

XCEL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(amounts in thousands, except per share data)

	Year Ended Dec. 31		
	2014	2013	2012
Operating revenues			
Electric	\$ 9,465,890	\$ 9,034,045	\$ 8,517,296
Natural gas	2,142,738	1,804,679	1,537,374
Other	77,507	76,198	73,553
Total operating revenues	11,686,135	10,914,922	10,128,223
Operating expenses			
Electric fuel and purchased power	4,210,142	4,018,672	3,623,935
Cost of natural gas sold and transported	1,372,479	1,082,751	880,939
Cost of sales — other	34,352	33,323	29,067
Operating and maintenance expenses	2,334,379	2,273,532	2,176,095
Conservation and demand side management program expenses	301,772	260,726	260,527
Depreciation and amortization	1,019,045	977,863	926,053
Taxes (other than income taxes)	465,836	420,500	408,924
Total operating expenses	9,738,005	9,067,367	8,305,540
Operating income	1,948,130	1,847,555	1,822,683
Other income, net	5,296	2,972	6,175
Equity earnings of unconsolidated subsidiaries	30,151	30,020	29,971
Allowance for funds used during construction — equity	89,750	87,683	62,840
Interest charges and financing costs			
Interest charges — includes other financing costs of \$22,986, \$30,135 and \$24,087, respectively	566,608	575,199	601,552
Allowance for funds used during construction — debt	(38,402)	(39,179)	(35,315)
Total interest charges and financing costs	528,206	536,020	566,237
Income before income taxes	1,545,121	1,432,210	1,355,432
Income taxes	523,815	483,976	450,203
Net income	<u>\$ 1,021,306</u>	<u>\$ 948,234</u>	<u>\$ 905,229</u>
Weighted average common shares outstanding:			
Basic	503,847	496,073	487,899
Diluted	504,117	496,532	488,434
Earnings per average common share:			
Basic	\$ 2.03	\$ 1.91	\$ 1.86
Diluted	2.03	1.91	1.85
Cash dividends declared per common share	\$ 1.20	\$ 1.11	\$ 1.07

See Notes to Consolidated Financial Statements

XCEL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(amounts in thousands)

	Year Ended Dec. 31		
	2014	2013	2012
Net income	\$ 1,021,306	\$ 948,234	\$ 905,229
Other comprehensive (loss) income			
Pension and retiree medical benefits:			
Net pension and retiree medical benefit (losses) gains arising during the period, net of tax of \$(4,687), \$1,746 and \$(4,898), respectively	(7,517)	1,408	(7,005)
Amortization of losses included in net periodic benefit cost, net of tax of \$2,159, \$4,151 and \$2,567, respectively	3,495	3,306	3,694
	(4,022)	4,714	(3,311)
Derivative instruments:			
Net fair value (decrease) increase, net of tax of \$(103), \$17 and \$(12,593), respectively	(163)	12	(19,200)
Reclassification of losses to net income, net of tax of \$1,493, \$2,541 and \$2,687, respectively	2,288	1,476	3,697
	2,125	1,488	(15,503)
Marketable securities:			
Net fair value increase, net of tax of \$21, \$117 and \$135, respectively	33	176	196
Other comprehensive (loss) income	(1,864)	6,378	(18,618)
Comprehensive income	<u>\$ 1,019,442</u>	<u>\$ 954,612</u>	<u>\$ 886,611</u>

See Notes to Consolidated Financial Statements

Northern States Power Company

Section II.7.A - Other Supplemental Information: Annual Report

XCEL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	Year Ended Dec. 31		
	2014	2013	2012
Operating activities			
Net income	\$ 1,021,306	\$ 948,234	\$ 905,229
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	1,036,515	1,001,843	943,702
Conservation and demand side management program amortization	6,033	6,531	7,258
Nuclear fuel amortization	114,542	98,089	102,651
Deferred income taxes	569,378	515,062	508,094
Amortization of investment tax credits	(5,543)	(5,753)	(6,610)
Allowance for equity funds used during construction	(89,750)	(87,683)	(62,840)
Equity earnings of unconsolidated subsidiaries	(30,151)	(30,020)	(29,971)
Dividends from unconsolidated subsidiaries	36,707	36,416	33,470
Provision for bad debts	42,765	37,627	33,808
Share-based compensation expense	32,189	24,613	26,970
Gain on sale of transmission assets	—	(13,661)	—
Prairie Island EPU and SmartGridCity	—	—	20,766
Net realized and unrealized hedging and derivative transactions	5,506	(4,704)	(85,308)
Changes in operating assets and liabilities:			
Accounts receivable	(125,146)	(108,911)	(197,236)
Accrued unbilled revenues	(41,262)	(23,867)	25,377
Inventories	(20,558)	(43,588)	82,658
Other current assets	(111,300)	(18,071)	(30,737)
Accounts payable	(53,242)	132,441	(100,327)
Net regulatory assets and liabilities	195,823	141,325	5,866
Other current liabilities	137,147	126,555	42,914
Pension and other employee benefit obligations	(101,457)	(156,369)	(183,922)
Change in other noncurrent assets	44,364	(9,998)	(33,151)
Change in other noncurrent liabilities	(15,674)	17,925	(3,905)
Net cash provided by operating activities	2,648,192	2,584,036	2,004,756
Investing activities			
Utility capital/construction expenditures	(3,199,791)	(3,395,325)	(2,570,209)
Allowance for equity funds used during construction	89,750	87,683	62,840
Proceeds from sale of transmission assets	—	37,118	—
Proceeds from insurance recoveries	6,000	90,000	97,835
Purchases of investments in external decommissioning fund	(595,569)	(1,481,881)	(1,102,025)
Proceeds from the sale of investments in external decommissioning fund	588,430	1,461,291	1,087,076
Investment in WYCO Development LLC	(2,376)	(7,504)	(980)
Change in restricted cash	—	—	95,287
Other, net	(3,695)	(4,766)	(2,766)
Net cash used in investing activities	(3,117,251)	(3,213,384)	(2,332,942)
Financing activities			
Proceeds from short-term borrowings, net	260,500	157,000	383,000
Proceeds from issuance of long-term debt	837,584	1,431,895	1,790,131
Repayments of long-term debt, including reacquisition premiums	(275,948)	(652,451)	(1,302,763)
Proceeds from issuance of common stock	180,798	231,767	8,050
Repurchase of common stock	—	—	(18,529)
Purchase of common stock for settlement of equity awards	—	—	(23,307)
Dividends paid	(561,411)	(514,042)	(486,757)
Net cash provided by financing activities	441,523	654,169	349,825
Net change in cash and cash equivalents	(27,536)	24,821	21,639
Cash and cash equivalents at beginning of period	107,144	82,323	60,684
Cash and cash equivalents at end of period	\$ 79,608	\$ 107,144	\$ 82,323
Supplemental disclosure of cash flow information:			
Cash paid for interest (net of amounts capitalized)	\$ (512,602)	\$ (514,911)	\$ (563,517)
Cash (paid) received for income taxes, net	(4,542)	17,188	(9,570)
Supplemental disclosure of non-cash investing and financing transactions:			
Property, plant and equipment additions in accounts payable	\$ 417,473	\$ 452,453	\$ 289,802
Issuance of common stock for reinvested dividends and 401(k) plans	62,078	56,950	67,723

See Notes to Consolidated Financial Statements

XCEL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share and per share data)

	Dec. 31	
	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 79,608	\$ 107,144
Accounts receivable, net	826,506	744,160
Accrued unbilled revenues	728,492	687,230
Inventories	597,183	576,538
Regulatory assets	444,058	417,801
Derivative instruments	85,723	91,707
Deferred income taxes	246,210	341,202
Prepaid taxes	185,488	60,560
Prepayments and other	171,112	191,698
Total current assets	<u>3,364,380</u>	<u>3,218,040</u>
Property, plant and equipment, net	28,756,916	26,122,159
Other assets		
Nuclear decommissioning fund and other investments	1,832,640	1,755,990
Regulatory assets	2,774,216	2,509,218
Derivative instruments	53,775	84,842
Other	175,957	217,241
Total other assets	<u>4,836,588</u>	<u>4,567,291</u>
Total assets	<u>\$ 36,957,884</u>	<u>\$ 33,907,490</u>
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	\$ 257,726	\$ 280,763
Short-term debt	1,019,500	759,000
Accounts payable	1,173,006	1,261,238
Regulatory liabilities	410,729	274,769
Taxes accrued	396,615	378,766
Accrued interest	158,536	159,372
Dividends payable	151,720	139,432
Derivative instruments	21,632	23,382
Other	475,119	377,776
Total current liabilities	<u>4,064,583</u>	<u>3,654,498</u>
Deferred credits and other liabilities		
Deferred income taxes	5,852,988	5,331,046
Deferred investment tax credits	73,696	79,239
Regulatory liabilities	1,163,429	1,059,395
Asset retirement obligations	2,446,631	1,815,390
Derivative instruments	183,936	209,224
Customer advances	256,945	275,555
Pension and employee benefit obligations	936,907	769,222
Other	264,653	237,217
Total deferred credits and other liabilities	<u>11,179,185</u>	<u>9,776,288</u>
Commitments and contingencies		
Capitalization		
Long-term debt	11,499,634	10,910,754
Common stock — 1,000,000,000 shares authorized of \$2.50 par value; 505,733,267 and 497,971,508 shares outstanding at Dec. 31, 2014 and 2013, respectively	1,264,333	1,244,929
Additional paid in capital	5,837,330	5,619,313
Retained earnings	3,220,958	2,807,983
Accumulated other comprehensive loss	(108,139)	(106,275)
Total common stockholders' equity	<u>10,214,482</u>	<u>9,565,950</u>
Total liabilities and equity	<u>\$ 36,957,884</u>	<u>\$ 33,907,490</u>

See Notes to Consolidated Financial Statements

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Section II.7.A - Other Supplemental Information: Annual Report

XCEL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY
(amounts in thousands)

	Common Stock Issued			Retained Earnings	Accumulated Other Comprehensive Loss	Total Common Stockholders' Equity
	Shares	Par Value	Additional Paid In Capital			
Balance at Dec. 31, 2011	486,494	\$ 1,216,234	\$ 5,327,443	\$ 2,032,556	\$ (94,035)	\$ 8,482,198
Net income				905,229		905,229
Other comprehensive loss					(18,618)	(18,618)
Dividends declared on common stock				(523,969)		(523,969)
Issuances of common stock	2,166	5,415	28,219			33,634
Repurchase of common stock	(700)	(1,750)	(16,779)			(18,529)
Purchase of common stock for settlement of equity rewards			(23,307)			(23,307)
Share-based compensation			37,439			37,439
Balance at Dec. 31, 2012	<u>487,960</u>	<u>\$ 1,219,899</u>	<u>\$ 5,353,015</u>	<u>\$ 2,413,816</u>	<u>\$ (112,653)</u>	<u>\$ 8,874,077</u>
Net income				948,234		948,234
Other comprehensive income					6,378	6,378
Dividends declared on common stock				(554,067)		(554,067)
Issuances of common stock	10,012	25,030	237,671			262,701
Share-based compensation			28,627			28,627
Balance at Dec. 31, 2013	<u>497,972</u>	<u>\$ 1,244,929</u>	<u>\$ 5,619,313</u>	<u>\$ 2,807,983</u>	<u>\$ (106,275)</u>	<u>\$ 9,565,950</u>
Net income				1,021,306		1,021,306
Other comprehensive loss					(1,864)	(1,864)
Dividends declared on common stock				(608,331)		(608,331)
Issuances of common stock	7,761	19,404	185,145			204,549
Share-based compensation			32,872			32,872
Balance at Dec. 31, 2014	<u>505,733</u>	<u>\$ 1,264,333</u>	<u>\$ 5,837,330</u>	<u>\$ 3,220,958</u>	<u>\$ (108,139)</u>	<u>\$ 10,214,482</u>

See Notes to Consolidated Financial Statements

XCEL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(amounts in thousands, except share and per share data)

	Dec. 31	
	2014	2013
Long-Term Debt		
NSP-Minnesota		
First Mortgage Bonds, Series due:		
Aug. 15, 2015, 1.95%	\$ 250,000	\$ 250,000
March 1, 2018, 5.25%	500,000	500,000
Aug. 15, 2022, 2.15%	300,000	300,000
May 15, 2023, 2.6%	400,000	400,000
July 1, 2025, 7.125%	250,000	250,000
March 1, 2028, 6.5%	150,000	150,000
July 15, 2035, 5.25%	250,000	250,000
June 1, 2036, 6.25%	400,000	400,000
July 1, 2037, 6.2%	350,000	350,000
Nov. 1, 2039, 5.35%	300,000	300,000
Aug. 15, 2040, 4.85%	250,000	250,000
Aug. 15, 2042, 3.4%	500,000	500,000
May 15, 2044, 4.125%	300,000	—
Other	47	48
Unamortized discount	(11,365)	(11,316)
Total	4,188,682	3,888,732
Less current maturities	250,013	2
Total NSP-Minnesota long-term debt	<u>\$ 3,938,669</u>	<u>\$ 3,888,730</u>
PSCo		
First Mortgage Bonds, Series due:		
April 1, 2014, 5.5%	\$ —	\$ 275,000
Sept. 1, 2017, 4.375% ^(a)	129,500	129,500
Aug. 1, 2018, 5.8%	300,000	300,000
June 1, 2019, 5.125%	400,000	400,000
Nov. 15, 2020, 3.2%	400,000	400,000
Sept. 15, 2022, 2.25%	300,000	300,000
March 15, 2023, 2.5%	250,000	250,000
Sept. 1, 2037, 6.25%	350,000	350,000
Aug. 1, 2038, 6.5%	300,000	300,000
Aug. 15, 2041, 4.75%	250,000	250,000
Sept. 15, 2042, 3.6%	500,000	500,000
March 15, 2043, 3.95%	250,000	250,000
March 15, 2044, 4.30%	300,000	—
Capital lease obligations, through 2060, 11.2% — 14.3%	172,209	179,444
Unamortized discount	(11,480)	(11,301)
Total	3,890,229	3,872,643
Less current maturities	8,178	282,143
Total PSCo long-term debt	<u>\$ 3,882,051</u>	<u>\$ 3,590,500</u>
SPS		
First Mortgage Bonds, Series due:		
June 15, 2024, 3.3%	\$ 150,000	\$ —
Aug. 15, 2041, 4.5%	400,000	400,000
Unsecured Senior E Notes, due Oct. 1, 2016, 5.6%	200,000	200,000
Unsecured Senior G Notes, due Dec. 1, 2018, 8.75%	250,000	250,000
Unsecured Senior C and D Notes, due Oct. 1, 2033, 6%	100,000	100,000
Unsecured Senior F Notes, due Oct. 1, 2036, 6%	250,000	250,000
Unamortized discount	(309)	(135)
Total	1,349,691	1,199,865
Less current maturities	—	—
Total SPS long-term debt	<u>\$ 1,349,691</u>	<u>\$ 1,199,865</u>

See Notes to Consolidated Financial Statements

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XCEL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION — (Continued)
(amounts in thousands, except share and per share data)

	Dec. 31	
	2014	2013
NSP-Wisconsin		
First Mortgage Bonds, Series due:		
Oct. 1, 2018, 5.25%	\$ 150,000	\$ 150,000
June 15, 2024, 3.3%	100,000	—
Sept. 1, 2038, 6.375%	200,000	200,000
Oct. 1, 2042, 3.7%	100,000	100,000
City of La Crosse Resource Recovery Bond, Series due Nov. 1, 2021, 6% ^(b)	18,600	18,600
Fort McCoy System Acquisition, due Oct. 15, 2030, 7%	523	558
Other	1,687	1,760
Unamortized discount	(2,519)	(2,321)
Total	568,291	468,597
Less current maturities	1,235	107
Total NSP-Wisconsin long-term debt	<u>\$ 567,056</u>	<u>\$ 468,490</u>
Other Subsidiaries		
Various Eloigne Co. Affordable Housing Project Notes, due 2015-2052, 0% — 8%	\$ 32,037	\$ 37,490
Total	32,037	37,490
Less current maturities	1,316	1,128
Total other subsidiaries long-term debt	<u>\$ 30,721</u>	<u>\$ 36,362</u>
Xcel Energy Inc.		
Unsecured Senior Notes, Series due:		
May 9, 2016, 0.75%	\$ 450,000	\$ 450,000
April 1, 2017, 5.613%	253,979	253,979
May 15, 2020, 4.7%	550,000	550,000
July 1, 2036, 6.5%	300,000	300,000
Sept. 15, 2041, 4.8%	250,000	250,000
Elimination of PSCo capital lease obligation with affiliates	(69,470)	(72,087)
Unamortized discount	(6,078)	(7,702)
Total	1,728,431	1,724,190
Less current maturities (including elimination of PSCo capital lease obligation)	(3,015)	(2,617)
Total Xcel Energy Inc. long-term debt	<u>\$ 1,731,446</u>	<u>\$ 1,726,807</u>
Total long-term debt	<u>\$ 11,499,634</u>	<u>\$ 10,910,754</u>
Common Stockholders' Equity		
Common stock — 1,000,000,000 shares authorized of \$2.50 par value; 505,733,267 and 497,971,508 shares outstanding at Dec. 31, 2014 and 2013, respectively	\$ 1,264,333	\$ 1,244,929
Additional paid in capital	5,837,330	5,619,313
Retained earnings	3,220,958	2,807,983
Accumulated other comprehensive loss	(108,139)	(106,275)
Total common stockholders' equity	<u>\$ 10,214,482</u>	<u>\$ 9,565,950</u>

(a) Pollution control financing.

(b) Resource recovery financing.

See Notes to Consolidated Financial Statements

XCEL ENERGY INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements**1. Summary of Significant Accounting Policies**

Business and System of Accounts — Xcel Energy Inc.'s utility subsidiaries are engaged in the regulated generation, purchase, transmission, distribution and sale of electricity and in the regulated purchase, transportation, distribution and sale of natural gas. Xcel Energy's consolidated financial statements and disclosures are presented in accordance with GAAP. All of the utility subsidiaries' underlying accounting records also conform to the FERC uniform system of accounts or to systems required by various state regulatory commissions, which are the same in all material respects.

Principles of Consolidation — In 2014, Xcel Energy's operations included the activity of NSP-Minnesota, NSP-Wisconsin, PSCo and SPS. These utility subsidiaries serve electric and natural gas customers in portions of Colorado, Michigan, Minnesota, New Mexico, North Dakota, South Dakota, Texas and Wisconsin. Also included in Xcel Energy's operations are WGI, an interstate natural gas pipeline company, and WYCO, a joint venture with CIG to develop and lease natural gas pipelines, storage and compression facilities.

Xcel Energy Inc.'s nonregulated subsidiary is Eloigne, which invests in rental housing projects that qualify for low-income housing tax credits. Xcel Energy Inc. owns the following additional direct subsidiaries, some of which are intermediate holding companies with additional subsidiaries: Xcel Energy Wholesale Group Inc., Xcel Energy Markets Holdings Inc., Xcel Energy Ventures Inc., Xcel Energy Retail Holdings Inc., Xcel Energy Communications Group, Inc., Xcel Energy International Inc., Xcel Energy Transmission Holding Company, LLC, and Xcel Energy Services Inc. Xcel Energy Inc. and its subsidiaries collectively are referred to as Xcel Energy.

Xcel Energy's consolidated financial statements include its wholly-owned subsidiaries and variable interest entities for which it is the primary beneficiary. In the consolidation process, all intercompany transactions and balances are eliminated. Xcel Energy uses the equity method of accounting for its investment in WYCO. Xcel Energy's equity earnings in WYCO are included on the consolidated statements of income as equity earnings of unconsolidated subsidiaries. Xcel Energy has investments in several plants and transmission facilities jointly owned with nonaffiliated utilities. Xcel Energy's proportionate share of jointly owned facilities is recorded as property, plant and equipment on the consolidated balance sheets, and Xcel Energy's proportionate share of the operating costs associated with these facilities is included in its consolidated statements of income. See Note 5 for further discussion of jointly owned generation, transmission, and gas facilities and related ownership percentages.

Xcel Energy evaluates its arrangements and contracts with other entities, including but not limited to, investments, PPAs and fuel contracts to determine if the other party is a variable interest entity, if Xcel Energy has a variable interest and if Xcel Energy is the primary beneficiary. Xcel Energy follows accounting guidance for variable interest entities which requires consideration of the activities that most significantly impact an entity's financial performance and power to direct those activities, when determining whether Xcel Energy is a variable interest entity's primary beneficiary. See Note 13 for further discussion of variable interest entities.

Use of Estimates — In recording transactions and balances resulting from business operations, Xcel Energy uses estimates based on the best information available. Estimates are used for such items as plant depreciable lives or potential disallowances, 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. The recorded estimates are revised when better information becomes available or when actual amounts can be determined. Those revisions can affect operating results.

Regulatory Accounting — Our regulated utility subsidiaries account for certain income and expense items in accordance with accounting guidance for regulated operations. Under this guidance:

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

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

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If restructuring or other changes in the regulatory environment occur, regulated utility subsidiaries may no longer be eligible to apply this accounting treatment, and may be required to eliminate regulatory assets and liabilities from their balance sheets. Such changes could have a material effect on Xcel Energy's financial condition, results of operations and cash flows. See Note 15 for further discussion of regulatory assets and liabilities.

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

NSP-Minnesota participates in MISO, and SPS participates in SPP. The revenues and charges from these RTOs related to serving retail and wholesale electric customers comprising the native load of the NSP-System and SPS are recorded on a net basis within cost of sales. Revenues and charges for short term wholesale sales of excess energy transacted through RTOs are recorded on a gross basis in electric revenues and cost of sales.

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

Conservation Programs — Xcel Energy Inc.'s utility subsidiaries have implemented programs in many of their retail jurisdictions to assist customers in conserving energy and reducing peak demand on the electric and natural gas systems. These programs include efficiency and redesign programs, as well as rebates for the purchase of items such as high efficiency lighting, air conditioner controls and energy-efficient heating and cooling appliances.

The costs incurred for DSM and CIP programs are deferred if it is probable future revenue will be provided to permit recovery of the incurred cost. Recorded revenues for incentive programs designed for recovery of lost margins and/or conservation performance incentives are limited to amounts expected to be collected within 24 months from the annual period in which they are earned.

For PSCo, SPS and NSP-Minnesota, DSM and CIP program costs are recovered through a combination of base rate revenue and rider mechanisms. The revenue billed to customers recovers incurred costs for conservation programs and also incentive amounts that are designed to encourage Xcel Energy's achievement of energy conservation goals and compensate for related lost sales margin. For these utility subsidiaries, regulatory assets are recognized to reflect the amount of costs or earned incentives that have not yet been collected from customers. NSP-Wisconsin recovers approved conservation program costs in base rate revenue.

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

Property, plant and equipment is tested for impairment when it is determined that the carrying value of the assets may not be recoverable. 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 property, plant and equipment 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.

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Xcel Energy records depreciation expense related to its plant using the straight-line method over the plant's 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. Depreciation expense, expressed as a percentage of average depreciable property, was approximately 2.7, 2.9, and 2.8 percent for the years ended Dec. 31, 2014, 2013 and 2012, respectively.

Leases — Xcel Energy evaluates a variety of contracts for lease classification at inception, including PPAs and rental arrangements for office space, vehicles and equipment. Contracts determined to contain a lease because of per unit pricing that is other than fixed or market price, terms regarding the use of a particular asset, and other factors are evaluated further to determine if the arrangement is a capital lease. See Note 13 for further discussion of leases.

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 Xcel Energy's rate base for establishing utility service rates. In addition to construction-related amounts, cost of capital also is recorded to reflect returns on capital used to finance conservation programs in Minnesota.

Generally, AFUDC costs are recovered from customers as the related property is depreciated. However, in some cases commissions have approved a more current recovery of the cost of capital associated with large capital projects, resulting in a lower recognition of AFUDC. In other cases, some commissions have allowed an AFUDC calculation greater than the FERC-defined AFUDC rate, resulting in higher recognition of AFUDC.

AROs — Xcel Energy Inc.'s utility subsidiaries account 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. Xcel Energy Inc.'s utility subsidiaries also recover through rates certain future plant removal costs in addition to AROs. The accumulated removal costs for these obligations are reflected in the balance sheets as a regulatory liability. See Note 13 for further discussion of AROs.

Nuclear Decommissioning — Nuclear decommissioning studies estimate NSP-Minnesota's ultimate costs of decommissioning its nuclear power plants and are performed at least every three years and submitted to the MPUC and other state commissions for approval. NSP-Minnesota filed its most recent triennial nuclear decommissioning studies with the MPUC in December 2014. These studies reflect NSP-Minnesota's plans for prompt dismantlement of the Monticello and PI facilities. These studies assume that NSP-Minnesota will store spent fuel on site pending removal to a U.S. government facility.

For rate making purposes, NSP-Minnesota recovers the total decommissioning costs related to its nuclear power plants over each facility's expected service life based on the triennial decommissioning studies filed with the MPUC and other state commissions. The studies consider estimated future costs of decommissioning and the market value of investments in trust funds, and recommend annual funding amounts. Amounts collected in rates are deposited in the trust funds. See Note 14 for further discussion of the approved nuclear decommissioning studies and funded amounts. For financial reporting purposes, NSP-Minnesota accounts for nuclear decommissioning as an ARO as described above.

Restricted funds for the payment of future decommissioning expenditures for NSP-Minnesota's nuclear facilities are included in the nuclear decommissioning fund on the consolidated balance sheets. See Note 11 for further discussion of the nuclear decommissioning fund.

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

Nuclear Refueling Outage Costs — Xcel Energy uses a deferral and amortization method for nuclear refueling O&M costs. This method amortizes refueling outage costs over the period between refueling outages consistent with how the costs are recovered ratably in electric rates.

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

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

Due to the effects of past regulatory practices, when deferred taxes were not required to be recorded due to the use of flow through accounting for ratemaking purposes, the reversal of some temporary differences are accounted for as current income tax expense. Investment tax credits are deferred and their benefits amortized over the book depreciable lives of the related property. Utility rate regulation also has resulted in the recognition of certain regulatory assets and liabilities related to income taxes, which are summarized in Note 15.

Xcel Energy 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. Xcel Energy recognizes a tax position in its consolidated 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.

Xcel Energy reports interest and penalties related to income taxes within the other income and interest charges sections in the consolidated statements of income.

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

See Note 6 for further discussion of income taxes.

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

Gains or losses on commodity trading transactions are recorded as a component of electric operating revenues; hedging transactions for vehicle fuel costs are recorded as a component of capital projects or O&M costs; and interest rate hedging transactions are recorded as a component of interest expense. Certain utility subsidiaries are allowed to recover in electric or natural gas rates the costs of certain financial instruments purchased to reduce commodity cost volatility. For further information on derivatives entered to mitigate commodity price risk on behalf of electric and natural gas customers, see Note 11.

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

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

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

See Note 11 for further discussion of Xcel Energy's risk management and derivative activities.

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

Xcel Energy's commodity trading operations are conducted by NSP-Minnesota, and PSCo. Commodity trading activities are not associated with energy produced from Xcel Energy'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 11 for further discussion.

Fair Value Measurements — Xcel Energy presents cash equivalents, interest rate derivatives, commodity derivatives and nuclear decommissioning fund assets at estimated fair values in its consolidated financial statements. Cash equivalents are recorded at cost plus accrued interest; money market funds are measured using quoted net asset values. For interest rate derivatives, quoted prices based primarily on observable market interest rate curves are used as a primary input to establish fair value. For commodity derivatives, the most observable inputs available are generally used to determine the fair value of each contract. In the absence of a quoted price for an identical contract in an active market, Xcel Energy may use quoted prices for similar contracts or internally prepared valuation models to determine fair value. For the nuclear decommissioning fund, published trading data and pricing models, generally using the most observable inputs available, are utilized to estimate fair value for each security. See Note 11 for further discussion.

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

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

Inventory — All inventory is recorded at average cost.

RECs — RECs are marketable environmental instruments that represent proof that energy was generated from eligible renewable energy sources. RECs are awarded upon delivery of the associated energy and can be bought and sold. RECs are typically used as a form of measurement of compliance to RPS enacted by those states that are encouraging construction and consumption from renewable energy sources, but can also be sold separately from the energy produced. Utility subsidiaries acquire RECs from the generation or purchase of renewable power.

When RECs are purchased or acquired in the course of generation they are recorded as inventory at cost. The cost of RECs that are utilized for compliance purposes is recorded as electric fuel and purchased power expense. As a result of state regulatory orders, Xcel Energy reduces recoverable fuel costs for the cost of certain RECs and records that cost as a regulatory asset when the amount is recoverable in future rates.

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

Emission Allowances — Emission allowances, including the annual SO₂ and NO_x emission allowance entitlement received from the EPA, are recorded at cost plus associated broker commission fees. Xcel Energy follows the inventory accounting model for all emission allowances. Sales of emission allowances are included in electric utility operating revenues and the operating activities section of the consolidated statements of cash flows.

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

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

See Note 13 for further discussion of environmental costs.

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

Based on the regulatory recovery mechanisms of Xcel Energy Inc.'s utility subsidiaries, certain unrecognized actuarial gains and losses and unrecognized prior service costs or credits are recorded as regulatory assets and liabilities, rather than OCI.

See Note 9 for further discussion of benefit plans and other postretirement benefits.

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

The obligation recognized is reduced over the term of the guarantee as Xcel Energy is released from risk under the guarantee. See Note 13 for specific details of issued guarantees.

Reclassifications — Certain previously reported amounts have been reclassified to conform to the current year presentation.

Subsequent Events — Management has evaluated the impact of events occurring after Dec. 31, 2014 up to the date of issuance of these consolidated financial statements. These statements contain all necessary adjustments and disclosures resulting from that evaluation.

2. Accounting Pronouncements

Recently Issued

Revenue Recognition — In May 2014, the FASB issued *Revenue from Contracts with Customers, Topic 606 (ASU No. 2014-09)*, which provides a framework for the recognition of revenue, with the objective that recognized revenues properly reflect amounts an entity is entitled to receive in exchange for goods and services. This guidance, which includes additional disclosure requirements regarding revenue, cash flows and obligations related to contracts with customers, will be effective for interim and annual reporting periods beginning after Dec. 15, 2016. Xcel Energy is currently evaluating the impact of adopting ASU 2014-09 on its consolidated financial statements.

3. Selected Balance Sheet Data

(Thousands of Dollars)	Dec. 31, 2014	Dec. 31, 2013
Accounts receivable, net		
Accounts receivable	\$ 884,225	\$ 797,267
Less allowance for bad debts	(57,719)	(53,107)
	<u>\$ 826,506</u>	<u>\$ 744,160</u>
Inventories		
Materials and supplies	\$ 244,099	\$ 225,308
Fuel	183,249	189,485
Natural gas	169,835	161,745
	<u>\$ 597,183</u>	<u>\$ 576,538</u>

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(Thousands of Dollars)

	Dec. 31, 2014	Dec. 31, 2013
Property, plant and equipment, net		
Electric plant.....	\$ 33,203,139	\$ 30,341,310
Natural gas plant.....	4,643,452	4,086,651
Common and other property.....	1,611,486	1,485,547
Plant to be retired ^(a)	71,534	101,279
CWIP.....	2,005,531	2,371,566
Total property, plant and equipment.....	41,535,142	38,386,353
Less accumulated depreciation.....	(13,168,418)	(12,608,305)
Nuclear fuel.....	2,347,422	2,186,799
Less accumulated amortization.....	(1,957,230)	(1,842,688)
	<u>\$ 28,756,916</u>	<u>\$ 26,122,159</u>

(a) As a result of the CPUC's 2010 approval of PSCo's CACJA compliance plan and the December 2013 approval of PSCo's preferred plans for applicable generating resources, PSCo has received approval for early retirement of Cherokee Unit 3 and Valmont Unit 5 between 2015 and 2017. Amounts are presented net of accumulated depreciation.

4. Borrowings and Other Financing Instruments

Short-Term Borrowings

Money Pool — Xcel Energy Inc. and its utility subsidiaries have established a money pool arrangement that allows for short-term investments in and borrowings between the utility subsidiaries. NSP-Wisconsin does not participate in the money pool. Xcel Energy Inc. may make investments in the utility subsidiaries at market-based interest rates; however, the money pool arrangement does not allow the utility subsidiaries to make investments in Xcel Energy Inc. The money pool balances are eliminated in consolidation.

Commercial Paper — Xcel Energy Inc. and its utility subsidiaries meet their short-term liquidity requirements primarily through the issuance of commercial paper and borrowings under their credit facilities. Commercial paper outstanding for Xcel Energy was as follows:

(Amounts in Millions, Except Interest Rates)	Three Months Ended Dec. 31, 2014		
Borrowing limit.....	\$	2,750	
Amount outstanding at period end.....		1,020	
Average amount outstanding.....		802	
Maximum amount outstanding.....		1,021	
Weighted average interest rate, computed on a daily basis.....		0.36%	
Weighted average interest rate at period end.....		0.56	

(Amounts in Millions, Except Interest Rates)	Year Ended Dec. 31		
	2014	2013	2012
Borrowing limit.....	\$ 2,750	\$ 2,450	\$ 2,450
Amount outstanding at period end.....	1,020	759	602
Average amount outstanding.....	841	481	403
Maximum amount outstanding.....	1,200	1,160	634
Weighted average interest rate, computed on a daily basis.....	0.33%	0.31%	0.35%
Weighted average interest rate at end of period.....	0.56	0.25	0.36

Letters of Credit — Xcel Energy Inc. and its subsidiaries use letters of credit, generally with terms of one year, to provide financial guarantees for certain operating obligations. At Dec. 31, 2014 and 2013, there were \$60.5 million and \$47.8 million of letters of credit outstanding, respectively, under the credit facilities. The contract amounts of these letters of credit approximate their fair value and are subject to fees.

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Credit Facilities — In order to use their commercial paper programs to fulfill short-term funding needs, Xcel Energy Inc. and its utility subsidiaries 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 in an aggregate amount 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.

Amended Credit Agreements — In October 2014, Xcel Energy Inc., NSP-Minnesota, NSP-Wisconsin, PSCo and SPS entered into amended five-year credit agreements with a syndicate of banks. The amended credit agreements have substantially the same terms and conditions as the prior credit agreements with an extension of maturity from July 2017 to October 2019. In addition, the borrowing limit for Xcel Energy Inc. has been increased to \$1 billion from \$800 million and the borrowing limit for SPS has been increased to \$400 million from \$300 million. As a result, the total borrowing limit under the amended credit agreements increased to \$2.75 billion from \$2.45 billion.

NSP-Minnesota, PSCo, SPS, and Xcel Energy Inc. each have the right to request an extension of the revolving termination date for two additional one-year periods. NSP-Wisconsin has the right to request an extension of the revolving termination date for an additional one-year period. All extension requests are subject to majority bank group approval.

Features of the credit facilities include:

- Xcel Energy Inc. may increase its credit facility by up to \$200 million, NSP-Minnesota and PSCo may each increase their credit facilities by \$100 million and SPS may increase its credit facility by \$50 million. The NSP-Wisconsin credit facility cannot be increased.
- Each credit facility has a financial covenant requiring that the debt-to-total capitalization ratio of each entity be less than or equal to 65 percent. Each entity was in compliance at Dec. 31, 2014 and 2013, respectively, as evidenced by the table below:

	Debt-to-Total Capitalization Ratio	
	2014	2013
Xcel Energy	56%	56%
NSP-Wisconsin	48	47
NSP-Minnesota	48	47
SPS	47	49
PSCo	47	45

- If Xcel Energy Inc. or any of its utility subsidiaries do not comply with the covenant, an event of default may be declared, and if not remedied, any outstanding amounts due under the facility can be declared due by the lender.
- The Xcel Energy Inc. credit facility has a cross-default provision that provides Xcel Energy Inc. will be in default on its borrowings under the facility if it or any of its subsidiaries, except NSP-Wisconsin as long as its total assets do not comprise more than 15 percent of Xcel Energy's consolidated total assets, default on certain indebtedness in an aggregate principal amount exceeding \$75 million.
- The interest rates under these lines of credit are based on Eurodollar borrowing margins ranging from 87.5 to 175 basis points per year based on the applicable long-term credit ratings.
- The commitment fees, also based on applicable long-term credit ratings, are calculated on the unused portion of the lines of credit at a range of 7.5 to 27.5 basis points per year.

At Dec. 31, 2014, Xcel Energy Inc. and its utility subsidiaries had the following committed credit facilities available:

(Millions of Dollars)	Credit Facility ^(a)	Drawn ^(b)	Available
Xcel Energy Inc.	\$ 1,000.0	\$ 380.5	\$ 619.5
PSCo	700.0	388.4	311.6
NSP-Minnesota	500.0	166.1	333.9
SPS	400.0	67.0	333.0
NSP-Wisconsin	150.0	78.0	72.0
Total	<u>\$ 2,750.0</u>	<u>\$ 1,080.0</u>	<u>\$ 1,670.0</u>

^(a) These credit facilities have been amended to extend the maturity to October 2019.

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

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All credit facility bank borrowings, outstanding letters of credit and outstanding commercial paper reduce the available capacity under the respective credit facilities. Xcel Energy Inc. and its subsidiaries had no direct advances on the credit facilities outstanding at Dec. 31, 2014 and 2013.

Long-Term Borrowings and Other Financing Instruments

Generally, all real and personal property of NSP-Minnesota, NSP-Wisconsin, PSCo and SPS are subject to the liens of their first mortgage indentures. Debt premiums, discounts and expenses are amortized over the life of the related debt. The premiums, discounts and expenses associated with refinanced debt are deferred and amortized over the life of the related new issuance, in accordance with regulatory guidelines.

Maturities of long-term debt are as follows:

(Millions of Dollars)	
2015.....	\$ 258
2016.....	656
2017.....	388
2018.....	1,206
2019.....	406

During 2014, Xcel Energy Inc. and its utility subsidiaries completed the following financings:

- In March 2014, PSCo issued \$300 million of 4.3 percent first mortgage bonds due March 15, 2044;
- In May 2014, NSP-Minnesota issued \$300 million of 4.125 percent first mortgage bonds due May 15, 2044;
- In June 2014, SPS issued \$150 million of 3.30 percent first mortgage bonds due June 15, 2024; and
- In June 2014, NSP-Wisconsin issued \$100 million of 3.30 percent first mortgage bonds due June 15, 2024.

In connection with SPS' issuance of \$150 million of 3.30 percent first mortgage bonds due June 15, 2024, SPS concurrently took certain actions to secure its previously issued Series G Senior Notes due Dec. 1, 2018 equally and ratably with SPS' first mortgage bonds as required pursuant to the terms of the Series G notes.

To provide the required collateralization, SPS issued \$250 million of collateral 8.75 percent first mortgage bonds due Dec. 1, 2018 to the trustee under its senior unsecured indenture which secured the previously issued Series G Senior Notes, 8.75 percent due Dec. 1, 2018, equally and ratably with SPS' first mortgage bonds.

During 2013, Xcel Energy Inc. and its utility subsidiaries completed the following financings:

- In March 2013, PSCo issued \$250 million of 2.50 percent first mortgage bonds due March 15, 2023 and \$250 million of 3.95 percent first mortgage bonds due March 15, 2043.
- In May 2013, Xcel Energy Inc. issued \$450 million of 0.75 percent senior unsecured notes due May 9, 2016.
- In May 2013, NSP-Minnesota issued \$400 million of 2.60 percent first mortgage bonds due May 15, 2023.
- In August 2013, SPS issued \$100 million of 4.50 percent first mortgage bonds due Aug. 15, 2041. Including the \$300 million of this series previously issued, total principal outstanding for this series is \$400 million.

Issuances of Common Stock — Xcel Energy Inc. issued approximately 5.7 million shares of common stock through an at-the-market (ATM) program and received cash proceeds of \$172.7 million net of \$1.9 million in fees and commissions during the first six months of 2014. During the year ended Dec. 31, 2013, Xcel Energy Inc. issued approximately 7.7 million shares of common stock through this program and received cash proceeds of \$222.7 million net of \$2.7 million in fees and commissions. Xcel Energy completed its ATM program as of June 30, 2014. The proceeds from the issuances of common stock were used to repay short-term debt, infuse equity into the utility subsidiaries and for other general corporate purposes.

Debt Redemption — On May 31, 2013, Xcel Energy Inc. redeemed the entire \$400 million principal amount of its 7.60 percent junior subordinated notes. Upon redemption, Xcel Energy Inc. recognized \$6.3 million of related unamortized debt issuance costs as interest charges.

Deferred Financing Costs — Other assets included deferred financing costs of approximately \$85 million and \$83 million, net of amortization, at Dec. 31, 2014 and 2013, respectively. Xcel Energy is amortizing these financing costs over the remaining maturity periods of the related debt.

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Capital Stock — Xcel Energy Inc. has 7,000,000 shares of preferred stock authorized to be issued with a \$100 par value. At Dec. 31, 2014 and 2013, there were no shares of preferred stock outstanding.

The charters of PSCo and SPS authorize each subsidiary to issue 10,000,000 shares of preferred stock with par values of \$0.01 and \$1.00 per share, respectively. At Dec. 31, 2014 and 2013, there were no preferred shares of subsidiaries outstanding.

Xcel Energy Inc. has 1,000,000,000 shares of common stock authorized to be issued with a \$2.50 par value. Outstanding shares at Dec. 31, 2014 and 2013 were 505,733,267 and 497,971,508, respectively.

Dividend and Other Capital-Related Restrictions — Xcel Energy depends on its subsidiaries to pay dividends. All of Xcel Energy Inc.'s utility subsidiaries' dividends are subject to the FERC's jurisdiction under the Federal Power Act, which prohibits the payment of dividends out of capital accounts; payment of dividends is allowed out of retained earnings only. Due to certain restrictive covenants, Xcel Energy Inc. is required to be current on particular interest payments before dividends can be paid.

The most restrictive dividend limitations for NSP-Minnesota, NSP-Wisconsin and SPS are imposed by their respective state regulatory commission. PSCo's dividends are subject to the FERC's jurisdiction under the Federal Power Act, which prohibits the payment of dividends out of capital accounts; payment of dividends is allowed out of retained earnings only.

Only NSP-Minnesota has a first mortgage indenture which places certain restrictions on the amount of cash dividends it can pay to Xcel Energy Inc., the holder of its common stock. Even with this restriction, NSP-Minnesota could have paid more than \$1.6 billion and \$1.4 billion in additional cash dividends to Xcel Energy Inc. at Dec. 31, 2014 and 2013, respectively.

NSP-Minnesota's state regulatory commissions indirectly limit the amount of dividends NSP-Minnesota can pay by requiring an equity-to-total capitalization ratio between 47.1 percent and 57.5 percent. NSP-Minnesota's equity-to-total capitalization ratio was 52.1 percent at Dec. 31, 2014 and \$848 million in retained earnings was not restricted. Total capitalization for NSP-Minnesota was \$9.0 billion at Dec. 31, 2014, which did not exceed the limit of \$9.5 billion.

NSP-Wisconsin cannot pay annual dividends in excess of approximately \$33.3 million if its calendar year average equity-to-total capitalization ratio is or falls below the state commission authorized level of 52.5 percent, as calculated consistent with PSCW requirements. NSP-Wisconsin's calendar year average equity-to-total capitalization ratio calculated on this basis was 52.8 percent at Dec. 31, 2014 and \$8.3 million in retained earnings was not restricted.

SPS' state regulatory commissions indirectly limit the amount of dividends that SPS can pay Xcel Energy Inc. by requiring an equity-to-total capitalization ratio (excluding short-term debt) between 45.0 percent and 55.0 percent. In addition, SPS may not pay a dividend that would cause it to lose its investment grade bond rating. SPS' equity-to-total capitalization ratio (excluding short-term debt) was 53.6 percent at Dec. 31, 2014 and \$396 million in retained earnings was not restricted.

The issuance of securities by Xcel Energy Inc. generally is not subject to regulatory approval. However, utility financings and certain intra-system financings are subject to the jurisdiction of the applicable state regulatory commissions and/or the FERC under the Federal Power Act. As of Dec. 31, 2014:

- PSCo has authorization to issue up to an additional \$700 million of long-term debt and up to \$800 million of short-term debt.
- SPS has authorization to issue up to \$500 million of short-term debt and plans to file for additional long-term authorization.
- NSP-Wisconsin has authorization to issue up to \$150 million of short-term debt and NSPW has filed for additional long-term debt authorization.
- NSP-Minnesota has authorization to issue long-term securities provided the equity-to-total capitalization ratio remains between 47.1 percent and 57.5 percent and to issue short-term debt provided it does not exceed 15 percent of total capitalization. Total capitalization for NSP-Minnesota cannot exceed \$9.5 billion.

Xcel Energy believes these authorizations are adequate and seeks additional authorization as necessary.

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5. Joint Ownership of Generation, Transmission and Gas Facilities

Following are the investments by Xcel Energy Inc.'s utility subsidiaries in jointly owned generation, transmission and gas facilities and the related ownership percentages as of Dec. 31, 2014:

(Thousands of Dollars)	Plant in Service	Accumulated Depreciation	CWIP	Ownership %
NSP-Minnesota				
Electric Generation:				
Sherco Unit 3	\$ 591,027	\$ 376,322	\$ 4,508	59.0%
Sherco Common Facilities Units 1, 2 and 3	144,799	90,022	2	80.0
Sherco Substation	4,790	2,978	—	59.0
Electric Transmission:				
Grand Meadow Line and Substation	10,647	1,452	—	50.0
CapX2020 Transmission	775,365	89,567	259,294	50.9
Total NSP-Minnesota	<u>\$ 1,526,628</u>	<u>\$ 560,341</u>	<u>\$ 263,804</u>	
NSP-Wisconsin				
Electric Transmission:				
CapX2020 Transmission	\$ 26,434	\$ 8,082	\$ 103,940	80.7%
La Crosse, Wis. to Madison, Wis.	—	—	9,814	50.0
Total NSP-Wisconsin	<u>\$ 26,434</u>	<u>\$ 8,082</u>	<u>\$ 113,754</u>	
PSCo				
Electric Generation:				
Hayden Unit 1	\$ 98,145	\$ 66,333	\$ 1,405	75.5%
Hayden Unit 2	121,571	59,999	8,867	37.4
Hayden Common Facilities	37,049	16,928	135	53.1
Craig Units 1 and 2	59,860	35,573	3,013	9.7
Craig Common Facilities 1, 2 and 3	36,890	17,735	527	6.5
Comanche Unit 3	883,971	81,748	64	66.7
Comanche Common Facilities	23,624	1,051	308	82.0
Electric Transmission:				
Transmission and other facilities, including substations	151,301	60,847	1,730	Various
Gas Transportation:				
Rifle, Colo. to Avon, Colo.	16,278	5,594	—	60.0
Total PSCo	<u>\$ 1,428,689</u>	<u>\$ 345,808</u>	<u>\$ 16,049</u>	

NSP-Minnesota and PSCo have approximately 500 MW and 820 MW of jointly owned generating capacity, respectively. Each Company's share of operating expenses and construction expenditures are included in the applicable utility accounts. Each of the respective owners is responsible for providing its own financing.

6. Income Taxes

Tax Increase Prevention Act of 2014 — In 2014, the Tax Increase Prevention Act (TIPA) was signed into law. The TIPA provides for the following:

- The R&E credit was extended for 2014;
- PTCs were extended for projects that began construction before the end of 2014 with certain projects qualifying into future years; and
- 50 percent bonus depreciation was extended one year through 2014. Additionally, some longer production period property placed in service in 2015 is also eligible for 50 percent bonus depreciation.

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The accounting related to the TIPA was recorded beginning in the fourth quarter of 2014 because a change in tax law is accounted for in the period of enactment.

American Taxpayer Relief Act of 2012 — In 2013, the American Taxpayer Relief Act (ATRA) was signed into law. The ATRA provided for the following:

- The top tax rate for dividends increased from 15 percent to 20 percent. The 20 percent dividend rate is now consistent with the tax rates for capital gains;
- The R&E credit was extended for 2012 and 2013;
- PTCs were extended for projects that began construction before the end of 2013 with certain projects qualifying into future years; and
- 50 percent bonus depreciation was extended one year through 2013. Additionally, some longer production period property placed in service in 2014 is also eligible for 50 percent bonus depreciation.

The accounting related to the ATRA, including the provisions related to 2012, was recorded beginning in the first quarter of 2013 because a change in tax law is accounted for in the period of enactment.

Prescription drug tax benefit — In the third quarter of 2012, Xcel Energy implemented a tax strategy related to the allocation of funding of Xcel Energy's retiree prescription drug plan. This strategy restored a portion of the tax benefit associated with federal subsidies for prescription drug plans that had been accrued since 2004 and was expensed in 2010. As a result, Xcel Energy recognized approximately \$17 million of income tax benefit.

Medicare Part D — In March 2010, the Patient Protection and Affordable Care Act was signed into law. The law includes provisions to generate tax revenue to help offset the cost of the new legislation. One of these provisions reduces the deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D coverage, beginning in 2013. Xcel Energy expensed approximately \$17 million of previously recognized tax benefits relating to the federal subsidies during the first quarter of 2010.

Federal Tax Loss Carryback Claims — In 2012, 2013 and 2014, Xcel Energy identified certain expenses related to 2009, 2010, 2011, 2013 and 2014 that qualify for an extended carryback beyond the typical two-year carryback period. As a result of a higher tax rate in prior years, Xcel Energy recognized a tax benefit of approximately \$17 million in 2014, \$12 million in 2013 and \$15 million in 2012.

Federal Audit — Xcel Energy files a consolidated federal income tax return. The statute of limitations applicable to Xcel Energy's 2008 federal income tax return expired in September 2012. The statute of limitations applicable to Xcel Energy's 2009 federal income tax return expires in March 2016. In the third quarter of 2012, the IRS commenced an examination of tax years 2010 and 2011, including the 2009 carryback claim. As of Dec. 31, 2014, the IRS had proposed an adjustment to the federal tax loss carryback claims that would result in \$12 million of income tax expense for the 2009 through 2011 claims, the recently filed 2013 claim, and the anticipated claim for 2014. At Dec. 31, 2014, the IRS has begun the Appeals process; however, the outcome and timing of a resolution is uncertain.

State Audits — Xcel Energy files consolidated state tax returns based on income in its major operating jurisdictions of Colorado, Minnesota, Texas, and Wisconsin, and various other state income-based tax returns. As of Dec. 31, 2014, Xcel Energy's earliest open tax years that are subject to examination by state taxing authorities in its major operating jurisdictions were as follows:

State	Year
Colorado	2009
Minnesota	2009
Texas	2009
Wisconsin	2010

In the first quarter of 2014, the state of Wisconsin commenced an examination of tax years 2009 through 2011. No material adjustments were proposed for those tax years. As of Dec. 31, 2014, there were no state income tax audits in progress.

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Unrecognized Tax Benefits — The unrecognized tax benefit balance includes permanent tax positions, which if recognized would affect the annual ETR. In addition, the unrecognized tax benefit balance includes temporary tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. A change in the period of deductibility would not affect the ETR but would accelerate the payment of cash to the taxing authority to an earlier period.

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

(Millions of Dollars)	Dec. 31, 2014	Dec. 31, 2013
Unrecognized tax benefit — Permanent tax positions	\$ 16.2	\$ 12.9
Unrecognized tax benefit — Temporary tax positions	50.3	28.3
Total unrecognized tax benefit	<u>\$ 66.5</u>	<u>\$ 41.2</u>

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

(Millions of Dollars)	2014	2013	2012
Balance at Jan. 1	\$ 41.2	\$ 34.5	\$ 34.7
Additions based on tax positions related to the current year	28.7	15.1	5.2
Reductions based on tax positions related to the current year	(2.0)	(0.4)	(5.7)
Additions for tax positions of prior years	16.0	21.6	9.6
Reductions for tax positions of prior years	(6.0)	(4.8)	(9.3)
Settlements with taxing authorities	(9.6)	(24.8)	—
Lapse of applicable statutes of limitations	(1.8)	—	—
Balance at Dec. 31	<u>\$ 66.5</u>	<u>\$ 41.2</u>	<u>\$ 34.5</u>

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

(Millions of Dollars)	Dec. 31, 2014	Dec. 31, 2013
NOL and tax credit carryforwards	\$ (28.5)	\$ (27.1)

It is reasonably possible that Xcel Energy's amount of unrecognized tax benefits could significantly change in the next 12 months as the IRS Appeals process progresses and state audits resume. As the IRS Appeals process moves closer to completion and state audits resume, it is reasonably possible that the amount of unrecognized tax benefit could decrease up to approximately \$10 million.

The payable for interest related to unrecognized tax benefits is partially offset by the interest benefit associated with NOL and tax credit carryforwards. The payables for interest related to unrecognized tax benefits at Dec. 31, 2014, 2013 and 2012 were not material. No amounts were accrued for penalties related to unrecognized tax benefits as of Dec. 31, 2014, 2013 or 2012.

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

(Millions of Dollars)	2014	2013
Federal NOL carryforward	\$ 1,349	\$ 1,311
Federal tax credit carryforwards	327	294
State NOL carryforwards	1,722	1,706
Valuation allowances for state NOL carryforwards	(53)	(51)
State tax credit carryforwards, net of federal detriment ^(a)	19	17

(a) State tax credit carryforwards are net of federal detriment of \$10 million and \$9 million as of Dec. 31, 2014 and 2013.

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The federal carryforward periods expire between 2021 and 2034. The state carryforward periods expire between 2016 and 2034.

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

	2014	2013	2012
Federal statutory rate	35.0%	35.0%	35.0%
Increases (decreases) in tax from:			
Tax credits recognized, net of federal income tax expense	(2.6)	(2.6)	(2.2)
Regulatory differences — utility plant items	(1.3)	(1.6)	(1.0)
NOL carryback	(0.9)	(0.8)	(1.1)
State income taxes, net of federal income tax benefit	4.0	4.1	4.0
Change in unrecognized tax benefits	0.2	0.6	—
Prescription drug tax benefit and Medicare Part D	—	—	(1.2)
Other, net	(0.5)	(0.9)	(0.3)
Effective income tax rate	<u>33.9%</u>	<u>33.8%</u>	<u>33.2%</u>

The components of Xcel Energy's income tax expense for the years ending Dec. 31 were:

(Thousands of Dollars)	2014	2013	2012
Current federal tax (benefit) expense	\$ (73,160)	\$ (46,173)	\$ 7,876
Current state tax expense	9,225	7,678	31,478
Current change in unrecognized tax expense (benefit)	23,915	13,162	(1,704)
Deferred federal tax expense	505,236	439,085	366,409
Deferred state tax expense	84,787	80,907	50,741
Deferred change in unrecognized tax (benefit) expense	(20,645)	(4,930)	2,013
Deferred investment tax credits	(5,543)	(5,753)	(6,610)
Total income tax expense	<u>\$ 523,815</u>	<u>\$ 483,976</u>	<u>\$ 450,203</u>

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

(Thousands of Dollars)	2014	2013	2012
Deferred tax expense excluding items below	\$ 616,934	\$ 588,053	\$ 559,860
Amortization and adjustments to deferred income taxes on income tax regulatory assets and liabilities	(48,674)	(64,420)	(63,862)
Tax benefit (expense) allocated to OCI	1,117	(8,572)	12,102
Other	1	1	(6)
Deferred tax expense	<u>\$ 569,378</u>	<u>\$ 515,062</u>	<u>\$ 508,094</u>

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The components of Xcel Energy's net deferred tax liability (current and noncurrent) at Dec. 31 were as follows:

(Thousands of Dollars)	2014	2013
Deferred tax liabilities:		
Differences between book and tax bases of property	\$ 6,257,191	\$ 5,562,446
Regulatory assets	300,762	321,636
Other	300,251	254,639
Total deferred tax liabilities	<u>\$ 6,858,204</u>	<u>\$ 6,138,721</u>
Deferred tax assets:		
NOL carryforward	\$ 552,274	\$ 532,774
Tax credit carryforward	346,064	311,388
Rate refund	93,956	49,804
Unbilled revenue - fuel costs	55,021	58,908
Regulatory liabilities	49,712	40,947
Environmental remediation	42,716	42,886
Deferred investment tax credits	31,886	34,231
NOL and tax credit valuation allowances	(3,402)	(3,263)
Other	83,199	81,202
Total deferred tax assets	<u>\$ 1,251,426</u>	<u>\$ 1,148,877</u>
Net deferred tax liability	<u>\$ 5,606,778</u>	<u>\$ 4,989,844</u>

7. Earnings Per Share

Basic EPS was computed by dividing the earnings available to Xcel Energy Inc.'s common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS was computed by dividing the earnings available to Xcel Energy Inc.'s common shareholders by the diluted weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other agreements to issue common stock (i.e., common stock equivalents) were settled. The weighted average number of potentially dilutive shares outstanding used to calculate Xcel Energy Inc.'s diluted EPS is calculated using the treasury stock method.

Common Stock Equivalents — Xcel Energy Inc. currently has common stock equivalents related to certain equity awards in share-based compensation arrangements.

Common stock equivalents causing a dilutive impact to EPS include commitments to issue common stock related to time based equity compensation awards and time based employer matching contributions to certain 401(k) plan participants. In October 2013, Xcel Energy determined that it would settle 401(k) employer matching contributions in cash instead of common stock going forward for substantially all of its employees. Share-based compensation accounting for the impacted employee groups ceased in October 2013, and corresponding expense amounts recorded to equity were reclassified to a liability for expected cash settlements.

Stock equivalent units granted to Xcel Energy Inc.'s Board of Directors are included in common shares outstanding upon grant date as there is no further service, performance or market condition associated with these awards. Restricted stock, granted to settle amounts due to certain employees under the Xcel Energy Inc. Executive Annual Incentive Award Plan, is included in common shares outstanding when granted.

Share-based compensation arrangements for which there is currently no dilutive impact to EPS include the following:

- Equity awards subject to a performance condition; included in common shares outstanding when all necessary conditions for settlement have been satisfied by the end of the reporting period.
- Liability awards subject to a performance condition; any portions settled in shares are included in common shares outstanding upon settlement.

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The dilutive impact of common stock equivalents affecting EPS was as follows:

(Amounts in thousands, except per share data)	2014			2013			2012		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Net income	\$ 1,021,306			\$ 948,234			\$ 905,229		
Basic EPS:									
Earnings available to common shareholders	1,021,306	503,847	\$ 2.03	948,234	496,073	\$ 1.91	905,229	487,899	\$ 1.86
Effect of dilutive securities:									
Equity awards	—	270		—	459		—	535	
Diluted EPS:									
Earnings available to common shareholders	\$ 1,021,306	504,117	\$ 2.03	\$ 948,234	496,532	\$ 1.91	\$ 905,229	488,434	\$ 1.85

Share Repurchase — In February 2012, Xcel Energy Inc.'s Board of Directors approved the repurchase of up to 0.7 million shares of common stock for the issuance of shares in connection with the vesting of awards under the Xcel Energy Inc. 2005 Long-Term Incentive Plan. In March 2012, Xcel Energy Inc. repurchased the approved 0.7 million shares in the open market at an average price of \$26.42 per share. In addition, approximately 0.9 million shares of common stock were purchased in February 2012 through an agent independent of Xcel Energy to fulfill requirements for the employer match pursuant to the Xcel Energy 401(k) Savings Plan; the NCE Employees' Savings and Stock Ownership Plan for Bargaining Unit Employees and Former Non-Bargaining Unit Employees; and the NCE Employee Investment Plan for Bargaining Unit Employees and Non-Bargaining Employees.

8. Share-Based Compensation

Restricted Stock — Certain employees may elect to receive shares of common or restricted stock under the Xcel Energy Inc. Executive Annual Incentive Award Plan. Restricted stock is treated as an equity award and vests and settles in equal annual installments over a three-year period. Xcel Energy Inc. reinvests dividends on the restricted stock while restrictions are in place. Restrictions also apply to the additional shares of restricted stock acquired through dividend reinvestment. If the restricted shares are forfeited, the employee is not entitled to the dividends on those shares. Restricted stock has a fair value equal to the market trading price of Xcel Energy Inc.'s stock at the grant date.

Xcel Energy Inc. granted shares of restricted stock for the years ended Dec. 31 as follows:

(Shares in Thousands)	2014	2013	2012
Granted shares	46	33	33
Grant date fair value	\$ 29.69	\$ 28.30	\$ 26.43

A summary of the changes of nonvested restricted stock for the year ended 2014 were as follows:

(Shares in Thousands)	Shares	Weighted Average Grant Date Fair Value
Nonvested restricted stock at Jan. 1, 2014	62	\$ 27.33
Granted	46	29.69
Vested	(29)	26.67
Dividend equivalents	3	30.94
Nonvested restricted stock at Dec. 31, 2014	82	29.00

Other Equity Awards — Xcel Energy Inc.'s Board of Directors has granted equity awards under the Xcel Energy Inc. 2005 Long-Term Incentive Plan (as amended and restated in 2010). The plan allows the attachment of various vesting conditions and performance goals to the awards granted. The vesting conditions and performance goals may vary by plan year. At the end of the restricted period, such grants will be awarded if the vesting conditions and/or performance goals are met.

Commencing in 2014, certain employees were granted bundled equity awards with one portion of shares subject only to service conditions, and the other portion subject to performance conditions. Inclusive of other grants of time-based shares, a total of 0.4 million and 0.2 million time-based equity shares subject only to service conditions were granted in 2014 and 2013, respectively. Other than shares associated with these time-based awards, restricted stock and certain 401(k) employer match settlements, payout of all other employee equity awards and the lapsing of restrictions on the transfer of units are based on the achievement of performance criteria.

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The performance conditions for a portion of the units awarded in 2014 are based on relative TSR, measured identically to TSR liability awards granted in 2014, and measurement of performance for a portion of units awarded from 2011 to 2013 is based on EPS growth with an additional condition that Xcel Energy Inc.'s annual dividend paid on its common stock remains at a specified amount per share or greater. The performance conditions for the remaining employee equity awards are based on environmental goals. Equity awards with performance conditions awarded 2011 to 2014, plus associated dividend equivalents, will be settled or forfeited and the restricted period will lapse after three years, with potential payouts ranging from zero to 150 percent for 2011 to 2013 grants, and zero to 200 percent for 2014 grants, depending on the level of achievement.

- The 2010 awards measured on EPS growth met their targets as of Dec. 31, 2011, and were settled in shares in February 2012.
- The 2010 environmental awards met their targets as of Dec. 31, 2012 and were settled in shares in February 2013.
- The 2011 awards measured on EPS growth and the 2011 environmental awards met their targets as of Dec. 31, 2013 and were settled in shares in February 2014.
- The 2012 awards measured on EPS growth and the 2012 environmental awards met their targets as of Dec. 31, 2014, and will be settled in shares in February 2015.

Equity award units granted to employees, excluding restricted stock and applicable 401(k) employer match settlements, for the years ended Dec. 31 were as follows:

(Units in Thousands)	2014	2013	2012
Granted units	588	774	591
Weighted average grant date fair value	\$ 29.90	\$ 27.65	\$ 27.35

Approximately 0.5 million of these units vested during 2014 at a total fair value of \$19.6 million. Approximately 0.6 million of these units vested during 2013 at a total fair value of \$16.8 million. Approximately 0.1 million of these units vested during 2012 at a total fair value of \$1.2 million.

A summary of the changes in the nonvested portion of these equity award units for the year ended 2014, were as follows:

(Units in Thousands)	Units	Weighted Average Grant Date Fair Value
Nonvested Units at Jan. 1, 2014	1,312	\$ 27.53
Granted	588	29.90
Forfeited	(99)	28.36
Vested	(546)	27.34
Dividend equivalents	67	28.04
Nonvested Units at Dec. 31, 2014	1,322	28.63

The total fair value of these nonvested equity awards as of Dec. 31, 2014 was \$47.5 million and the weighted average remaining contractual life was 1.6 years.

Stock Equivalent Unit Plan — Non-employee members of the Xcel Energy Inc. Board of Directors receive annual awards of stock equivalent units, with each unit having a value equal to one share of Xcel Energy Inc. common stock. The annual grants are vested as of the date of each member's election to the Board of Directors; there is no further service or other condition attached to the annual grants after the member has been elected to the Board. Additionally, directors may elect to receive their fees in stock equivalent units in lieu of cash, and similarly have no further service or other conditions attached. Dividends on Xcel Energy Inc.'s common stock are converted to stock equivalent units and granted based on the number of stock equivalent units held by each participant as of the dividend date. The stock equivalent units are payable as a distribution of Xcel Energy Inc.'s common stock upon a director's termination of service.

The stock equivalent units granted for the years ended Dec. 31 were as follows:

(Units in Thousands)	2014	2013	2012
Granted units	62	69	65
Grant date fair value	\$ 30.57	\$ 29.52	\$ 27.41

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A summary of the stock equivalent unit changes for the year ended 2014 are as follows:

(Units in Thousands)	Units	Weighted Average Grant Date Fair Value
Stock equivalent units at Jan. 1, 2014	636	\$ 22.98
Granted	62	30.57
Units distributed	(33)	21.09
Dividend equivalents	25	30.80
Stock equivalent units at Dec. 31, 2014	690	24.03

TSR Liability Awards — Xcel Energy Inc.'s Board of Directors has granted TSR liability awards under the Xcel Energy Inc. 2005 Long-Term Incentive Plan (as amended and restated effective in 2010). The plan allows Xcel Energy to attach various performance goals to the awards granted. The liability awards granted have been historically dependent on a single measure of performance, Xcel Energy Inc.'s relative TSR measured over a three-year period. For 2014 and 2013 awards, Xcel Energy Inc.'s TSR is compared to the TSR of other companies in a 23-member utilities peer group. For 2012 awards, TSR is compared to the EEI Investor-Owned Electric Index. At the end of the three-year period, potential payouts of the awards range from zero to 200 percent, depending on Xcel Energy Inc.'s TSR compared to the applicable peer group or index.

The TSR liability awards granted for the years ended Dec. 31 were as follows:

(In Thousands)	2014	2013	2012
Awards granted	270	215	161

The total amounts of TSR liability awards settled during the years ended Dec. 31 were as follows:

(In Thousands)	2014	2013	2012
Awards settled	—	108	286
Settlement amount (cash and common stock)	\$ —	\$ 3,057	\$ 7,554

The amount of cash used to settle Xcel Energy's TSR liability awards was \$1.5 million and \$3.8 million in 2013 and 2012, respectively.

Share-Based Compensation Expense — Other than for restricted stock and certain 401(k) employer match settlements, the vesting of employee equity awards is generally predicated on the achievement of a performance condition, which is the achievement of a TSR, EPS or environmental measures target. Additionally, approximately 0.4 million and 0.2 million of equity awards were granted in 2014 and 2013, respectively, with vesting subject only to service conditions for periods up to five years. All of these instruments are considered to be equity awards, generally since the plan settlement determination (shares or cash) resides with Xcel Energy and not the participants. In addition, these awards have not been previously settled in cash and Xcel Energy plans to continue electing share settlement. The grant date fair value of equity awards is expensed over the service period as employees vest in their rights to those awards.

The TSR liability awards have been historically settled partially in cash, and therefore do not qualify as equity awards, but rather are accounted for as liabilities. As liability awards, the fair value on which ratable expense is based, as employees vest in their rights to those awards, is remeasured each period based on the current stock price and performance achievement, and final expense is based on the market value of the shares on the date the award is settled.

The compensation costs related to share-based awards for the years ended Dec. 31 were as follows:

(Thousands of Dollars)	2014	2013	2012
Compensation cost for share-based awards ^{(a) (b) (c)}	\$ 32,189	\$ 24,613	\$ 26,970
Tax benefit recognized in income	12,557	9,571	10,513
Capitalized compensation cost for share-based awards	1,887	1,698	4,270

(a) Compensation costs for share-based payment arrangements are included in O&M expense in the consolidated statements of income.

(b) Included in compensation cost for share-based awards are matching contributions related to the Xcel Energy 401(k) plan, which totaled \$7.4 million, \$7.0 million, and \$22.2 million for the years ended 2014, 2013 and 2012, respectively.

(c) In October 2013, Xcel Energy determined that it would settle the 401(k) employer match in cash instead of common stock going forward for all employee groups except PSCo bargaining employees. Share-based compensation accounting for the impacted employee groups ceased in October 2013, and corresponding expense amounts recorded to equity were reclassified to a liability for expected cash settlements.

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The maximum aggregate number of shares of common stock available for issuance under the Xcel Energy Inc. 2005 Long-Term Incentive Plan (as amended and restated effective Feb. 17, 2010) is 8.3 million shares. Under the Xcel Energy Inc. Executive Annual Incentive Award Plan (as amended and restated effective Feb. 17, 2010), the total number of shares approved for issuance is 1.2 million shares.

As of Dec. 31, 2014 and 2013, there was approximately \$27.8 million and \$22.1 million, respectively, of total unrecognized compensation cost related to nonvested share-based compensation awards. Xcel Energy expects to recognize the amount unrecognized at Dec. 31, 2014 over a weighted average period of 1.7 years.

9. Benefit Plans and Other Postretirement Benefits

Xcel Energy offers various benefit plans to its employees. Approximately 48 percent of employees that receive benefits are represented by several local labor unions under several collective-bargaining agreements. At Dec. 31, 2014:

- NSP-Minnesota had 2,011 and NSP-Wisconsin had 402 bargaining employees covered under a collective-bargaining agreement, which expires at the end of 2016. NSP-Minnesota also had an additional 272 nuclear operation bargaining employees covered under several collective-bargaining agreements, which expire at various dates in 2015 and 2016.
- PSCo had 2,063 bargaining employees covered under a collective-bargaining agreement, which expired in May 2014. While collective bargaining is ongoing, the terms and conditions of the expired agreement are automatically extended until the parties reach an agreement or a decision is rendered by an arbitrator.
- SPS had 840 bargaining employees covered under a collective-bargaining agreement, which expired in October 2014. While collective bargaining is ongoing, the terms and conditions of the expired agreement are automatically extended until the parties reach an agreement or a decision is rendered by an arbitrator.

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

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

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

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

Specific valuation methods include the following:

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

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

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

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

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

Pension Benefits

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

In addition to the qualified pension plans, Xcel Energy maintains a supplemental executive retirement plan (SERP) and a nonqualified pension plan. The SERP is maintained for certain executives that were participants in the plan in 2008, when the SERP was closed to new participants. The nonqualified pension plan provides unfunded, nonqualified benefits for compensation that is in excess of the limits applicable to the qualified pension plans. The total obligations of the SERP and nonqualified plan as of Dec. 31, 2014 and 2013 were \$46.5 million and \$36.5 million, respectively. In 2014 and 2013, Xcel Energy recognized net benefit cost for financial reporting for the SERP and nonqualified plans of \$4.7 million and \$6.6 million, respectively. Benefits for these unfunded plans are paid out of Xcel Energy's consolidated operating cash flows.

Xcel Energy bases the investment-return assumption on expected long-term performance for each of the investment types included in its pension asset portfolio. Xcel Energy considers the historical returns achieved by its asset portfolio over the past 20-year or longer period, as well as the long-term return levels projected and recommended by investment experts. Xcel Energy continually reviews its pension assumptions. The pension cost determination assumes a forecasted mix of investment types over the long-term.

- Investment returns in 2014 were above the assumed level of 7.05 percent;
- Investment returns in 2013 were below the assumed level of 6.88 percent;
- Investment returns in 2012 were above the assumed level of 7.10 percent; and
- In 2015, Xcel Energy's expected investment return assumption is 7.09 percent.

The 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 the necessity of contributions to the plan, within appropriate levels of risk. The principal mechanism for achieving these objectives is the projected allocation of assets to selected asset classes, given the long-term risk, return, and liquidity characteristics of each particular asset class. There were no significant concentrations of risk in any particular industry, index, or entity. Market volatility can impact even well-diversified portfolios and significantly affect the return levels achieved by pension assets in any year.

The following table presents the target pension asset allocations for Xcel Energy at Dec. 31 for the upcoming year:

	2014	2013
Domestic and international equity securities	37%	30%
Long-duration fixed income and interest rate swap securities	27	33
Short-to-intermediate fixed income securities	13	15
Alternative investments	21	20
Cash	2	2
Total	100%	100%

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. The aggregate projected asset allocation presented in the table above for the master pension trust results from the plan-specific strategies.

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Pension Plan Assets

The following tables present, for each of the fair value hierarchy levels, Xcel Energy's pension plan assets that are measured at fair value as of Dec. 31, 2014 and 2013:

(Thousands of Dollars)	Dec. 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 193,141	\$ —	\$ —	\$ 193,141
Derivatives	—	1,590	—	1,590
Government securities	—	439,186	—	439,186
Corporate bonds	—	318,161	—	318,161
Asset-backed securities	—	3,759	—	3,759
Mortgage-backed securities	—	11,047	—	11,047
Common stock	102,667	—	—	102,667
Private equity investments	—	—	151,871	151,871
Commingled funds	—	1,826,420	—	1,826,420
Real estate	—	—	54,657	54,657
Securities lending collateral obligation and other	—	(18,728)	—	(18,728)
Total	<u>\$ 295,808</u>	<u>\$ 2,581,435</u>	<u>\$ 206,528</u>	<u>\$ 3,083,771</u>

(Thousands of Dollars)	Dec. 31, 2013			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 109,700	\$ —	\$ —	\$ 109,700
Derivatives	—	29,759	—	29,759
Government securities	—	230,212	—	230,212
Corporate bonds	—	547,715	—	547,715
Asset-backed securities	—	6,754	—	6,754
Mortgage-backed securities	—	15,025	—	15,025
Common stock	99,346	—	—	99,346
Private equity investments	—	—	152,849	152,849
Commingled funds	—	1,769,076	—	1,769,076
Real estate	—	—	47,553	47,553
Securities lending collateral obligation and other	—	2,151	—	2,151
Total	<u>\$ 209,046</u>	<u>\$ 2,600,692</u>	<u>\$ 200,402</u>	<u>\$ 3,010,140</u>

The following tables present the changes in Xcel Energy's Level 3 pension plan assets for the years ended Dec. 31, 2014, 2013 and 2012:

(Thousands of Dollars)	Jan. 1, 2014	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Purchases, Issuances and Settlements, Net	Transfers Out of Level 3	Dec. 31, 2014
Private equity investments	\$ 152,849	\$ 25,694	\$ (17,573)	\$ (9,099)	\$ —	\$ 151,871
Real estate	47,553	3,569	(2,443)	5,978	—	54,657
Total	<u>\$ 200,402</u>	<u>\$ 29,263</u>	<u>\$ (20,016)</u>	<u>\$ (3,121)</u>	<u>\$ —</u>	<u>\$ 206,528</u>

(Thousands of Dollars)	Jan. 1, 2013	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Purchases, Issuances and Settlements, Net	Transfers Out of Level 3 ^(a)	Dec. 31, 2013
Asset-backed securities	\$ 14,639	\$ —	\$ —	\$ —	\$ (14,639)	\$ —
Mortgage-backed securities	39,904	—	—	—	(39,904)	—
Private equity investments	158,498	22,058	(24,335)	(3,372)	—	152,849
Real estate	64,597	(2,659)	8,690	9,317	(32,392)	47,553
Total	<u>\$ 277,638</u>	<u>\$ 19,399</u>	<u>\$ (15,645)</u>	<u>\$ 5,945</u>	<u>\$ (86,935)</u>	<u>\$ 200,402</u>

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

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(Thousands of Dollars)	Jan. 1, 2012	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Purchases, Issuances and Settlements, Net	Transfers Out of Level 3	Dec. 31, 2012
Asset-backed securities	\$ 31,368	\$ 3,886	\$ (5,363)	\$ (15,252)	\$ —	\$ 14,639
Mortgage-backed securities	73,522	1,822	(2,127)	(33,313)	—	39,904
Private equity investments	159,363	17,537	(22,587)	4,185	—	158,498
Real estate	37,106	19	6,048	21,424	—	64,597
Total	<u>\$ 301,359</u>	<u>\$ 23,264</u>	<u>\$ (24,029)</u>	<u>\$ (22,956)</u>	<u>\$ —</u>	<u>\$ 277,638</u>

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

(Thousands of Dollars)	2014	2013
Accumulated Benefit Obligation at Dec. 31	\$ 3,545,928	\$ 3,282,651
Change in Projected Benefit Obligation:		
Obligation at Jan. 1	\$ 3,440,704	\$ 3,639,530
Service cost	88,342	96,282
Interest cost	156,619	140,690
Plan amendments	—	(4,120)
Actuarial loss (gain)	342,826	(153,338)
Benefit payments	(281,739)	(278,340)
Obligation at Dec. 31	<u>\$ 3,746,752</u>	<u>\$ 3,440,704</u>
(Thousands of Dollars)	2014	2013
Change in Fair Value of Plan Assets:		
Fair value of plan assets at Jan. 1	\$ 3,010,140	\$ 2,943,783
Actual return on plan assets	224,808	152,259
Employer contributions	130,562	192,438
Benefit payments	(281,739)	(278,340)
Fair value of plan assets at Dec. 31	<u>\$ 3,083,771</u>	<u>\$ 3,010,140</u>
(Thousands of Dollars)	2014	2013
Funded Status of Plans at Dec. 31:		
Funded status ^(a)	\$ (662,981)	\$ (430,564)

^(a) Amounts are recognized in noncurrent liabilities on Xcel Energy's consolidated balance sheets.

(Thousands of Dollars)	2014	2013
Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost:		
Net loss	\$ 1,757,935	\$ 1,549,474
Prior service credit	(10,878)	(12,624)
Total	<u>\$ 1,747,057</u>	<u>\$ 1,536,850</u>
(Thousands of Dollars)	2014	2013
Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost Have Been Recorded as Follows Based Upon Expected Recovery in Rates:		
Current regulatory assets	\$ 113,432	\$ 125,702
Noncurrent regulatory assets	1,558,649	1,343,432
Deferred income taxes	29,143	26,403
Net-of-tax accumulated OCI	45,833	41,313
Total	<u>\$ 1,747,057</u>	<u>\$ 1,536,850</u>
Measurement date	Dec. 31, 2014	Dec. 31, 2013

	2014	2013
Significant Assumptions Used to Measure Benefit Obligations:		
Discount rate for year-end valuation	4.11%	4.75%
Expected average long-term increase in compensation level	3.75	3.75
Mortality table	RP 2014	RP 2000

Mortality — In 2014, the Society of Actuaries published a new mortality table and projection scale that increased the overall life expectancy of males and females. Xcel Energy has reviewed its own population through a credibility analysis and adopted the RP 2014 table with modifications based on its population and specific experience.

Cash Flows — Cash funding requirements can be impacted by changes to actuarial assumptions, actual asset levels and other calculations prescribed by the funding requirements of income tax and other pension-related regulations. Required contributions were made in 2012 through 2015 to meet minimum funding requirements.

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

- \$90.0 million in January 2015;
- \$130.6 million in 2014;
- \$192.4 million in 2013; and
- \$198.1 million in 2012.

For future years, Xcel Energy anticipates contributions will be made as necessary.

Plan Amendments — In 2014 there were no plan amendments made which affected the projected benefit obligation. The 2013 decrease of the projected benefit obligation for plan amendments is due to fully insuring the long-term disability benefit for NSP bargaining participants. This decrease was partially offset by an increase to the projected benefit obligation resulting from a change in the discount rate basis for lump sum conversion of annuities for participants in the Xcel Energy Pension Plan.

Benefit Costs — The components of Xcel Energy's net periodic pension cost were:

(Thousands of Dollars)	2014	2013	2012
Service cost	\$ 88,342	\$ 96,282	\$ 86,364
Interest cost	156,619	140,690	157,035
Expected return on plan assets	(207,205)	(198,452)	(207,095)
Amortization of prior service (credit) cost	(1,746)	5,871	21,065
Amortization of net loss	116,762	144,151	108,982
Net periodic pension cost	152,772	188,542	166,351
Costs not recognized due to effects of regulation	(26,315)	(36,724)	(39,217)
Net benefit cost recognized for financial reporting	<u>\$ 126,457</u>	<u>\$ 151,818</u>	<u>\$ 127,134</u>
	2014	2013	2012

Significant Assumptions Used to Measure Costs:

Discount rate	4.75%	4.00%	5.00%
Expected average long-term increase in compensation level	3.75	3.75	4.00
Expected average long-term rate of return on assets	7.05	6.88	7.10

Pension costs include an expected return impact for the current year that may differ from actual investment performance in the plan. The return assumption used for 2015 pension cost calculations is 7.09 percent.

Defined Contribution Plans

Xcel Energy maintains 401(k) and other defined contribution plans that cover substantially all employees. Total expense to these plans was approximately \$32.4 million in 2014, \$30.3 million in 2013 and \$28.0 million in 2012.

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Postretirement Health Care Benefits

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Xcel Energy has a contributory health and welfare benefit plan that provides health care and death benefits to certain Xcel Energy retirees.

- The former NSP, which includes NSP-Minnesota and NSP-Wisconsin, discontinued contributing toward health care benefits for nonbargaining employees retiring after 1998 and for bargaining employees who retired after 1999.
- Xcel Energy discontinued contributing toward health care benefits for former NCE, which includes PSCo and SPS, nonbargaining employees retiring after June 30, 2003.
- Employees of NCE who retired in 2002 continue to receive employer-subsidized health care benefits.
- Nonbargaining employees of the former NCE who retired after 1998, bargaining employees of the former NCE who retired after 1999 and nonbargaining employees of NCE who retired after June 30, 2003, are eligible to participate in the Xcel Energy health care program with no employer subsidy.

In 1993, Xcel Energy adopted accounting guidance regarding other non-pension postretirement benefits and elected to amortize the unrecognized APBO on a straight-line basis over 20 years.

Plan Assets — Certain state agencies that regulate Xcel Energy Inc.'s utility subsidiaries also have issued guidelines related to the funding of postretirement benefit costs. SPS is required to fund postretirement benefit costs for Texas and New Mexico jurisdictional amounts collected in rates. PSCo is required to fund postretirement benefit costs in irrevocable external trusts that are dedicated to the payment of these postretirement benefits. These assets are invested in a manner consistent with the investment strategy for the pension plan.

The following table presents the target postretirement asset allocations for Xcel Energy at Dec. 31 for the upcoming year:

	2014	2013
Domestic and international equity securities	25%	41%
Short-to-intermediate fixed income securities	57	40
Alternative investments	13	13
Cash	5	6
Total	100%	100%

Xcel Energy bases its investment-return assumption for the postretirement health care fund assets on expected long-term performance for each of the investment types included in its asset portfolio. The 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 the necessity of contributions to the plan, within appropriate levels of risk. The principal mechanism for achieving these objectives is the projected allocation of assets to selected asset classes, given the long-term risk, return, correlation and liquidity characteristics of each particular asset class. There were no significant concentrations of risk in any particular industry, index, or entity. Market volatility can impact even well-diversified portfolios and significantly affect the return levels achieved by postretirement health care assets in any year.

The following tables present, for each of the fair value hierarchy levels, Xcel Energy's postretirement benefit plan assets that are measured at fair value as of Dec. 31, 2014 and 2013:

(Thousands of Dollars)	Dec. 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash equivalents ^(a)	\$ 26,324	\$ —	\$ —	\$ 26,324
Derivatives	—	186	—	186
Government securities	—	48,584	—	48,584
Insurance contracts	—	50,351	—	50,351
Corporate bonds	—	54,207	—	54,207
Asset-backed securities	—	3,619	—	3,619
Mortgage-backed securities	—	11,250	—	11,250
Commingled funds	—	282,378	—	282,378
Other	—	(1,841)	—	(1,841)
Total	\$ 26,324	\$ 448,734	\$ —	\$ 475,058

(Thousands of Dollars)	Level 1	Level 2	Level 3	Total
Cash equivalents ^(a)	\$ 20,438	\$ —	\$ —	\$ 20,438
Derivatives	—	(414)	—	(414)
Government securities	—	58,421	—	58,421
Insurance contracts	—	52,808	—	52,808
Corporate bonds	—	51,861	—	51,861
Asset-backed securities	—	3,358	—	3,358
Mortgage-backed securities	—	24,246	—	24,246
Commingled funds	—	298,258	—	298,258
Other	—	(16,940)	—	(16,940)
Total	<u>\$ 20,438</u>	<u>\$ 471,598</u>	<u>\$ —</u>	<u>\$ 492,036</u>

(a) Includes restricted cash of \$1.0 million and \$0.7 million at Dec. 31, 2014 and 2013, respectively.

For the year ended Dec. 31, 2014 there were no assets transferred in or out of Level 3. The following tables present the changes in Xcel Energy's Level 3 postretirement benefit plan assets for the years ended Dec. 31, 2013 and 2012:

(Thousands of Dollars)	Jan. 1, 2013	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Purchases, Issuances and Settlements, Net	Transfers Out of Level 3 ^(a)	Dec. 31, 2013
Asset-backed securities	\$ 757	\$ —	\$ —	\$ —	\$ (757)	\$ —
Mortgage-backed securities	39,958	—	—	—	(39,958)	—
Total	<u>\$ 40,715</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (40,715)</u>	<u>\$ —</u>

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

(Thousands of Dollars)	Jan. 1, 2012	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Purchases, Issuances and Settlements, Net	Transfers Out of Level 3	Dec. 31, 2012
Asset-backed securities	\$ 7,867	\$ (331)	\$ 1,481	\$ (8,260)	\$ —	\$ 757
Mortgage-backed securities	27,253	(724)	3,301	10,128	—	39,958
Private equity investments	479	—	(65)	(414)	—	—
Real estate	144	—	35	(179)	—	—
Total	<u>\$ 35,743</u>	<u>\$ (1,055)</u>	<u>\$ 4,752</u>	<u>\$ 1,275</u>	<u>\$ —</u>	<u>\$ 40,715</u>

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

(Thousands of Dollars)	2014	2013
Change in Projected Benefit Obligation:		
Obligation at Jan. 1	\$ 731,428	\$ 851,952
Service cost	3,457	4,079
Interest cost	34,028	32,141
Medicare subsidy reimbursements	1,861	1,197
Plan amendments	—	(14,571)
Plan participants' contributions	7,148	9,580
Actuarial gain	(81,699)	(103,359)
Benefit payments	(53,354)	(49,591)
Obligation at Dec. 31	<u>\$ 642,869</u>	<u>\$ 731,428</u>
Change in Fair Value of Plan Assets:		
Fair value of plan assets at Jan. 1	\$ 492,036	\$ 480,842
Actual return on plan assets	12,083	33,644
Plan participants' contributions	7,148	9,580
Employer contributions	17,145	17,561
Benefit payments	(53,354)	(49,591)
Fair value of plan assets at Dec. 31	<u>\$ 475,058</u>	<u>\$ 492,036</u>

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(Thousands of Dollars)

Funded Status of Plans at Dec. 31:

	2014	2013
Funded status	\$ (167,811)	\$ (239,392)
Noncurrent assets	1,014	—
Current liabilities	(9,110)	(6,807)
Noncurrent liabilities	(159,715)	(232,585)
Net postretirement amounts recognized on consolidated balance sheets	\$ (167,811)	\$ (239,392)

(Thousands of Dollars)

Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost:

	2014	2013
Net loss	\$ 124,064	\$ 195,630
Prior service credit	(75,610)	(86,298)
Transition obligation	—	2
Total	\$ 48,454	\$ 109,334

(Thousands of Dollars)

Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost Have Been Recorded as Follows Based Upon Expected Recovery in Rates:

	2014	2013
Current regulatory assets	\$ 285	\$ 12,102
Noncurrent regulatory assets	59,697	99,071
Current regulatory liabilities	(892)	(319)
Noncurrent regulatory liabilities	(17,216)	(8,858)
Deferred income taxes	2,559	2,965
Net-of-tax accumulated OCI	4,021	4,373
Total	\$ 48,454	\$ 109,334

Measurement date Dec. 31, 2014 Dec. 31, 2013

Significant Assumptions Used to Measure Benefit Obligations:

	2014	2013
Discount rate for year-end valuation	4.08%	4.82%
Mortality table	RP 2014	RP 2000
Health care costs trend rate — initial	6.50%	7.00%

Effective Jan. 1, 2015, the initial medical trend rate was decreased from 7.0 percent to 6.5 percent. The ultimate trend assumption remained at 4.5 percent. The period until the ultimate rate is reached is four years. Xcel Energy bases its medical trend assumption on the long-term cost inflation expected in the health care market, considering the levels projected and recommended by industry experts, as well as recent actual medical cost increases experienced by Xcel Energy's retiree medical plan.

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

(Thousands of Dollars)	One-Percentage Point	
	Increase	Decrease
APBO	\$ 66,034	\$ (55,588)
Service and interest components	4,432	(3,640)

Cash Flows — The postretirement health care plans have no funding requirements under income tax and other retirement-related regulations other than fulfilling benefit payment obligations, when claims are presented and approved under the plans. Additional cash funding requirements are prescribed by certain state and federal rate regulatory authorities, as discussed previously. Xcel Energy contributed \$17.1 million during 2014, \$17.6 million during 2013, \$47.1 million during 2012 and expects to contribute approximately \$12.8 million during 2015.

Plan Amendments — In 2014, there were no plan amendments made which affected the benefit obligation. The 2013 decrease of the projected Xcel Energy and PSCo postretirement health and welfare benefit obligation for plan amendments is due to changes in the participant co-pay structure for certain retiree groups.

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Benefit Costs — The components of Xcel Energy's net periodic postretirement benefit costs were:

(Thousands of Dollars)	2014	2013	2012
Service cost	\$ 3,457	\$ 4,079	\$ 4,203
Interest cost	34,028	32,141	37,861
Expected return on plan assets	(33,954)	(33,011)	(28,409)
Amortization of transition obligation	—	825	14,320
Amortization of prior service credit	(10,688)	(12,501)	(7,552)
Amortization of net loss	11,740	22,325	16,906
Net periodic postretirement benefit cost	4,583	13,858	37,329
Additional cost recognized due to effects of regulation	—	—	3,891
Net benefit cost recognized for financial reporting	<u>\$ 4,583</u>	<u>\$ 13,858</u>	<u>\$ 41,220</u>
	2014	2013	2012

Significant Assumptions Used to Measure Costs:

Discount rate	4.82%	4.10%	5.00%
Expected average long-term rate of return on assets	7.17	7.11	6.75

Projected Benefit Payments

The following table lists Xcel Energy's projected benefit payments for the pension and postretirement benefit plans:

(Thousands of Dollars)	Projected Pension Benefit Payments	Gross Projected Postretirement Health Care Benefit Payments	Expected Medicare Part D Subsidies	Net Projected Postretirement Health Care Benefit Payments
2015	\$ 247,479	\$ 48,398	\$ 2,670	\$ 45,728
2016	269,953	48,665	2,836	45,829
2017	260,182	48,519	3,005	45,514
2018	267,406	48,977	3,170	45,807
2019	269,809	48,461	3,327	45,134
2020-2024	1,352,192	230,692	18,721	211,971

Multiemployer Plans

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

Contributions to multiemployer plans were as follows for the years ended Dec. 31, 2014, 2013 and 2012. The average number of NSP-Minnesota union employees covered by the multiemployer pension plans decreased to approximately 1,000 in 2014 from approximately 1,100 in 2013. There were no other significant changes to the nature or magnitude of the participation of NSP-Minnesota and NSP-Wisconsin in multiemployer plans for the years presented:

(Thousands of Dollars)	2014	2013	2012
Multiemployer pension contributions:			
NSP-Minnesota	\$ 20,254	\$ 23,515	\$ 14,984
NSP-Wisconsin	156	130	163
Total	<u>\$ 20,410</u>	<u>\$ 23,645</u>	<u>\$ 15,147</u>
Multiemployer other postretirement benefit contributions:			
NSP-Minnesota	\$ 273	\$ 390	\$ 197
Total	<u>\$ 273</u>	<u>\$ 390</u>	<u>\$ 197</u>

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10. Other Income, Net

Other income, net for the years ended Dec. 31 consisted of the following:

(Thousands of Dollars)	2014	2013	2012
Interest income	\$ 7,353	\$ 8,343	\$ 10,327
Other nonoperating income	4,866	3,025	3,483
Insurance policy expense	(6,923)	(8,292)	(7,365)
Other nonoperating expense	—	(104)	(270)
Other income, net	<u>\$ 5,296</u>	<u>\$ 2,972</u>	<u>\$ 6,175</u>

11. Fair Value of Financial Assets and Liabilities

Fair Value Measurements

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

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

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

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

Specific valuation methods include the following:

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

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

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

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

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

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

If forecasted costs of electric transmission congestion increase or decrease for a given FTR path, the value of that particular FTR instrument will likewise increase or decrease. Given the limited observability of management's forecasts for several of the inputs to this complex valuation model — including expected plant operating schedules and retail and wholesale demand, fair value measurements for FTRs have been assigned a Level 3. Non-trading monthly FTR settlements are included in the FCA as applicable in each jurisdiction, 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 FTRs relative to the electric utility operations of NSP-Minnesota and SPS, the numerous unobservable quantitative inputs to the complex model used for valuation of FTRs are insignificant to the consolidated financial statements of Xcel Energy.

Non-Derivative Instruments Fair Value Measurements

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

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

Unrealized gains for the nuclear decommissioning fund were \$312.1 million and \$240.3 million at Dec. 31, 2014 and 2013, respectively, and unrealized losses and amounts recorded as other-than-temporary impairments were \$74.1 million and \$58.5 million at Dec. 31, 2014 and 2013, respectively.