Section A

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

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

General Authority: SDCL 49-34A-4

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

Name of Respondent: Northern States Power Company (Minnesota)	This report is: (1) ☑ An Original (2) ☐ A Resubmission	Date of Report: 04/14/2022	Year/Period of Report End of: 2021/ 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	24,916,523,060	23,041,860,697
3	Construction Work in Progress (107)	200	999,457,600	1,171,453,675
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		25,915,980,660	24,213,314,372
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200	10,022,602,588	9,318,564,314
6	Net Utility Plant (Enter Total of line 4 less 5)		15,893,378,072	14,894,750,058
7	Nuclear Fuel in Process of Ref., Conv., Enrich., and Fab. (120.1)	202	101,185,344	135,797,133
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)			
9	Nuclear Fuel Assemblies in Reactor (120.3)		564,800,500	559,743,218
10	Spent Nuclear Fuel (120.4)		2,415,127,584	2,274,128,026
11	Nuclear Fuel Under Capital Leases (120.6)			
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202	2,773,449,236	2,659,339,314
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		307,664,192	310,329,063
14	Net Utility Plant (Enter Total of lines 6 and 13)		16,201,042,264	15,205,079,121
15	Utility Plant Adjustments (116)			
16	Gas Stored Underground - Noncurrent (117)			
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		25,364,609	19,233,675
19	(Less) Accum. Prov. for Depr. and Amort. (122)		10,507,228	9,965,131
20	Investments in Associated Companies (123)			
21	Investment in Subsidiary Companies (123.1)	224	3,221,595	2,552,605
23	Noncurrent Portion of Allowances	228		
24	Other Investments (124)		51,987,027	53,925,426
25	Sinking Funds (125)			
26	Depreciation Fund (126)			
27	Amortization Fund - Federal (127)			
28	Other Special Funds (128)		3,256,313,854	2,776,449,233
29	Special Funds (Non Major Only) (129)			
30	Long-Term Portion of Derivative Assets (175)		33,273,400	4,624,047
31	Long-Term Portion of Derivative Assets - Hedges (176)			
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		3,359,653,257	2,846,819,855
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)			
35	Cash (131)		2,307,189	3,871,985
36	Special Deposits (132-134)		896,518	3,814,203
37	Working Fund (135)		119,320	119,320
38	Temporary Cash Investments (136)		67,937,494	41,717,209
39	Notes Receivable (141)			
40	Customer Accounts Receivable (142)		419,457,821	361,540,331
41	Other Accounts Receivable (143)		61,959,530	63,984,346

42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		46,634,661	33,808,878
43	Notes Receivable from Associated Companies (145)		91,000,000	
44	Accounts Receivable from Assoc. Companies (146)		29,308,100	42,536,458
45	Fuel Stock (151)	227	82,320,015	92,325,796
46	Fuel Stock Expenses Undistributed (152)	227		
47	Residuals (Elec) and Extracted Products (153)	227		
48	Plant Materials and Operating Supplies (154)	227	180,729,953	177,806,924
49	Merchandise (155)	227	916,230	284,535
50	Other Materials and Supplies (156)	227		
51	Nuclear Materials Held for Sale (157)	202/227		
52	Allowances (158.1 and 158.2)	228	80,418	85,160
53	(Less) Noncurrent Portion of Allowances	228		
54	Stores Expense Undistributed (163)	227		
55	Gas Stored Underground - Current (164.1)		43,020,518	22,208,411
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		2,006,122	2,726,625
57	Prepayments (165)		[a]33,440,762	27,113,708
58	Advances for Gas (166-167)			
59	Interest and Dividends Receivable (171)		298,825	1,006,454
60	Rents Receivable (172)		779,987	702,954
61	Accrued Utility Revenues (173)		320,392,108	248,965,226
62	Miscellaneous Current and Accrued Assets (174)		6	6
63	Derivative Instrument Assets (175)		86,121,866	21,593,499
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		33,273,400	4,624,047
65	Derivative Instrument Assets - Hedges (176)			
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176)			
67	Total Current and Accrued Assets (Lines 34 through 66)		1,343,184,721	1,073,970,225
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		61,796,052	54,241,490
70	Extraordinary Property Losses (182.1)	230a		
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	80,704,420	88,805,434
72	Other Regulatory Assets (182.3)	232	3,969,567,477	3,890,950,092
73	Prelim. Survey and Investigation Charges (Electric) (183)		2,328,546	2,489,728
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)			
75	Other Preliminary Survey and Investigation Charges (183.2)			
76	Clearing Accounts (184)			
77	Temporary Facilities (185)			
78	Miscellaneous Deferred Debits (186)	233	67,848,576	48,224,868
79	Def. Losses from Disposition of Utility Plt. (187)			
80	Research, Devel. and Demonstration Expend. (188)	352		
81	Unamortized Loss on Reaquired Debt (189)		12,313,348	13,808,807
82	Accumulated Deferred Income Taxes (190)	234	1,269,457,808	1,088,842,369
83	Unrecovered Purchased Gas Costs (191)		239,653,666	19,554,237
84	Total Deferred Debits (lines 69 through 83)		5,703,669,893	5,206,917,025
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		26,607,550,135	24,332,786,226

Name of Respondent: Northern States Power Company (Minnesota)	This report is: (1) ☑ An Original (2) ☐ A Resubmission	Date of Report: 04/14/2022	Year/Period of Report End of: 2021/ Q4

FOOTNOTE DATA

(a) Concept: Prepayments

The Form 1 reports prepayments at the total Company level, at the beginning of the year and at the end of the year. The Company uses the average of the beginning of the year and the end of the year prepayments balance in the formula. In addition, since prepayments are reported in the Form 1 at the total Company level, they are allocated to the electric utility based on the ratio of electric net plant to the sum of electric and gas net plant as reported in the Form 1, page 200. The formula allocates the electric prepayments to the transmission function using a gross plant allocator.

Name of Respondent: Northern States Power Company (Minnesota)	This report is: (1) ☑ An Original (2) ☐ A Resubmission	Date of Report: 04/14/2022	Year/Period of Report End of: 2021/ 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	10,000	10,000
3	Preferred Stock Issued (204)	250		
4	Capital Stock Subscribed (202, 205)			
5	Stock Liability for Conversion (203, 206)			
6	Premium on Capital Stock (207)		479,282,529	479,282,529
7	Other Paid-In Capital (208-211)	253	4,722,336,684	4,105,547,671
8	Installments Received on Capital Stock (212)	252		
9	(Less) Discount on Capital Stock (213)	254		
10	(Less) Capital Stock Expense (214)	254b		
11	Retained Earnings (215, 215.1, 216)	118	2,393,935,302	2,209,377,856
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118	(2,510,681)	(3,179,648)
13	(Less) Reaquired Capital Stock (217)	250		
14	Noncorporate Proprietorship (Non-major only) (218)			
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	(20,389,324)	(21,649,216)
16	Total Proprietary Capital (lines 2 through 15)		7,572,664,510	6,769,389,192
17	**LONG-TERM DEBT**			
18	Bonds (221)	256	6,850,000,000	6,000,000,000
19	(Less) Reaquired Bonds (222)	256		
20	Advances from Associated Companies (223)	256		
21	Other Long-Term Debt (224)	256	3,227,041	514,916
22	Unamortized Premium on Long-Term Debt (225)			
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		43,809,951	42,449,988
24	Total Long-Term Debt (lines 18 through 23)		6,809,417,090	5,958,064,928
25	**OTHER NONCURRENT LIABILITIES**			
26	Obligations Under Capital Leases - Noncurrent (227)		[(a)]353,281,568	[(c)]443,250,687
27	Accumulated Provision for Property Insurance (228.1)			
28	Accumulated Provision for Injuries and Damages (228.2)			
29	Accumulated Provision for Pensions and Benefits (228.3)		81,348,000	158,653,000
30	Accumulated Miscellaneous Operating Provisions (228.4)			
31	Accumulated Provision for Rate Refunds (229)		15,246,791	16,685,463
32	Long-Term Portion of Derivative Instrument Liabilities		70,575,328	71,067,750
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges			
34	Asset Retirement Obligations (230)		2,584,739,876	2,350,074,360
35	Total Other Noncurrent Liabilities (lines 26 through 34)		3,105,191,563	3,039,731,260
36	**CURRENT AND ACCRUED LIABILITIES**			
37	Notes Payable (231)			179,000,000
38	Accounts Payable (232)		546,365,625	460,243,854
39	Notes Payable to Associated Companies (233)			1,450,000
40	Accounts Payable to Associated Companies (234)		65,846,721	67,342,144

41	Customer Deposits (235)		28,727,174	29,129,353
42	Taxes Accrued (236)	262	243,475,938	250,323,838
43	Interest Accrued (237)		75,941,440	70,112,005
44	Dividends Declared (238)		96,267,850	105,949,200
45	Matured Long-Term Debt (239)			
46	Matured Interest (240)			
47	Tax Collections Payable (241)		33,625,714	34,272,110
48	Miscellaneous Current and Accrued Liabilities (242)		38,922,958	44,500,668
49	Obligations Under Capital Leases-Current (243)		[(b)]89,757,245	[(d)]84,619,026
50	Derivative Instrument Liabilities (244)		105,655,219	92,984,158
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		70,575,328	71,067,750
52	Derivative Instrument Liabilities - Hedges (245)			
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges			
54	Total Current and Accrued Liabilities (lines 37 through 53)		1,254,010,556	1,348,858,606
55	**DEFERRED CREDITS**			
56	Customer Advances for Construction (252)		12,647,763	9,445,865
57	Accumulated Deferred Investment Tax Credits (255)	266	16,831,534	18,255,352
58	Deferred Gains from Disposition of Utility Plant (256)			
59	Other Deferred Credits (253)	269	332,575,716	318,879,456
60	Other Regulatory Liabilities (254)	278	4,295,669,821	3,949,612,148
61	Unamortized Gain on Reaquired Debt (257)			
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272	22,089,096	24,566,414
63	Accum. Deferred Income Taxes-Other Property (282)		2,663,872,468	2,429,790,261
64	Accum. Deferred Income Taxes-Other (283)		522,580,018	466,192,744
65	Total Deferred Credits (lines 56 through 64)		7,866,266,416	7,216,742,240
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		26,607,550,135	24,332,786,226

Name of Respondent: Northern States Power Company (Minnesota)	This report is: (1) ☑ An Original (2) ☐ A Resubmission	Date of Report: 04/14/2022	Year/Period of Report End of: 2021/ Q4

NOTES TO FINANCIAL STATEMENTS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

1. Use this space to paste the disclosure required by instruction 1 of Page 122.

1. Summary of Significant Accounting Policies

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

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

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

- Current maturities of long-term debt are included as long-term debt, while GAAP requires such maturities to be classified as current liabilities.
- Accumulated deferred income taxes are shown as long-term assets and liabilities at their gross amounts in the FERC presentation, in contrast to the GAAP presentation as net long-term assets and liabilities.
- Regulatory assets and liabilities are classified as current and noncurrent for GAAP presentation, while the FERC requires all regulatory assets and liabilities to be classified as noncurrent deferred debits and credits, respectively.
- Unrecognized tax benefits are recorded for temporary differences in accounts established for accumulated deferred income taxes in the FERC presentation, in contrast to the GAAP presentation as taxes accrued and noncurrent other liabilities.
- Costs for future removal obligations are classified as accumulated depreciation on the utility plant in the FERC presentation and as regulatory liabilities in the GAAP presentation.
- For certain capital projects where there is recovery of a return on construction work in progress (CWIP), certain amounts of allowance for funds used during construction (AFUDC) are not recognized in CWIP for GAAP, while for the FERC presentation, they are recorded in CWIP but the benefit is deferred as a liability and amortized over the life of the property as a reduction of costs.
- Certain commodity trading purchases and sales transactions are presented gross as expenses and revenues for the FERC presentation; however the net margin is reported as net sales for the GAAP presentation.
- Various expenses such as donations, lobbying and other non-regulatory expenses are presented as other income deductions for the FERC presentation and reported as operating expenses for the GAAP presentation.
- Income tax expense related to utility operations is shown as a component of operating expense in the FERC presentation, in contrast to the GAAP presentation as a below-the-line deduction from operating income.
- Wholly-owned subsidiaries are reported using the equity method of accounting in the FERC presentation and are required to be consolidated for GAAP.
- The setup of theoretical excess depreciation reserves is recorded as a regulatory asset and an increase to regulatory credits for FERC presentation, in contrast to a reduction to both accumulated depreciation and depreciation expense for GAAP presentation. The unwinding of the regulatory asset is recorded as an increase to regulatory debits for FERC presentation with an offsetting entry to depreciation expense and accumulated depreciation, resulting in no net impact to the balance sheet or income statement. Therefore, this brings FERC back into alignment with GAAP presentation over the average remaining life of the assets.
- Deferred financing costs are included as deferred debits in the FERC presentation, while GAAP presentation includes them with long-term liabilities.
- Non-service cost components of net periodic benefit costs that are reported on the income statement are recorded as operation expenses in the FERC presentation and as other income, net for GAAP presentation. Non-service costs that are eligible for capitalization are recorded as a component of net utility plant in the FERC presentation and as regulatory assets for GAAP.

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

(Millions of Dollars)		
Balance Sheet:		
Net utility plant	$	229
Current assets		533
Current liabilities		473
Other long-term assets		(4,560)
Long-term debt and other long-term liabilities		(4,272)
Statement of Income:		
Operating revenue	$	242
Operating expenses		297
Other income and deductions		4
Net Interest charges		(3)
Statement of Cash Flows:		
Cash provided by operating activities	$	(1)
Cash used in investing activities		6
Cash provided by financing activities		1

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

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

- Certain costs, which would otherwise be charged to expense or other comprehensive income, are deferred as regulatory assets based on the expected ability to recover the costs in future rates.
- Certain credits, which would otherwise be reflected as income or other comprehensive income, are deferred as regulatory liabilities based on the expectation the amounts will be returned to customers in future rates, or because the amounts were collected in rates prior to the costs being incurred.

Estimates of recovering deferred costs and returning deferred credits are based on specific ratemaking decisions or precedent for each item. Regulatory assets and liabilities are amortized consistent with the treatment in the rate setting process. If changes in the regulatory environment occur, NSP-Minnesota may no longer be eligible to apply this accounting treatment and may be required to eliminate regulatory assets and liabilities from its balance sheet. Such changes could have a material effect on NSP-Minnesota's results of operations, financial condition and cash flows.

See Note 4 for further information.

Income Taxes — NSP-Minnesota accounts for income taxes using the asset and liability method, which requires 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 rates that are scheduled to be in effect when the temporary differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date.

The effects of NSP-Minnesota's tax rate changes are generally subject to a normalization method of accounting. Therefore, the revaluation of most of its net deferred taxes upon a tax rate reduction results in the establishment of a net regulatory liability, which would be refundable to utility customers over the remaining life of the related assets. NSP-Minnesota anticipates that a tax rate increase would result in the establishment of a regulatory asset, subject to an evaluation of whether future recovery is expected.

Reversal of certain temporary differences are accounted for as current income tax expense due to the effects of past regulatory practices, when deferred taxes were not required to be recorded due to the use of flow through accounting for ratemaking purposes. Tax credits are recorded when earned unless there is a requirement to defer the benefit and amortize it over the book depreciable lives of the related property. The requirement to defer and amortize tax credits only applies to federal investment tax credits (ITCs) related to public utility property. Utility rate regulation also has resulted in the recognition of regulatory assets and liabilities related to income taxes. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

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

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

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

See Note 6 for further information.

Utility Plant and Depreciation in Regulated Operations — Property, plant and equipment is stated at original cost. The cost of plant includes direct labor and materials, contracted work, overhead costs and AFUDC. The cost of plant retired is charged to accumulated depreciation and amortization. Significant additions or improvements extending asset lives are capitalized, while repairs and maintenance costs are charged to expense as incurred.

Maintenance and replacement of items determined to be less than a unit of property are charged to operating expenses as incurred. Planned 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.

Utility Plant is tested for impairment when it is determined that the carrying value of the assets may not be recoverable. A loss is recognized in the current period if it becomes probable that part of a cost of a plant under construction or recently completed plant will be disallowed for recovery from customers and a reasonable estimate of the disallowance can be made.

For investments in Utility Plant that are abandoned and not expected to go into service, incurred costs and related deferred tax amounts are compared to the discounted estimated future rate recovery, and a loss is recognized, if necessary.

NSP-Minnesota records depreciation expense using the straight-line method over the plant's commission approved useful life. Actuarial life studies are performed 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. Plant removal costs are recovered in rates as authorized by the appropriate regulatory entities. The amount of removal costs is based on current factors used in existing depreciation rates. Accumulated removal costs are reflected in the balance sheet as a regulatory liability. Depreciation expense, expressed as a percentage of average depreciable property, was approximately 3.7% for 2021 and 3.7% for 2020.

AROs — NSP-Minnesota accounts for AROs under accounting guidance that requires a liability for the fair value of an ARO to be recognized in the period in which it is incurred if it can be reasonably estimated, with the offsetting associated asset retirement costs capitalized as a long-lived asset. The liability is generally increased over time by applying the effective interest method of accretion, and the capitalized costs are depreciated over the useful life of the long-lived asset. Changes resulting from revisions to the timing or amount of expected asset retirement cash flows are recognized as an increase or a decrease in the ARO.

See Note 9 for further information.

Nuclear Decommissioning — Nuclear decommissioning studies that estimate NSP-Minnesota's costs of decommissioning its nuclear power plants are performed at least every three years and submitted to the state commissions for approval.

NSP-Minnesota recovers regulator-approved decommissioning costs of its nuclear power plants over each facility's expected service life, typically based on the triennial decommissioning studies. The studies consider estimated future costs of decommissioning and the market value of investments in trust funds and recommend annual funding amounts. Amounts collected in rates are deposited in the trust funds. For financial reporting purposes, NSP-Minnesota accounts for nuclear decommissioning as an ARO.

Restricted funds for the payment of future decommissioning expenditures for NSP-Minnesota's nuclear facilities are included in nuclear decommissioning fund and deferred debits on the balance sheet.

See Notes 7 and 9 for further information.

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

Certain unrecognized actuarial gains and losses and unrecognized prior service costs or credits are deferred as regulatory assets and liabilities, rather than recorded as other comprehensive income, based on regulatory recovery mechanisms.

See Note 8 for further information.

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

Estimated remediation costs are regularly adjusted as estimates are revised and remediation proceeds. If other participating potentially responsible parties exist and acknowledge their potential involvement with a site, costs are estimated and recorded only for NSP-Minnesota's expected share of the cost.

Future costs of restoring sites are treated as a capitalized cost of plant retirement.

See Note 9 for further information.

Revenue from Contracts with Customers — Performance obligations related to the sale of energy are satisfied as energy is delivered to customers. NSP-Minnesota recognizes revenue that corresponds to the price of the energy delivered to the customer. The measurement of energy sales to customers is generally based on the reading of their meters, which occurs systematically throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated, and the corresponding unbilled revenue is recognized.

NSP-Minnesota does not recognize a separate financing component of its collections from customers as contract terms are short-term in nature. NSP-Minnesota presents its revenues net of any excise or sales taxes or fees.

NSP-Minnesota participates in Midcontinent Independent System Operator, Inc. (MISO). NSP-Minnesota recognizes sales to both customer demand of retail and wholesale customers that a utility has an obligation to serve under statute or long-term contract (native load) and other end use customers on a gross basis in electric revenues and cost of sales. Revenues and charges for short term wholesale sales of excess energy transacted through Regional Transmission Organizations (RTOs) are recorded based upon our evaluation each hour as to whether we are a net seller or a net buyer based upon the total volumes. The real time and day-ahead market are each evaluated separately. If NSP-Minnesota is a net seller the transaction is recorded on a gross basis in electric revenues and cost of sales. If NSP-Minnesota is a net buyer, the transaction is recorded on a net basis in cost of sales.

Revenues and charges for energy transacted through MISO are recorded based upon our evaluation each hour as to whether we are a net seller or a net buyer based upon the total volumes. The real time and day-ahead market are each evaluated separately. If NSP-Minnesota is a net seller the transaction is recorded on a gross basis in electric revenues and cost of sales. If NSP-Minnesota is a net buyer the transaction is recorded on a net basis in cost of sales.

NSP-Minnesota has various rate-adjustment mechanisms that provide for the recovery of natural gas, electric fuel and purchased energy costs. Cost-adjustment tariffs may increase or decrease the level of revenue collected from customers and are revised periodically for differences between the total amount collected under the clauses and the costs incurred.

When applicable, fuel cost over-recoveries (the excess of fuel revenue billed to customers over fuel costs incurred) are deferred as regulatory liabilities and under-recoveries (the excess of fuel costs incurred over fuel revenues billed to customers) are deferred as regulatory assets.

Cash and Cash Equivalents — NSP-Minnesota considers investments in instruments with a remaining maturity of three months or less at the time of purchase to be cash equivalents.

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

Inventory — Inventory is recorded at average cost.

Fair Value Measurements — NSP-Minnesota presents cash equivalents, interest rate derivatives, commodity derivatives and nuclear decommissioning fund assets at estimated fair values in its financial statements. Cash equivalents are recorded at cost plus accrued interest; money market funds are measured using quoted net asset values (NAVs).

For interest rate derivatives, quoted prices based primarily on observable market interest rate curves are used to establish fair value. For commodity derivatives, the most observable inputs available are generally used to determine the fair value of each contract. In the absence of a quoted price, NSP-Minnesota may use quoted prices for similar contracts or internally prepared valuation models to determine fair value.

For the pension and postretirement plan assets and nuclear decommissioning fund, published trading data and pricing models, generally using the most observable inputs available, are utilized to estimate fair value for each security.

See Notes 7 and 8 for further information.

Derivative Instruments — NSP-Minnesota uses derivative instruments in connection with its interest rate, utility commodity price and commodity trading activities, including forward contracts, futures, swaps and options. Any derivative instruments not qualifying for the normal purchases and normal sales exception are recorded on the balance sheets at fair value as derivative instruments. 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. Classification as a regulatory asset or liability is based on commission approved regulatory recovery mechanisms.

Gains or losses on commodity trading transactions are recorded as a component of electric operating revenues and interest rate hedging transactions are recorded as a component of interest expense.

Normal Purchases and Normal Sales — NSP-Minnesota enters into contracts for purchases and sales of commodities for use in its operations. At inception, contracts are evaluated to determine whether a derivative exists and/or whether an instrument may be exempted from derivative accounting if designated as a normal purchase or normal sale.

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

See Note 7 for further information.

Other Utility Items

AFUDC — AFUDC represents the cost of capital used to finance utility construction activity. AFUDC is computed by applying a composite financing rate to qualified CWIP. The amount of AFUDC capitalized as a utility construction cost is credited to other nonoperating income (for equity capital) and interest charges (for debt capital). AFUDC amounts capitalized are included in NSP-Minnesota's rate base for establishing utility rates.

Alternative Revenue — Certain rate rider mechanisms (including decoupling/sales true up and conservation improvement programs (CIP)/demand side management (DSM) programs) qualify as alternative revenue programs. These mechanisms arise from costs imposed upon the utility by action of a regulator or legislative body related to an environmental, public safety or other mandate or from other instances where the regulator authorizes a future surcharge in response to past activities or completed events. When certain criteria are met, including expected collection within 24 months, revenue is recognized equal to the revenue requirement, which may include incentives and return on rate base items.

Billing amounts are revised periodically for differences between total amount collected and revenue earned, which may increase or decrease the level of revenue collected from customers. Alternative revenues arising from these programs are presented on a gross basis and disclosed separately from revenue from contracts with customers.

Conservation Programs — Costs incurred for DSM and CIP programs are deferred if it is probable future revenue will recover the incurred cost. Revenues recognized for incentive programs for the recovery of lost margins and/or conservation performance incentives are limited to amounts expected to be collected within 24 months from the year they are earned. Regulatory assets are recognized to reflect the amount of costs or earned incentives that have not yet been collected from customers.

Emission Allowances — Emission allowances are recorded at cost, including broker commission fees. The inventory accounting model is utilized for all emission allowances and sales of these allowances are included in electric revenues.

Nuclear Refueling Outage Costs — NSP-Minnesota uses a deferral and amortization method for nuclear refueling costs. This method amortizes costs over the period between refueling outages consistent with rate recovery.

Renewable Energy Credits (RECs) — Cost of RECs that are utilized for compliance is recorded as electric fuel and purchased power expense. Sales of RECs are recorded in electric revenues on a gross basis. The cost of these RECs and amounts credited to customers under margin-sharing mechanisms are recorded in electric fuel and purchased power expense.

Cost of RECs that are utilized to support commodity trading activities are recorded in a similar manner as the associated commodities and are shown on a net basis in electric operating revenues in the statements of income.

Credit Losses — In 2016, the FASB issued Financial Instruments - Credit Losses, Topic 326 (ASC Topic 326), which changes how entities account for losses on receivables and certain other assets. The guidance requires use of a current expected credit loss model, which may result in earlier recognition of credit losses than under previous accounting standards.

NSP-Minnesota implemented the guidance using a modified-retrospective approach, recognizing an immaterial cumulative effect charge (after tax) to retained earnings on Jan 1. 2020. The Jan. 1, 2020 adoption of ASC Topic 326 did not have a significant impact on NSP-Minnesota's financial statements.

Subsequent Events — Management has evaluated the impact of events occurring after Dec. 31, 2021 up to Feb. 23, 2022, the date NSP-Minnesota's GAAP financial statements were issued and has updated such evaluation for disclosure purposes through the date of this report. These financial statements contain all necessary adjustments and disclosures resulting from these evaluations.

2. Investments Accounted for by the Equity Method

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

Name	Geographic Area	Economic Interest

United Power & Land	United States	100%
NSP-Nuclear Corp.	United States	100
Crowned Ridge Interconnection Co.	United States	50
Private Fuel Storage, LLC*	United States	32.8

*The investment in Private Fuel Storage, LLC has been written down to zero.

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:

(Millions of Dollars)	2021	2020
Current assets	$ 2	$ 2
Other assets	1	1
Total assets	$ 3	$ 3
Equity	$ 3	$ 3
Total liabilities and equity	$ 3	$ 3

(Millions of Dollars)	2021	2020
Operating income	$ 1	$ —
Net income	$ 1	$ —

3. Joint Ownership of Generation, Transmission and Gas Facilities

Jointly owned assets as of Dec. 31, 2021:

(Millions of Dollars, Except Percent Owned)	Plant in Service	Accumulated Depreciation [(a)]	Percent Owned
Electric generation:			
Sherco Unit 3	$ 620	$ 451	59 %
Sherco common facilities	178	108	80
Sherco substation	5	4	59
Electric transmission:			
Grand Meadow	11	3	50
Huntley Wilmarth	48	1	50
CapX2020 [(b)]	952	127	51
Total [(c)]	$ 1,814	$ 694	

(a) ARO is not included.
(b) Alliance of electric cooperatives, municipals and investor-owned utilities in the upper Midwest involved in a joint transmission line planning and construction effort (CAPX2020).
(c) Projects additionally include $7 million in CWIP.

NSP-Minnesota's share of operating expenses and construction expenditures is included in the applicable utility accounts. Respective owners are responsible for providing their own financing.

4. Regulatory Assets and Liabilities

Regulatory assets and liabilities are created for amounts that regulators may allow to be collected or may require to be paid back to customers in future electric and natural gas rates. NSP-Minnesota would be required to recognize the write-off of regulatory assets and liabilities in net income or other comprehensive income if changes in the utility industry no longer allow for the application of regulatory accounting guidance under GAAP.

Components of regulatory assets:

(Millions of Dollars)	Dec. 31, 2021	Dec. 31, 2020
Other Regulatory Assets		
Asset retirement recovery	$ 2,554	$ 2,446
Pension and retiree medical obligations	311	378
Theoretical depreciation reserve surplus	238	248
Renewable resources and environmental initiatives	179	137
Excess deferred taxes - TCJA [(a)]	122	132
Recoverable deferred taxes on AFUDC recorded in plant	114	113
Deferred electric commodity costs	88	7
Contract valuation adjustments [(b)]	48	64
Purchased power agreement (PPA) termination	36	54
Nuclear refueling outage costs	54	38
Purchased power contracts costs	32	36
Other	194	238
Total other regulatory assets	$ 3,970	$ 3,891

(a) 2017 federal tax reform enacted as Public Law No: 115-97, commonly referred to as the Tax Cuts and Jobs Act (TCJA).
(b) Includes the fair value of certain long-term PPAs used to meet energy capacity requirements and valuation adjustments on natural gas commodity purchases.

Components of regulatory liabilities:

(Millions of Dollars)	Dec. 31, 2021	Dec. 31, 2020
Other Regulatory Liabilities		
Plant removal costs	$ 1,936	$ 1,774
Deferred income tax adjustments and TCJA refunds [(a)]	1,232	1,297
Investments	934	704
Excess deferred taxes - TCJA	30	36
Contract valuation adjustments [(b)]	29	12
ITC deferrals	19	18
Deferred natural gas and electric energy/fuel costs	14	8
United States Department of Energy (DOE) Settlement	12	10
Other	90	91
Total other regulatory liabilities	$ 4,296	$ 3,950

(a) Includes the revaluation of recoverable/regulated plant accumulated deferred income taxes and revaluation impact of non-plant accumulated deferred income taxes due to the TCJA.
(b) Includes the fair value of certain long-term PPAs used to meet energy capacity requirements and valuation adjustments on natural gas commodity purchases.

At Dec. 31, 2021 and 2020, NSP-Minnesota's regulatory assets not earning a return primarily included the unfunded portion of pension and retiree medical obligations and net AROs. In addition, regulatory assets included $691 million and $399 million at Dec. 31, 2021 and 2020, respectively, of past expenditures not earning a return. Amounts are related to funded pension obligations, sales true-up and revenue decoupling, purchased natural gas and electric energy costs (including those related to Winter Storm Uri), various renewable resources and certain environmental initiatives.

5. Borrowings and Other Financing Instruments

Short-Term Borrowings

NSP-Minnesota meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings under its credit facility and the money pool.

Money Pool — Xcel Energy Inc. and its utility subsidiaries (e.g., NSP-Minnesota, NSP-Wisconsin, Public Service Company of Colorado, and Southwest Public Service Company) (Xcel Energy) have established a money pool arrangement that allows for short-term investments in and borrowings between the utility subsidiaries. Xcel Energy may make investments in the utility subsidiaries at market-based interest rates; however, the money pool arrangement does not allow the utility subsidiaries to make investments in Xcel Energy Inc.

Money pool borrowings:

	Year Ended Dec. 31	
(Amounts in Millions, Except Interest Rates)	2021	2020
Borrowing limit	$ 250	$ 250
Amount outstanding at period end	—	—
Average amount outstanding	6	3
Maximum amount outstanding	236	116
Weighted average interest rate, computed on a daily basis	0.07 %	1.53 %
Weighted average interest rate at end of period	N/A	N/A

Commercial Paper — Commercial paper outstanding:

	Year Ended Dec. 31	
(Amounts in Millions, Except Interest Rates)	2021	2020
Borrowing limit	$ 500	$ 500
Amount outstanding at period end	—	179
Average amount outstanding	26	10
Maximum amount outstanding	317	179
Weighted average interest rate, computed on a daily basis	0.18 %	1.25 %
Weighted average interest rate at end of period	N/A	0.18

Letters of Credit — NSP-Minnesota uses letters of credit, typically with terms of one year, to provide financial guarantees for certain operating obligations. At Dec. 31, 2021 and 2020, there were $9 million and $10 million of letters of credit outstanding under the credit facility, respectively. The contract amounts of these letters of credit approximate their fair value and are subject to fees.

Credit Facility — In order to use commercial paper programs to fulfill short-term funding needs, NSP-Minnesota must have revolving credit facilities in place at least equal to the amount of their respective commercial paper borrowing limits and cannot issue commercial paper exceeding available capacity under these credit facilities. The lines of credit provide short-term financing in the form of notes payable to banks, letters of credit and back-up support for commercial paper borrowings.

Features of NSP-Minnesota's credit facility:

Debt-to-Total Capitalization Ratio [(a)]		Amount Facility May Be Increased (Millions)	Additional Periods for Which a One-Year Extension May Be Requested [(b)]
2021	2020		
47 %	47 %	$ 100	2

[(a)] The credit facility has a financial covenant requiring that the debt-to-total capitalization ratio be less than or equal to 65%.
[(b)] All extension requests are subject to majority bank group approval.

The credit facility has a cross-default provision that NSP-Minnesota would be in default on its borrowings under the facility if it or any of its subsidiaries whose total assets exceed 15% of NSP-Minnesota's total assets, default on indebtedness in an aggregate principal amount exceeding $75 million.

If NSP-Minnesota does not comply with the covenant, an event of default may be declared, and if not remedied, any outstanding amounts due under the facility can be declared due by the lender. As of Dec. 31, 2021, NSP-Minnesota was in compliance with all financial covenants on its debt agreements.

NSP-Minnesota had the following committed credit facility available as of Dec. 31, 2021 (in millions of dollars):

Credit Facility [(a)]	Drawn [(b)]	Available
$ 500	$ 9	$ 491

[(a)] This credit facility matures in June 2024.
[(b)] Includes outstanding commercial paper and letters of credit.

All credit facility bank borrowings, outstanding letters of credit and outstanding commercial paper reduce the available capacity under the credit facility. NSP-Minnesota had no direct advances on the facility outstanding at Dec. 31, 2021 and 2020.

Bilateral Credit Agreement — In April 2021, NSP-Minnesota's uncommitted bilateral credit agreement was renewed for an additional one-year term. The credit agreement is limited in use to support letters of credit.

As of Dec. 31, 2021, NSP-Minnesota had $45 million outstanding letters of credit under the $75 million Bilateral Credit Agreement.

Long-Term Borrowings and Other Financing Instruments

Generally, all property of NSP-Minnesota is subject to the lien of its first mortgage indenture. Debt premiums, discounts and expenses are amortized over the life of the related debt. The premiums, discounts and expenses for refinanced debt are deferred and amortized over the life of the new issuance.

Long term debt obligations for NSP-Minnesota as of Dec. 31 (in millions of dollars):

Financing Instrument	Interest Rate	Maturity Date	2021	2020
First mortgage bonds	2.15 %	Aug. 15, 2022	$ 300	$ 300
First mortgage bonds	2.60	May 15, 2023	400	400
First mortgage bonds	7.125	July 1, 2025	250	250
First mortgage bonds	6.50	March 1, 2028	150	150
First mortgage bonds [(a)]	2.25	April 1, 2031	425	—
First mortgage bonds	5.25	July 15, 2035	250	250
First mortgage bonds	6.25	June 1, 2036	400	400
First mortgage bonds	6.20	July 1, 2037	350	350
First mortgage bonds	5.35	Nov. 1, 2039	300	300
First mortgage bonds	4.85	Aug. 15, 2040	250	250
First mortgage bonds	3.40	Aug. 15, 2042	500	500
First mortgage bonds	4.125	May 15, 2044	300	300
First mortgage bonds	4.00	Aug. 15, 2045	300	300
First mortgage bonds	3.60	May 15, 2046	350	350
First mortgage bonds	3.60	Sept. 15, 2047	600	600
First mortgage bonds	2.90	March 1, 2050	600	600
First mortgage bonds [(b)]	2.60	June 1, 2051	700	700
First mortgage bonds [(a)]	3.20	April 1, 2052	425	—
Other long-term debt			3	—
Unamortized discount			(44)	(42)
Unamortized debt issuance cost			(62)	(54)
Current maturities			(300)	—
Total long-term debt			$ 6,447	$ 5,904

[(a)] 2021 financing.
[(b)] 2020 financing.

Maturities of long-term debt are as follows:

(Millions of Dollars)	
2022	$ 300
2023	400
2024	—
2025	250
2026	—

Dividend Restrictions — NSP-Minnesota's dividends are subject to the FERC's jurisdiction, which prohibits the payment of dividends out of capital accounts. Dividend payments are solely to be paid from retained earnings.

NSP-Minnesota's state regulatory commissions additionally impose dividend limitations, which are more restrictive than those imposed by the FERC.

Requirements and actuals as of Dec. 31, 2021:

Equity to Total Capitalization Ratio Required Range		Equity to Total Capitalization Ratio Actual
Low	High	2021
47.2 %	57.6 %	52.9 %

Unrestricted Retained Earnings	Total Capitalization	Limit on Total Capitalization
$ 1,558 million	$ 14,321 million	$ 15,332 million

6. Income Taxes

Federal Tax Loss Carryback Claims — In 2020, Xcel Energy identified certain expenses related to tax years 2009 - 2011 that qualify for an extended carryback claim. As a result, a tax benefit of approximately $13 million was recognized in 2020.

Federal Audit — NSP-Minnesota is a member of the Xcel Energy affiliated group that files a consolidated federal income tax return. Statute of limitations applicable to Xcel Energy's consolidated federal income tax returns expire as follows:

Tax Year(s)	Expiration
2014 - 2016	December 2022
2018	September 2022

Additionally, the statute of limitations related to the federal tax credit carryforwards will remain open until those credits are utilized in subsequent returns. Further, the statute of limitations related to the additional federal tax loss carryback claim filed in 2020 has been extended. Xcel Energy has recognized its best estimate of income tax expense that will result from a final resolution of this issue; however, the outcome and timing of a resolution is unknown.

State Audits — NSP-Minnesota is a member of the Xcel Energy affiliated group that files consolidated state income tax returns. As of Dec. 31, 2021, NSP-Minnesota's earliest open tax year subject to examination by state taxing authorities under applicable statutes of limitations is 2014. In July 2020, Minnesota began an audit of tax years 2015 - 2018. As of Dec. 31, 2021, no material adjustments have been proposed.

Unrecognized Benefits — Unrecognized tax benefit balance includes permanent tax positions, which if recognized would affect the effective tax rate (ETR). In addition, the unrecognized tax benefit balance includes temporary tax positions for which deductibility is highly certain, but for which there is uncertainty about the timing. A change in the timing of deductibility would not affect the ETR but would accelerate the payment to the taxing authority.

Permanent vs. temporary:

(Millions of Dollars)	Dec. 31, 2021	Dec. 31, 2020
Unrecognized tax benefit — Permanent tax positions	$ 23	$ 21
Unrecognized tax benefit — Temporary tax positions	3	3
Total unrecognized tax benefit	$ 26	$ 24

Changes in unrecognized tax benefits:

(Millions of Dollars)	2021	2020
Balance at Jan. 1	$ 24	$ 20
Additions based on tax positions related to the current year	2	2
Additions for tax positions of prior years	—	16
Reductions for tax positions of prior years	—	(14)
Balance at Dec. 31	$ 26	$ 24

Unrecognized tax benefits were reduced by tax benefits associated with net operating loss (NOL) and tax credit carryforwards:

(Millions of Dollars)	Dec. 31, 2021	Dec. 31, 2020
NOL and tax credit carryforwards	$ (13)	$ (11)

As the Internal Revenue Service (IRS) progresses its review of the tax loss carryback claims and as state audits progress, it is reasonably possible that the amount of unrecognized tax benefit could decrease up to approximately $14 million in the next 12 months

As the Internal Revenue Service (IRS) progresses its review of the tax loss carryback claims and as state audits progress, it is reasonably possible that the amount of unrecognized tax benefit could decrease up to approximately $14 million in the next 12 months.

Payable for interest related to unrecognized tax benefits is partially offset by the interest benefit associated with NOL and tax credit carryforwards.

Interest payable related to unrecognized tax benefits:

(Millions of Dollars)	2021	2020
Payable for interest related to unrecognized tax benefits at Jan. 1	$ (2)	$ (2)
Payable for interest related to unrecognized tax benefits at Dec. 31	$ (2)	$ (2)

No amounts were accrued for penalties related to unrecognized tax benefits as of Dec. 31, 2021 or 2020.

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

(Millions of Dollars)	2021	2020
Federal NOL carryforward	$ 77	$ —
Federal tax credit carryforwards	710	548
State NOL carryforwards	352	158
State tax credit carryforwards, net of federal detriment	80	73
Valuation allowances for state credit carryforwards, net of federal benefit	(64)	(59)

Federal carryforward periods expire between 2031 and 2041 and state carryforward periods expire starting 2022.

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.

Effective income tax rate for years ended Dec. 31:

	2021	2020
Federal statutory rate	21.0 %	21.0 %
State income tax on pretax income, net of federal tax effect	7.0	7.0
Increases (decreases) in tax from:		
Wind production tax credits	(27.8)	(19.3)
Plant regulatory differences [(a)]	(8.1)	(7.2)
Other tax credits, net NOL & tax credit allowances	(1.3)	(1.2)
NOL Carryback	—	(2.1)
Other, net	0.6	0.8
Effective income tax rate	(8.6)%	(1.0)%

(a) Regulatory differences for income tax primarily relate to the credit of excess deferred taxes to customers through the average rate assumption method. Income tax benefits associated with the credit of excess deferred credits are offset by corresponding revenue reductions.

Components of income tax expense for years ended Dec. 31:

(Millions of Dollars)	2021	2020
Current federal tax (benefit) expense	$ (10)	$ 41
Current state tax (benefit) expense	(1)	12
Current change in unrecognized tax expense	2	6
Deferred federal tax benefit	(87)	(101)
Deferred state tax expense	49	38
Deferred ITCs	(1)	(1)
Other	—	(1)
Total income tax benefit	$ (48)	$ (6)

Components of deferred income tax expense as of Dec. 31:

(Millions of Dollars)	2021	2020
Deferred tax expense excluding items below	$ 108	$ 64
Amortization and adjustments to deferred income taxes on income tax regulatory assets and liabilities	(145)	(127)
Tax benefit allocated to other comprehensive income, net of adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 326, and other	(1)	—
Deferred tax benefit	$ (38)	$ (63)

Components of the net deferred tax liability as of Dec. 31:

(Millions of Dollars)	2021	2020
Deferred tax liabilities:		
Differences between book and tax bases of property	$ 3,055	$ 2,846
Regulatory assets	(148)	(158)
Operating lease assets	123	147
Deferred fuel costs	92	7
Pension expense	73	72
Other	14	7
Total deferred tax liabilities	$ 3,209	$ 2,921
Deferred tax assets:		
Tax credit carryforward	$ 790	$ 621
Differences between book and tax bases of property	336	331
Operating lease liabilities	123	147
Regulatory liabilities	(82)	(80)
Tax credit valuation allowances	(64)	(59)
NOL carryforward	44	12
Other employee benefits	32	38
Deferred investment tax credits	5	5
Other	85	74
Total deferred tax assets	$ 1,269	$ 1,089
Net deferred tax liability	$ 1,940	$ 1,832

In December 2017, NSP-Minnesota remeasured our deferred tax assets and liabilities to the new federal corporate income tax rate of 21%. After filing the 2017 tax return, we completed a final remeasurement of our 2017 deferred tax assets and liabilities to the new corporate tax rate. NSP- Minnesota received guidance from its jurisdictions in 2018 and started the amortization of the deficient and excess accumulated deferred income tax (ADIT). The Protected ADITs, which are required by IRS normalization rules to be provided to customers, are amortized according to the rules of the Average Rate Assumption Method (ARAM) with amortization occurring over the remaining book life of the individual assets. The Unprotected ADITs, are amortized according to each jurisdiction. The Nonplant Unprotected have amortization periods ranging from 3-15 years. While, Plant Unprotected will use ARAM.

The amount of deficient and excess accumulated deferred income tax assets and liabilities that are considered protected and unprotected as of December 31, 2021 and 2020 is reflected below.

	Dec. 31, 2021		Dec. 31, 2020	
(Millions of Dollars)	Account 182.3	Account 254	Account 182.3	Account 254
Protected				
Plant	$ —	$ 1,099	$ —	$ 1,150
Nonplant	103	—	108	—
Unprotected				
Plant	—	133	—	147
Nonplant	19	30	24	36
Total				
Plant	$ —	$ 1,232	$ —	$ 1,297
Nonplant	$ 122	$ 30	$ 132	$ 36

Excess and deficient ADITs in 2021 were amortized in the Statement of Income as follows:

(Millions of Dollars)	Dec. 31, 2021
Protected	
Plant	$ (36)
Nonplant	4
Unprotected	
Plant	(10)
Nonplant	(2)
Total	
Plant	$ (46)
Nonplant	$ 2

7. Fair Value of Financial Assets and Liabilities

Fair Value Measurements

Accounting guidance for fair value measurements and disclosures provides a single definition of fair value and requires disclosures about assets and liabilities measured at fair value. A hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value is established by this guidance.

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

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

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

Investments in equity securities and other funds — Equity securities are valued using quoted prices in active markets. The fair values for commingled funds are measured using NAVs. The investments in commingled funds may be redeemed for NAV with proper notice. Private equity commingled fund investments require approval of the fund for any unscheduled redemption, and such redemptions may be approved or denied by the fund at its sole discretion.

Unscheduled distributions from real estate commingled funds' investments may be redeemed with proper notice, however, may be delayed or discounted as a result of fund illiquidity.

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

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

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

Electric commodity derivatives held by NSP-Minnesota include transmission congestion instruments, generally referred to as financial transmission rights (FTRs). FTRs purchased from a Regional Transmission Organization (RTO) are financial instruments that entitle or obligate the holder to monthly revenues or charges based on transmission congestion across a given transmission path. The value of an FTR is derived from, and designed to offset, the cost of transmission congestion.

In addition to overall transmission load, congestion is also influenced by the operating schedules of power plants and the consumption of electricity pertinent to a given transmission path. Unplanned plant outages, scheduled plant maintenance, changes in the relative costs of fuels used in generation, weather and overall changes in demand for electricity can each impact the operating schedules of the power plants on the transmission grid and the value of an FTR.

If forecasted costs of electric transmission congestion increase or decrease for a given FTR path, the value of that particular FTR instrument will likewise increase or decrease. Given the limited observability of certain inputs to the value of FTRs between auction processes, including expected plant operating schedules and retail and wholesale demand, fair value measurements for FTRs have been assigned a Level 3.

Non-trading monthly FTR settlements are included in fuel and purchased energy cost recovery mechanisms and therefore changes in the fair value of the yet to be settled portions of most FTRs are deferred as a regulatory asset or liability. Given this regulatory treatment and the limited magnitude of NSP-Minnesota's FTRs relative to its electric utility operations, the numerous unobservable quantitative inputs pertinent to the value of FTRs are immaterial to the financial statements of NSP-Minnesota.

Non-Derivative Fair Value Measurements

The Nuclear Regulatory Commission requires NSP-Minnesota to maintain a portfolio of investments to fund the costs of decommissioning its nuclear generating plants. Assets of the nuclear decommissioning fund are legally restricted for the purpose of decommissioning these facilities. The fund contains cash equivalents, debt securities, equity securities and other investments. NSP-Minnesota uses the Minnesota Public Utilities Commission (MPUC) approved asset allocation for the escrow and investment targets by asset class for the qualified trust.

NSP-Minnesota recognizes the costs of funding the decommissioning over the lives of the nuclear plants, assuming rate recovery of all costs. Realized and unrealized gains on fund investments over the life of the fund are deferred as an offset of NSP-Minnesota's regulatory asset for nuclear decommissioning costs. Consequently, any realized and unrealized gains and losses on securities in the nuclear decommissioning fund are deferred as a component of the regulatory asset.

Unrealized gains for the nuclear decommissioning fund were $1.3 billion and $981 million as of Dec. 31, 2021 and 2020, respectively, and unrealized losses were $7 million and $5 million as of Dec. 31, 2021 and 2020, respectively.

Non-derivative instruments with recurring fair value measurements in the nuclear decommissioning fund:

	Dec. 31, 2021					
		Fair Value				
(Millions of Dollars)	Cost	Level 1	Level 2	Level 3	NAV	Total
Nuclear decommissioning fund						
Cash equivalents	$ 64	$ 64	$ —	$ —	$ —	$ 64
Commingled funds	856	—	—	—	1,294	1,294
Debt securities	631	—	666	9	—	675
Equity securities	411	1,222	1	—	—	1,223
Total	$ 1,962	$ 1,286	$ 667	$ 9	$ 1,294	$ 3,256

	Dec. 31, 2020					
		Fair Value				
(Millions of Dollars)	Cost	Level 1	Level 2	Level 3	NAV	Total
Nuclear decommissioning fund						
Cash equivalents	$ 40	$ 40	$ —	$ —	$ —	$ 40
Commingled funds	787	—	—	—	1,041	1,041
Debt securities	528	—	572	13	—	585
Equity securities	446	1,109	2	—	—	1,111
Total	$ 1,801	$ 1,149	$ 574	$ 13	$ 1,041	$ 2,777

For the years ended Dec. 31, 2021 and 2020, there were immaterial Level 3 nuclear decommissioning fund investments or transfer of amounts between levels.

Contractual maturity dates of debt securities in the nuclear decommissioning fund as of Dec. 31, 2021:

	Final Contractual Maturity				
(Millions of Dollars)	Due in 1 Year or Less	Due in 1 to 5 Years	Due in 5 to 10 Years	Due after 10 Years	Total
Debt securities	$ 4	$ 149	$ 208	$ 314	$ 675

Rabbi Trusts

NSP-Minnesota has established a rabbi trust to provide partial funding for future deferred compensation plan distributions.

Cost and fair value of assets held in rabbi trusts:

	Dec. 31, 2021				
		Fair Value			
(Millions of Dollars)	Cost	Level 1	Level 2	Level 3	Total
Rabbi Trusts [(a)]					
Mutual funds	$ 10	$ 13	$ —	$ —	$ 13
Total	$ 10	$ 13	$ —	$ —	$ 13

[(a)] Reported in other investments on the balance sheet.

	Dec. 31, 2020				
		Fair Value			
(Millions of Dollars)	Cost	Level 1	Level 2	Level 3	Total
Rabbi Trusts [(a)]					
Cash equivalents	$ 1	$ 1	$ —	$ —	$ 1
Mutual funds	14	16	—	—	16
Total	$ 15	$ 17	$ —	$ —	$ 17

[(a)] Reported in other investments on the balance sheet.

Derivative Instruments Fair Value Measurements

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

Interest Rate Derivatives — NSP-Minnesota enters into various instruments that effectively fix the yield or price on a specified benchmark interest rate for an anticipated debt issuance for a specific period. These derivative instruments are generally designated as cash flow hedges for accounting purposes, with changes in fair value prior to settlement recorded as other comprehensive income.

As of Dec. 31, 2021, accumulated other comprehensive loss related to settled interest rate derivatives included $1 million of net losses expected to be reclassified into earnings during the next 12 months as the hedged interest rate transactions impact earnings. As of Dec. 31, 2021, NSP-Minnesota had no unsettled interest rate derivatives.

Wholesale and Commodity Trading Risk — NSP-Minnesota conducts various wholesale and commodity trading activities, including the purchase and sale of electric capacity, energy, energy-related instruments and natural gas-related instruments, including derivatives. NSP-Minnesota is allowed to conduct these activities within guidelines and limitations as approved by its risk management committee, comprised of management personnel not directly involved in activities governed by this policy.

Commodity Derivatives — NSP-Minnesota enters into derivative instruments to manage variability of future cash flows from changes in commodity prices in its electric and natural gas operations, as well as for trading purposes. This could include the purchase or sale of energy or energy-related products, natural gas to generate electric energy, natural gas for resale, FTRs, vehicle fuel, and weather derivatives.

As of Dec. 31, 2021, NSP-Minnesota had no commodity contracts designated as cash flow hedges. NSP-Minnesota may enter into derivative instruments that mitigate commodity price risk on behalf of electric and natural gas customers, but may not be designated as qualifying hedging transactions. The classification of unrealized losses or gains on these instruments as a regulatory asset or liability, if applicable, is based on approved regulatory recovery mechanisms.

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

Gross notional amounts of commodity forwards, options and FTRs:

(Amounts in Millions) [(a)(b)]	Dec. 31, 2021	Dec. 31, 2020
Megawatt hours of electricity	57	65
Million British thermal units of natural gas	85	83

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

Consideration of Credit Risk and Concentrations — NSP-Minnesota continuously monitors the creditworthiness of counterparties to its interest rate derivatives and commodity derivative contracts prior to settlement and assesses each counterparty's ability to perform on the transactions set forth in the contracts. Impact of credit risk was immaterial to the fair value of unsettled commodity derivatives presented on the balance sheets. NSP-Minnesota's most significant concentrations of credit risk with particular entities or industries are contracts with counterparties to its wholesale, trading and non-trading commodity activities.

As of Dec. 31, 2021, eight of NSP-Minnesota's 10 most significant counterparties for these activities, comprising $33 million or 63% of this credit exposure, had investment grade credit ratings from Standard & Poor's Global Ratings, Moody's Investor Services or Fitch Ratings. One of the 10 most significant counterparties, comprising $17 million or 34% of this credit exposure, was not rated by these external agencies, but based on NSP-Minnesota's internal analysis, had credit quality consistent with investment grade. One of these significant counterparties, comprising an immaterial amount or less than 1% of this credit exposure, had credit quality less than investment grade, based on internal analysis. Six of these significant counterparties are municipal or cooperative electric entities, RTOs or other utilities.

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

(Millions of Dollars)	2021	2020
Accumulated other comprehensive loss related to cash flow hedges at Jan. 1	$ (19)	$ (20)
After-tax net realized losses on derivative transactions reclassified into earnings	2	1
Accumulated other comprehensive loss related to cash flow hedges at Dec. 31	$ (17)	$ (19)

Impact of derivative activity:

	Pre-Tax Fair Value Gains (Losses) Recognized During the Period in:	
(Millions of Dollars)	Accumulated Other Comprehensive Loss	Regulatory (Assets) and Liabilities
Year Ended Dec. 31, 2021		
Other derivative instruments		
Electric commodity	$ —	$ 3
Natural gas commodity	—	(3)
Total	$ —	$ —
Year Ended Dec. 31, 2020		
Other derivative instruments		
Electric commodity	$ —	$ 2
Natural gas commodity	—	(2)
Total	$ —	$ —

	Pre-Tax (Gains) Losses Reclassified into Income During the Period from:		
(Millions of Dollars)	Accumulated Other Comprehensive Loss	Regulatory Assets and (Liabilities)	Pre-Tax Gains (Losses) Recognized During the Period in Income
Year Ended Dec. 31, 2021			
Derivatives designated as cash flow hedges			
Interest rate	$ 2 [(a)]	$ —	$ —
Total	$ 2	$ —	$ —
Other derivative instruments			
Commodity trading	$ —	$ —	$ 51 [(b)]
Electric commodity	—	(3) [(c)]	—
Natural gas commodity	—	1 [(d)]	(6) [(d)]
Total	$ —	$ (2)	$ 45
Year Ended Dec. 31, 2020			
Derivatives designated as cash flow hedges			
Interest rate	$ 1 [(a)]	$ —	$ —
Total	$ 1	$ —	$ —
Other derivative instruments			
Commodity trading	$ —	$ —	$ (5) [(b)]
Electric commodity	—	(3) [(c)]	—
Natural gas commodity	—	2 [(d)]	(4) [(d)]
Total	$ —	$ (1)	$ (9)

(a) Recorded to electric fuel and purchased power. These derivative settlement gains and losses are shared with electric customers through fuel and purchased energy cost-recovery mechanisms and reclassified out of income as regulatory assets or liabilities, as appropriate.
(b) Amounts are recorded to cost of natural gas sold and transported. These derivative settlement gains and losses are shared with natural gas customers through purchased natural gas cost-recovery mechanisms and reclassified out of income as regulatory assets and liabilities, as appropriate.
(c) Recorded to electric fuel and purchased power. These derivative settlement gains and losses are shared with electric customers through fuel and purchased energy cost-recovery mechanisms and reclassified out of income as regulatory assets or liabilities, as appropriate.
(d) Amounts are recorded to cost of natural gas sold and transported. These derivative settlement gains and losses are shared with natural gas customers through purchased natural gas cost-recovery mechanisms and reclassified out of income as regulatory assets and liabilities, as appropriate.

NSP-Minnesota had no derivative instruments designated as fair value hedges during the years ended Dec. 31, 2021 and 2020.

Credit Related Contingent Features — Contract provisions for derivative instruments that NSP-Minnesota enters into, including those accounted for as normal purchase-normal sale contracts and therefore not reflected on the balance sheets, may require the posting of collateral or settlement of the contracts for various reasons, including if NSP-Minnesota's credit ratings are downgraded below its investment grade credit rating by any of the major credit rating agencies. As of Dec. 31, 2021 and 2020, there were $3 million and $4 million derivative instruments in a liability position with such underlying contract provisions, respectively.

Certain contracts also contain cross default provisions that may require the posting of collateral or settlement of the contracts if there was a failure under the other financing arrangements related to payment terms or other covenants. As of Dec. 31, 2021 and 2020, there were approximately $48 million and $14 million of derivative instruments in a liability position with such underlying contract provisions, respectively.

Provisions allow counterparties to seek performance assurance, including cash collateral, in the event that NSP-Minnesota's ability to fulfill its contractual obligations is reasonably expected to be impaired. NSP-Minnesota had no collateral posted related to adequate assurance clauses in derivative contracts as of Dec. 31, 2021 and 2020.

Recurring Fair Value Measurements — NSP-Minnesota's derivative assets and liabilities measured at fair value on a recurring basis were as follows:

	Dec. 31, 2021						Dec. 31, 2020					
	Fair Value						Fair Value					
(Millions of Dollars)	Level 1	Level 2	Level 3	Fair Value Total	Netting [(a)]	Total	Level 1	Level 2	Level 3	Fair Value Total	Netting [(a)]	Total
Current derivative Assets												
Other derivative instruments:												
Commodity trading	$ 9	$ 40	$ 22	$ 71	$ (53)	$ 18	$ 1	$ 26	$ —	$ 27	$ (25)	$ 2
Electric commodity	—	—	30	30	(1)	29	—	—	13	13	(1)	12
Natural gas commodity	—	6	—	6	—	6	—	3	—	3	—	3
Total current derivative assets	$ 9	$ 46	$ 52	$ 107	$ (54)	$ 53	$ 1	$ 29	$ 13	$ 43	$ (26)	$ 17
Noncurrent derivative assets												
Other derivative instruments:												
Commodity trading	$ 6	$ 34	$ 35	$ 75	$ (42)	$ 33	$ 7	$ 39	$ —	$ 46	$ (41)	$ 5
Total noncurrent derivative assets	$ 6	$ 34	$ 35	$ 75	$ (42)	33	$ 7	$ 39	$ —	$ 46	$ (41)	5

	Dec. 31, 2021						Dec. 31, 2020					
	Fair Value						Fair Value					
(Millions of Dollars)	Level 1	Level 2	Level 3	Fair Value Total	Netting [(a)]	Total	Level 1	Level 2	Level 3	Fair Value Total	Netting [(a)]	Total
Current derivative Liabilities												
Other derivative instruments:												
Commodity trading	$ 13	$ 58	$ 4	$ 75	$ (58)	$ 17	$ 3	$ 18	$ 10	$ 31	$ (25)	$ 6
Electric commodity	—	—	1	1	(1)	—	—	—	1	1	(1)	—
Natural gas commodity	—	4	—	4	—	4	—	2	—	2	—	2
Total current derivative liabilities	$ 13	$ 62	$ 5	$ 80	$ (59)	21	$ 3	$ 20	$ 11	$ 34	$ (26)	8
Power Purchase Agreements [(b)]						14						14
Current derivative instruments						$ 35						$ 22
Noncurrent derivative liabilities												
Other derivative instruments												
Commodity trading	$ 15	$ 48	$ 26	$ 89	$ (53)	$ 36	$ 2	$ 35	$ 13	$ 50	$ (27)	$ 23
Total noncurrent derivative liabilities	$ 15	$ 48	$ 26	$ 89	$ (53)	36	$ 2	$ 35	$ 13	$ 50	$ (27)	23
Power Purchase Agreements [(b)]						35						48
Noncurrent derivative instruments						$ 71						$ 71

(a) NSP-Minnesota nets derivative instruments and related collateral on its balance sheets when supported by a legally enforceable master netting agreement, and all derivative instruments and related collateral amounts were subject to master netting agreements at Dec. 31, 2021 and 2020. At Dec. 31, 2021 derivative assets and liabilities include no obligations to return cash collateral. At Dec. 31, 2020 derivative assets and liabilities include $15 million of obligations to return cash collateral. At Dec. 31, 2021 and 2020, derivative assets and liabilities include the rights to reclaim cash collateral of $16 million and $1 million, respectively. The counterparty netting excludes settlement receivables and payables and non-derivative amounts that may be subject to the same master netting agreements.
(b) During 2006, Xcel Energy 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.

Changes in Level 3 commodity derivatives for the years ended Dec. 31, 2021 and 2020:

	Year Ended Dec. 31	
(Millions of Dollars)	2021	2020
Balance at Jan. 1	$ (11)	$ 5
Purchases	54	28
Settlements	(82)	(49)
Net transactions recorded during the period:		
Gains (losses) recognized in earnings [(a)]	72	(8)
Net gains (losses) recognized as regulatory assets and liabilities	23	13

Balance at Dec. 31	$ 56	$ (11)

(a) Level 3 losses and gains recognized in earnings are subject to offsetting gains and losses of derivative instruments categorized as levels 1 and 2 in the income statement.

NSP-Minnesota recognizes transfers between levels as of the beginning of each period. There were no transfers of amounts between levels for derivative instruments for the years ended Dec. 31, 2021 and 2020.

Fair Value of Long-Term Debt

As of Dec. 31, other financial instruments for which the carrying amount did not equal fair value:

	2021		2020	
(Millions of Dollars)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Long-term debt, including current portion	$ 6,809	$ 7,761	$ 5,958	$ 7,391

Fair value of NSP-Minnesota's long-term debt is estimated based on recent trades and observable spreads from benchmark interest rates for similar securities. Fair value estimates are based on information available to management as of Dec. 31, 2021 and 2020, and given the observability of the inputs, fair values presented for long-term debt were assigned as Level 2.

8. Benefit Plans and Other Postretirement Benefits

Pension and Postretirement Health Care Benefits

Xcel Energy, which includes NSP-Minnesota, has several noncontributory, qualified, defined benefit pension plans that cover almost all employees. All newly hired or rehired employees participate under the Cash Balance formula, which is based on pay credits using a percentage of annual eligible pay and annual interest credits. The average annual interest crediting rates for these plans was 1.96 and 1.78 percent in 2021 and 2020, respectively. Some employees may participate under legacy formulas such as the traditional final average pay or pension equity. Xcel Energy's and NSP-Minnesota's policy is to fully fund into an external trust the actuarially determined pension costs subject to the limitations of applicable employee benefit and tax laws.

In addition to the qualified pension plans, Xcel Energy maintains a supplemental executive retirement plan (SERP) and a nonqualified pension plan. The SERP is maintained for certain executives who participated in the plan in 2008, when the SERP was closed to new participants. The nonqualified pension plan provides benefits for compensation that is in excess of the limits applicable to the qualified pension plans, with distributions funded by Xcel Energy's operating cash flows. Obligations of the SERP and nonqualified plan as of Dec. 31, 2021 and 2020 were $43 million and $43 million, respectively, of which $3 million and $4 million was attributable to NSP-Minnesota in 2021 and 2020, respectively. In 2021 and 2020, Xcel Energy recognized net benefit cost for the SERP and nonqualified plans of $4 million and $6 million, respectively, of which $1 million was attributable to NSP-Minnesota in 2020 and the cost for 2021 was immaterial.

Xcel Energy, which includes NSP-Minnesota, investment-return assumption considers the expected long-term performance for each of the asset classes in its pension and postretirement health care portfolio. Xcel Energy considers the historical returns achieved by its asset portfolios over long time periods, as well as long-term projected return levels. Xcel Energy and NSP-Minnesota continually review their pension assumptions.

Pension cost determination assumes a forecasted mix of investment types over the long-term.

- Investment returns in 2021 were above the assumed level of 6.60%.
- Investment returns in 2020 were above the assumed level of 7.10%.
- In 2022, NSP-Minnesota's expected investment-return assumption is 6.60%.

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

Xcel Energy's ongoing investment strategy is based on plan-specific investment recommendations that seek to minimize potential investment and interest rate risk as a plan's funded status increases over time. The investment recommendations result in a greater percentage of long-duration fixed income securities being allocated to specific plans having relatively higher funded status ratios and a greater percentage of growth assets being allocated to plans having relatively lower funded status ratios.

Plan Assets

For each of the fair value hierarchy levels, NSP-Minnesota's pension plan assets measured at fair value:

	Dec. 31, 2021 (a)					Dec. 31, 2020 (a)				
(Millions of Dollars)	**Level 1**	**Level 2**	**Level 3**	**Measured at NAV**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Measured at NAV**	**Total**
Cash equivalents	$ 31	$ —	$ —	$ —	$ 31	$ 52	$ —	$ —	$ —	$ 52
Commingled funds	304	—	—	274	578	369	—	—	284	653
Debt securities	—	219	1	—	220	—	167	1	—	168
Equity securities	16	—	—	—	16	20	—	—	—	20
Other	—	1	—	7	8	3	1	—	—	4
Total	$ 351	$ 220	$ 1	$ 281	$ 853	$ 444	$ 168	$ 1	$ 284	$ 897

(a) See Note 7 for further information on fair value measurement inputs and methods.

For each of the fair value hierarchy levels, NSP-Minnesota's postretirement benefit plan assets that were measured at fair value:

	Dec. 31, 2021 (a)					Dec. 31, 2020 (a)				
(Millions of Dollars)	**Level 1**	**Level 2**	**Level 3**	**Measured at NAV**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Measured at NAV**	**Total**
Commingled funds	$ —	$ —	$ —	$ 1	$ 1	$ —	$ —	$ —	$ —	$ —
Debt securities	—	2	—	—	2	—	2	—	—	2
Total	$ —	$ 2	$ —	$ 1	$ 3	$ —	$ 2	$ —	$ —	$ 2

(a) See Note 7 for further information on fair value measurement inputs and methods.

No assets were transferred in or out of Level 3 for 2021 or 2020.

Funded Status — Benefit obligations for both pension and postretirement plans decreased from Dec. 31, 2020 to Dec. 31, 2021, due primarily to benefit payments and increases in discount rates used in actuarial valuations. Comparisons of the actuarially computed benefit obligation, changes in plan assets and funded status of the pension and postretirement health care plans for NSP-Minnesota are as follows:

	Pension Benefits		Postretirement Benefits	
(Millions of Dollars)	**2021**	**2020**	**2021**	**2020**
Change in Benefit Obligation:				
Obligation at Jan. 1	$ 989 30	$ 942	$ 73	$ 76
Service cost	30	27	—	—
Interest cost	25	31	2	2
Plan amendments	1	—	—	—
Actuarial (gain) loss	(28)	84	(5)	2
Benefit payments	(140)	(95)	(6)	(7)
Obligation at Dec. 31	$ 877	$ 989	$ 64	$ 73
Change in Fair Value of Plan Assets:				
Fair value of plan assets at Jan. 1	$ 897	$ 815	$ 2	$ 3
Actual return on plan assets	62	133	—	—
Employer contributions	34	44	7	6
Benefit payments	(140)	(95)	(6)	(7)
Fair value of plan assets at Dec. 31	$ 853	$ 897	$ 3	$ 2
Funded status of plans at Dec. 31	$ (24)	$ (92)	$ (61)	$ (71)
Amounts recognized in the Balance Sheet at Dec. 31:				
Noncurrent liabilities	(24)	(92)	(61)	(71)

	Pension Benefits		Postretirement Benefits	
Significant Assumptions Used to Measure Benefit Obligations:	**2021**	**2020**	**2021**	**2020**
Discount rate for year-end valuation	3.08 %	2.71 %	3.09 %	2.65 %
Expected average long-term increase in compensation level	3.75 %	3.75 %	N/A	N/A
Mortality table	Pri-2012	Pri-2012	Pri-2012	Pri-2012
Health care costs trend rate — initial: Pre-65	N/A	N/A	5.30 %	5.50 %
Health care costs trend rate — initial: Post-65	N/A	N/A	4.90 %	5.00 %
Ultimate trend assumption — initial: Pre-65	N/A	N/A	4.50 %	4.50 %
Ultimate trend assumption — initial: Post-65	N/A	N/A	4.50 %	4.50 %
Years until ultimate trend is reached	N/A	N/A	4	5

The accumulated benefit obligation for the pension plan was $811 million and $912 million as of Dec. 31, 2021 and 2020, respectively.

Net Periodic Benefit Cost (Credit) — Net periodic benefit cost (credit), other than the service cost component, is included in other income (expense) in the statements of income.

Components of net periodic benefit cost (credit) and amounts recognized in other comprehensive income and regulatory assets and liabilities:

	Pension Benefits		Postretirement Benefits	
(Millions of Dollars)	**2021**	**2020**	**2021**	**2020**
Service cost	$ 30	$ 27	$ —	$ —
Interest cost	25	31	2	2
Expected return on plan assets	(52)	(55)	—	—
Amortization of prior service cost	—	—	(3)	(3)
Amortization of net loss	34	33	2	1
Settlement charge (a)	35	—	—	—
Net periodic pension cost	72	36	1	—
Effects of regulation	(44)	(4)	—	—
Net benefit cost recognized for financial reporting	$ 28	$ 32	$ 1	$ —
Significant Assumptions Used to Measure Costs:				
Discount rate	2.71 %	3.49 %	2.65 %	3.47 %

Expected average long-term increase in compensation level	3.75	3.75	—	—
Expected average long-term rate of return on assets	6.60	7.10	4.10	4.50

(a) A settlement charge is required when the amount of lump-sum distributions during the year is greater than the sum of the service and interest cost components of the annual net periodic pension cost. In 2021, as a result of lump-sum distributions during the 2021 plan year, NSP-Minnesota recorded a total pension settlement charge of $35 million in 2021, which was not recognized due to the effects of regulation. There were no settlement charges recorded to the qualified pension plans in 2020.

	Pension Benefits		Postretirement Benefits	
(Millions of Dollars)	**2021**	**2020**	**2021**	**2020**
Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost:				
Net loss	$ 307	$ 414	$ 31	$ 37
Prior service credit	—	—	(4)	(6)
Total	$ 307	$ 414	$ 27	$ 31
Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost Have Been Recorded as Follows Based Upon Expected Recovery in Rates:				
Noncurrent deferred debits	$ 307	$ 414	$ 25	$ 29
Deferred income taxes	—	—	1	1
Net-of-tax accumulated other comprehensive income	—	—	1	1
Total	$ 307	$ 414	$ 27	$ 31
Measurement date	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020

Cash Flows — Funding requirements can be impacted by changes to actuarial assumptions, actual asset levels and other calculations prescribed by the requirements of income tax and other pension-related regulations. Required contributions were made in 2020 - 2022 to meet minimum funding requirements.

Total voluntary and required pension funding contributions across all four of Xcel Energy's pension plans were as follows:

- $50 million in January 2022, of which $5 million is attributable to NSP-Minnesota.
- $131 million in 2021, of which $34 million was attributable to NSP-Minnesota.
- $150 million in 2020, of which $44 million was attributable to NSP-Minnesota.

The postretirement health care plans have no funding requirements other than fulfilling benefit payment obligations when claims are presented and approved. Additional cash funding requirements are prescribed by certain state and federal rate regulatory authorities. Xcel Energy's voluntary postretirement funding contributions were as follows:

- $9 million in January 2022, of which $6 million is attributable to NSP-Minnesota.
- $15 million in 2021, of which $8 million was attributable to NSP-Minnesota.
- $11 million in 2020, of which $6 million was attributable to NSP-Minnesota.

Target asset allocations:

	Pension Benefits		Postretirement Benefits	
	2021	**2020**	**2021**	**2020**
Domestic and international equity securities	33 %	35 %	15 %	15 %
Long-duration fixed income and interest rate swap securities	37	35	—	—
Short-to-intermediate fixed income securities	11	13	71	72
Alternative investments	17	15	8	9
Cash	2	2	6	4
Total	100 %	100 %	100 %	100 %

The asset allocations above reflect target allocations approved in the calendar year to take effect in the subsequent year

Plan Amendments — In 2019, the Pension Protection Act measurement concept was extended beyond 2019 for NSP bargaining terminations and retirements to Dec. 31, 2022.

In 2020, there were no significant plan amendments made which affected the postretirement benefit obligation.

In 2021, Xcel Energy amended the Xcel Energy Pension Plan and Xcel Energy Inc. Nonbargaining Pension Plan (South) to reduce supplemental benefits for non-bargaining participants as well as to allow the transfer of a portion of non-qualified pension obligations into the qualified plans.

Projected Benefit Payments

NSP-Minnesota's projected benefit payments:

(Millions 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**
2022	$ 118	$ 6	$ —	$ 6
2023	72	6	—	6
2024	68	5	—	5
2025	67	5	—	5
2026	64	5	—	5
2027-2031	292	18	—	18

Defined Contribution Plans

Xcel Energy, which includes NSP-Minnesota, maintains 401(k) and other defined contribution plans that cover most employees. The expense to these plans for NSP-Minnesota was approximately $12 million in 2021 and 2020.

Multiemployer Plans

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

9. Commitments and Contingencies

Legal

NSP-Minnesota is involved in various litigation matters in the ordinary course of business. The assessment of whether a loss is probable or is a reasonable possibility, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. Management maintains accruals for losses probable of being incurred and subject to reasonable estimation. Management is sometimes unable to estimate an amount or range of a reasonably possible loss in certain situations, including but not limited to when (1) the damages sought are indeterminate, (2) the proceedings are in the early stages, or (3) the matters involve novel or unsettled legal theories.

In such cases, there is considerable uncertainty regarding the timing or ultimate resolution, including a possible eventual loss. For current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, would have a material effect on NSP-Minnesota's financial statements. Legal fees are generally expensed as incurred.

Rate Matters and Other

NSP-Minnesota is involved in various regulatory proceedings arising in the ordinary course of business. Until resolution, typically in the form of a rate order, uncertainties may exist regarding the ultimate rate treatment for certain activities and transactions. Amounts have been recognized for probable and reasonably estimable losses that may result. Unless otherwise disclosed, any reasonably possible range of loss in excess of any recognized amount is not expected to have a material effect on the financial statements.

Minnesota Winter Storm Uri Costs — In its Minnesota jurisdiction, NSP-Minnesota is participating in a contested case regarding the prudency of incremental natural gas costs incurred during Winter Storm Uri. Other parties to the case have recommended significant cost disallowances, and while ultimate resolution of the matter is uncertain, it is reasonably possible that the MPUC could disallow certain deferred costs, resulting in earnings losses. The OAG recommended the MPUC deny recovery of up to $179 million, the largest recommendation among the intervenor positions.

NSP-Minnesota strongly disagrees with the recommendations of the DOC, OAG and CUB, and believes that it acted prudently and according to MPUC approved procedures for the best interest of its customers and stakeholders. NSP-Minnesota filed rebuttal testimony in January 2022 detailing its position that the disallowances recommended by other parties lack any merit in the prudency review given the pertinent facts regarding NSP-Minnesota's actions before, during and after the storm event. An MPUC decision is expected in the summer of 2022.

Sherco — In 2018, NSP-Minnesota and Southern Minnesota Municipal Power Agency (Co-owner of Sherco Unit 3) reached a settlement with General Electric (GE) related to a 2011 incident, which damaged the turbine at Sherco Unit 3 and resulted in an extended outage for repair. NSP-Minnesota notified the MPUC of its proposal to refund settlement proceeds to customers through the fuel clause adjustment (FCA).

In March 2019, the MPUC approved NSP-Minnesota's settlement refund proposal. Additionally, the MPUC decided to withhold any decision as to NSP-Minnesota's prudence in connection with the incident at Sherco Unit 3 until after conclusion of an appeal pending between GE and NSP-Minnesota's insurers. In February 2020, the Minnesota Court of Appeals affirmed the district court's judgment in favor of GE. In March 2020, NSP-Minnesota's insurers filed a petition seeking additional review by the Minnesota Supreme Court.

In April 2020, the Minnesota Supreme Court denied the insurers' petition for further review, ending the litigation.

In January 2021, the OAG and the Minnesota Department of Commerce (DOC) recommended that NSP-Minnesota refund approximately $17 million of replacement power costs previously recovered through the FCA. NSP-Minnesota subsequently filed its response, asserting that it acted prudently in connection with the Sherco Unit 3 outage, the MPUC has previously disallowed $22 million of related costs and no additional refund or disallowance is appropriate. A final decision by the MPUC is pending. A loss related to this matter is deemed remote.

Westmoreland Arbitration — In November 2014, insurers of the Westmoreland Coal Company filed an arbitration demand against NSP-Minnesota, Southern Minnesota Municipal Power Agency and Western Fuels Association, seeking recovery of alleged $36 million of business losses due to a turbine failure at Sherco Unit 3. The Westmoreland insurers claim NSP-Minnesota's invocation of the force majeure clause to stop the supply of coal was improper because the incident was allegedly caused by NSP-Minnesota's failure to conform to industry maintenance standards.

NSP-Minnesota denies the claims asserted by the Westmoreland insurers and believes it properly stopped the supply of coal based upon the force majeure provision. A final hearing has been scheduled for October 2022. The parties are also required to participate in mediation, which has been scheduled for the first quarter of 2022. At this stage of the proceeding, a reasonable estimate of damages or range of damages cannot be determined.

MISO Return on Equity (ROE) Complaints — In November 2013 and February 2015, customer groups filed two ROE complaints against MISO transmission owners (TOs), which includes NSP-Minnesota and NSP-Wisconsin. The first complaint requested a reduction in base ROE transmission formula rates from 12.38% to 9.15% for the time period of Nov. 12, 2013 to Feb. 11, 2015, and removal of ROE adders (including those for RTO membership). The second complaint requested, for a subsequent time period, a base ROE reduction from 12.38% to 8.67%.

In September 2016, the FERC issued an order (Opinion No. 551) granting a 10.32% base ROE effective for the first complaint period of Nov. 12, 2013 to Feb. 11, 2015 and subsequent to the date of the order. The D.C Circuit subsequently vacated and remanded Opinion No. 551.

In November 2019, the FERC issued an order (Opinion No. 569), which set the MISO base ROE at 9.88%, effective Sept. 28, 2016 and for the first complaint period. The FERC also dismissed the second complaint. In December 2019, MISO TOs filed a request for rehearing regarding the new ROE methodology announced in Opinion No. 569. Customers also filed requests for rehearing claiming, among other points, that the FERC erred by dismissing the second complaint without refunds.

In May 2020, the FERC issued an order (Opinion No. 569-A) which granted rehearing in part to Opinion 569 and further refined the FERC's ROE methodology, most significantly to incorporate the risk premium model (in addition to the discounted cash flow and capital asset pricing models), resulting in a new base ROE of 10.02%, effective Sept. 28, 2016 and for the first complaint period. The FERC also affirmed its decision in Opinion No. 569 to dismiss the second complaint.

In November 2020, the FERC issued an order (Opinion No. 569-B) in response to rehearing requests. The FERC corrected certain inputs to its ROE calculation model, did not change the ROE effective Sept. 28, 2016, and for the first MISO complaint period and upheld its decision to deny refunds for the second complaint period. NSP-Minnesota has recognized a liability for its best estimate of final refunds to customers. Each 10 basis point reduction in ROE for the first complaint period, second complaint period and subsequent period relative to amounts accrued would reduce Xcel Energy's net income by $1 million, $1 million and $2 million, respectively.

The MISO TOs and various parties have filed petitions for review of Opinion Nos. 569, 569-A and 569-B at the United States Court of appeals for the District of Columbia (D.C. Circuit). Oral arguments were held in late 2021 and a decision is expected by the end of the third quarter of 2022.

Environmental

New and changing federal and state environmental mandates can create financial liabilities for NSP-Minnesota, which are normally recovered through the regulated rate process.

Site Remediation

Various federal and state environmental laws impose liability where hazardous substances or other regulated materials have been released to the environment. NSP-Minnesota may sometimes pay all or a portion of the cost to remediate sites where past activities of NSP-Minnesota's predecessors or other parties have caused environmental contamination. Environmental contingencies could arise from various situations, including sites of former manufactured gas plants (MGPs); and third-party sites, such as landfills, for which NSP-Minnesota is alleged to have sent wastes to that site.

Historical MGP, Landfill and Disposal Sites

NSP-Minnesota is currently investigating, remediating or performing post closure actions at seven historical MGP, landfill or other disposal sites across its service territories, excluding sites that are being addressed under current coal ash regulations (see below).

NSP-Minnesota has recognized its best estimate of costs/liabilities from final resolution of these issues; however, the outcome and timing are unknown. In addition, there may be insurance recovery and/or recovery from other potentially responsible parties, offsetting a portion of costs incurred.

Environmental Requirements — Water and Waste

Coal Ash Regulation — NSP-Minnesota's operations are subject to federal and state regulations that impose requirements for handling, storage, treatment and disposal of solid waste. Under the coal combustion residuals (CCR) final rule (40 CFR 257.50 - 257.107) published by the United Sates Environmental Protection Agency (EPA) regulating the management, storage and disposal of CCRs as a nonhazardous waste (CCR Rule), utilities are required to complete groundwater sampling around their CCR landfills and surface impoundments. Currently, NSP-Minnesota has three regulated ash units in operation.

NSP-Minnesota is conducting groundwater sampling and monitoring and implementing assessment of corrective measures at certain CCR landfills and surface impoundments. No results above the groundwater protection standards in the rule were identified.

In August 2020, the EPA published its final rule to implement closure by April 2021 for all CCR impoundments affected by the August 2018 D.C. Circuit ruling. This final rule required NSP-Minnesota to expedite closure plans for one impoundment.

In October 2020, NSP-Minnesota completed construction and placed in service a new impoundment to replace the clay lined impoundment. With the new ash pond in service, NSP-Minnesota has initiated closure activities for the existing ash pond at an estimated cost of $4 million. NSP-Minnesota has five years to complete closure activities.

Closure costs for existing impoundments are included in the calculation of the ARO.

Federal Clean Water (CWA) Waters of the U.S. Rule — NSP-Minnesota is monitoring ongoing changes to the definition of Waters of the U.S. under the CWA. Regardless of which definition is applicable in the states in which we operate, NSP-Minnesota does not anticipate that compliance costs will be material.

CWA Effluent Limitations Guidelines (ELG) — In 2015, the EPA issued a final ELG rule for power plants that discharge treated effluent to surface waters as well as utility-owned landfills that receive CCRs. In October 2020, the EPA published a final rule revising the regulations.

The retirement of units affected by the final ELG rule is subject to regulatory approval. The exact total cost of ELG compliance is therefore uncertain but NSP-Minnesota does not anticipate that compliance costs will be material.

Federal CWA Section 316(b) — The federal CWA requires the EPA to regulate cooling water intake structures to assure that these structures reflect the best technology available for minimizing impingement and entrainment of aquatic species. NSP-Minnesota estimates the likely future cost for complying with impingement and entrainment requirements is approximately $36 million, to be incurred between 2022 and 2028. NSP-Minnesota believes six plants could be required to make improvements to reduce impingement and entrainment. The exact total cost of the impingement and entrainment improvements is uncertain, but could be up to $188 million. NSP-Minnesota anticipates these costs will be fully recoverable through regulatory mechanisms.

Environmental Requirements — Air

Regional Haze Rules — The regional haze program requires sulfur dioxide, nitrogen oxide and particulate matter emission controls at power plants to reduce visibility impairment in national parks and wilderness areas. The program includes best available retrofit technology and reasonable further progress. The regional haze first planning period requirements were approved by the EPA and implemented by 2014.

All states are now subject to a second round of regional haze planning/rulemaking, focusing on additional reductions to meet reasonable progress requirements. Any additional impacts to NSP-Minnesota facilities are expected to be minimal.

AROs — AROs have been recorded for NSP-Minnesota's assets. For nuclear assets, the ARO is associated with the decommissioning of NSP-Minnesota nuclear generating plants.

Aggregate fair value of NSP-Minnesota's legally restricted assets, for funding future nuclear decommissioning, was $3.3 billion and $2.8 billion for 2021 and 2020, respectively.

NSP-Minnesota's AROs were as follows:

	2021				
(Millions of Dollars)	**Jan. 1, 2021**	**Amounts Incurred [(a)]**	**Accretion**	**Cash Flow Revisions [(b)]**	**Dec. 31, 2021 [(c)]**
Electric					
Nuclear	$ 1,957	$ —	$ 99	$ —	$ 2,056
Wind	270	101	13	—	384
Steam and other production	67	6	2	(2)	73
Distribution	16	—	—	—	16
Natural gas					
Transmission and distribution	39	—	2	14	55
Common					
Common	1	—	—	—	1
Total liability	$ 2,350	$ 107	$ 116	$ 12	$ 2,585

(a) Amounts incurred relate to the wind farms placed in service in 2021 (Blazing Star 2, Mower and Freeborn) and removal of a utility scale battery asset.
(b) In 2021, AROs were revised for changes in timing and estimates of cash flows. Changes in gas transmission and distribution AROs were primarily related to changes in labor rates coupled with increased gas line mileage and number of services.
(c) There were no ARO amounts settled in 2021.

	2020					
(Millions of Dollars)	**Jan. 1, 2020**	**Amounts Incurred [(a)]**	**Amounts Settled [(b)]**	**Accretion**	**Cash Flow Revisions [(c)]**	**Dec. 31, 2020**
Electric						
Nuclear	$ 2,068	$ —	$ —	$ 105	$ (216)	$ 1,957
Wind	113	90	—	7	60	270
Steam and other production	47	—	(3)	2	21	67
Distribution	15	—	—	1	—	16
Natural gas						
Transmission and distribution	36	—	—	2	1	39
Common						
Common	1	—	—	—	—	1
Total liability	$ 2,280	$ 90	$ (3)	$ 117	$ (134)	$ 2,350

(a) Amounts incurred relate to the wind farms placed in service in 2020 (Blazing Star 1, Crowned Ridge, Jeffers and Community Wind North).
(b) Amounts settled related to closure of certain ash containment facilities.
(c) In 2020, AROs were revised for changes in timing and estimates of cash flows. Revisions in the nuclear AROs were driven by reductions in spent fuel cooling time requirements in the nuclear triennial filing coupled with decreasing interest rates. Changes in wind AROs were driven by new dismantling studies. Revisions in steam and other production AROs primarily related to changes in cost estimates for remediation of ash containment facilities.

Indeterminate AROs — Outside of the recorded asbestos AROs, other plants or buildings may contain asbestos due to the age of many of NSP-Minnesota's facilities, but no confirmation or measurement of the cost of removal could be determined as of Dec. 31, 2021. Therefore, an ARO has not been recorded for these facilities.

Nuclear Related

Nuclear Insurance — NSP-Minnesota's public liability for claims from any nuclear incident is limited to $13.5 billion under the Price-Anderson amendment to the Atomic Energy Act. NSP-Minnesota has secured $450 million of coverage for its public liability exposure with a pool of insurance companies. The remaining $13.0 billion of exposure is funded by the Secondary Financial Protection Program available from assessments by the federal government.

NSP-Minnesota is subject to assessments of up to $138 million per reactor-incident for each of its three reactors, for public liability arising from a nuclear incident at any licensed nuclear facility in the United States. The maximum funding requirement is $21 million per reactor-incident during any one year. Maximum assessments are subject to inflation adjustments.

NSP-Minnesota purchases insurance for property damage and site decontamination cleanup costs from Nuclear Electric Insurance Ltd. (NEIL) and European Mutual Association for Nuclear Insurance (EMANI). The coverage limits are $2.8 billion for each of NSP-Minnesota's two nuclear plant sites. NEIL also provides business interruption insurance coverage up to $350 million, including the cost of replacement power during 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 and EMANI 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. NSP-Minnesota could be subject to annual maximum assessments of $11 million for business interruption insurance and $33 million for property damage insurance if losses exceed accumulated reserve funds.

Nuclear Fuel Disposal — NSP-Minnesota is responsible for temporarily storing spent nuclear fuel from its nuclear plants. The DOE is responsible for permanently storing spent fuel from U.S. nuclear plants, but no such facility is yet available.

NSP-Minnesota owns temporary on-site storage facilities for spent fuel at its Monticello and Prairie Island (PI) nuclear plants, which consist of storage pools and dry cask facilities. The Monticello dry-cask storage facility currently stores all 30 of the authorized canisters. The PI dry-cask storage facility currently stores 47 of the 64 authorized casks. Monticello's future spent fuel will continue to be placed in its spent fuel pool. The decommissioning plan addresses the disposition of spent fuel at the end of the licensed life. A Certificate of Need (CON) for additional storage at the Monticello site has been filed with the MPUC, to support possible life extension. NSP-Minnesota expects a decision by year-end 2023.

Regulatory Plant Decommissioning Recovery — Decommissioning activities for NSP-Minnesota's nuclear facilities are planned to begin at the end of each unit's operating license and be completed by 2091. NSP-Minnesota's current operating licenses allow continued use of its Monticello nuclear plant until 2030 and its PI nuclear plant until 2033 for Unit 1 and 2034 for Unit 2.

Future decommissioning costs of nuclear facilities are estimated through triennial periodic studies that assess the costs and timing of planned nuclear decommissioning activities for each unit.

Obligations for decommissioning are expected to be funded 100% by the external decommissioning trust fund. The cost study assumes the external decommissioning fund will earn an after-tax return between 5.23% and 6.30%. Realized and unrealized gains on fund investments are deferred as an offset of NSP-Minnesota's regulatory asset for nuclear decommissioning costs. Decommissioning costs are quantified in 2014 dollars. Escalation rates are 4.36% for plant removal activities and 3.36% for fuel management and site restoration activities.

NSP-Minnesota had $3.3 billion of assets held in external decommissioning trusts at Dec. 31, 2021. The following table summarizes the funded status of NSP-Minnesota's decommissioning obligation. Xcel Energy believes future decommissioning costs will continue to be recovered in customer rates. The following amounts were prepared on a regulatory basis and not directly recorded in the financial statements as an ARO.

	Regulatory Basis	
(Millions of Dollars)	**2021**	**2020**
Estimated decommissioning cost obligation from most recently approved study (in 2014 dollars)	$ 3,012	$ 3,012

	2021	2020
approved study (in 2014 dollars)	$ 3,012	$ 3,012
Effect of escalating costs	1,006	844
Estimated decommissioning cost obligation (in current dollars)	4,018	3,856
Effect of escalating costs to payment date	7,187	7,349
Estimated future decommissioning costs (undiscounted)	11,205	11,205
Effect of discounting obligation (using average risk-free interest rate of 1.96% and 1.64% for 2021 and 2020, respectively)	(4,651)	(4,181)
Discounted decommissioning cost obligation	$ 6,554	$ 7,024
Assets held in external decommissioning trust	$ 3,256	$ 2,777
Underfunding of external decommissioning fund compared to the discounted decommissioning obligation	3,298	4,247

Calculations and data used by the regulator in approving NSP-Minnesota's rates are useful in assessing future cash flows. Regulatory basis information is a means to reconcile amounts previously provided to the MPUC and utilized for regulatory purposes to amounts used for financial reporting.

Reconciliation of the discounted decommissioning cost obligation - regulated basis to the ARO recorded in accordance with GAAP:

(Millions of Dollars)	2021	2020
Discounted decommissioning cost obligation - regulated basis	$ 6,554	$ 7,024
Differences in discount rate and market risk premium	(2,209)	(2,628)
Operating expenses not included for GAAP	(1,584)	(1,734)
ARO differences between 2020 and 2014 cost studies	(705)	(705)
Nuclear production decommissioning ARO - GAAP	$ 2,056	$ 1,957

Decommissioning expenses recognized as a result of regulation:

(Millions of Dollars)	2021	2020
Annual decommissioning recorded as depreciation expense: [(a)] [(b)]	22	20

[(a)] Decommissioning expense does not include depreciation of the capitalized nuclear asset retirement costs.
[(b)] Decommissioning expenses in 2021 and 2020 include Minnesota's retail jurisdiction annual funding requirement of approximately $14 million.

The 2017 nuclear decommissioning filing, effective Jan. 1, 2019, has been approved by the MPUC. In March 2020, the MPUC approved for NSP-Minnesota to delay any increase to the annual funding requirement until 2021. In December 2020, the MPUC verbally approved for NSP-Minnesota to delay any increase to the annual funding requirement until 2022. Also, as of December 2020, NSP-Minnesota submitted a Petition for approval of the 2022 - 2024 Nuclear Decommissioning Study and Assumptions. Contemplated but not proposed in this filing, was the 10-year extension of the license to operate the Monticello Plant, moving the planned retirement date from 2030 to 2040. The 2019 Preferred Integrated Resource Plan Supplement does include a 10-year extension of the license. On Feb. 8, 2022, the MPUC ruled on and approved the 10-year extension for the Monticello nuclear facility.

Leases

NSP-Minnesota evaluates contracts that may contain leases, including PPAs and arrangements for the use of office space and other facilities, vehicles and equipment. A contract contains a lease if it conveys the exclusive right to control the use of a specific asset. A contract determined to contain a lease is evaluated further to determine if the arrangement is a finance lease.

Right-of-use (ROU) assets represent NSP-Minnesota's rights to use leased assets. In accordance with FERC requirements as provided in Docket No. AI19-1-000, starting in 2019, the present value of future operating lease payments are recognized in Account 227 and Account 243. These amounts, adjusted for any prepayments or incentives, are recognized as operating lease ROU assets in Account 101.1.

Most of NSP-Minnesota's leases do not contain a readily determinable discount rate. Therefore, the present value of future lease payments is generally calculated using the estimated incremental borrowing rate (weighted average of 3.8%).

NSP-Minnesota has elected to utilize the practical expedient under which non-lease components, such as asset maintenance costs included in payments, are not deducted from minimum lease payments for the purposes of lease accounting and disclosure.

Leases with an initial term of 12 months or less are classified as short-term leases and are not recognized on the balance sheet.

Operating lease ROU assets:

(Millions of Dollars)	Dec. 31, 2021	Dec. 31, 2020
PPAs	$ 556	$ 558
Other	74	74
Gross operating lease ROU assets	630	632
Accumulated amortization	(222)	(144)
Net operating lease ROU assets	$ 408	$ 488

Components of lease expense:

(Millions of Dollars)	2021	2020
Operating leases		
PPA capacity payments	$ 96	$ 89
Other operating leases [(a)]	8	8
Total operating lease expense [(b)]	$ 104	$ 97

[(a)] Includes short-term lease expense of $2 million and $2 million for 2021 and 2020, respectively.
[(b)] PPA capacity payments are included in electric fuel and purchased power on the statements of income. Expense for other operating leases is included in operating expenses and electric fuel and purchased power.

Commitments under operating leases as of Dec. 31, 2021 in Accounts 227 and 243:

(Millions of Dollars)	PPA [(a)] [(b)] Operating Leases	Other Operating Leases	Total Operating Leases
2022	$ 96	$ 9	$ 105
2023	98	12	110
2024	100	7	107
2025	80	7	87
2026	40	7	47
Thereafter	—	31	31
Total minimum obligation	414	73	487
Interest component of obligation	(32)	(12)	(44)
Present value of minimum obligation	$ 382	$ 61	$ 443
Less current portion			(90)
Noncurrent operating lease liabilities			$ 353
Weighted-average remaining lease term in years			8.5

[(a)] Amounts do not include PPAs accounted for as executory contracts and/or contingent payments, such as energy payments on renewable PPAs.
[(b)] PPA operating leases contractually expire at various dates through 2039.

PPAs and Fuel Contracts

Non-Lease PPAs — NSP-Minnesota has entered into PPAs with other utilities and energy suppliers for purchased power to meet system load and energy requirements, operating reserve obligations and as part of wholesale and commodity trading activities. In general, these agreements provide for energy payments, based on actual energy delivered and capacity payments. Certain PPAs, accounted for as executory contracts with various expiration dates through 2033, contain minimum energy purchase commitments. Total energy payments on those contracts were $149 million and $112 million in 2021 and 2020, respectively.

Included in electric fuel and purchased power expenses for PPAs accounted for as executory contracts were payments for capacity of $55 million and $52 million in 2021 and 2020, respectively.

Capacity and energy payments are contingent on the Independent power producing entities (IPPs) meeting contract obligations, including plant availability requirements. Certain contractual payments are adjusted based on market indices. The effects of price adjustments on financial results are mitigated through purchased energy cost recovery mechanisms.

At Dec. 31, 2021, the estimated future payments for capacity and energy that NSP-Minnesota is obligated to purchase pursuant to these executory contracts, subject to availability, were as follows:

(Millions of Dollars)	Capacity	Energy [(a)]
2022	$ 60	$ 165
2023	61	169
2024	63	174
2025	26	53
2026	9	10
Thereafter	10	38
Total [(b)]	$ 229	$ 609

[(a)] Excludes contingent energy payments for renewable energy PPAs.
[(b)] Includes amounts allocated to NSP-Wisconsin through intercompany charges.

Fuel Contracts — NSP-Minnesota has entered into various long-term commitments for the purchase and delivery of a significant portion of its coal, nuclear fuel and natural gas requirements. These contracts expire in various years between 2022 and 2037. NSP-Minnesota is required to pay additional amounts depending on actual quantities shipped under these agreements.

Estimated minimum purchases for these contracts as of Dec. 31, 2021:

(Millions of Dollars)	Coal	Nuclear fuel	Natural gas supply	Natural gas storage and transportation
2022	$ 219	$ 89	$ 95	$ 128
2023	79	109	—	114
2024	48	82	—	108
2025	1	119	—	98
2026	1	29	—	97
Thereafter	1	309	—	107
Total [(a)]	$ 349	$ 737	$ 95	$ 652

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

10. Other Comprehensive Income

Changes in accumulated other comprehensive loss, net of tax, for the years ended Dec. 31:

	2021			
(Millions of Dollars)	Gains and Losses on Cash Flow Hedges		Defined Benefit Pension and Postretirement Items	Total
Accumulated other comprehensive loss at Jan. 1	$ (19)		$ (3)	$ (22)
Losses reclassified from net accumulated other comprehensive loss:				
Interest rate derivatives, net of tax of $—	2	(a)	—	2
Net current period other comprehensive income	2		—	2
Accumulated other comprehensive loss at Dec. 31	$ (17)		$ (3)	$ (20)

(a) Included in interest charges.

	2020			
(Millions of Dollars)	Gains and Losses on Cash Flow Hedges		Defined Benefit Pension and Postretirement Items	Total
Accumulated other comprehensive loss at Jan. 1	$ (20)		$ (3)	$ (23)
Losses reclassified from net accumulated other comprehensive loss:				
Interest rate derivatives, net of tax of $—	1	(a)	—	1
Net current period other comprehensive income	1		—	1
Accumulated other comprehensive loss at Dec. 31	$ (19)		$ (3)	$ (22)

(a) Included in interest charges.

11. Related Party Transactions

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

Xcel Energy, Inc., NSP-Minnesota, NSP-Wisconsin, PSCo and SPS have established a utility money pool arrangement.

See Note 5 for further information.

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.

Significant affiliate transactions among the companies and related parties including billings under the Interchange Agreement for the years ended Dec. 31:

(Millions of Dollars)	2021	2020
Operating revenues:		
Electric	$ 501	$ 440
Gas	1	1
Operating expenses:		
Purchased power	67	59
Transmission expense	121	109
Other operating expenses — paid to Xcel Energy Services Inc.	615	584

Accounts receivable and payable with affiliates at Dec. 31:

	2021		2020	
(Millions of Dollars)	Accounts Receivable	Accounts Payable	Accounts Receivable	Accounts Payable
NSP-Wisconsin	$ 13	$ —	$ 6	$ —
PSCo	16	—	1	—
SPS	—	2	—	3
Other subsidiaries of Xcel Energy Inc.	—	64	36	64
	$ 29	$ 66	$ 43	$ 67

12. Supplementary Cash Flow Data

	Year Ended Dec. 31	
(Millions of Dollars)	2021	2020
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amounts capitalized)	$ (248)	$ (234)
Cash received (paid) for income taxes, net	11	(53)
Supplemental disclosure of non-cash investing transactions:		
Accrued property, plant and equipment additions	$ 242	$ 74
Inventory transfers to property, plant and equipment	8	24
Operating lease right-of-use assets	4	2
Allowances for funds used during construction	30	25

Name of Respondent: Northern States Power Company (Minnesota)	This report is: (1) ☑ An Original (2) ☐ A Resubmission	Date of Report: 05/31/2022	Year/Period of Report End of: 2022/ Q1

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200	25,534,386,105	24,916,523,060
3	Construction Work in Progress (107)	200	661,318,190	999,457,600
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		26,195,704,295	25,915,980,660
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200	10,227,107,289	10,022,602,588
6	Net Utility Plant (Enter Total of line 4 less 5)		15,968,597,006	15,893,378,072
7	Nuclear Fuel in Process of Ref., Conv., Enrich., and Fab. (120.1)	202	105,184,727	101,185,344
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)			
9	Nuclear Fuel Assemblies in Reactor (120.3)		564,800,500	564,800,500
10	Spent Nuclear Fuel (120.4)		2,415,127,584	2,415,127,584
11	Nuclear Fuel Under Capital Leases (120.6)			
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202	2,803,417,655	2,773,449,236
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		281,695,156	307,664,192
14	Net Utility Plant (Enter Total of lines 6 and 13)		16,250,292,162	16,201,042,264
15	Utility Plant Adjustments (116)			
16	Gas Stored Underground - Noncurrent (117)			
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		26,440,406	25,364,609
19	(Less) Accum. Prov. for Depr. and Amort. (122)		10,883,437	10,507,228
20	Investments in Associated Companies (123)			
21	Investment in Subsidiary Companies (123.1)	224	3,201,976	3,221,595
23	Noncurrent Portion of Allowances	228		
24	Other Investments (124)		52,436,835	51,987,027
25	Sinking Funds (125)			
26	Depreciation Fund (126)			
27	Amortization Fund - Federal (127)			
28	Other Special Funds (128)		3,114,102,877	3,256,313,854
29	Special Funds (Non Major Only) (129)			
30	Long-Term Portion of Derivative Assets (175)		59,984,797	33,273,400
31	Long-Term Portion of Derivative Assets - Hedges (176)			
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		3,245,283,454	3,359,653,257
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)			
35	Cash (131)			2,307,189
36	Special Deposits (132-134)		3,961,194	896,518
37	Working Fund (135)		119,320	119,320
38	Temporary Cash Investments (136)		45,940,202	67,937,494
39	Notes Receivable (141)			
40	Customer Accounts Receivable (142)		505,924,935	419,457,821
41	Other Accounts Receivable (143)		46,941,087	61,959,530
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		49,452,955	46,634,661
43	Notes Receivable from Associated Companies (145)		186,000,000	91,000,000
44	Accounts Receivable from Assoc. Companies (146)		29,075,943	29,308,100
45	Fuel Stock (151)	227	59,313,967	82,320,015
46	Fuel Stock Expenses Undistributed (152)	227		
47	Residuals (Elec) and Extracted Products (153)	227		
48	Plant Materials and Operating Supplies (154)	227	182,857,052	180,729,953
49	Merchandise (155)	227	863,279	916,230
50	Other Materials and Supplies (156)	227		
51	Nuclear Materials Held for Sale (157)	202/227		
52	Allowances (158.1 and 158.2)	228	166,436	80,418
53	(Less) Noncurrent Portion of Allowances	228		
54	Stores Expense Undistributed (163)	227		

55	Gas Stored Underground - Current (164.1)		5,184,949	43,020,518
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		1,760,939	2,006,122
57	Prepayments (165)		32,837,130	33,440,762
58	Advances for Gas (166-167)			
59	Interest and Dividends Receivable (171)		291,510	298,825
60	Rents Receivable (172)		874,546	779,987
61	Accrued Utility Revenues (173)		256,469,500	320,392,108
62	Miscellaneous Current and Accrued Assets (174)		6	6
63	Derivative Instrument Assets (175)		112,737,955	86,121,866
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		59,984,797	33,273,400
65	Derivative Instrument Assets - Hedges (176)			
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176)			
67	Total Current and Accrued Assets (Lines 34 through 66)		1,361,882,198	1,343,184,721
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		60,879,686	61,796,052
70	Extraordinary Property Losses (182.1)	230a		
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	78,659,623	80,704,420
72	Other Regulatory Assets (182.3)	232	3,956,237,632	3,969,567,477
73	Prelim. Survey and Investigation Charges (Electric) (183)		3,008,203	2,328,546
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)			
75	Other Preliminary Survey and Investigation Charges (183.2)			
76	Clearing Accounts (184)		7,751	
77	Temporary Facilities (185)			
78	Miscellaneous Deferred Debits (186)	233	69,423,397	67,848,576
79	Def. Losses from Disposition of Utility Plt. (187)			
80	Research, Devel. and Demonstration Expend. (188)	352		
81	Unamortized Loss on Reaquired Debt (189)		11,944,605	12,313,348
82	Accumulated Deferred Income Taxes (190)	234	1,318,060,371	1,269,457,808
83	Unrecovered Purchased Gas Costs (191)		165,503,207	239,653,666
84	Total Deferred Debits (lines 69 through 83)		5,663,724,475	5,703,669,893
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		26,521,182,289	26,607,550,135

Name of Respondent: Northern States Power Company (Minnesota)	This report is: (1) ☑ An Original (2) ☐ A Resubmission	Date of Report: 05/31/2022	Year/Period of Report End of: 2022/ Q1

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**PROPRIETARY CAPITAL**			
2	Common Stock Issued (201)	250	10,000	10,000
3	Preferred Stock Issued (204)	250		
4	Capital Stock Subscribed (202, 205)			
5	Stock Liability for Conversion (203, 206)			
6	Premium on Capital Stock (207)		479,282,529	479,282,529
7	Other Paid-In Capital (208-211)	253	4,722,336,684	4,722,336,684
8	Installments Received on Capital Stock (212)	252		
9	(Less) Discount on Capital Stock (213)	254		
10	(Less) Capital Stock Expense (214)	254b		
11	Retained Earnings (215, 215.1, 216)	118	2,353,453,221	2,393,935,302
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118	(2,530,300)	(2,510,681)
13	(Less) Reaquired Capital Stock (217)	250		
14	Noncorporate Proprietorship (Non-major only) (218)			
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	(20,198,925)	(20,389,324)
16	Total Proprietary Capital (lines 2 through 15)		7,532,353,209	7,572,664,510
17	**LONG-TERM DEBT**			
18	Bonds (221)	256	6,850,000,000	6,850,000,000
19	(Less) Reaquired Bonds (222)	256		
20	Advances from Associated Companies (223)	256		
21	Other Long-Term Debt (224)	256	3,171,501	3,227,041
22	Unamortized Premium on Long-Term Debt (225)			
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		43,297,775	43,809,951
24	Total Long-Term Debt (lines 18 through 23)		6,809,873,726	6,809,417,090
25	**OTHER NONCURRENT LIABILITIES**			
26	Obligations Under Capital Leases - Noncurrent (227)		[(a)]326,458,074	[(c)]353,281,568
27	Accumulated Provision for Property Insurance (228.1)			
28	Accumulated Provision for Injuries and Damages (228.2)			
29	Accumulated Provision for Pensions and Benefits (228.3)		76,240,541	81,348,000
30	Accumulated Miscellaneous Operating Provisions (228.4)			
31	Accumulated Provision for Rate Refunds (229)		34,226,641	15,246,791
32	Long-Term Portion of Derivative Instrument Liabilities		80,551,302	70,575,328
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges			
34	Asset Retirement Obligations (230)		2,637,507,547	2,584,739,876
35	Total Other Noncurrent Liabilities (lines 26 through 34)		3,154,984,105	3,105,191,563
36	**CURRENT AND ACCRUED LIABILITIES**			
37	Notes Payable (231)			
38	Accounts Payable (232)		444,299,746	546,365,625
39	Notes Payable to Associated Companies (233)			
40	Accounts Payable to Associated Companies (234)		54,507,502	65,846,721
41	Customer Deposits (235)		29,675,370	28,727,174
42	Taxes Accrued (236)	262	332,345,952	243,475,938
43	Interest Accrued (237)		68,202,525	75,941,440
44	Dividends Declared (238)		117,218,150	96,267,850
45	Matured Long-Term Debt (239)			
46	Matured Interest (240)			
47	Tax Collections Payable (241)		40,906,520	33,625,714
48	Miscellaneous Current and Accrued Liabilities (242)		37,480,709	38,922,958
49	Obligations Under Capital Leases-Current (243)		[(b)]95,095,978	[(d)]89,757,245
50	Derivative Instrument Liabilities (244)		137,478,657	105,655,219
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		80,551,302	70,575,328
52	Derivative Instrument Liabilities - Hedges (245)			
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges			

54	Total Current and Accrued Liabilities (lines 37 through 53)		1,276,659,807	1,254,010,556
55	**DEFERRED CREDITS**			
56	Customer Advances for Construction (252)		11,789,507	12,647,763
57	Accumulated Deferred Investment Tax Credits (255)	266	16,475,745	16,831,534
58	Deferred Gains from Disposition of Utility Plant (256)			
59	Other Deferred Credits (253)	269	342,156,956	332,575,716
60	Other Regulatory Liabilities (254)	278	4,233,855,054	4,295,669,821
61	Unamortized Gain on Reaquired Debt (257)			
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272	21,476,428	22,089,096
63	Accum. Deferred Income Taxes-Other Property (282)		2,655,009,142	2,663,872,468
64	Accum. Deferred Income Taxes-Other (283)		466,548,610	522,580,018
65	Total Deferred Credits (lines 56 through 64)		7,747,311,442	7,866,266,416
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		26,521,182,289	26,607,550,135

Name of Respondent: Northern States Power Company (Minnesota)	This report is: (1) ☑ An Original (2) ☐ A Resubmission	Date of Report: 05/31/2022	Year/Period of Report End of: 2022/ Q1

NOTES TO FINANCIAL STATEMENTS

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

Use this space to paste the disclosure required by instruction 1 of Page 122.

1. Summary of Significant Accounting Policies

The significant accounting policies set forth in Note 1 to the financial statements in the Northern States Power Company, a Minnesota Corporation (NSP-Minnesota) Annual Report on Federal Energy Regulatory Commission (FERC) Form 1 for the year ended Dec. 31, 2021, appropriately represent, in all material respects, the current status of accounting policies and are incorporated herein by reference.

Business and System of Accounts - NSP-Minnesota is engaged in the regulated generation, purchase, transmission, distribution and sale of electricity and in the regulated purchase, transportation, distribution and sale of natural gas. NSP-Minnesota is subject to regulation by the FERC and state utility commissions.

The electric production and transmission system of NSP-Minnesota and Northern States Power Co., a Wisconsin corporation (NSP-Wisconsin), (collectively, NSP System) is operated on an integrated basis and managed by NSP-Minnesota and NSP-Wisconsin.

The electric production and transmission costs of the NSP System are shared by NSP-Minnesota and NSP-Wisconsin. A FERC approved Interchange Agreement between the two companies provides for the sharing of all generation and transmission costs of the NSP System. Such costs include current and potential obligations of NSP-Minnesota related to its nuclear generating facilities.

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

The following areas represent the significant differences between the Uniform System of Accounts and GAAP:

- Current maturities of long-term debt are included as long-term debt, while GAAP requires such maturities to be classified as current liabilities.
- Accumulated deferred income taxes are shown as long-term assets and liabilities at their gross amounts in the FERC presentation, in contrast to the GAAP presentation as net long-term assets and liabilities.
- Regulatory assets and liabilities are classified as current and noncurrent for GAAP presentation, while the FERC requires all regulatory assets and liabilities to be classified as noncurrent deferred debits and credits, respectively.
- Unrecognized tax benefits are recorded for temporary differences in accounts established for accumulated deferred income taxes in the FERC presentation, in contrast to the GAAP presentation as taxes accrued and noncurrent other liabilities.
- Costs for future removal obligations are classified as accumulated depreciation on the utility plant in the FERC presentation and as regulatory liabilities in the GAAP presentation.
- For certain capital projects where there is recovery of a return on construction work in progress (CWIP), certain amounts of allowance for funds used during construction (AFUDC) are not recognized in CWIP for GAAP, while for the FERC presentation, they are recorded in CWIP but the benefit is deferred as a liability and amortized over the life of the property as a reduction of costs.
- Certain commodity trading purchases and sales transactions are presented gross as expenses and revenues for the FERC presentation; however the net margin is reported as net sales for the GAAP presentation.
- Various expenses such as donations, lobbying and other non-regulatory expenses are presented as other income deductions for the FERC presentation and reported as operating expenses for the GAAP presentation.
- Income tax expense related to utility operations is shown as a component of operating expense in the FERC presentation, in contrast to the GAAP presentation as a below-the-line deduction from operating income.
- Wholly-owned subsidiaries are reported using the equity method of accounting in the FERC presentation and are required to be consolidated for GAAP.
- The setup of theoretical excess depreciation reserves is recorded as a regulatory asset and an increase to regulatory credits for FERC presentation, in contrast to a reduction to both accumulated depreciation and depreciation expense for GAAP presentation. The unwinding of the regulatory asset is recorded as an increase to regulatory debits for FERC presentation with an offsetting entry to depreciation expense and accumulated depreciation, resulting in no net impact to the balance sheet or income statement. Therefore, this brings FERC back into alignment with GAAP presentation over the average remaining life of the assets.
- Deferred financing costs are included as deferred debits in the FERC presentation, while GAAP presentation includes them with long-term liabilities.
- Non-service cost components of net periodic benefit costs that are reported on the income statement are recorded as operation expenses in the FERC presentation and as other income, net for GAAP presentation. Non-service costs that are eligible for capitalization are recorded as a component of net utility plant in the FERC presentation and as regulatory assets for GAAP.

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

(Millions of Dollars)		
Balance Sheet:		
Net utility plant	$	271
Current assets		500
Current liabilities		548
Other long-term assets		(4,496)
Long-term debt and other long-term liabilities		(4,274)
Statement of Income:		
Operating revenue	$	34
Operating expenses		71
Other income and deductions		(4)
Net Interest charges		(1)
Statement of Cash Flows:		
Cash provided by operating activities	$	(2)
Cash used in investing activities		(3)
Cash provided by financing activities		1

Subsequent Events — Management has evaluated the impact of events occurring after March 31, 2022 up to April 28, 2022, the date NSP-Minnesota's GAAP financial statements were issued and has updated such evaluation for disclosure purposes through the date of this report. These statements contain all necessary adjustments and disclosures resulting from that evaluation.

2. Borrowings and Other Financing Instruments

Short-Term Borrowings

NSP-Minnesota meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings under its credit facility and the money pool.

Money Pool — Xcel Energy Inc. and its utility subsidiaries (e.g., NSP-Minnesota, NSP-Wisconsin, Public Service Company of Colorado, and Southwest Public Service Company) (Xcel Energy) have established a money pool arrangement that allows for short-term investments in and borrowings between the utility subsidiaries. Xcel Energy may make investments in the utility subsidiaries at market-based interest rates; however, the money pool arrangement does not allow the utility subsidiaries to make investments in Xcel Energy.

Money pool borrowings for NSP-Minnesota:

(Amounts in Millions, Except Interest Rates)	Three Months Ended March 31, 2022	Year Ended Dec. 31, 2021
Borrowing limit	$ 250	$ 250
Amount outstanding at period end	—	—
Average amount outstanding	—	6
Maximum amount outstanding	—	236
Weighted average interest rate, computed on a daily basis	N/A	0.07 %
Weighted average interest rate at period end	N/A	N/A

Commercial Paper — Commercial paper outstanding for NSP-Minnesota:

(Amounts in Millions, Except Interest Rates)	Three Months Ended March 31, 2022	Year Ended Dec. 31, 2021
Borrowing limit	$ 500	$ 500
Amount outstanding at period end	—	—
Average amount outstanding	4	26
Maximum amount outstanding	50	317
Weighted average interest rate, computed on a daily basis	0.15 %	0.18 %
Weighted average interest rate at period end	N/A	N/A

Letters of Credit — NSP-Minnesota uses letters of credit, generally with terms of one year, to provide financial guarantees for certain obligations. There were $11 million and $9 million of letters of credit outstanding under the credit facility at March 31, 2022 and Dec. 31, 2021, respectively. Amounts approximate their fair value and are subject to fees.

Revolving Credit Facility — In order to issue its commercial paper, NSP-Minnesota must have a revolving credit facility in place at least equal to the amount of its commercial paper borrowing limit and cannot issue commercial paper exceeding available capacity under this credit facility. The credit facility 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 revolving credit facility termination date for two additional one-year periods. All extension requests are subject to majority bank group approval.

At March 31, 2022 , NSP-Minnesota had the following committed revolving credit facility available (in millions of dollars):

Credit Facility [(a)]	Drawn [(b)]	Available
$ 500	$ 11	$ 489

(a) Expires in June 2024.
(b) Includes outstanding commercial paper and letters of credit.

All credit facility bank borrowings, outstanding letters of credit and outstanding commercial paper reduce the available capacity under the credit facility. NSP-Minnesota had no direct advances on the credit facility outstanding at March 31, 2022 and Dec. 31, 2021.

Bilateral Credit Agreement — In April 2022, NSP-Minnesota's uncommitted bilateral credit agreement was renewed for an additional one-year term. The credit agreement is limited in use to support letters of credit.

As of March 31, 2022, NSP-Minnesota's outstanding letters of credit under the bilateral credit agreement were as follows:

(Millions of Dollars)	Limit	Amount Outstanding	Available
NSP-Minnesota	$ 75	$ 45	$ 30

3. Income Taxes

3. Income Taxes

Note 6 to the financial statements included in NSP-Minnesota's Annual Report on FERC Form 1 for the year ended Dec. 31, 2021 represents, in all material respects, the current status of other income tax matters except to the extent noted below, and are incorporated herein by reference.

4. Fair Value of Financial Assets and Liabilities

Fair Value Measurements

Accounting guidance for fair value measurements and disclosures provides a single definition of fair value and requires disclosures about assets and liabilities measured at fair value. A hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value is established by this guidance.

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

Specific valuation methods include:

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

Investments in equity securities and other funds — Equity securities are valued using quoted prices in active markets. The fair values for commingled funds are measured using NAVs. The investments in commingled funds may be redeemed for NAV with proper notice. Private equity commingled fund investments require approval of the fund for any unscheduled redemption, and such redemptions may be approved or denied by the fund at its sole discretion.

Unscheduled distributions from real estate commingled funds' investments may be redeemed with proper notice, however, withdrawals may be delayed or discounted as a result of fund illiquidity.

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

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

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

Electric commodity derivatives held by NSP-Minnesota include transmission congestion instruments, generally referred to as financial transmission rights (FTRs). FTRs purchased from a Regional Transmission Organization (RTO) are financial instruments that entitle or obligate the holder to monthly revenues or charges based on transmission congestion across a given transmission path. The value of an FTR is derived from, and designed to offset, the cost of transmission congestion. In addition to overall transmission load, congestion is also influenced by the operating schedules of power plants and the consumption of electricity pertinent to a given transmission path. Unplanned plant outages, scheduled plant maintenance, changes in the relative costs of fuels used in generation, weather and overall changes in demand for electricity can each impact the operating schedules of the power plants on the transmission grid and the value of an FTR.

If forecasted costs of electric transmission congestion increase or decrease for a given FTR path, the value of that particular FTR instrument will likewise increase or decrease. Given the limited observability of certain inputs to the value of FTRs between auction processes, including expected plant operating schedules and retail and wholesale demand, fair value measurements for FTRs have been assigned a Level 3.

Non-trading monthly FTR settlements are expected to be recovered through fuel and purchased energy cost recovery mechanisms, and therefore changes in the fair value of the yet to be settled portions of most FTRs are deferred as a regulatory asset or liability. Given this regulatory treatment and the limited magnitude of NSP-Minnesota's FTRs relative to its electric utility operations, the numerous unobservable quantitative inputs pertinent to the value of FTRs are immaterial to the financial statements of NSP-Minnesota.

Non-Derivative Fair Value Measurements

The Nuclear Regulatory Commission requires NSP-Minnesota to maintain a portfolio of investments to fund the costs of decommissioning its nuclear generating plants. Assets of the nuclear decommissioning fund are legally restricted for the purpose of decommissioning these facilities. The fund contains cash equivalents, debt securities, equity securities and other investments. NSP-Minnesota uses the Minnesota Public Utilities Commission (MPUC) approved asset allocation for the investment targets by asset class for the qualified trust.

NSP-Minnesota recognizes the costs of funding the decommissioning over the lives of the nuclear plants, assuming rate recovery of all costs. Realized and unrealized gains on fund investments over the life of the fund are deferred as an offset of NSP-Minnesota's regulatory asset for nuclear decommissioning costs. Consequently, any realized and unrealized gains and losses on securities in the nuclear decommissioning fund are deferred as a component of the regulatory asset.

Unrealized gains for the nuclear decommissioning fund were $1.2 billion and $1.3 billion as of March 31, 2022 and Dec. 31, 2021, respectively, and unrealized losses were $37 million and $7 million as of March 31, 2022 and Dec. 31, 2021, respectively.

Non-derivative instruments with recurring fair value measurements in the nuclear decommissioning fund:

	March 31, 2022					
		Fair Value				
(Millions of Dollars)	Cost	Level 1	Level 2	Level 3	NAV	Total
Nuclear decommissioning fund						
Cash equivalents	$ 80	$ 80	$ —	$ —	$ —	$ 80
Commingled funds	871	—	—	—	1,258	1,258
Debt securities	626	—	606	10	—	616
Equity securities	409	1,159	1	—	—	1,160
Total	$ 1,986	$ 1,239	$ 607	$ 10	$ 1,258	$ 3,114

	Dec. 31, 2021					
		Fair Value				
(Millions of Dollars)	Cost	Level 1	Level 2	Level 3	NAV	Total
Nuclear decommissioning fund						
Cash equivalents	$ 64	$ 64	$ —	$ —	$ —	$ 64
Commingled funds	856	—	—	—	1,294	1,294
Debt securities	631	—	666	9	—	675
Equity securities	411	1,222	1	—	—	1,223
Total	$ 1,962	$ 1,286	$ 667	$ 9	$ 1,294	$ 3,256

For the three months ended March 31, 2022, there were immaterial Level 3 nuclear decommissioning fund investments or transfer of amounts between levels.

Contractual maturity dates of debt securities in the nuclear decommissioning fund as of March 31, 2022:

	Final Contractual Maturity				
(Millions of Dollars)	Due in 1 Year or Less	Due in 1 to 5 Years	Due in 5 to 10 Years	Due after 10 Years	Total
Debt securities	$ 2	$ 142	$ 193	$ 279	$ 616

Rabbi Trusts

NSP-Minnesota has established a rabbi trust to provide partial funding for future deferred compensation plan distributions.

Cost and fair value of assets held in rabbi trusts:

	March 31, 2022				
		Fair Value			
(Millions of Dollars)	Cost	Level 1	Level 2	Level 3	Total
Rabbi Trusts [(a)]					
Mutual funds	$ 10	$ 12	$ —	$ —	$ 12
Total	$ 10	$ 12	$ —	$ —	$ 12

	Dec. 31, 2021				
		Fair Value			
(Millions of Dollars)	Cost	Level 1	Level 2	Level 3	Total
Rabbi Trusts [(a)]					
Mutual funds	$ 10	$ 13	$ —	$ —	$ 13
Total	$ 10	$ 13	$ —	$ —	$ 13

(a) Reported in nuclear decommissioning fund and other investments on the balance sheets.

Derivative Instruments Fair Value Measurements

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

Interest Rate Derivatives — NSP-Minnesota enters into various instruments that effectively fix the yield or price on a specified benchmark interest rate for an anticipated debt issuance for a specific period. These derivative instruments are generally designated as cash flow hedges for accounting purposes, with changes in fair value prior to settlement recorded as other comprehensive income.

At March 31, 2022, accumulated other comprehensive loss related to interest rate derivatives included $1 million of net losses expected to be reclassified into earnings during the next 12 months as the hedged interest rate transactions impact earnings. As of March 31, 2022, NSP-Minnesota had no unsettled interest rate derivatives.

Wholesale and Commodity Trading Risk — NSP-Minnesota conducts various wholesale and commodity trading activities, including the purchase and sale of electric capacity, energy, energy-related instruments and natural gas-related instruments, including derivatives. NSP-Minnesota is allowed to conduct these activities within guidelines and limitations as approved by its risk management committee, comprised of management personnel not directly involved in the activities governed by this policy. Sharing of any margins is determined through state regulatory proceedings as well as the operation of the FERC approved joint operating agreement.

Commodity Derivatives — NSP-Minnesota enters into derivative instruments to manage variability of future cash flows from changes in commodity prices in its electric and natural gas operations, as well as for trading purposes. This could include the purchase or sale of energy or energy-related products, natural gas to generate electric energy, natural gas for resale, FTRs, vehicle fuel, and weather derivatives.

At March 31, 2022, NSP-Minnesota had no commodity contracts designated as cash flow hedges. NSP-Minnesota may enter into derivative instruments that mitigate commodity price risk on behalf of electric and natural gas customers, but may not be designated as qualifying hedging transactions. The classification of gains or losses for these instruments as a regulatory asset or liability, if applicable, is based on approved regulatory recovery mechanisms.

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

Gross notional amounts of commodity forwards, options and FTRs:

(Amounts in Millions) [(a)(b)]	March 31, 2022	Dec. 31, 2021
Megawatt hours of electricity	40	57
Million British thermal units of natural gas	86	85

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

Consideration of Credit Risk and Concentrations — NSP-Minnesota continuously monitors the creditworthiness of counterparties to its interest rate derivatives and commodity derivative contracts, prior to settlement, and assesses each counterparty's ability to perform on the transactions set forth in the contracts. Impact of credit risk was immaterial to the fair value of unsettled commodity derivatives presented on the balance sheets.

NSP-Minnesota's most significant concentrations of credit risk with particular entities or industries are contracts with counterparties to its wholesale, trading and non-trading commodity activities.

As of March 31, 2022, seven of NSP-Minnesota's ten most significant counterparties for these activities, comprising $46 million, or 48%, of this credit exposure, had investment grade credit ratings from S&P Global Ratings, Moody's Investor Services or Fitch Ratings. One of the ten most significant counterparties, comprising $21 million, or 22%, of this credit exposure, were not rated by these external ratings agencies, but based on NSP-Minnesota's internal analysis, had credit quality consistent with investment grade. Two of these significant counterparties, comprising $27 million or 28% of this credit exposure, had credit quality less than investment grade, based on internal analysis. Four of these significant counterparties are municipal or cooperative electric entities, RTOs or other utilities.

Impact of Derivative Activity —

	Pre-Tax Fair Value Gains (Losses) Recognized During the Period in:	
(Millions of Dollars)	Accumulated Other Comprehensive Loss	Regulatory (Assets) and Liabilities
Three Months Ended March 31, 2022		
Other derivative instruments		
Natural gas commodity	$ —	$ 2
Total	$ —	$ 2
Three Months Ended March 31, 2021		
Other derivative instruments		
Natural gas commodity	—	1
Total	$ —	$ 1

(Millions of Dollars)	Pre-Tax (Gains) Losses Reclassified into Income During the Period from: Accumulated Other Comprehensive Loss	Regulatory Assets and (Liabilities)	Pre-Tax Gains (Losses) Recognized During the Period in Income
Three Months Ended March 31, 2022			
Other derivative instruments			
Commodity trading	$ —	$ —	$ 1 (a)
Electric commodity	—	(1) (b)	—
Natural gas commodity	—	1 (c)	(5) (c) (d)
Total	$ —	$ —	$ (4)

(Millions of Dollars)	Pre-Tax (Gains) Losses Reclassified into Income During the Period from: Accumulated Other Comprehensive Loss	Regulatory Assets and (Liabilities)	Pre-Tax Gains (Losses) Recognized During the Period in Income
Three Months Ended March 31, 2021			
Other derivative instruments			
Commodity trading	$ —	$ —	$ 31 (a)
Electric commodity	—	(1) (b)	—
Natural gas commodity	—	1 (c)	(3) (c) (d)
Total	$ —	$ —	$ 28

(a) Recorded to electric operating revenues. Portions of these gains and losses are subject to sharing with electric customers through margin-sharing mechanisms and deducted from gross revenue, as appropriate.
(b) Recorded to electric fuel and purchased power. These derivative settlement gains and losses are shared with electric customers through fuel and purchased energy cost-recovery mechanisms, and reclassified out of income as regulatory assets or liabilities, as appropriate.
(c) Settlement losses related to natural gas operations are recorded to cost of natural gas sold and transported. These losses are subject to cost-recovery mechanisms and reclassified out of income to a regulatory asset, as appropriate.
(d) Relates primarily to option premium amortization.

NSP-Minnesota had no derivative instruments designated as fair value hedges during the three months ended March 31, 2022 and 2021.

Credit Related Contingent Features — Contract provisions for derivative instruments that NSP-Minnesota enters into, including those accounted for as normal purchase-normal sale contracts and therefore not reflected on the balance sheets, may require the posting of collateral or settlement of the contracts for various reasons, including if NSP-Minnesota's credit ratings are downgraded below its investment grade credit rating by any of the major credit rating agencies. As of March 31, 2022 and Dec. 31, 2021, there were $4 million and $3 million, respectively, of derivative liabilities with such underlying contract provisions. Certain contracts also contain cross default provisions that may require the posting of collateral or settlement of the contracts if there was a failure under the other financing arrangements related to payment terms or other covenants. As of March 31, 2022 and Dec. 31, 2021, there were approximately $83 million and $48 million, respectively, of derivative liabilities with such underlying contract provisions.

Certain derivative instruments are also subject to contract provisions that contain adequate assurance clauses. These provisions allow counterparties to seek performance assurance, including cash collateral, in the event that NSP-Minnesota's ability to fulfill its contractual obligations is reasonably expected to be impaired. NSP-Minnesota had no collateral posted related to adequate assurance clauses in derivative contracts as of March 31, 2022 and Dec. 31, 2021.

Recurring Fair Value Measurements — NSP-Minnesota's derivative assets and liabilities measured at fair value on a recurring basis were as follows:

	March 31, 2022						Dec. 31, 2021					
	Fair Value						Fair Value					
(Millions of Dollars)	Level 1	Level 2	Level 3	Fair Value Total	Netting (a)	Total	Level 1	Level 2	Level 3	Fair Value Total	Netting (a)	Total
Current derivative Assets												
Other derivative instruments:												
Commodity trading	$ 26	$ 76	$ 53	$ 155	$ (114)	$ 41	$ 9	$ 40	$ 22	$ 71	$ (53)	$ 18
Electric commodity	—	—	10	10	—	10	—	—	30	30	(1)	29
Natural gas commodity	—	—	—	—	—	—	—	6	—	6	—	6
Total current derivative assets	$ 26	$ 76	$ 63	$ 165	$ (114)	51	$ 9	$ 46	$ 52	$ 107	$ (54)	53
PPAs (b)						2						—
Current derivative instruments						$ 53						$ 53
Noncurrent derivative assets												
Other derivative instruments:												
Commodity trading	$ 17	$ 42	$ 63	$ 122	$ (62)	$ 60	$ 6	$ 34	$ 35	$ 75	$ (42)	$ 33
Total noncurrent derivative assets	$ 17	$ 42	$ 63	$ 122	$ (62)	$ 60	$ 6	$ 34	$ 35	$ 75	$ (42)	$ 33

	March 31, 2022						Dec. 31, 2021					
	Fair Value						Fair Value					
(Millions of Dollars)	Level 1	Level 2	Level 3	Fair Value Total	Netting (a)	Total	Level 1	Level 2	Level 3	Fair Value Total	Netting (a)	Total
Current derivative Liabilities												
Other derivative instruments:												
Commodity trading	$ 32	$ 113	$ 12	$ 157	$ (114)	$ 43	$ 13	$ 58	$ 4	$ 75	$ (58)	$ 17
Electric commodity	—	—	1	1	(1)	—	—	—	1	1	(1)	—
Natural gas commodity	—	—	—	—	—	—	—	4	—	4	—	4
Total current derivative liabilities	$ 32	$ 113	$ 13	$ 158	$ (115)	43	$ 13	$ 62	$ 5	$ 80	$ (59)	21
Power Purchase Agreements (b)						14						14
Current derivative instruments						$ 57						$ 35
Noncurrent derivative liabilities												
Other derivative instruments												
Commodity trading	$ 34	$ 63	$ 37	$ 134	$ (86)	$ 48	$ 15	$ 48	$ 26	$ 89	$ (53)	$ 36
Total noncurrent derivative liabilities	$ 34	$ 63	$ 37	$ 134	$ (86)	48	$ 15	$ 48	$ 26	$ 89	$ (53)	36
Power Purchase Agreements (b)						33						35
Noncurrent derivative instruments						$ 81						$ 71

(a) NSP-Minnesota nets derivative instruments and related collateral on its balance sheets when supported by a legally enforceable master netting agreement, and all derivative instruments and related collateral amounts were subject to master netting agreements at March 31, 2022 and Dec. 31, 2021. At both March 31, 2022 and Dec. 31, 2021, derivative assets and liabilities include $15 million of obligations to return cash collateral. At March 31, 2022 and Dec. 31, 2021 derivative assets and liabilities include rights to reclaim cash collateral of $24 million and $16 million, respectively. The counterparty netting excludes settlement receivables and payables and non-derivative amounts that may be subject to the same master netting agreements.
(b) During 2006, Xcel Energy 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.

Changes in Level 3 commodity derivatives for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31	
(Millions of Dollars)	2022	2021
Balance at Jan. 1	$ 56	$ (11)
Settlements	(19)	(7)
Net transactions recorded during the period:		
Gains recognized in earnings (a)	49	30
Net losses recognized as regulatory assets and liabilities	(10)	—
Balance at March 31	$ 76	$ 12

(a) Level 3 net gains recognized in earnings are subject to offsetting net losses of derivative instruments categorized as levels 1 and 2 in the income statement.

NSP-Minnesota recognizes transfers between levels as of the beginning of each period. There were no transfers of amounts between levels for derivative instruments for the three months ended March 31, 2022 and 2021.

Fair Value of Long-Term Debt

Other financial instruments for which the carrying amount did not equal fair value:

	March 31, 2022		Dec. 31, 2021	
(Millions of Dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including current portion	$ 6,810	$ 6,984	$ 6,809	$ 7,761

Fair value of NSP-Minnesota's long-term debt is estimated based on recent trades and observable spreads from benchmark interest rates for similar securities. Fair value estimates are based on information available to management as of March 31, 2022 and Dec. 31, 2021 and given the observability of the inputs, fair values presented for long-term debt were assigned as Level 2.

5. Benefit Plans and Other Postretirement Benefits

Components of Net Periodic Benefit Cost

	Three Months Ended March 31			
	2022	2021	2022	2021
(Millions of Dollars)	Pension Benefits		Postretirement Health Care Benefits	
Service cost	$ 7	$ 7	$ —	$ —
Interest cost	6	6	1	1
Expected return on plan assets	(12)	(13)	—	—
Amortization of prior service credit	—	—	(1)	(1)
Amortization of net loss	6	9	—	—
Settlement charge (a)	(1)	—	—	—
Net periodic benefit cost	6	9	—	—
Effects of regulation	1	(1)	—	—
Net benefit cost recognized for financial reporting	$ 7	$ 8	$ —	$ —

(a) In the first quarter of 2022, NSP-Minnesota recognized $1 million in settlement charge true-ups related to fourth quarter 2021.

In January 2022, contributions of $50 million were made across four of Xcel Energy's pension plans, of which $5 million was attributable to NSP-Minnesota. Xcel Energy does not expect additional pension contributions during 2022.

6. Commitments and Contingencies

The following includes commitments, contingencies and unresolved contingencies that are material to NSP-Minnesota's financial position.

Legal

NSP-Minnesota is involved in various litigation matters in the ordinary course of business. The assessment of whether a loss is probable or is a reasonable possibility, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. Management maintains accruals for losses probable of being incurred and subject to reasonable estimation. Management is sometimes unable to estimate an amount or range of a reasonably possible loss in certain situations, including but not limited to when (1) the damages sought are indeterminate, (2) the proceedings are in the early stages, or (3) the matters involve novel or unsettled legal theories.

In such cases, there is considerable uncertainty regarding the timing or ultimate resolution, including a possible eventual loss. For current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, would have a material effect on NSP-Minnesota's financial statements. Legal fees are generally expensed as incurred.

Rate Matters and Other

NSP-Minnesota is involved in various regulatory proceedings arising in the ordinary course of business. Until resolution, typically in the form of a rate order, uncertainties may exist regarding the ultimate rate treatment for certain activities and transactions. Amounts have been recognized for probable and reasonably estimable losses that may result. Unless otherwise disclosed, any reasonably possible range of loss in excess of any recognized amount is not expected to have a material effect on the financial statements.

Minnesota Winter Storm Uri Costs — In Minnesota, NSP-Minnesota is participating in a contested case regarding the prudency of incremental natural gas costs incurred during Winter Storm Uri. Other parties to the case have recommended significant cost disallowances, and while ultimate resolution of the matter is uncertain, it is reasonably possible that the MPUC could disallow certain deferred costs, resulting in earnings losses.

NSP-Minnesota strongly disagrees with the recommendations of the Minnesota Department of Commerce (DOC), Minnesota Office of Attorney General (OAG) and Citizens Utility Board (CUB), and believes that it acted prudently and according to MPUC approved procedures for the best interest of its customers and stakeholders.

NSP-Minnesota filed rebuttal testimony in January 2022 detailing its position that the disallowances recommended by other parties lack any merit in the prudency review given the pertinent facts regarding NSP-Minnesota's actions before, during and after the storm event. In March 2022, following February 2022 ALJ hearings, the Company and intervenors subsequently submitted initial and reply briefs to the ALJ. The OAG modified its position, recommending disallowances of up to $148 million, the largest recommendation among the intervenor positions. An ALJ decision is expected in late May and an MPUC decision is expected in Q3 of 2022.

Sherco — In 2018, NSP-Minnesota and Southern Minnesota Municipal Power Agency (SMMPA) (Co-owner of Sherco Unit 3) reached a settlement with General Electric (GE) related to a 2011 incident, which damaged the turbine at Sherco Unit 3 and resulted in an extended outage for repair. NSP-Minnesota notified the MPUC of its proposal to refund settlement proceeds to customers through the fuel clause adjustment.

In March 2019, the MPUC approved NSP-Minnesota's settlement refund proposal. Additionally, the MPUC decided to withhold any decision as to NSP-Minnesota's prudence in connection with the incident at Sherco Unit 3 until after conclusion of an appeal pending between GE and NSP-Minnesota's insurers. In February 2020, the Minnesota Court of Appeals affirmed the district court's judgment in favor of GE. In March 2020, NSP-Minnesota's insurers filed a petition seeking additional review by the Minnesota Supreme Court.

In April 2020, the Minnesota Supreme Court denied the insurers' petition for further review, ending the litigation.

In January 2021, the OAG and DOC recommended that NSP-Minnesota refund approximately $17 million of replacement power costs previously recovered through the fuel clause adjustment. NSP-Minnesota subsequently filed its response, asserting that it acted prudently in connection with the Sherco Unit 3 outage, the MPUC has previously disallowed $22 million of related costs and no additional refund or disallowance is appropriate. A final decision by the MPUC is pending. A loss related to this matter is deemed remote.

Westmoreland Arbitration — In November 2014, insurers of the Westmoreland Coal Company filed an arbitration demand against NSP-Minnesota, SMMPA and Western Fuels Association, seeking recovery of alleged $36 million of business losses due to a turbine failure at Sherco Unit 3. Westmoreland's insurers have recently clarified that they will seek to recover $19 million in damages, plus prejudgment interest. The Westmoreland insurers claim NSP-Minnesota's invocation of the force majeure clause to stop the supply of coal was improper because the incident was allegedly caused by NSP-Minnesota's failure to conform to industry maintenance standards.

NSP-Minnesota denies the claims asserted by the Westmoreland insurers and believes it properly stopped the supply of coal based upon the force majeure provision. Parties participated in mediation in the second quarter of 2022. A final hearing has been scheduled for October 2022. At this stage of the proceeding, a reasonable estimate of damages or range of damages cannot be determined.

Midcontinent Independent System Operator, Inc. (MISO) Return on Equity (ROE) Complaints — In November 2013 and February 2015, customer groups filed two ROE complaints against MISO transmission owners (TOs), which includes NSP-Minnesota and NSP-Wisconsin. The first complaint requested a reduction in base ROE transmission formula rates from 12.38% to 9.15% for the time period of Nov. 12, 2013 to Feb. 11, 2015, and removal of ROE adders (including those for RTO membership). The second complaint requested, for a subsequent time period, a base ROE reduction from 12.38% to 8.67%.

The FERC has subsequently issued various related orders (including Opinion Nos. 569, 569A and 569B) related to ROE methodology/calculations and timing. NSP-Minnesota has recognized a liability for its best estimate of final refunds to customers for applicable complaint periods.

The MISO TOs and various other parties have filed petitions for review of the FERC's most recent applicable opinions at the D.C. Circuit. Oral arguments were held in late 2021 and a decision is expected by the end of the third quarter of 2022.

Environmental

Manufactured Gas Plant (MGP), Landfill and Disposal Sites

NSP-Minnesota is investigating, remediating or performing post-closure actions at seven MGP, landfill or other disposal sites across its service territories.

NSP-Minnesota has recognized its best estimate of costs/liabilities from final resolution of these issues, however, the outcome and timing is unknown. In addition, there may be insurance recovery and/or recovery from other potentially responsible parties, offsetting a portion of costs incurred.

Environmental Requirements — Water and Waste

Coal Ash Regulation — NSP-Minnesota's operations are subject to federal and state regulations that impose requirements for handling, storage, treatment and disposal of solid waste. Under the Coal Combustion Residuals (CCR) Rule, utilities are required to complete groundwater sampling around their CCR landfills and surface impoundments. Currently, NSP-Minnesota has three regulated ash units in operation.

NSP-Minnesota is conducting groundwater sampling and monitoring and implementing assessment of corrective measures at certain CCR landfills and surface impoundments. No results above the groundwater protection standards in the rule were identified.

In August 2020, the EPA published its final rule to implement closure by April 2021 for all CCR impoundments affected by the August 2018 D.C. Circuit ruling. This final rule required Xcel Energy to expedite closure plans for one impoundment.

In October 2020, NSP-Minnesota completed construction and placed in service a new impoundment to replace the clay lined impoundment. With the new ash pond in service, NSP-Minnesota has initiated closure activities for the existing ash pond at an estimated cost of $4 million. NSP-Minnesota has five years to complete closure activities.

Closure costs for existing impoundments are included in the calculation of the asset retirement obligation.

Federal Clean Water Act Section 316(b) — The federal Clean Water Act requires the EPA to regulate cooling water intake structures to assure that these structures reflect the best technology available for minimizing impingement and entrainment of aquatic species. NSP-Minnesota estimates the likely future cost for complying with impingement and entrainment requirements is approximately $36 million, to be incurred between 2022 and 2028. NSP-Minnesota believes six plants could be required to make improvements to reduce impingement and entrainment. The exact total cost of the impingement and entrainment improvements is uncertain, but could be up to $188 million. NSP-Minnesota anticipates these costs will be fully recoverable through regulatory mechanisms.

Leases

NSP-Minnesota evaluates contracts that may contain leases, including PPAs and arrangements for the use of office space and other facilities, vehicles and equipment. A contract contains a lease if it conveys the exclusive right to control the use of a specific asset.

Components of lease expense:

	Three Months Ended March 31	
(Millions of Dollars)	**2022**	**2021**
Operating leases		
PPA capacity payments	$ 24	$ 19
Other operating leases [(a)]	3	2
Total operating lease expense [(b)]	$ 27	$ 21

[(a)] Includes immaterial short-term lease expense for 2022 and 2021.
[(b)] PPA capacity payments are included in electric fuel and purchased power on the statements of income. Expense for other operating leases is included in operation expense and electric fuel and purchased power.

Commitments under operating leases as of March 31, 2022 in Accounts 227 and 243:

(Millions of Dollars)	PPA Operating Leases	Other Operating Leases	Total Operating Leases
Total minimum obligation	$ 390	$ 71	$ 461
Interest component of obligation	(28)	(12)	(40)
Present value of minimum obligation	$ 362	$ 59	421
Less current portion			(95)
Noncurrent operating lease liabilities			$ 326

7. Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss), net of tax, for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31, 2022			Three Months Ended March 31, 2021		
(Millions of Dollars)	**Gains and Losses on Cash Flow Hedges**	**Defined Benefit Pension and Postretirement Items**	**Total**	**Gains and Losses on Cash Flow Hedges**	**Defined Benefit Pension and Postretirement Items**	**Total**
Accumulated other comprehensive loss at Jan. 1	$ (17)	$ (3)	$ (20)	$ (19)	$ (3)	$ (22)
Losses reclassified from net accumulated other comprehensive loss:						
Interest rate derivatives, net of taxes of $— and $—, respectively [(a)]	—	—	—	1	—	1
Accumulated other comprehensive loss at March 31	$ (17)	$ (3)	$ (20)	$ (18)	$ (3)	$ (21)

[(a)] Included in interest charges.

8. Supplementary Cash Flow Data

	Three Months Ended March 31	
(Millions of Dollars)	**2022**	**2021**
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amounts capitalized)	$ (75)	$ (73)
Cash (paid) received for income taxes, net	(6)	1
Supplemental disclosure of non-cash investing transactions:		
Accrued property, plant and equipment additions	$ 97	$ 222
Inventory transfers to property, plant and equipment	6	5
Allowances for funds used during construction	6	7