFAS No. 160 to have a material impact on its consolidated financial statements.

Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133 (SFAS No. 161) — In March 2008, the FASB issued SFAS No. 161, which is intended to enhance disclosures to help users of the financial statements

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better understand how derivative instruments and hedging activities affect an entity's financial position, financial performance and cash flows. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to require disclosures of objectives and strategies for using derivatives, gains and losses on derivative instruments, and credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for fiscal years and interim periods beginning after Nov. 15, 2008, with early application encouraged. NSP-Minnesota does not expect the implementation of SFAS No. 161 to have a material impact on its financial statements.

Employers' Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1) — In December 2008, the FASB issued FSP FAS 132(R)-1, which amends SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* to expand on an employer's required disclosures about plan assets of a defined benefit pension or other postretirement plan to include investment policies and strategies, major categories of plan assets, information regarding fair value measurements, and significant concentrations of credit risk. FSP FAS 132(R)-1 is effective for fiscal years ending after Dec. 15, 2009. NSP-Minnesota does not expect that implementation of FSP FAS 132(R)-1 to have a material impact on its financial statements.

Recently Adopted

Fair Value Measurements (SFAS No. 157) — In September 2006, the FASB issued SFAS No. 157, which provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 also emphasizes that fair value is a market-based measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Fair value measurements are disclosed by level within that hierarchy. SFAS No. 157 was effective for financial statements issued for fiscal years beginning after Nov. 15, 2007.

On Jan. 1, 2008, NSP-Minnesota adopted SFAS No. 157 for all assets and liabilities measured at fair value except for non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis, as permitted by FSP FAS 157-2, *Effective Date of FASB Statement No. 157.* The adoption did not have a material impact on NSP-Minnesota's financial statements. For additional discussion and SFAS No. 157 required disclosures, see Note 11 to the financial statements.

The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115 (SFAS No. 159) — In February 2007, the FASB issued SFAS No. 159, which provides companies with an option to measure, at specified election dates, many financial instruments and certain other items at fair value that are not currently measured at fair value. A company that adopts SFAS No. 159 will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement was effective for fiscal years beginning after Nov. 15, 2007. NSP-Minnesota adopted SFAS No. 159 on Jan. 1, 2008, and the adoption did not have a material impact on its financial statements.

Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active (FSP FAS 157-3) — In October 2008, the FASB issued FSP FAS 157-3, which clarifies the application of SFAS No. 157 in a market that is not active. FSP FAS 157-3 was effective immediately upon issuance, and applied to prior periods for which financial statements had not yet been issued. NSP-Minnesota adopted FSP FAS 157-3 as of Sept. 30, 2008, and the adoption did not have a material impact on its financial statements.

Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (Emerging Issues Task Force (EITF) Issue No. 06-4) — In June 2006, the EITF reached a consensus on EITF No. 06-4, which provides guidance on the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. Therefore, this EITF would not apply to a split-dollar life insurance arrangement that provides a specified benefit to an employee that is limited to the employee's active service period with an employer. EITF No. 06-4 was effective for fiscal years beginning after Dec. 15, 2007, with earlier application permitted. Upon adoption of EITF No. 06-4 on Jan. 1, 2008, NSP-Minnesota recorded a liability of $0.6 million, net of tax, as a reduction of retained earnings. Thereafter, changes in the liability are reflected in operating results.

Amendment of FASB Interpretation No. 39 (FSP FIN 39-1) — In April 2007, the FASB issued FSP FIN 39-1, which amends FIN 39, *Offsetting of Amounts Related to Certain Contracts*, to permit companies to offset fair value amounts recognized for the right to

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reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting arrangement. FSP FIN 39-1 was effective for fiscal years beginning after Nov. 15, 2007. NSP-Minnesota adopted FSP FIN 39-1 on Jan. 1, 2008, and the adoption did not have a material impact on its financial statements.

Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF No. 06-11) — In June 2007, the EITF reached a consensus on EITF No. 06-11, which states that an entity should recognize a realized tax benefit associated with dividends on nonvested equity shares and nonvested equity share units charged to retained earnings as an increase in additional paid in capital. The amount recognized in additional paid in capital should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF No. 06-11 was to be applied prospectively to income tax benefits of dividends on equity-classified share-based payment awards that were declared in fiscal years beginning after Dec. 15, 2007. NSP-Minnesota adopted EITF No. 06-11 on Jan. 1, 2008, and the adoption did not have a material impact on its financial statements.

The Hierarchy of GAAP (SFAS No. 162) — In May 2008, the FASB issued SFAS No. 162, which establishes the GAAP hierarchy, identifying the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements. SFAS No. 162 was effective Nov. 15, 2008. NSP-Minnesota adopted SFAS No. 162 on Dec. 31, 2008, and the adoption did not have a material impact on its financial statements.

Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities (FSP FAS 140-4 and FIN 46(R)-8) — In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, which amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* to require public entities to provide additional disclosures about transfers of financial assets. It also amends FIN 46 (revised December 2003), *Consolidation of Variable Interest Entities,* to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. FSP FAS 140-4 and FIN 46(R)-8 was effective for the interim and annual periods ending after Dec. 15, 2008. NSP-Minnesota adopted FSP FAS 140-4 and FIN 46(R)-8 on Dec. 31, 2008, and the adoption did not have a material impact on its financial statements.

3. 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	U.S.A.	100%
NSP Nuclear Corp.	U.S.A.	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):

Financial Position	2008	2007
Current Assets	$ 853	$ 60,355
Other Assets	897	2,082
Total Assets	$ 1,750	$ 62,437
Current Liabilities	$ —	$ 50,445
Other Liabilities	—	8,381
Equity	1,750	3,611
Total Liabilities and Equity	$ 1,750	$ 62,437

Results of Operations	2008	2007
Operating Revenues	$ 10	$ 77,366
Operating (Loss) Income	(984)	1,145
Net (Loss) Income	(1,861)	1,024

4. Short-Term Borrowings

Commercial Paper — At Dec. 31, 2008 and 2007, NSP-Minnesota had commercial paper outstanding of $65.0 million and $341.5 million, respectively. NSP-Minnesota has board approval to issue up to $500 million of commercial paper. The weighted average interest rates at Dec. 31, 2008 and 2007, were 2.57 percent and 5.58 percent, respectively.

Money Pool — Xcel Energy and its utility subsidiaries have established a utility money pool arrangement that allows for short-term loans between the utility subsidiaries and from the holding company to the utility subsidiaries at market-based interest rates. The utility money pool arrangement does not allow loans from the utility subsidiaries to the holding company. NSP-Minnesota has approval to borrow up to $250 million under the arrangement. At Dec. 31, 2008 and 2007, NSP-Minnesota had money pool borrowings of $63.5 million and $95.1 million, respectively. The weighted average interest rates at Dec. 31, 2008 and 2007, were 3.48 percent and 5.64 percent, respectively.

5. Long-Term Debt

Credit Facilities — At Dec. 31, 2008, NSP-Minnesota had the following committed credit facility in effect, in millions of dollars:

Credit Facility	Credit Facility Borrowings	Available*	Original Term	Maturity
$ $ 482.2	$ —	$ 411.4	Five year	December 2011

* Net of credit facility borrowings, issued and outstanding letters of credit and commercial paper borrowings.

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 the right to request an extension of the final maturity date by one year. The maturity extension is subject to majority bank group approval.

- The credit facility has one financial covenant requiring that NSP-Minnesota's debt-to-total capitalization ratio be less than or equal to 65 percent with which NSP-Minnesota was in compliance at Dec. 31, 2008 and 2007. If NSP-Minnesota does not comply with the covenant, it is deemed an event of default and any outstanding amounts due under the facility can be declared due by the lender.

- The credit facility has a cross default provision that provides the borrower will be in default on its borrowings under the facility if

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any of its subsidiaries, comprising more than 15 percent of the assets, defaults on any of its indebtedness greater than $50 million.

- The interest rate is based on either the agent bank's prime rate or the applicable LIBOR, plus a borrowing margin as based on NSP-Minnesota's senior unsecured credit ratings from Moody, Standard & Poor and Fitch. The commitment fees are calculated for the unused portion of the credit facility at 6 basis points for NSP-Minnesota.

- At Dec. 31, 2008, NSP-Minnesota had no direct borrowings on this line of credit; however, the credit facility was used to provide back-up support for $65.0 million of commercial paper outstanding and $5.8 million of letters of credit.

- At Dec. 31, 2007, NSP-Minnesota had no direct borrowings on this line of credit; however, the credit facility was used to provide back-up support for $341.5 million of commercial paper outstanding and $6.1 million of letters of credit.

Long-Term Borrowings

On March 18, 2008, NSP-Minnesota issued $500 million of 5.25 percent first mortgage bonds, series due March 1, 2018. NSP-Minnesota added the net proceeds from the sale of the first mortgage bonds to its general funds and applied a portion of the proceeds to the repayment of commercial paper and borrowings under the utility money pool arrangement.

On Aug. 1, 2007, NSP-Minnesota redeemed all of its outstanding 8.00 percent Notes, series due 2042, at a redemption price equal to 100 percent of the principal amount of the notes ($25.00), plus accrued and unpaid interest on the notes, if any, to the redemption date. Upon redemption, Xcel Energy recognized approximately $9.3 million in interest expense due to unwinding a fair value interest rate derivative.

On June 26, 2007, NSP-Minnesota issued $350 million of 6.20 percent first mortgage bonds, series due July 1, 2037. NSP-Minnesota added the net proceeds from the sale of the first mortgage bonds to its general funds and applied a portion of the proceeds to the repayment of commercial paper.

All property of NSP-Minnesota is subject to the lien of its first mortgage indenture. NSP-Minnesota's first mortgage indenture places certain restrictions on the amount of cash dividends it can pay Xcel Energy, the holder of its common stock. Even with these restrictions, NSP-Minnesota could have paid more than $999 million and $946 million in additional cash dividends on common stock at Dec. 31, 2008 and 2007, respectively.

Maturities of long-term debt are:

(Millions of Dollars)		
2009	$	250.1
2010		175.0
2011		—
2012		450.0
2013		—

6. Joint Plant Ownership

Following are the investments by NSP-Minnesota in jointly owned plants and the related ownership percentages as of Dec. 31, 2008:

(Thousands of Dollars)	Plant in Service	Accumulated Depreciation	Construction Work in Progress	Ownership%
Sherco Unit 3	$ 527,647	$ 325,472	$ 128	59.0
Sherco Common Facilities Units 1, 2 & 3	122,812	73,779	180	75.0
Transmission facilities, including substations	4,790	2,231	—	59.0
Total	$ 655,249	$ 401,482	$ 308	

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NSP-Minnesota is part owner of Sherco 3, an 860 MW, coal-fueled electric generating unit. NSP-Minnesota is the operating agent under the joint ownership agreement. 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 funding its portion of construction and operating costs.

Nuclear Plant Operation — On Sept. 28, 2007, NSP-Minnesota obtained 100 percent ownership in NMC as a result of Wisconsin Energy Corporation (WEC), exiting the partnership due to the sale of its Point Beach Nuclear Plant to FPL Energy. Accordingly, the results of operations of NMC and the estimated fair value of assets and liabilities were included in NSP-Minnesota's financial statements from the Sept. 28, 2007, transaction date. WEC was required to pay an exit fee and surrender all of its equity interest in NMC upon exiting. The effect of this transaction was not material to the financial position or the results of operations to NSP-Minnesota for the year ended Dec. 31, 2007. NSP-Minnesota has reintegrated its nuclear operations into its generation operations. The NRC transferred the nuclear operating licenses from NMC to NSP-Minnesota effective Sept. 22, 2008.

7. Income Taxes

Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109 (FIN 48) — The FERC has not fully adopted FIN 48. Accordingly, NSP-Minnesota has recorded its unrecognized tax benefits for temporary adjustments in accounts established for accumulated deferred income taxes.

NSP-Minnesota is a member of the Xcel Energy affiliated group that files consolidated income tax returns. In the first quarter of 2008, the IRS completed an examination of Xcel Energy's federal income tax returns for 2004 and 2005 (and research credits for 2003). The IRS did not propose any material adjustments for those tax years. Tax year 2004 is the earliest open year and the statute of limitations applicable to Xcel Energy's 2004 federal income tax return remains open until Dec. 31, 2009. In the third quarter of 2008, the IRS commenced an examination of tax years 2006 and 2007. As of Dec. 31, 2008, the IRS had not proposed any material adjustments to tax years 2006 and 2007.

In the first quarter of 2008, the state of Minnesota concluded an income tax audit through tax year 2001. No material adjustments were proposed for this audit. As of Dec. 31, 2008, NSP-Minnesota's earliest open tax year in which an audit can be initiated by state taxing authorities under applicable statutes of limitations is 2004. There currently are no state income tax audits in progress.

The amount of unrecognized tax benefits reported was $20.2 million and $14.3 million on Dec. 31, 2008 and 2007, respectively. A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows:

(Millions of Dollars)	2008	2007
Balance at Jan. 1	$ 14.3	$ 22.5
Additions based on tax positions related to the current year	5.4	5.6
Reductions based on tax positions related to the current year	(0.4)	(0.2)
Additions for tax positions of prior years	4.9	8.4
Reductions for tax positions of prior years	—	(3.4)
Settlements with taxing authorities	(4.0)	(18.6)
Balance at Dec. 31	$ 20.2	$ 14.3

These unrecognized tax benefit amounts were reduced by the tax benefits associated with tax credit carryovers of $4.4 million and $2.2 million as of Dec. 31, 2008 and 2007, respectively.

The unrecognized tax benefit balance included $7.2 million and $6.6 million of tax positions on Dec. 31, 2008 and 2007, respectively, which if recognized would affect the annual effective tax rate. In addition, the unrecognized tax benefit balance included $13.0 million and $7.7 million of tax positions on Dec. 31, 2008 and 2007, respectively, 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 effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The increase in the unrecognized tax benefit balance of $5.9 million from Dec. 31, 2007 to Dec. 31, 2008, was due to the addition of similar uncertain tax positions related to ongoing activity. NSP-Minnesota's amount of unrecognized tax benefits could significantly change in the next 12 months as the IRS audit progresses and when state audits resume. At this time, due to the uncertain nature of the

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audit process, it is not reasonably possible to estimate an overall range of possible change.

The liability for interest related to unrecognized tax benefits is partially offset by the interest benefit associated with tax credit carryovers. The amount of interest income related to unrecognized tax benefits reported within interest charges was $0.6 million for both 2007 and 2008. The liability for interest related to unrecognized tax benefits was $1.3 million and $1.9 million on Dec. 31, 2008 and 2007, respectively. No amounts were accrued for penalties as of Dec. 31, 2007 and 2008.

Other Income Tax Matters — NSP-Minnesota's federal net operating loss carryforward is estimated to be $22.1 million and $20.6 million as of Dec. 31, 2008 and Dec. 31, 2007, respectively. NSP-Minnesota's federal tax credit carryforward is estimated to be $18.6 million and $13.9 million as of Dec. 31, 2008 and Dec. 31, 2007, respectively. The carryforward periods expire between 2021 and 2028. NSP-Minnesota also has state tax credit carryforwards of $2.0 million and $1.5 million as of Dec. 31, 2008 and Dec. 31, 2007, respectively. The state carryforward periods expire between 2018 and 2027.

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 is a table reconciling such differences for the years ending Dec. 31:

	2008	2007
Federal statutory rate	35.0%	35.0%
Increases (decreases) in tax from:		
State income taxes, net of federal income tax benefit	7.6	8.4
Resolution of income tax audits and other	(0.3)	0.4
Tax credits recognized, net of federal income tax expense	(1.6)	(1.5)
Regulatory differences — utility plant items	(2.3)	(1.7)
FIN 48 expense – unrecognized tax benefits	0.1	0.2
Other, net	(0.2)	(0.4)
Effective income tax rate	38.3%	40.4%

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

(Thousands of Dollars)	2008	2007
Current federal tax expense	$ 18,629	$ 5,968
Current state tax expense	29,784	3,030
Current FIN 48 tax expense	603	1,070
Deferred federal tax expense	112,582	126,171
Deferred state tax expense	23,150	52,090
Deferred tax credits	(4,331)	(2,996)
Deferred investment tax credits	(3,503)	(3,897)
Total income tax expense	$ 176,914	$ 181,436

The components of deferred income tax at Dec. 31 were:

(Thousands of Dollars)	2008	2007
Deferred tax expense excluding items below	$ 71,892	$ 200,726
Amortization and adjustments to deferred income taxes on income tax regulatory assets and liabilities	55,322	(26,444)
FIN 48 adoption: Deferred tax expense reported as an adjustment to the beginning balance of retained earnings	—	1,031
Tax expense (benefit) allocated to other comprehensive income and other	4,187	(48)
Deferred tax expense	$ 131,401	$ 175,265

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The components of net deferred tax liability (current and noncurrent portions) at Dec. 31 were:

(Thousands of Dollars)	2008	2007
Deferred tax liabilities:		
Differences between book and tax bases of property	$ 1,233,678	$ 1,138,858
Regulatory assets	90,622	88,966
Other	17,690	16,985
Total deferred tax liabilities	$ 1,341,990	$ 1,244,809
Deferred tax assets:		
Differences between book and tax bases of property	$ 217,845	$ 225,921
Employee benefits	62,410	57,998
Tax credit carry forward	20,546	15,306
Rate refund	19,144	6,710
Deferred investment tax credits	16,443	17,872
Regulatory liabilities	12,927	15,013
Net operating loss carry forward	6,964	3,344
Other	15,576	4,402
Total deferred tax assets	$ 371,855	$ 346,566
Net deferred tax liability	$ 970,135	$ 898,243

8. Benefit Plans and Other Postretirement Benefits

Pension and other postretirement benefit disclosures below generally represent Xcel Energy information unless specifically identified as being attributable to NSP-Minnesota.

Xcel Energy offers various benefit plans to its employees, including those of NSP-Minnesota. Approximately 50 percent of Xcel Energy employees that receive benefits are represented by several local labor unions under several collective-bargaining agreements. At Dec. 31, 2008, NSP-Minnesota had 2,279 bargaining employees covered under a collective-bargaining agreement, which expires at the end of 2010. NSP-Minnesota also had an additional 209 nuclear operation bargaining employees covered under several collective-bargaining agreements, which expire at various dates through September 2010.

Pension Benefits

Xcel Energy 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'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.

Pension Plan Assets — Plan assets principally consist of the common stock of public companies, corporate bonds and U.S. government securities. The target range for our pension asset allocation is 52 percent in equity investments, 25 percent in fixed income investments and 23 percent in nontraditional investments, such as real estate, private equity and a diversified commodities index.

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The actual composition of pension plan assets at Dec. 31 was:

	2008	2007
Equity securities	55%	60%
Debt securities	26	22
Real estate	5	4
Cash	3	2
Nontraditional investments	11	12
	100%	100%

Xcel Energy bases its investment-return assumption on expected long-term performance for each of the investment types included in its pension asset portfolio. Xcel Energy considers the actual historical returns achieved by its 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 historical weighted average annual return for the past 20 years for the Xcel Energy portfolio of pension investments is 9.56 percent, which is greater than the current assumption level. The pension cost determination assumes the continued current mix of investment types over the long term. The Xcel Energy portfolio is heavily weighted toward equity securities and includes nontraditional investments. A higher weighting in equity investments can increase the volatility in the return levels achieved by pension assets in any year. Investment returns in 2008 and 2007 were below the assumed level of 8.75 percent. Xcel Energy continually reviews its pension assumptions. In 2009, Xcel Energy will use an investment-return assumption of 8.50 percent.

Benefit Obligations — A comparison of the actuarially computed pension benefit obligation and plan assets, on a combined basis, is presented in the following table:

(Thousands of Dollars)	2008	2007
Accumulated Benefit Obligation at Dec. 31	$ 2,435,513	$ 2,497,898
Change in Projected Benefit Obligation:		
Obligation at Jan. 1	$ 2,662,759	$ 2,666,555
Service cost	62,698	61,392
Interest cost	167,881	162,774
Plan amendments	—	(19,955)
Actuarial (gain) loss	(47,509)	23,325
Benefit payments	(247,797)	(231,332)
Obligation at Dec. 31	$ 2,598,032	$ 2,662,759
Change in Fair Value of Plan Assets:		
Fair value of plan assets at Jan. 1	$ 3,186,273	$ 3,183,375
Actual (loss) return on plan assets	(788,273)	199,230
Employer contributions	35,000	35,000
Benefit payments	(247,797)	(231,332)
Fair value of plan assets at Dec. 31	$ 2,185,203	$ 3,186,273

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Funded Status of Plans at Dec. 31:		
Funded Status	$ (412,829)	$ 523,514
Noncurrent assets	15,612	568,055
Noncurrent liabilities	(428,441)	(44,541)
Net pension amounts recognized on consolidated balance sheets	$ (412,829)	$ 523,514
NSP-Minnesota accrued benefit liability recorded	$ 91,095	$ —
NSP-Minnesota prepaid pension asset recorded	—	270,436

(Thousands of Dollars)	2008	2007
NSP-Minnesota Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost:		
Net loss	$ 454,770	$ 72,479
Prior service cost	46,222	57,948
Total	$ 500,992	$ 130,427
SFAS No. 158 Amounts Have Been Recorded as Follows Based Upon Expected Recovery in Rates:		
Regulatory assets	$ 500,992	$ —
Regulatory liabilities	—	130,427
Total	$ 500,992	$ 130,427

Measurement Date	Dec. 31, 2008	Dec. 31, 2007
Significant Assumptions Used to Measure Benefit Obligations:		
Discount rate for year-end valuation	6.75 %	6.25 %
Expected average long-term increase in compensation level	4.00	4.00
Mortality table	RP 2000	RP 2000

At Dec. 31, 2008, one of Xcel Energy's pension plans had plan assets of $259.9 million, which exceeded projected benefit obligations of $244.3 million. At Dec. 31, 2007, the plan assets of $369.8 million exceeded projected benefit obligations of $253.6 million. All other Xcel Energy plans in the aggregate had plan assets of $1.9 billion and $2.8 billion and projected benefit obligations of $2.4 billion and $2.4 billion on Dec. 31, 2008 and 2007.

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. These regulations did not require cash funding for 2007 through 2008 for Xcel Energy's pension plans and are not expected to require cash funding in 2009.

- Voluntary contributions were made to the PSCo Bargaining Pension Plan of $35 million in 2008 and $35 million in 2007.
- No voluntary contributions were made to the NCE Non-Bargaining Pension Plan during 2007 or 2008.
- Xcel Energy projects cash funding of $70 million to $130 million in 2009. Pension funding contributions for 2010, which will be dependent on several factors including, realized asset performance, future discount rate, IRS and legislative initiatives as well as other actuarial assumptions, are estimated to range between $150 million to $250 million.

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Benefit Costs — The components of net periodic pension cost (credit) are:

(Thousands of Dollars)	2008	2007
Service cost	$ 62,698	$ 61,392
Interest cost	167,881	162,774
Expected return on plan assets	(274,338)	(264,831)
Amortization of prior service cost	20,584	25,056
Amortization of net loss	11,156	15,845
Net periodic pension (credit) cost under SFAS No. 87	$ (12,019)	$ 236
NSP-Minnesota:		
Net periodic pension credit	$ (9,034)	$ (9,682)
Credits not recognized due to effects of regulation	9,034	11,147
Net benefit cost recognized for financial reporting	$ —	$ 1,465
Significant Assumptions Used to Measure Costs:		
Discount rate	6.25%	6.00%
Expected average long-term increase in compensation level	4.00	4.00
Expected average long-term rate of return on assets	8.75	8.75

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 2009 pension cost calculations will be 8.50 percent. The cost calculation uses a market-related valuation of pension assets. Xcel Energy 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.

Xcel Energy also maintains noncontributory, defined benefit supplemental retirement income plans for certain qualifying executive personnel. Benefits for these unfunded plans are paid out of their operating cash flows.

Defined Contribution Plans

Xcel Energy maintains 401(k) and other defined contribution plans that cover substantially all employees. The contributions for NSP-Minnesota were approximately $4.2 million in 2008 and 2007 and $3.9 million in 2006.

Postretirement Health Care Benefits

Xcel Energy has a contributory health and welfare benefit plan that provides health care and death benefits to most Xcel Energy retirees. The former NSP discontinued contributing toward health care benefits for nonbargaining employees retiring after 1998 and for bargaining employees of NSP-Minnesota and NSP-Wisconsin who retired after 1999. Employees of the former NSP who retired after 1998 are eligible to participate in the Xcel Energy health care program with no employer subsidy.

In conjunction with the 1993 adoption of SFAS No. 106 — *Employers' Accounting for Postretirement Benefits Other Than Pension*, Xcel Energy elected to amortize the unrecognized accumulated postretirement benefit obligation (APBO) on a straight-line basis over 20 years.

Regulatory agencies for nearly all of Xcel Energy's retail and wholesale utility customers have allowed rate recovery of accrued benefit costs under SFAS No. 106. NSP-Minnesota transitioned to full accrual accounting for SFAS No. 106 costs, with regulatory differences fully amortized prior to 1997.

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Plan Assets — Certain state agencies that regulate Xcel Energy's utility subsidiaries also have issued guidelines related to the funding of SFAS No. 106 costs. Also, a portion of the assets contributed on behalf of non-bargaining 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.

The actual composition of postretirement benefit plan assets at Dec. 31 was:

	2008	2007
Equity and equity mutual fund securities	49%	67%
Fixed income/debt securities	29	21
Cash equivalents	22	11
Nontraditional investments	—	1
	100%	100%

Xcel Energy bases its investment-return assumption for the postretirement health care fund assets on expected long-term performance for each of the investment types included in its postretirement health care asset portfolio. Investment-return volatility is not considered to be a material factor in postretirement health care costs.

Benefit Obligations — A comparison of the actuarially computed benefit obligation and plan assets for Xcel Energy postretirement health care plans that benefit employees of its utility subsidiaries is presented in the following table:

(Thousands of Dollars)	2008	2007
Change in Benefit Obligation:		
Obligation at Jan. 1	$ 830,315	$ 918,693
Service cost	5,350	5,813
Interest cost	51,047	50,475
Medicare subsidy reimbursements	6,178	2,526
Plan participants' contributions	13,892	13,211
Actuarial gain	(46,827)	(86,576)
Benefit payments	(65,358)	(73,827)
Obligation at Dec. 31	$ 794,597	$ 830,315

(Thousands of Dollars)	2008	2007
Change in Fair Value of Plan Assets:		
Fair value of plan assets at Jan. 1	$ 427,459	$ 406,305
Actual (loss) return on plan assets	(132,226)	24,623
Plan participants' contributions	13,892	13,211
Employer contributions	55,799	57,147
Benefit payments	(65,358)	(73,827)
Fair value of plan assets at Dec. 31	$ 299,566	$ 427,459
Funded Status at Dec. 31:		
Funded status	$ (495,031)	$ (402,856)
Current liabilities	(4,928)	(1,755)
Noncurrent liabilities	(490,103)	(401,101)
Net amounts recognized in consolidated balance sheets	$ (495,031)	$ (402,856)
NSP-Minnesota Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost:		
Net loss	$ 78,140	$ 88,968
Transition obligation	5,419	6,765
Total	$ 83,559	$ 95,733

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SFAS No. 158 Amounts Have Been Recorded as Follows Based Upon Expected Recovery in Rates:		
Regulatory assets	$ 80,105	$ —
Regulatory liabilities	—	91,757
Deferred income taxes	1,411	1,624
Net-of-tax accumulated other comprehensive income	2,043	2,352
Total	$ 83,559	$ 95,733
NSP-Minnesota accrued benefit liability recorded	$ 152,792	$ 164,405
Measurement Date	**Dec. 31, 2008**	**Dec. 31, 2007**
Significant Assumptions Used to Measure Benefit Obligations:		
Discount rate for year-end valuation	6.75%	6.25%
Mortality table	RP 2000	RP 2000

Effective Dec. 31, 2008, Xcel Energy reduced its initial medical trend assumption from 8.0 percent to 7.4 percent. The ultimate trend assumption remained unchanged at 5.0 percent. The period until the ultimate rate is reached is five years. Xcel Energy bases its 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 Xcel Energy's retiree medical plan.

A 1-percent change in the assumed health care cost trend rate would have the following effects on NSP-Minnesota:

(Thousands of Dollars)	
1-percent increase in APBO components at Dec. 31, 2008	$ 16,627
1-percent decrease in APBO components at Dec. 31, 2008	(14,031)
1-percent increase in service and interest components of the net periodic cost	1,389
1-percent decrease in service and interest components of the net periodic cost	(1,146)

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 contributed $55.6 million during 2008 and expects to contribute approximately $63.1 million during 2009.

Benefit Costs — The components of net periodic postretirement benefit cost are:

(Thousands of Dollars)	2008	2007
Service cost	$ 5,350	$ 5,813
Interest cost	51,047	50,475
Expected return on plan assets	(31,851)	(30,401)
Amortization of transition obligation	14,577	14,577
Amortization of prior service credit	(2,175)	(2,178)
Amortization of net loss	11,498	14,198
Net periodic postretirement benefit cost under SFAS No. 106	$ 48,446	$ 52,484
NSP-Minnesota:		
Net periodic postretirement benefit cost recognized — SFAS No. 106	$ 13,958	$ 13,761
Significant assumptions used to measure costs (income):		
Discount rate	6.25 %	6.00 %
Expected average long-term rate of return on assets (before tax)	7.50	7.50

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Projected Benefit Payments

The following table lists Xcel Energy'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
2009	$ 224,558	$ 62,975	$ 5,725	$ 57,250
2010	226,585	64,468	6,117	58,351
2011	226,446	66,390	6,433	59,957
2012	230,763	67,400	6,804	60,596
2013	234,149	68,008	7,127	60,881
2014-2018	1,237,114	351,249	38,796	312,453

9. Derivative Instruments

In the normal course of business, NSP-Minnesota is exposed to a variety of market risks. Market risk is the potential loss or gain that may occur as a result of changes in the market or fair value of a particular instrument or commodity. NSP-Minnesota utilizes, in accordance with approved risk management policies, a variety of derivative instruments to mitigate market risk and to enhance its operations.

Commodity Price Risk — NSP-Minnesota is exposed to commodity price risk in its electric and natural gas operations. Commodity price risk is managed by entering into long- and short-term physical purchase and sales contracts for electric capacity, energy and energy-related products and for various fuels used for generation and distribution activities. Commodity risk is also managed through the use of financial derivative instruments. NSP-Minnesota utilizes these derivative instruments to reduce the volatility in the cost of commodities acquired on behalf of its retail customers even though the regulatory jurisdiction may provide for recovery of actual costs. NSP-Minnesota's risk-management policy allows it to manage commodity price risk within each rate-regulated operation to the extent such exposure exists.

Short-Term Wholesale and Commodity Trading Risk — NSP-Minnesota conducts various short-term 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 the risk management committee, which is made up of management personnel not directly involved in the activities governed by this policy.

Interest Rate Risk — NSP-Minnesota is subject to the risk of fluctuating interest rates in the normal course of business. NSP-Minnesota's risk-management policy allows interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate derivatives such as swaps, caps, collars and put or call options, subject to regulatory approval when required.

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 SFAS No. 133, are recorded on the balance sheets at fair value as derivative instruments valuation. This includes certain instruments used to mitigate market risk for NSP-Minnesota 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 qualified 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 is dependent on the applicability of specific regulation.

Qualifying hedging relationships are designated as a hedge of a forecasted transaction or future cash flow (cash flow hedge). The types of qualifying hedging transactions that NSP-Minnesota is currently engaged in are discussed below.

Cash Flow Hedges

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Commodity Cash Flow Hedges — NSP-Minnesota enters into derivative instruments to manage variability of future cash flows from changes in commodity prices. This could include the purchase or sale of energy or energy-related products, natural gas to generate electric energy, gas for resale, and vehicle fuel. Certain derivative instruments entered into to manage this variability are designated as cash flow hedges for accounting purposes. At Dec. 31, 2008, NSP-Minnesota had various commodity-related contracts designated as cash flow hedges extending through December 2010. Changes in the fair value of cash flow hedges are recorded in other comprehensive income or deferred as a regulatory asset or liability. This classification is based on the regulatory recovery mechanisms in place.

At Dec. 31, 2008, NSP-Minnesota had $6.6 million of net losses in accumulated other comprehensive income related to commodity cash flow hedge contracts; $3.9 million is expected to be recognized in earnings during the next 12 months as the hedged transactions settle.

NSP-Minnesota had immaterial ineffectiveness related to commodity cash flow hedges during 2008 and 2007.

Interest Rate Cash Flow Hedges — 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 a specific period. These derivative instruments are designated as cash flow hedges for accounting purposes.

At Dec. 31, 2008, NSP-Minnesota had net gains of approximately $0.1 million in accumulated other comprehensive income related to interest rate hedges that it expects to recognize in earnings during the next 12 months.

NSP-Minnesota had no ineffectiveness related to interest rate cash flow hedges during 2008 and 2007.

The following table shows the major components of the derivative instruments valuation in the balance sheets at Dec. 31:

	2008		2007	
(Thousands of Dollars)	Derivative Instruments Valuation – Assets	Derivative Instruments Valuation - Liabilities	Derivative Instruments Valuation - Assets	Derivative Instruments Valuation - Liabilities
Long term purchased power agreements	$ 151,884	$ 230,715	$ 176,443	$ 245,240
Electricity and natural gas trading and hedging instruments	47,973	28,522	31,765	12,176
Interest rate hedging instruments	—	—	—	2,727
Total	$ 199,857	$ 259,237	$ 208,208	$ 260,143

In 2003, as a result of FASB Statement 133 Implementation Issue No. C20, 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 the first quarter of 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.

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

(Millions of Dollars)	
Accumulated other comprehensive income related to hedges at Dec. 31, 2006	$ 9.4
After-tax net unrealized losses related to derivatives accounted for as hedges	(0.3)
After-tax net realized gains on derivative transactions reclassified into earnings	(0.4)
Accumulated other comprehensive income related to hedges at Dec. 31, 2007	$ 8.7

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After-tax net unrealized losses related to derivatives accounted for as hedges	(5.5)
After-tax net realized gains on derivative transactions reclassified into earnings	(0.2)
Accumulated other comprehensive income related to hedges at Dec. 31, 2008	$ 3.0

10. Financial Instruments

The estimated Dec. 31 fair values of NSP-Minnesota's recorded financial instruments are as follows:

(Thousands of Dollars)	2008 Carrying Amount	2008 Fair Value	2007 Carrying Amount	2007 Fair Value
Nuclear decommissioning fund	$ 1,075,294	$ 1,075,294	$ 1,317,564	$ 1,317,564
Other investments	725	725	9,154	9,154
Long-term debt, including current portion	2,962,749	3,100,223	2,463,109	2,628,580

The fair value of cash and cash equivalents, notes and accounts receivable and notes and accounts payable are not materially different from their carrying amounts. The fair value of NSP-Minnesota's nuclear decommissioning fund is based on published trading data and pricing models, generally using the most observable inputs available for each class of security. The fair value of NSP-Minnesota's other investments are estimated based on quoted market prices for those or similar investments. The fair value of NSP-Minnesota's long-term debt is estimated based on the quoted market prices for the same or similar issues, or the current rates for debt of the same remaining maturities and credit quality.

The fair value estimates presented are based on information available to management as of Dec. 31, 2008 and 2007. These fair value estimates have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair values may differ significantly.

All unrealized gains and losses in the external decommissioning fund are recorded as a regulatory asset or liability pursuant to SFAS No. 71. The following tables provide the external decommissioning fund's approximate gains, losses and proceeds from the sale of securities for the years ended Dec. 31:

(Thousands of Dollars)	2008	2007
Realized gains	$ 65,779	$ 38,745
Realized losses	107,272	35,794
Proceeds from sale of securities	914,514	669,070

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, 2008 and 2007, there were $6.9 million and $7.2 million of letters of credit outstanding. The contract amounts of these letters of credit approximate their fair value and are subject to fees determined in the marketplace.

11. Fair Value Measurements

Effective Jan. 1, 2008, NSP-Minnesota adopted SFAS No. 157 for recurring fair value measurements. SFAS No. 157 provides a single definition of fair value and requires enhanced disclosures about assets and liabilities measured at fair value. SFAS No. 157 establishes a hierarchal framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value. The three levels defined by the SFAS No. 157 hierarchy and examples of each level are as follows:

Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the reported date. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices, such as equities listed by the New York Stock Exchange and commodity derivative contracts listed on the New York Mercantile Exchange.

Level 2 — Pricing inputs are other than quoted prices in active markets, but are either directly or indirectly observable as of the

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reported date. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, such as treasury securities with pricing interpolated from recent trades of similar securities, or priced with models using highly observable inputs, such as commodity options priced using observable forward prices and volatilities.

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 with inputs requiring significant management judgment or estimation, such as the complex and subjective models and forecasts used to determine the fair value of FTRs.

NSP-Minnesota continuously monitors the creditworthiness of the counterparties to its commodity derivative contracts and assesses each counterparty's ability to perform on the transactions set forth in the contracts. Given this assessment, as well an assessment of the impact of NSP-Minnesota's own credit risk when determining the fair value of commodity derivative liabilities, the impact of considering credit risk was immaterial to the fair value of commodity derivative assets and liabilities at Dec. 31, 2008.

The following table presents, for each of these hierarchy levels, NSP-Minnesota's assets and liabilities that are measured at fair value on a recurring basis as of Dec. 31, 2008:

(Thousands of Dollars)	Level 1	Level 2	Level 3	Counterparty Netting (a)	Net Balance
Assets:					
Nuclear decommissioning fund	$ 465,936	$ 499,935	$ 109,423	$ —	$ 1,075,294
Commodity derivatives	—	17,039	38,207	(7,273)	47,973
Total	$ 465,936	$ 516,974	$ 147,630	$ (7,273)	$ 1,123,267
Liabilities:					
Commodity derivatives	$ —	$ 21,509	$ 14,960	$ (7,947)	$ 28,522
Total	$ —	$ 21,509	$ 14,960	$ (7,947)	$ 28,522

(a) FASB Interpretation No. 39 *Offsetting of Amounts Relating to Certain Contracts*, as amended by FASB Staff Position FIN 39-1 *Amendment of FASB Interpretation No. 39*, permits the netting of receivables and payables for derivatives and related collateral amounts when a legally enforceable master netting agreement exists between NSP-Minnesota and a counterparty. A master netting agreement is an agreement between two parties who have multiple contracts with each other that provides for the net settlement of all contracts in the event of default on or termination of any one contract.

The following table presents the changes in Level 3 recurring fair value measurements for the year ended Dec. 31, 2008:

(Thousands of Dollars)	Commodity Derivatives, Net	Nuclear Decommissioning Fund
Balance Jan. 1, 2008	$ 15,345	$ 108,656
Purchases, issuances, and settlements, net	(1,585)	12,198
Transfers out of Level 3	(2,578)	—
Gains recognized in earnings	496	—
Gains (losses) recognized as regulatory assets and liabilities	11,569	(11,431)
Balance Dec. 31, 2008	$ 23,247	$ 109,423

Gains on Level 3 commodity derivatives recognized in earnings for the year ended Dec. 31, 2008, include $2.9 million of net unrealized gains relating to commodity derivatives held at Dec. 31, 2008. Realized and unrealized gains and losses on commodity trading activities are included in electric revenues. Realized and unrealized gains and losses on short-term wholesale activities reflect the impact of regulatory recovery and are deferred as regulatory assets and liabilities. Realized and unrealized gains and losses on nuclear decommissioning fund investments are deferred as a component of a nuclear decommissioning regulatory asset.

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12. Rate Matters

NSP-Minnesota

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

Base Rate

NSP-Minnesota Electric Rate Case — On Nov. 3, 2008, NSP-Minnesota filed a request with the MPUC to increase Minnesota electric rates by $156 million annually, or 6.05 percent. The request is based on a 2009 forecast test year, an electric rate base of $4.1 billion, a requested ROE of 11.0 percent and an equity ratio of 52.5 percent.

In December 2008, the MPUC approved an interim rate increase of $132 million, or 5.12 percent, effective Jan. 2, 2009. The primary difference between interim rate levels approved and NSP-Minnesota's request of $156 million is due to a previously authorized ROE of 10.54 percent and NSP-Minnesota's requested ROE of 11.0 percent.

A final decision from the MPUC is expected in the third quarter of 2009. The following procedural schedule has been established:

- Staff and intervenor direct testimony on April 7, 2009;
- NSP-Minnesota rebuttal testimony on May 5, 2009;
- Staff and intervenor surrebuttal testimony on May 26, 2009; and
- Evidentiary hearings are scheduled for June 2-9, 2009.

Electric, Purchased Gas and Resource Adjustment Clauses

Transmission Cost Recovery (TCR) Rider — In November 2006, the MPUC approved a TCR rider pursuant to legislation, which allows annual adjustments to retail electric rates to provide recovery of incremental transmission investments between rate cases. In December 2007, NSP-Minnesota filed adjustments to the TCR rate factors and implemented a rider to recover $18.5 million beginning Jan. 1, 2008. In March 2008, the MPUC approved the 2008 rider, but required certain procedural changes for future TCR filings if costs are disputed. On Oct. 30, 2008, NSP-Minnesota submitted its proposed TCR rate factors for proposed recovery in 2009, seeking to recover $14 million beginning Jan. 1, 2009. A portion of amounts previously collected through the TCR rider prior to 2009 has been included for recovery in the electric rate case described above. MPUC approval is pending.

Renewable Energy Standard (RES) Rider — In March 2008, the MPUC approved an RES rider to recover the costs for utility-owned projects implemented in compliance with the RES, and the RES rider was implemented on April 1, 2008. Under the rider, NSP-Minnesota could recover up to approximately $14.5 million in 2008 attributable to the Grand Meadow wind farm, a 100 MW wind project, subject to true-up. In 2008, NSP-Minnesota submitted the RES rider for recovery of approximately $22 million in 2009 attributable to the Grand Meadow wind farm. On Feb. 12, 2009, the MPUC approved the rider request but required that the issue of whether these costs should be moved to base rates in the currently pending electric rate case or left in the rider, as NSP-Minnesota has proposed, to be addressed through supplemental testimony in the rate case.

MERP Rider — On Oct. 1, 2008, NSP-Minnesota filed a proposed MERP rider for 2009 designed to recover costs related to MERP environmental improvement projects. Under this rider, NSP-Minnesota proposes to recover $114 million in 2009, an increase of approximately $23 million over 2008. New rates went into effect automatically on Jan. 1, 2009 as stipulated. MPUC approval is still pending.

Annual Automatic Adjustment Report for 2007 — In September 2007, NSP-Minnesota filed its annual automatic adjustment reports for July 1, 2006 through June 30, 2007, which is the basis for the MPUC review of charges that flow through the FCA and PGA mechanisms. During that time period, $1.2 billion in fuel and purchased energy costs, including $384 million of MISO charges were recovered from electric customers through the FCA. In addition, approximately $590 million of purchased natural gas and transportation costs were recovered through the PGA. In October 2008, the MPUC voted to accept the 2007 gas annual automatic adjustment report. The 2007 annual electric automatic adjustment report is pending further MPUC action.

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Annual Automatic Adjustment Report for 2008 — In September 2008, NSP-Minnesota filed its annual automatic adjustment reports for July 1, 2007 through June 30, 2008. During that time period, $848.5 million in fuel and purchased energy costs, including $258.8 million of MISO charges, were recovered from Minnesota electric customers through the FCA. In addition, approximately $680 million of purchased natural gas and transportation costs were recovered through the PGA. The 2008 annual automatic adjustment reports are pending initial comments and MPUC action.

Midwest Independent Transmission Operator, Inc. (MISO) Ancillary Services Market (ASM) Cost Recovery — On May 9, 2008, NSP-Minnesota and several other Minnesota electric utilities filed jointly for MPUC regulatory approval to recover ASM costs through the Minnesota FCA cost recovery mechanism. The filing is pending MPUC action after an initial hearing on Dec. 18, 2008. The MPUC voted to approve FCA recovery of these charges, subject to refund, and required NSP-Minnesota to make a filing that demonstrates that there were benefits of the ASM market after one year of operation.

Gas Meter Module Failures — Approximately 8,700 customers in the St. Cloud and East Grand Forks areas of Minnesota and about 4,000 customers in the Fargo, N.D. area were under billed for a period of time during the 2007-2008 heating season due to the failure of the automated meter reading (AMR) module installed on their natural gas meters. While the modules failed to register usage, the meters continued to function. In the May to July 2008 timeframe, NSP-Minnesota rebilled approximately 5,000 of these customers for their estimated consumption during the period the modules registered no consumption and then ceased rebilling as both the MPUC and NDPSC opened investigations into this matter.

On July 2, 2008, NSP-Minnesota received a letter from the NDPSC requesting further information on the module failure. Subsequent meetings between NSP-Minnesota and NDPSC staff were held in September and October 2008 to discuss NSP-Minnesota's progress in addressing various NDPSC concerns about NSP-Minnesota's response.

On Aug. 1, 2008, the MPUC opened a docket and issued a notice directing NSP-Minnesota to file information about the AMR module failure. NSP-Minnesota responded to the MPUC on Aug. 21, 2008, proposing to rebill affected customers for the unrecorded natural gas usage during the months that no consumption or intermittent usage was recorded. NSP-Minnesota proposed to employ the process provided by NSP-Minnesota's natural gas tariff and the MPUC's rules to estimate usage, which would be consistent with the process used whenever any other type of meter or module failure affecting the measurement of customer consumption occurs. The MOAG and the OES subsequently submitted comments on NSP-Minnesota's filing. The OES comments indicated support for the rebilling plan with certain conditions. The MOAG raised concerns about the timing of the remediation efforts, and questions whether customers should be responsible for the entire cost of the unbilled natural gas.

On Nov. 6, 2008, the MPUC reviewed the matter and directed NSP-Minnesota to provide additional information prior to making a final decision on the rebilling plan.

On Dec. 3, 2008, NSP-Minnesota made a filing with the NDPSC regarding its commitments and proposed remedies for rebilling affected customers. The filing outlined the proposed rebilling plan in detail, which committed to a 10-day, go-forward field response to customer inquiries regarding meter accuracy, offered an adjustment to the natural gas true-up to remove the commodity cost for the under recovered gas due to the rebilling process and indicated willingness to work with NDPSC staff on a service quality credit for customers experiencing a module failure.

On Dec. 19, 2008, NSP-Minnesota met with MPUC staff, the OES and MOAG and in January 2009 filed its response to the questions with the MPUC. NSP-Minnesota indicated a willingness to work with parties to develop a remedy for the current situation, and to develop prospective service quality standards to address this and other concerns around billing accuracy. NSP-Minnesota has determined that a number of AMR modules designed for commercial customers are defective and as a result is broadening efforts to evaluate the performance of both gas and electric AMR modules.

Annual Review of Remaining Lives — On Oct. 8, 2008, the MPUC approved NSP-Minnesota's service lives, salvage rates and resulting depreciation rates for its electric and gas production facilities as well as the depreciation study for other gas and electric assets, effective Jan. 1, 2008. The net impact resulted in a reduction to depreciation expense of $5.6 million recognized in the third quarter, or $7.5 million on an annual basis.

Other

Nuclear Refueling Outage Costs — In November 2007, NSP-Minnesota requested a change in the recovery method for costs

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associated with refueling outages at its nuclear plants. The request sought approval to amortize refueling outage costs over the period between refueling outages to better match revenues and expenses. This request would have reduced 2008 expenses for the NSP-Minnesota jurisdiction by approximately $25 million due to deferral and amortization over an 18-month period versus expensed as incurred.

On Sept. 16, 2008, the MPUC authorized NSP-Minnesota to use a deferral and amortization method for the nuclear refueling operating and maintenance costs effective Jan. 1, 2008. The ruling reduced operating and maintenance expenses, but also resulted in revenue deferrals. The net result is a positive adjustment to year-end earnings of approximately $21 million.

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

NSP-Minnesota North Dakota Electric Rate Case — In December 2007, NSP-Minnesota filed a request with the NDPSC to increase North Dakota retail electric rates by $20.5 million, which would be an $18.2 million impact to NSP-Minnesota due to the transfer of certain costs and revenues between base rates and the fuel cost recovery mechanism. The request was based on an 11.50 percent ROE, an equity ratio of 51.77 percent, and a rate base of approximately $242 million. Interim rates of $17.2 million became effective in February 2008.

The NDPSC approved a settlement agreement on Dec. 31, 2008, which calls for a base rate increase of $12.8 million, based on an authorized ROE of 10.75 percent. Key terms of the settlement are listed below:

- Adjustments in depreciation expenses related to service life changes for generation plants and removal rates for transmission and distribution plant, resulting in a $2.5 million decrease in the revenue deficiency.
- Sharing of wholesale margins, refunding to customers 85 percent of asset-based wholesale margins and 50 percent of non-asset-based margins through the fuel clause. Test year wholesale margins to be shared with customers are estimated to be $1.9 million.
- An electric rate moratorium, under which NSP-Minnesota agreed to not implement an increase in electric rates until Jan. 1, 2011.
- Sharing any earnings in excess of the authorized 10.75 percent ROE, providing customers 50 percent of any earnings above 10.75 percent and 75 percent of any earnings above 11.25 percent.
- The settlement outlines a process for more NDPSC involvement in NSP-Minnesota's resource planning process.

In addition to approving the settlement, the NDPSC terminated a 2005 filing regarding recovery of MISO Day 2 market charges, thus approving FCA recovery of all MISO Day 2 charges through the FCA retroactively and prospectively. Based on the final order, there will be an estimated interim rate refund of $6.3 million, which will be refunded back to customers by June 1, 2009. This refund was accrued for in 2008 and will have no impact on 2009 results. Final rates will be implemented for service on and after March 1, 2009.

Nuclear Refueling Outage Costs — In late 2007, NSP-Minnesota filed with both the NDPSC and SDPUC a request asking for a change in the recovery method for costs associated with refueling outages at its nuclear plants. The request is comparable to that filed with the MPUC. In February 2008, the NDPSC approved the request, indicating that appropriate cost recovery levels would be determined in the pending electric rate case.

The SDPUC approved the NSP-Minnesota's request to change the accounting method for nuclear refueling outage operating and maintenance cost from a direct expense method to a method that amortizes these costs over the period between outages.

MISO ASM Cost Recovery — On Dec. 24, 2008, NSP-Minnesota filed for NDPSC and SDPUC regulatory approval to recover MISO ASM costs via an FCA cost recovery mechanism. NSP-Minnesota requested a regulatory order prior to March 1, 2009, when ASM charges and revenues would affect the North Dakota and South Dakota FCA. On Feb. 11, 2009, the NDPSC concluded that FCA treatment of these costs was already provided for by the rate case settlement. Based on this information, NSP-Minnesota filed to withdraw its request. The MPUC granted the withdrawal request at its Feb. 25, 2009 open meeting. On Feb. 12, 2009 the SDPUC approved NSP-Minnesota's request.

NSP-Minnesota South Dakota Transmission Cost Recovery (TCR) and Environmental Cost Recovery (ECR) Rate Riders — In December 2008, the SDPUC approved two rate riders for recovery of transmission investments and environmental costs effective Feb. 1, 2009.

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In February 2007, NSP-Minnesota filed a petition for approval of a tariff establishing a TCR rider for recovery of certain transmission investments. The TCR rider rate is set to recover approximately $1.9 million during 2009. In September 2007, NSP-Minnesota filed a petition for approval of a tariff establishing an environmental cost recovery (ECR) rider for recovery of pollution control equipment installed at NSP-Minnesota's A. S. King plant. The ECR Rider rate is set to recover approximately $2.5 million during 2009.

Both rate riders were allowed a return on equity of 9.5 percent according to the terms of their respective settlement agreements. However, if NSP-Minnesota makes a general rate filing utilizing a 2008 test year, the SDPUC may order that an appropriate ROE value to be utilized under the rider mechanism, subject to true-up for the period from July 1, 2008 to the effective date of the order.

Pending and Recently Concluded Regulatory Proceedings — FERC

MISO Long-Term Transmission Pricing — In October 2005, MISO filed a proposed change to its TEMT to regionalize future cost recovery of certain high voltage transmission projects. The tariff, called the Regional Expansion Criteria Benefits tariff, would recover certain eligible transmission investments from all transmission service customers in the MISO 15 state region. In November 2006, the FERC issued an order accepting the regional economic benefits (RECB) I tariff, including a 20 percent limitation on the portion of transmission reliability expansion costs that would be regionalized and recovered from all loads in the MISO region.

Transmission service rates in the MISO region have historically used a rate design in which the transmission cost depends on the location of the load being served, which is referred to as license plate rates. Costs of existing transmission facilities are thus not regionalized. In August 2007, MISO and its transmission owners filed a successor rate methodology, to be effective February 2008.American Electric Power (AEP) filed a competing rate proposal that would regionalize certain costs of the existing AEP system over the MISO and PJM RTO regions. The AEP proposal would shift several million dollars in transmission costs annually to the NSP System. In January 2008, the FERC rejected the AEP proposal. On Dec. 18, 2008, the FERC denied AEP's request for rehearing.

Revenue Sufficiency Guarantee Charges — In April 2006, the FERC issued an order determining that MISO had incorrectly applied its TEMT regarding the application of the revenue sufficiency guarantee (RSG) charge to certain transactions. The FERC ordered MISO to resettle all affected transactions retroactive to April 2005. The RSG charges are collected from MISO customers and paid to generators. In October 2006, the FERC issued an order granting rehearing in part and reversed the prior ruling requiring MISO to issue retroactive refunds, and ordered MISO to submit a compliance filing to implement prospective changes.

In March 2007, the FERC issued orders separately denying rehearing of the FERC order. Several parties filed appeals to the U.S Court of Appeals for the District of Columbia seeking judicial review of the FERC's determinations of the allocation of RSG costs among MISO market participants. Xcel Energy intervened in each of these proceedings. In August 2007, Ameren Services Company (Ameren) and the Northern Indiana Public Service Company (NIPSCO) filed a joint complaint against MISO at the FERC, challenging the MISO's FERC-approved methodology for the recovery of RSG costs. In November 2007, the FERC issued an order instituting a proceeding to review evidence and to establish a RSG cost allocation methodology for market participants under the MISO TEMT. In March 2008, the MISO filed indicative tariff revisions that reflect an alternative mechanism for allocating RSG charges and costs. In August 2008, the FERC rejected this filing and issued an order commencing a hearing.

In November 2008, the FERC issued two orders related to RSG. One order requires the RSG charge allocation to include virtual supply transactions and requires resettlement of RSG charges retroactive to August 2007. The second order reversed a prior FERC decision and changed the RSG calculation methodology for the May 2006 to August 2007 retroactive period. Several parties filed requests for rehearing of the November 2008 FERC orders, arguing that the change in RSG allocation should be prospective. The RSG-related dockets are pending FERC action.

13. Commitments and Contingent Liabilities

Capital Commitments — As of Dec. 31, 2008, the estimated cost of the capital expenditure programs and other capital requirements of NSP-Minnesota is approximately $880 million in 2009, $1.3 billion in 2010 and $1.4 billion in 2011. NSP-Minnesota's capital forecast includes the following major projects.

Nuclear Capacity Increases and Life Extension — In August 2004, NSP-Minnesota announced plans to pursue 20-year license

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renewals for the Monticello and Prairie Island nuclear plants. A renewed operating license was approved and issued for Monticello by the NRC in November 2006 licensing the plant to operate until 2030, and the MPUC order approving the spent fuel storage capacity needed to support plant operations until 2030 went into effect in June 2007. The application to renew Prairie Island's operating licenses was submitted to the NRC in April 2008 and the application for a certificate of need for additional spent fuel storage capacity to support 20 additional years of plant operation was submitted to the MPUC in May 2008. Final state and federal approvals are expected in 2010.

NSP-Minnesota is pursuing capacity increases of Monticello and Prairie Island that will total approximately 230 MW, to be implemented, if approved, between 2009 and 2015. The life extension and capacity increase for Prairie Island Unit 2 is contingent on replacement of Unit 2's original steam generators, currently planned during the refueling outage in 2013. Total capital investment for these activities is estimated to be over $1 billion between 2006 and 2015. NSP-Minnesota submitted the certificate of need and site permit applications for Monticello's power uprate in the first quarter of 2008 and the certificate of need and site permit applications for Prairie Island's power uprate in the second quarter of 2008. The MPUC approved the Monticello power uprate certificate of need and site permit in December 2008. Action by the MPUC on the Prairie Island power uprate certificate of need and site permit is expected in fourth quarter of 2009.

Wind Generation — NSP-Minnesota plans to invest approximately $900 million over three years for a 201 MW project in southwestern Minnesota's Nobles County, called the Nobles Wind Project, and a 150 MW project in Dickey and McIntosh counties in southeastern North Dakota, called the Merricourt Wind Project, expected to be operational by the end of 2010 and 2011, respectively. NSP-Minnesota is in the process of seeking regulatory approval for the projects, which would be eligible for rider recovery in Minnesota.

CAPX 2020 — In June 2006, CapX 2020, an alliance of electric cooperatives, municipals and investor-owned utilities in the upper Midwest, including Xcel Energy, announced that it had identified several groups of transmission projects that proposed to be complete by 2020. Group 1 project investments are expected to total approximately $1.7 billion, with major construction targeted to begin in 2010 and ending three to five years later. Xcel Energy's investment is expected to be approximately $900 million depending on the route and configuration approved by the MPUC. Approximately 75 percent of the capital expenditures and return on investment for transmission projects are expected to be recovered under an NSP-Minnesota TCR tariff rider mechanism authorized by Minnesota legislation, as well as a similar TCR mechanism passed in South Dakota. Cost recovery by NSP-Wisconsin is expected to occur through the biennial PSCW rate case process.

MERP Project — In December 2003, the MPUC approved NSP-Minnesota's MERP proposal to convert two coal-fueled electric generating plants to natural gas, and to install advanced pollution control equipment at a third coal-fired plant. These improvements are expected to significantly reduce air emissions from these facilities, while increasing the capacity at system peak by 300 MW. New state-of-the-art emission control equipment was placed in-service for the Allen S. King plant in 2007, and the existing High Bridge facility was replaced with a 575 MW natural gas combined cycle unit, which went into service in May 2008. The final phase of the MERP program, the new Riverside combined cycle plant, is currently in start-up and scheduled to be in-service by May 2009. The cumulative investment is approximately $1 billion. The MPUC has approved a more current recovery of the financing costs related to the MERP. The in-service plant costs, including the financing costs during construction, are recovered from customers through a MERP rider, which was effective Jan. 1, 2006.

The capital expenditure programs of NSP-Minnesota are subject to continuing review and modification. Actual utility construction expenditures may vary from the estimates due to changes in electric and natural gas projected load growth regulatory decisions, the desired reserve margin and the availability of purchased power, as well as alternative plans for meeting NSP-Minnesota's long-term energy needs. In addition, NSP-Minnesota's ongoing evaluation of compliance with future requirements to install emission-control equipment and merger, acquisition and divestiture opportunities to support corporate strategies may impact actual capital requirements.

Fuel Contracts — NSP-Minnesota has contracts providing 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 2009 and 2028. In addition, NSP-Minnesota may be required to pay additional amounts depending on actual quantities shipped under these agreements. The potential risk of loss, in the form of increased costs from market price changes in fuel, is mitigated through the cost-rate adjustment mechanisms, which provide for pass through of most fuel, storage and transportation costs.

The estimated minimum purchases for NSP-Minnesota under these contracts as of Dec. 31, 2008, is as follows:

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Coal	Nuclear Fuel	Natural Gas Supply	Gas Storage & Transportation
(Millions of Dollars)			
$ 665	$ 345	$ 347	$ 993

Purchased Power Agreements — NSP-Minnesota has entered into agreements with utilities and other energy suppliers for purchased power to meet system load and energy requirements, replace generation from company-owned units under maintenance and during outages and meet operating reserve obligations. NSP-Minnesota has various pay-for-performance contracts with expiration dates through the year 2032. In general, these contracts provide for capacity payments, subject to meeting certain contract obligations and energy payments based on actual power taken under the contracts. Certain contractual payment obligations are adjusted based on indices. However, the effects of these price adjustments are mitigated through cost-of-energy rate adjustment mechanisms.

At Dec. 31, 2008, the estimated future payments for capacity, accounted for as executory contracts, that NSP-Minnesota is obligated to purchase, subject to availability, were as follows:

(Millions of Dollars)	
2009	$ 108.3
2010	111.3
2011	110.7
2012	108.9
2013	111.1
2014 and thereafter	399.5
Total*	$ 949.8

* Includes amounts allocated to NSP-Wisconsin through intercompany charges.

Leases — NSP-Minnesota leases a variety of equipment and facilities used in the normal course of business, which are accounted for as operating leases. Total rental expense under operating lease obligations was approximately $70.7 million, $53.3 million and $35.7 million for 2008, 2007 and 2006, respectively. Included in total rental expense were purchase power agreement payments of $48.6 million, $29.5 million and $14.5 million in 2008, 2007 and 2006, respectively.

Included in the future commitments under operating leases are estimated future payments under purchase power agreements that have been accounted for as operating leases in accordance with EITF No. 01-8, *Determining whether an Arrangement Contains a Lease* and SFAS No. 13, *Accounting for Leases.* Future commitments under operating leases are:

(Millions of Dollars)	Other Operating Leases	Purchased Power Agreement Operating Leases (a) (b)	Total Operating Leases
2009	$ 11.1	$ 52.3	$ 63.4
2010	8.6	53.1	61.7
2011	6.7	54.0	60.7
2012	5.3	55.0	60.3
2013	5.1	55.9	61.0
Thereafter	9.5	731.0	740.5

(a) Amounts not included in purchase power agreement estimated future payments above.
(b) Purchase power agreement operating leases expire contractually through 2025.

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 potentially responsible parties (PRPs) and

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through the rate regulatory process. New and changing federal and state environmental mandates can also create added financial liabilities for NSP-Minnesota, which are normally recovered through the rate regulatory 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 — NSP-Minnesota must 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, to which NSP-Minnesota is alleged to be a PRP that sent hazardous materials and wastes. At Dec. 31, 2008, the liability for the cost of remediating these sites was estimated to be $0.4 million, of which $0.2 million was considered to be a current liability.

Third Party and Other Environmental Site Remediation

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 asset retirement obligation. See additional discussion of asset retirement obligations below. It may be necessary to remove some asbestos to perform maintenance or make improvements to other equipment. The cost of removing asbestos as part of other work is immaterial and is recorded as incurred as operating expenses for maintenance projects, capital expenditures for construction projects or removal costs for demolition projects.

Other Environmental Requirements

Clean Air Interstate Rule (CAIR) — In March 2005, the EPA issued the CAIR to further regulate SO_2 and NOx emissions. The objective of CAIR was to cap emissions of SO_2 and NOx in the eastern United States, including Minnesota. In July 2008, the U. S. Court of Appeals for the District of Columbia vacated CAIR and remanded the rule to the EPA. On Dec. 23, 2008, the court reinstated CAIR while the EPA develops new regulations in accordance with the court's July opinion.

As currently written, CAIR has a two-phase compliance schedule, beginning in 2009 for NOx and 2010 for SO_2, with a final compliance deadline in 2015 for both emissions. Under CAIR, each affected state will be allocated an emissions budget for SO_2 and NOx that will result in significant emission reductions. It will be based on stringent emission controls and forms the basis for a cap-and-trade program. State emission budgets or caps decline over time. States can choose to implement an emissions reduction program based on the EPA's proposed model program, or they can propose another method, which the EPA would need to approve.

The EPA has drafted a proposed rule to stay the effectiveness of CAIR in Minnesota. As such, cost estimates are not included at this time for NSP-Minnesota.

Clean Air Mercury Rule (CAMR) — In March 2005, the EPA issued the CAMR, which regulated mercury emissions from power plants. In February 2008, the U.S. Court of Appeals for the District of Columbia vacated CAMR, which impacts federal CAMR requirements, but not necessarily state-only mercury rules and legislation. Costs to comply with the Minnesota Mercury Emissions Reduction Act of 2006 are discussed below.

Minnesota Mercury Legislation — In May 2006, the Minnesota legislature enacted the Mercury Emissions Reduction Act of 2006 (Act) providing a process for plans, implementation and cost recovery for utility efforts to curb mercury emissions at certain power plants. For NSP-Minnesota, the Act covers units at the A. S. King and Sherco generating facilities. Under the Act, NSP-Minnesota is operating and maintaining continuous mercury emission monitoring systems. The information obtained will be used to establish a baseline from which to measure mercury emission reductions.

On Dec. 21, 2007, NSP-Minnesota filed mercury emission reduction plans for two dry scrubbed units, Sherco Unit 3 and A. S. King, as well as a comprehensive emissions reduction and capacity upgrade proposal for Sherco Units 1 and 2 (wet scrubbed units). A revised specific mercury reduction proposals for these units will be filed by Dec. 31, 2009, as required by the legislation. Current plans are to install a sorbent injection system at both A. S. King and Sherco Unit 3. Implementation would occur by Dec. 31, 2009, at Sherco Unit 3 and by Dec. 31, 2010, for A. S. King. For these units, the current total capital costs estimate is $8.5 million, with the annual cost estimate of $4.3 million for A. S. King and $4.2 million for Sherco Unit 3. For Sherco Units 1 and 2, the current cost

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estimate is $13.6 million for capital and $10 million annual expenses.

Utilities subject to the Act may also submit plans to address non-mercury pollutants subject to federal and state statutes and regulations, which became effective after Dec. 31, 2004. Cost recovery provisions of the Act also apply to these other environmental initiatives. In September 2006, NSP-Minnesota filed a request with the MPUC for recovery of up to $6.3 million of certain environmental improvement costs that are expected to be recoverable under the Act. In January 2007, the MPUC approved this request to defer these costs as a regulatory asset with a cap of $6.3 million. On Aug. 26, 2008, NSP-Minnesota filed a request with the MPUC to increase the deferral to $19.4 million as NSP-Minnesota anticipated exceeding the authorized deferral amount in September 2008. On Nov. 6, 2008, the MPUC approved and ordered the implementation of the Sherco Unit 3 and A. S. King mercury emission reduction plans.

Voluntary Capacity Upgrade and Emissions Reduction Filing — In December 2007, NSP-Minnesota filed a plan with the Minnesota Pollution Control Agency (MPCA) and MPUC for reducing mercury emissions by up to 90 percent at the Sherco Unit 3 and A. S. King plants. Currently, the estimated project costs are approximately $8.5 million. At the same time, NSP-Minnesota submitted a revised filing to the MPUC for a major emissions reduction project at Sherco Units 1 and 2 to reduce emissions and expand capacity. The revised filing has estimated project costs of approximately $1.1 billion. The filing also contains alternatives for the MPUC to consider to add additional capacity and to achieve even lower emissions. If selected, these alternatives could range from $90.8 to $330.8 million in addition to the $1.1 billion proposal. NSP-Minnesota's investments are subject to MPUC approval of a cost recovery mechanism. The MPCA has issued its assessment that the Sherco Unit 3 and A. S. King plans are appropriate. In light of recent significant changes in the national economy, lower forecast of energy consumption, and new information concerning an emerging technology that may be more cost effective, NSP-Minnesota filed a request with the MPUC to withdraw the plan on Nov. 6, 2008, to allow NSP-Minnesota to reevaluate alternatives. The MPUC granted the withdrawal request on Dec. 9, 2008.

Regional Haze Rules — In June 2005, the EPA finalized amendments to the July 1999 regional haze rules. These amendments apply to the provisions of the regional haze rule that require emission controls, known as BART, for industrial facilities emitting air pollutants that reduce visibility by causing or contributing to regional haze.

The EPA required states to develop implementation plans to comply with BART by December 2007. NSP-Minnesota submitted its BART alternatives analysis for Sherco Units 1 and 2 in October 2006. The MPCA reviewed the BART analyses for all units in Minnesota and determined that overall, compliance with CAIR is better than BART. In July 2008, the U. S. Circuit Court of Appeals for the District of Columbia vacated CAIR and remanded the rule to the EPA. In December 2008, the Court of Appeals reinstated CAIR while the EPA develops new regulations in accordance with the Court's July opinion. For Minnesota facilities, however, the EPA has drafted a proposed rule that would stay the effectiveness of CAIR within the state. Therefore, the MPCA has reestablished the BART process and requested that companies with BART-eligible units inform the MPCA whether the company will rely on the initial 2006 BART determination submittal or if they intend to submit a revised analysis. On Nov. 13, 2008, NSP-Minnesota submitted a revised BART alternatives analysis letter to the MPCA to account for increased construction and equipment costs. The underlying conclusions and proposed emission control equipment, however, remained unchanged from the original 2006 BART analysis.

Federal Clean Water Act — The federal Clean Water Act requires the EPA to regulate cooling water intake structures to assure that these structures reflect the best technology available (BTA) for minimizing adverse environmental impacts. In July 2004, the EPA published phase II of the rule, which applies to existing cooling water intakes at steam-electric power plants. Several lawsuits were filed against the EPA in the United States Court of Appeals for the Second Circuit challenging the phase II rulemaking. In January 2007, the court issued its decision and remanded virtually every aspect of the rule to the EPA for reconsideration. In June 2007, the EPA suspended the deadlines and referred any implementation to each state's best professional judgment until the EPA is able to fully respond to the court-ordered remand. As a result, the rule's compliance requirements and associated deadlines are currently unknown. It is not possible to provide an accurate estimate of the overall cost of this rulemaking at this time due to the many uncertainties involved. In April 2008, the U.S. Supreme Court granted limited review of the Second Circuit's opinion to determine whether the EPA has the authority to consider costs and benefits in assessing BTA. A decision is not expected until 2009.

The MPCA exercised its authority under "best professional judgment" to require Black Dog Generating Station in its recently renewed wastewater discharge permit to create a plan by April 2010 to reduce the plant intake's impact on aquatic wildlife. NSP-Minnesota is discussing alternatives with the local community and regulatory agencies to address this concern.

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Asset Retirement Obligations

NSP-Minnesota records future plant removal obligations as a liability at fair value with a corresponding increase to the carrying values of the related long-lived assets in accordance with FASB Statement No. 143, *Accounting for Asset Retirement Obligations,* (SFAS No. 143). This liability will be increased over time by applying the interest method of accretion to the liability and the capitalized costs will be depreciated over the useful life of the related long-lived assets. The recording of the obligation for regulated operations has no income statement impact due to the deferral of the adjustments through the establishment of a regulatory asset pursuant to SFAS No. 71.

Recorded ARO — AROs have been recorded for plant related to nuclear production, steam production, electric transmission and distribution, gas distribution and office buildings. The steam production obligation includes asbestos, ash containment facilities, radiation sources and decommissioning. The asbestos recognition associated with the steam production includes certain plants at NSP-Minnesota. NSP-Minnesota also recorded asbestos recognition for its general office building.

Generally, this asbestos abatement removal obligation originated in 1973 with the Clean Air Act, 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 date on the ARO recognition for ash-containment facilities at steam plants was the in-service date of various facilities. A new ARO has been recorded for steam production plant related to radiation sources in equipment used to monitor the flow of coal, lime and other materials through feeders. The origination date on the new ARO is 2008, the in-service date of the monitoring equipment.

In 2008, NSP-Minnesota recognized an ARO associated with the wind turbines at the new Grand Meadow Wind Farm. The turbines are located on leased property, and under the lease agreements, must be removed when no longer used. The recognition of the ARO was due to the units being placed in service in the fourth quarter of 2008.

NSP-Minnesota recognized an ARO for the retirement costs of natural gas mains and for the removal of electric transmission and distribution equipment. The electric transmission and distribution ARO consists of many small potential obligations associated with polychlorinated biphenyls (PCBs), mineral oil, storage tanks, treated poles, lithium batteries, mercury and street lighting lamps. These electric and natural gas assets have many 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 ARO associated with the decommissioning of two NSP-Minnesota nuclear generating plants, Monticello and Prairie Island, originates with the in-service date of the facility. Monticello began operation in 1971. Prairie Island units 1 and 2 began operation in 1973 and 1974, respectively. See Note 14 to the financial statements for further discussion of nuclear obligations.

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A reconciliation of the beginning and ending aggregate carrying amounts of NSP-Minnesota's AROs is shown in the table below for the 12 months ended Dec. 31, 2008 and Dec. 31, 2007, respectively:

(Thousands of Dollars)	Beginning Balance Jan. 1, 2008	Liabilities Recognized	Liabilities Settled	Accretion	Revisions To Prior Estimates	Ending Balance Dec. 31, 2008
Electric Utility Plant:						
Steam production asbestos	$ 22,423	$ —	$ —	$ 1,279	$ (4,182)	$ 19,520
Steam production ash containment	18,111	—	—	1,001	(5,268)	13,844
Steam production radiation sources	—	61	—	—	—	61
Nuclear production decommissioning	1,209,746	—	—	71,370	(267,774)	1,013,342
Wind production	—	7,408	—	39	—	7,447
Electric transmission and distribution	125	—	—	7	19	151
Gas Utility Plant:						
Gas transmission and distribution	12,685	—	—	314	(12,754)	245
Common Utility and Other Property:						
Common general plant asbestos	1,278	—	—	70	(269)	1,079
Total liability	$ 1,264,368	$ 7,469	$ —	$ 74,080	$ (290,228)	$ 1,055,689

The fair value of NSP-Minnesota assets legally restricted for purposes of settling the nuclear AROs is $1.1 billion as of Dec. 31, 2008, including external nuclear decommissioning investment funds and internally funded amounts.

A new decommissioning study filed with the MPUC in 2008 proposed the extension of the final removal date of the Monticello and Prairie Island nuclear plants by 14 and 26 years, respectively, effective Jan. 1, 2009. As a result of the studies for the Monticello and Prairie Island nuclear plants, the nuclear production decommissioning ARO and related regulatory asset decreased by $128.5 million and $139.3 million, respectively, in the fourth quarter of 2008.

NSP-Minnesota also incurred revisions to prior estimates for asbestos, ash ponds, gas distribution and electric transmission and distribution asset retirement obligations due to revised estimates and end of life dates.

(Thousands of Dollars)	Beginning Balance Jan. 1, 2007	Liabilities Recognized	Liabilities Settled	Accretion	Revisions To Prior Estimates	Ending Balance Dec. 31, 2007
Electric Utility Plant:						
Steam production asbestos	$ 22,169	$ —	$ —	$ 1,262	$ (1,008)	$ 22,423
Steam production ash containment	17,163	—	—	948	—	18,111
Nuclear production decommissioning	1,256,763	—	—	73,914	(120,931)	1,209,746
Electric transmission and distribution	940	—	—	20	(835)	125
Gas Utility Plant:						
Gas transmission and distribution	12,378	—	—	307	—	12,685
Common Utility and Other Property:						
Common general plant asbestos	1,858	—	—	100	(680)	1,278
Total liability	$ 1,311,271	$ —	$ —	$ 76,551	$ (123,454)	$ 1,264,368

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On Sept. 21, 2007, the MPUC approved NSP-Minnesota's remaining lives depreciation filing lengthening the life of the Monticello nuclear plant by 20 years, effective Jan. 1, 2007, which decreased the related ARO and related regulatory asset by $120.9 million in the third quarter of 2007.

Nuclear Insurance

NSP-Minnesota's public liability for claims resulting from any nuclear incident is limited to $12.5 billion under the Price-Anderson amendment to the Atomic Energy Act of 1954, as amended. NSP-Minnesota has secured $300 million of coverage for its public liability exposure with a pool of insurance companies. The remaining $12.2 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 $117.5 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 $17.5 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 Oct. 29, 2008. The next adjustment is due on or before Oct. 29, 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 $29.7 million for property damage insurance if losses exceed accumulated reserve funds.

Legal Contingencies

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

Environmental Litigation

Carbon Dioxide Emissions Lawsuit — In July 2004, the attorneys general of eight states and New York City, as well as several environmental groups, filed lawsuits in U.S. District Court in the Southern District of New York against five utilities, including Xcel Energy, to force reductions in CO_2 emissions. The other utilities include American Electric Power Co., Southern Co., Cinergy Corp. and Tennessee Valley Authority. The lawsuits allege that CO_2 emitted by each company is a public nuisance as defined under state and federal common law because it has contributed to global warming. The lawsuits do not demand monetary damages. Instead, the lawsuits ask the court to order each utility to cap and reduce its CO_2 emissions. In October 2004, Xcel Energy and the other defendants filed a motion to dismiss the lawsuit. On Sept. 19, 2005, the court granted the motion to dismiss on constitutional grounds. Plaintiffs filed an appeal to the U.S. Court of Appeals for the Second Circuit. In June 2007 the Court of Appeals issued an order requesting the parties to file a letter brief regarding the impact of the United States Supreme Court's decision in Massachusetts v. EPA, 127 S.Ct. 1438 (April 2, 2007) on the issues raised by the parties on appeal. Among other things, in its decision in *Massachusetts v. EPA*, the United States Supreme Court held that CO_2 emissions are a "pollutant" subject to regulation by the EPA under the CAA. In July 2007, in response to the request of the Court of Appeals, the defendant utilities filed a letter brief stating the position that the United States Supreme Court's decision supports the arguments raised by the utilities on appeal. The Court of Appeals has taken the matter under advisement and is expected to issue an opinion in due course.

Comer vs. Xcel Energy Inc. et al. — In April 2006, Xcel Energy received notice of a purported class action lawsuit filed in U.S. District Court in the Southern District of Mississippi. The lawsuit names more than 45 oil, chemical and utility companies, including Xcel Energy, as defendants and alleges that defendants' CO_2 emissions "were a proximate and direct cause of the increase in the

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destructive capacity of Hurricane Katrina." Plaintiffs allege in support of their claim, several legal theories, including negligence and public and private nuisance and seek damages related to the loss resulting from the hurricane. Xcel Energy believes this lawsuit is without merit and intends to vigorously defend itself against these claims. In August 2007, the court dismissed the lawsuit in its entirety against all defendants on constitutional grounds. In September 2007, plaintiffs filed a notice of appeal to the U.S. Court of Appeals for the Fifth Circuit. Oral arguments were presented to the Court of Appeals on Aug. 6, 2008. Pursuant to the court's order of Sept. 26, 2008, re-argument was held on Nov. 3, 2008. No explanation was given for the order. The Court of Appeals has taken the matter under advisement.

Native Village of Kivalina vs. Xcel Energy Inc. et al. — In February 2008, the City and Native Village of Kivalina, Alaska, filed a lawsuit in U.S. District Court for the Northern District of California against Xcel Energy, the parent company of NSP-Minnesota, and 23 utilities, oil, gas and coal companies. The suit was brought on behalf of approximately 400 native Alaskans, the Inupiat Eskimo, who claim that Defendants' emission of CO_2 and other greenhouse gases (GHG) contribute to global warming, which is harming their village. Plaintiffs claim that as a consequence, the entire village must be relocated at a cost of between $95 million and $400 million. Plaintiffs assert a nuisance claim under federal and state common law, as well as a claim asserting "concert of action" in which defendants are alleged to have engaged in tortious acts in concert with each other. Xcel Energy was not named in the civil conspiracy claim. Xcel Energy believes the claims asserted in this lawsuit are without merit and joined with other utility defendants in filing a motion to dismiss on June 30, 2008. The matter has now been fully briefed, with oral arguments set for May 19, 2009. It is unknown when the court will render a decision.

Employment, Tort and Commercial Litigation

Siewert vs. Xcel Energy — In June 2004, plaintiffs, the owners and operators of a Minnesota dairy farm, brought an action in Minnesota state court against NSP-Minnesota alleging negligence in the handling, supplying, distributing and selling of electrical power systems; negligence in the construction and maintenance of distribution systems; and failure to warn or adequately test such systems. Plaintiffs allege decreased milk production, injury and damage to a dairy herd as a result of stray voltage resulting from NSP-Minnesota's distribution system. Plaintiffs claim losses of approximately $7 million. NSP-Minnesota denies all allegations. After its motion to dismiss plaintiffs' claims was denied, NSP-Minnesota filed a motion to certify questions for immediate appellate review. In October 2007, the court granted NSP- Minnesota's motion for certification, and oral arguments took place on Sept. 11, 2008. Mediation took place on Oct. 14, 2008, but the matter was not resolved. In December 2008, the Court of Appeals issued a decision ordering dismissal of Plaintiffs' claims for injunctive relief, but otherwise rejecting NSP-Minnesota's contentions and ordering the matter remanded for trial. The Minnesota Supreme Court subsequently granted NSP-Minnesota's petition for further review on Feb. 17, 2009.

Hoffman vs. Northern States Power Company — In March 2006, a purported class action complaint was filed in Minnesota state court, on behalf of NSP-Minnesota's residential customers in Minnesota, North Dakota and South Dakota for alleged breach of a contractual obligation to maintain and inspect the points of connection between NSP-Minnesota's wires and customers' homes within the meter box. Plaintiffs claim NSP-Minnesota's alleged breach results in an increased risk of fire and is in violation of tariffs on file with the MPUC. Plaintiffs seek injunctive relief and damages in an amount equal to the value of inspections plaintiffs claim NSP-Minnesota was required to perform over the past six years. In August 2006, NSP-Minnesota filed a motion for dismissal on the pleadings. In November 2006, the court issued an order denying NSP-Minnesota's motion, but later, pursuant to a motion by NSP-Minnesota, certified the issues raised in NSP-Minnesota's original motion for appeal as important and doubtful, and NSP-Minnesota filed an appeal with the Minnesota Court of Appeals. In January 2008, the Minnesota Court of Appeals determined the plaintiffs' claims are barred by the filed rate doctrine and remanded the case to the district court for dismissal. Plaintiffs petitioned the Minnesota Supreme Court for discretionary review, and the Supreme Court granted the petition. Oral argument took place on Nov. 4, 2008. It is unknown when a decision will be issued.

Nuclear Waste Disposal Litigation — In 1998, NSP-Minnesota filed a complaint in the U.S. Court of Federal Claims against the United States requesting breach of contract damages for the U.S. Department of Energy's (DOE) failure to begin accepting spent nuclear fuel by Jan. 31, 1998, as required by the contract between the DOE and NSP-Minnesota. At trial, NSP-Minnesota claimed damages in excess of $100 million through Dec. 31, 2004. On Sept. 26, 2007, the court awarded NSP-Minnesota $116.5 million in damages. In December 2007, the court denied the DOE's motion for reconsideration. In February 2008, the DOE filed an appeal to the U.S. Court of Appeals for the Federal Circuit, and NSP-Minnesota cross-appealed on the cost of capital issue. In April 2008, the DOE asked the Court of Appeals to stay briefing until the appeals in several other nuclear waste cases have been decided, and the

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Court of Appeals granted the request. In December 2008, NSP-Minnesota made a motion in the Court of Appeals to lift the stay, which was denied by the Court of Appeals in February 2009. Results of the judgment will not be recorded in earnings until the appeal and regulatory treatment and amounts to be shared with ratepayers have been resolved. Given the uncertainties, it is unclear as to how much, if any, of this judgment will ultimately have a net impact on earnings.

In August 2007, NSP-Minnesota filed a second complaint against the DOE in the U.S. Court of Federal Claims (NSP II), again claiming breach of contract damages for the DOE's continuing failure to abide by the terms of the contract. This lawsuit will claim damages for the period Jan. 1, 2005 through Dec. 31, 2008, which includes costs associated with the storage of spent nuclear fuel at Prairie Island and Monticello, as well as the costs of complying with state regulation relating to the storage of spent nuclear fuel. The amount of such damages is expected to exceed $40 million. In January 2008, the court granted the DOE's motion to stay, but the stay was lifted in November 2008. The court's scheduling order provides that the parties will exchange expert reports in 2009, and that all discovery will be completed by the end of 2009. Trial is expected to take place in 2010.

Fargo Gas Explosion — In September 2008, an explosion occurred at a duplex in Fargo, N.D. The explosion destroyed one side of the duplex and resulted in injuries to some of the residents. Xcel Energy subsequently provided a report to the U.S. Dept. of Transportation Pipeline and Hazardous Materials Safety Administration stating that natural gas migrated into the house and was ignited by an unknown source. Investigators identified a natural gas leak the size of a pinhole located 18 inches underground. The property owners and attorneys representing the injured residents have put Xcel Energy on notice of potential claims. Investigation into the incident is continuing.

14. 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 Kwh sold to customers from nuclear generation. Fuel expense includes the DOE fuel disposal assessments of approximately $13 million in 2008, 2007 and 2006, respectively. In total, NSP-Minnesota had paid approximately $386 million to the DOE through Dec. 31, 2008. The Nuclear Waste Policy Act of 1982 required the DOE to begin accepting spent nuclear fuel no later than Jan. 31, 1998. In 1996, the DOE notified commercial spent-fuel owners of an anticipated delay in accepting spent nuclear fuel by the required date and conceded that a permanent storage or disposal facility will not be available until at least 2010. NSP-Minnesota and other utilities have commenced lawsuits against the DOE to recover damages caused by the DOE's failure to meet its statutory and contractual obligations.

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 current license terms in 2013 and 2014 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, as last approved by the MPUC, is planned for the period from cessation of operations through 2067, assuming the prompt dismantlement method. NSP-Minnesota is currently recording the regulatory costs for decommissioning over the MPUC-approved cost-recovery period and including the accruals in a regulatory liability account. The total decommissioning cost obligation is recorded as an ARO in accordance with SFAS No. 143.

Monticello began operation in 1971 and with its renewed operating license and certificate of need for spent fuel capacity to support 20 years of extended operation can operate until 2030. Prairie Island units 1 and 2 began operation in 1973 and 1974, respectively, and are currently licensed to operate until 2013 and 2014, respectively. The Monticello 20-year depreciation life extension until September 2030 was granted by the MPUC on Sept. 21, 2007. Construction of the Monticello dry-cask storage facility commenced on June 4, 2007. Construction of the facility is complete and 10 of the 30 canisters authorized have been filled and placed in the facility. Plant assessments and other work for the Prairie Island license renewal applications started in 2006. In April 2008, NSP-Minnesota filed an application with the NRC to renew the operating license of its two nuclear reactors at Prairie Island for an additional 20 years

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until 2033 and 2034, respectively. The PIIC filed contentions in the NRC's license renewal proceeding in August 2008. The PIIC request was referred to an ASLB for review. The ASLB has granted the PIIC hearing request and has admitted seven of the 11 contentions filed. The resulting adjudicatory process and hearings are expected to add approximately eight months onto the NRC's standard 22 month review schedule (without hearings) resulting in the NRC not making a decision on whether or not to renew the Prairie Island operating licenses until late 2010. An application for a certificate of need to expand the spent fuel storage capacity at Prairie Island to support 20 additional years of operation was filed with the MPUC in May 2008. It is expected that the MPUC will act in late 2009 allowing the MPUC decision to be stayed during the 2010 session of the Minnesota legislature before going into effect.

The total obligation for decommissioning currently is expected to be funded 100 percent by external funds, as approved by the MPUC, when decommissioning commences. The MPUC last approved NSP-Minnesota's nuclear decommissioning study request in March 2006, using 2005 cost data with the next study update submitted in October 2008 for the 2009 accrual. The MPUC approval, decreasing 2006 decommissioning funding for Minnesota retail customers, resulted from an extension of remaining life for the Monticello unit by 10 years (from 2010 to 2020). Contributions to the external fund started in 1990 and are expected to continue until plant decommissioning begins. The assets held in trusts, primarily consisted of investments in fixed income securities, such as tax-exempt municipal bonds and U.S. government securities that mature in one to 20 years and common stock of public companies. NSP-Minnesota plans to reinvest matured securities until decommissioning begins.

Consistent with cost recovery in utility customer rates, NSP-Minnesota records annual decommissioning accruals based on periodic site-specific cost studies and a presumed level of dedicated funding. Cost studies quantify decommissioning costs in current dollars. Current authorized funding presumes that costs will escalate in the future at a rate of 3.61 percent per year. The total estimated decommissioning costs that will ultimately be paid, net of income earned by external trust funds, 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 currently 5.40 percent, net of tax, for external funding. The net unrealized gain on nuclear decommissioning investments is deferred as a regulatory liability based on the assumed offsetting against decommissioning costs in current ratemaking treatment.

At Dec. 31, 2008, NSP-Minnesota had recorded and recovered in rates cumulative decommissioning expense of $1.3 billion. The following table summarizes the funded status of NSP-Minnesota's decommissioning obligation based on approved regulatory recovery parameters. Xcel Energy believes future decommissioning cost expense will continue to be recovered in customer rates. These amounts are not those recorded in the financial statements for the ARO in accordance with SFAS No. 143.

(Thousands of Dollars)	2008	2007
Estimated decommissioning cost obligation from most recently approved study (2005 dollars)	$ 1,683,750	$ 1,683,750
Effect of escalating costs to 2008 and 2007 dollars (3.61 percent per year)	189,012	123,761
Estimated decommissioning cost obligation in current dollars	1,872,762	1,807,511
Effect of escalating costs to payment date (3.61 percent per year)	1,254,064	1,319,315
Estimated future decommissioning costs (undiscounted)	3,126,826	3,126,826
Effect of discounting obligation (using risk-free interest rate)	(1,847,526)	(1,502,030)
Discounted decommissioning cost obligation	1,279,300	1,624,796
Assets held in external decommissioning trust	1,075,294	1,317,564
Discounted decommissioning obligation in excess of assets currently held in external trust	$ 204,006	$ 307,232

Decommissioning expenses recognized include the following components:

(Thousands of Dollars)	2008	2007
Annual decommissioning cost expense reported as depreciation expense:		
Externally funded	$ 43,239	$ 43,392
Internally funded (including interest costs)	(819)	(759)
Net decommissioning expense recorded	$ 42,420	$ 42,633

Reductions to expense for internally-funded portions in 2008, 2007 and 2006 are a direct result of the 2005 decommissioning study jurisdictional allocation and 100 percent external funding approval, effectively unwinding the remaining internal fund over the

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remaining operating life of the unit. The 2005 nuclear decommissioning filing approved in 2006 has been used for the regulatory presentation. The change in estimated decommission obligations was calculated using a cost estimate for Monticello assuming a 60-year operating life.

15. Regulatory Assets and Liabilities

NSP-Minnesota's financial statements are prepared in accordance with the provisions of SFAS No. 71, as discussed in Note 1 to the financial statements. Under SFAS No. 71, regulatory assets and liabilities can be 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 use SFAS No. 71 accounting. If changes in the utility industry or the business of NSP-Minnesota no longer allow for the application of SFAS No. 71 under GAAP, NSP-Minnesota would be required to recognize the write-off of regulatory assets and liabilities in its statement of income.

The components of unamortized regulatory assets and liabilities on the balance sheets of NSP-Minnesota are:

(Thousands of Dollars)	2008	2007
Regulatory Assets:		
Asset retirement recovery	$ 1,367,548	$ 1,293,572
Pension and employee benefit obligations	153,891	—
Unrealized gains on nuclear decommissioning trust investments	150,592	—
AFDC recorded in plant	124,242	112,750
Contract valuation adjustments	86,937	75,481
Renewable resource costs	44,790	44,238
Nuclear outage costs	40,690	—
Conservation programs	23,911	18,293
Mercury emissions reduction costs	13,266	1,144
Mankato Energy Center lease normalization	13,228	6,656
Deferred electric commodity costs	11,201	26,396
Private fuel storage	9,652	11,578
MISO Schedule 16 and 17	8,742	5,826
Costs to relocate facilities underground	4,647	3,149
State commission accounting adjustments	4,398	4,158
Environmental costs	611	1,436
IRS and state interest deferrals	567	1,134
Other	—	201
Total regulatory assets	$ 2,058,913	$ 1,606,012
Regulatory Liabilities:		
Pre-ARO decommissioning expense	$ 1,261,351	$ 1,214,393
Pension and employee benefit obligations	—	195,394
Unrealized gains on decommissioning trust investments	—	58,403
Deferred income tax adjustments	30,787	42,611
Investment tax credit deferrals	27,797	30,211
Contract valuation adjustments	23,355	14,275
Nuclear outage costs collected in advance from customers	13,678	—
Discounts provided to customers	3,943	4,360
Gain on sales of emission allowances	2,727	2,885
Interest on income tax refunds	1,736	3,472
MERP rider recoveries	—	2,261
Gas pipeline refunds	(7)	(7)
Total regulatory liabilities	$ 1,365,367	$ 1,568,258

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16. Related Party Transactions

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

Xcel Energy has established a utility money pool arrangement with the utility subsidiaries. See Note 4 for further discussion of this borrowing arrangement.

Nuclear Plant Operation — On Sept. 28, 2007, NSP-Minnesota obtained 100 percent ownership in NMC as a result of Wisconsin Energy Corporation (WEC), exiting the partnership due to the sale of its Point Beach Nuclear Plant to FPL Energy. Accordingly, the results of operations of NMC and the estimated fair value of assets and liabilities were included in NSP-Minnesota's financial statements from the Sept. 28, 2007, transaction date. WEC was required to pay an exit fee and surrender all of its equity interest in NMC upon exiting. The effect of this transaction was not material to the financial position or the results of operations to NSP-Minnesota for the year ended Dec. 31, 2007. NSP-Minnesota has reintegrated its nuclear operations into its generation operations. The NRC transferred the nuclear operating licenses from NMC to NSP-Minnesota effective Sept. 22, 2008.

Prior to Sept. 28, 2007, NSP-Minnesota also paid its proportionate share of the operating expenses and capital improvement costs incurred by NMC, in accordance with the Nuclear Power Plant Operating Services Agreement. NSP-Minnesota paid the NMC $235.2 million in 2007 and $292.5 million in 2006.

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)	2008	2007
Operating revenues:		
Electric utility	$ 390,143	$ 372,215
Natural gas utility	312	366
Operating expenses:		
Purchased power	64,195	79,345
Transmission expense	42,167	40,872
Other operations — paid to Xcel Energy Services Inc.	274,549	267,281
Interest expense	1,503	1,716
Interest income	2,583	1,407

Accounts receivable and payable with affiliates at Dec. 31, was:

	2008		2007	
(Thousands of Dollars)	Accounts Receivable	Accounts Payable	Accounts Receivable	Accounts Payable
NSP-Wisconsin	$ 12,416	$ —	$ 20,918	$ —
PSCo	—	15,987	—	17,440
SPS	—	3,330	—	8,332
Other subsidiaries of Xcel Energy	2	33,062	10,170	36,111
	$ 12,418	$ 52,379	$ 31,088	$ 61,883

NSP-Wisconsin obtains short-term borrowings from NSP-Minnesota at NSP-Minnesota's average daily interest rate, including the cost of NSP-Minnesota's compensating balance requirements. At Dec. 31, 2008 and 2007, NSP-Minnesota had notes receivable

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outstanding from NSP-Wisconsin in the amount of $0.0 million and $58.6 million, respectively.

17. Supplementary Cash Flow Data

(Thousands of dollars)		**2008**		**2007**
Supplemental disclosure of cash flow information:				
Cash paid for interest (net of amounts capitalized)	$	168,506	$	152,846
Cash paid for income taxes (net of refunds received)		44,062		31,095
Supplemental disclosure of non-cash flow investing transactions:				
Property, plant and equipment additions	$	24,109	$	15,670

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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	11,148,082,046	10,906,942,774
3	Construction Work in Progress (107)	200-201	541,266,777	633,750,862
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		11,689,348,823	11,540,693,636
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	5,259,028,749	5,256,400,834
6	Net Utility Plant (Enter Total of line 4 less 5)		6,430,320,074	6,284,292,802
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203	164,882,297	131,327,109
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		0	0
9	Nuclear Fuel Assemblies in Reactor (120.3)		306,996,484	307,037,358
10	Spent Nuclear Fuel (120.4)		1,172,828,794	1,172,828,794
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	1,374,863,272	1,355,572,641
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		269,844,303	255,620,620
14	Net Utility Plant (Enter Total of lines 6 and 13)		6,700,164,377	6,539,913,422
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		8,607,541	8,455,374
19	(Less) Accum. Prov. for Depr. and Amort. (122)		5,534,267	5,413,057
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	1,624,520	1,750,394
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)		11,083,474	9,532,624
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		1,022,004,323	1,075,294,351
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		131,549,613	129,604,515
31	Long-Term Portion of Derivative Assets -- Hedges (176)		0	0
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		1,169,335,204	1,219,224,201
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		15,139,006	0
36	Special Deposits (132-134)		5,070,753	1,648,462
37	Working Fund (135)		191,075	236,500
38	Temporary Cash Investments (136)		94,949,879	11,616,750
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		342,533,216	336,842,121
41	Other Accounts Receivable (143)		54,599,033	59,827,947
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		24,923,248	25,698,811
43	Notes Receivable from Associated Companies (145)		360,000	380,000
44	Accounts Receivable from Assoc. Companies (146)		18,621,034	12,418,057
45	Fuel Stock (151)	227	99,059,321	145,713,731
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	99,465,022	97,471,938
49	Merchandise (155)	227	459,272	459,272
50	Other Materials and Supplies (156)	227	13,389	13,389
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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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	-22,196	1
55	Gas Stored Underground - Current (164.1)		12,530,070	91,122,695
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		8,659,306	11,121,641
57	Prepayments (165)		33,283,127	60,131,668
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		15,363	0
60	Rents Receivable (172)		770,237	966,496
61	Accrued Utility Revenues (173)		195,036,994	248,451,387
62	Miscellaneous Current and Accrued Assets (174)		1,440,330	2,065,857
63	Derivative Instrument Assets (175)		161,986,426	161,374,914
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		131,549,613	129,604,515
65	Derivative Instrument Assets - Hedges (176)		4,322,109	38,481,617
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		0	0
67	Total Current and Accrued Assets (Lines 34 through 66)		992,009,905	1,125,041,117
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		20,855,010	21,303,455
70	Extraordinary Property Losses (182.1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	0	0
72	Other Regulatory Assets (182.3)	232	2,111,375,361	2,058,913,137
73	Prelim. Survey and Investigation Charges (Electric) (183)		0	0
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)		39,141	-1
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	1,382,941	1,558,746
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)		25,446,270	26,081,631
82	Accumulated Deferred Income Taxes (190)	234	379,886,314	371,855,418
83	Unrecovered Purchased Gas Costs (191)		3,236,673	30,061,810
84	Total Deferred Debits (lines 69 through 83)		2,542,221,710	2,509,774,196
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		11,403,731,196	11,393,952,936

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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)		2,035,856,608	1,915,856,608
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	1,172,143,838	1,153,074,830
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	-3,368,093	-3,242,219
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)	641,957	204,740
16	Total Proprietary Capital (lines 2 through 15)		3,205,284,310	3,065,903,959
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	2,721,900,000	2,721,900,000
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	250,104,591	250,107,167
22	Unamortized Premium on Long-Term Debt (225)		0	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		8,983,387	9,257,796
24	Total Long-Term Debt (lines 18 through 23)		2,963,021,204	2,962,749,371
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)		0	0
29	Accumulated Provision for Pensions and Benefits (228.3)		235,003,598	238,959,090
30	Accumulated Miscellaneous Operating Provisions (228.4)		0	0
31	Accumulated Provision for Rate Refunds (229)		6,436,224	5,500,487
32	Long-Term Portion of Derivative Instrument Liabilities		222,281,152	219,421,415
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	0
34	Asset Retirement Obligations (230)		1,071,329,560	1,055,689,152
35	Total Other Noncurrent Liabilities (lines 26 through 34)		1,535,050,534	1,519,570,144
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		0	65,000,000
38	Accounts Payable (232)		335,791,710	360,020,217
39	Notes Payable to Associated Companies (233)		0	63,500,000
40	Accounts Payable to Associated Companies (234)		59,211,260	52,378,892
41	Customer Deposits (235)		2,650,391	1,831,439
42	Taxes Accrued (236)	262-263	175,720,668	128,562,585
43	Interest Accrued (237)		35,444,868	67,989,956
44	Dividends Declared (238)		57,256,357	58,414,593
45	Matured Long-Term Debt (239)		0	0

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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)		13,556,337	13,299,408
48	Miscellaneous Current and Accrued Liabilities (242)		44,711,357	52,384,250
49	Obligations Under Capital Leases-Current (243)		0	0
50	Derivative Instrument Liabilities (244)		239,920,404	238,807,851
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		222,281,152	219,421,415
52	Derivative Instrument Liabilities - Hedges (245)		9,330,208	20,429,401
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		751,312,408	903,197,177
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		1,829,285	2,142,774
57	Accumulated Deferred Investment Tax Credits (255)	266-267	39,377,921	40,253,724
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	203,296,633	192,778,030
60	Other Regulatory Liabilities (254)	278	1,348,994,724	1,365,366,880
61	Unamortized Gain on Reaquired Debt (257)		0	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	8,757,919	7,079,027
63	Accum. Deferred Income Taxes-Other Property (282)		1,262,242,847	1,242,755,908
64	Accum. Deferred Income Taxes-Other (283)		84,563,411	92,155,942
65	Total Deferred Credits (lines 56 through 64)		2,949,062,740	2,942,532,285
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		11,403,731,196	11,393,952,936