

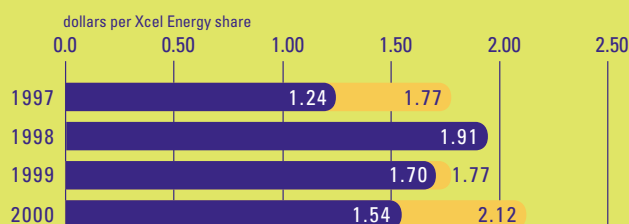
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THE SKY'S THE LIMIT



WITH OUR MERGER COMPLETE, XCEL ENERGY
FACES A FUTURE OF ENDLESS POSSIBILITIES.
OUR CORE BUSINESSES ARE STRONG, OUR
SUBSIDIARIES ARE GROWING, OUR SERVICE
TERRITORY IS THRIVING AND OUR EMPLOYEES
ARE THE BEST IN THE BUSINESS. WE'RE READY
TO TAKE ADVANTAGE OF EVERY OPPORTUNITY TO
DELIVER VALUE FOR YOU. WITHOUT QUESTION,
THE SKY'S THE LIMIT.



XCEL ENERGY EARNINGS PER SHARE

■ Total earnings per share
■ Earnings per share excluding special charges and extraordinary items



NRG EARNINGS PER NRG SHARE

FINANCIAL HIGHLIGHTS

| | Year Ended December 31 | | |
|--|------------------------|----------|---------|
| | 2000 | 1999 | %Change |
| Earnings per common share – basic and diluted before special charges and extraordinary items | \$2.12 | \$1.77 | 19.8% |
| Special charges | \$(0.52) | \$(0.07) | |
| Extraordinary items | \$(0.06) | | |
| Earnings per common share – basic and diluted | \$1.54 | \$1.70 | (9.4)% |
| Dividends annualized per share at Dec. 31 | \$1.50 | \$1.48 | 1.4% |
| Stock price (close) | \$29.06 | \$19.55* | 48.6% |
| Return on average common equity | 9.6% | 10.9% | |
| Assets (millions) | \$21,769 | \$18,070 | 20.5% |
| Book value per common share | \$16.32 | \$15.78 | 3.4% |

*Average market value per share based on NSP's closing price of \$19.50 on Dec. 31, 1999, and NGE's closing price of \$30.38 on Dec. 31, 1999

XCEL ENERGY INC.

Xcel Energy Inc. is a major U.S. electricity and natural gas company with annual revenues of approximately \$11.5 billion. Based in Minneapolis, Minn., Xcel Energy operates in 12 Western and Midwestern states. Formed by the merger of Denver-based New Century Energies and Minneapolis-based Northern States Power Co., Xcel Energy provides a comprehensive portfolio of energy-related products and services to 3.1 million electricity customers and 1.5 million natural gas customers through its regulated operating companies.

NRG ENERGY, INC. (NRG)

Xcel Energy owns an 82 percent interest in NRG, a global leader in independent power production. The company specializes in the development, construction, operation, maintenance and ownership of power production and cogeneration facilities, thermal energy production and transmission facilities and resource recovery facilities. NRG has a high-quality portfolio of projects in the United States, Europe, Asia-Pacific and Latin America.

Some of the sections in this annual report, including the Letter to Shareholders, contain forward-looking statements. For a discussion of factors that could affect operating results, please see the Financial Review on page 18.



James J. Howard
Chairman of the Board

Wayne H. Brunetti
President and Chief Executive Officer

DEAR SHAREHOLDERS:

Although we've been operating as a merged corporation for only six months, we can confidently predict that for Xcel Energy, the sky's the limit. Our optimism is based in part on the fact that we've already met many of the commitments we made going into the merger.

We promised to complete the transaction in a timely fashion, and we accomplished it on schedule. We promised to deliver solid earnings as a stand-alone corporation, and we met our earnings target. We promised to achieve merger savings of \$1.1 billion over 10 years, and we increased our goal to \$1.4 billion. We promised to aggressively grow our subsidiary, NRG Energy, and it's now the fifth-largest independent power producer (IPP) in the world. We promised to unlock the value of NRG, and we successfully launched a portion of the company in an initial public offering (IPO). We promised to provide excellent customer service, and we received the highest customer satisfaction rating for utilities with a million or more electric customers in a J.D. Power and Associates survey released in 2000.

As you can see, we're off to a powerful start, and our future is bright with possibilities. In fact, *Electric Light & Power* magazine was so impressed with our accomplishments, the magazine named us Utility of the Year for 2000.

Delivering shareholder value is our top priority. As the fourth-largest combination natural gas and electric utility in the nation, we now have the size and scope to grow our businesses and take advantage of new opportunities. Our goal is to increase annual Xcel Energy earnings by 7 to 9 percent on average and to achieve and maintain a dividend payout ratio of 60 to 65 percent of earnings. We expect to achieve earnings of \$2.20 per share in 2001.

Once again, we're starting strong. Xcel Energy's operating earnings for 2000 were \$2.12 per share, excluding special charges and extraordinary items, compared with \$1.77 per share in 1999. Regulated operating earnings for 2000 were \$1.70 per share, excluding special charges and extraordinary items, compared with \$1.51 per share for 1999. The earnings increase was attributable to higher revenues from sales growth, trading operations and overall strong operating and financial performance from our regulated utility business. Nonregulated earnings for 2000, excluding special charges, were \$0.42 per share, compared with \$0.26 per share for 1999. Xcel Energy's earnings for 2000, including the impact of special charges and extraordinary items, were \$1.54 per share, compared with \$1.70 per share in 1999.

We're also pleased to report that the total return on your Xcel Energy shares was 58.4 percent for 2000,

which exceeded the 48-percent total return of the Edison Electric Institute electric index as well as the S&P 500, which dropped 9 percent.

Going forward, we will operate from a dual-growth platform. One avenue of growth is our competitive subsidiary group, led by NRG Energy, Inc. Since 1998, NRG has grown from just over 3,000 megawatts of owned generation to more than 15,000 megawatts at the end of 2000. NRG's earnings have grown 94 percent annually on average since 1997.

To fund NRG's continuing growth, we offered 18 percent of the company to the public in 2000 – becoming the first utility to launch an IPO of an IPP subsidiary. Later this year, we will follow up with an additional offering, further supporting NRG's continued expansion. Xcel Energy now owns 82 percent of NRG. In 2000, NRG contributed \$0.46, or 22 percent, to Xcel Energy earnings, compared with \$0.17 per share on a 100-percent ownership basis in 1999. In 2001, NRG is expected to provide almost 25 percent of Xcel Energy's earnings.

Our utility businesses offer a second growth avenue, in part because we're reaping the benefits of a diverse and growing service territory. Both Minneapolis and Denver, our primary urban areas, are thriving. In 2000, we added more than 120,000 new natural gas and electric customers, the equivalent customer base of a small investor-owned utility. With operations in 12 states, we achieve diversity in many areas – from weather to customer mix to regulatory treatment – which enables us to spread benefits and risks across a wider base, an important attribute as we move into a competitive market.

For Xcel Energy, competition means opportunity. This is an exciting time to be in the energy business. Markets are expanding, rules are changing and the pace is quickening. With operations in the Eastern, Western and Southern United States, NRG is well-positioned to benefit from the new environment. The same is true for our other businesses. One of the best examples of our success is in the wholesale electric market. In the past year alone, we've significantly increased wholesale trading margins, thanks to our expertise and growing sophistication in this dynamic segment of the electric industry.

But these are also turbulent times for the energy business. In California, an electricity shortage and problems in the design of the state's restructured retail market led to rolling blackouts and high prices.

Across the nation, a supply-and-demand imbalance in the natural gas industry sent wholesale gas prices soaring.

Under the circumstances, we recognize that our customers are relying on us more than ever for our energy expertise. They want us to find solutions to energy supply problems and help them cope with high energy bills. In the short term, we continue to provide customers with information about conserving energy and make them aware of energy assistance programs, which we help fund. In the long term, we are working with legislators and regulators in our local jurisdictions to create market incentives that will attract investment in electric generation and transmission facilities. We want to ensure our service territory continues to have an ample supply of energy, which is the only way to keep prices competitive and fuel economic growth.



We also recognize the need for a national energy policy. Utilities no longer operate as isolated entities. Ours is a global market with issues as broad-ranging as energy supply to nuclear waste storage that require comprehensive thought and planning. We cannot let the promise of free and open markets be stifled by short-sighted solutions or the complexities of the current situation. An adequate energy supply at affordable prices is a necessity for our customers and our country.

Xcel Energy – through its predecessors – has a long history of meeting the challenges of a changing industry. We had the foresight and initiative to enter the nuclear power business early, and we continue to make that work. We used low-sulfur coal and added emission controls to our power plants long before environmental regulations required it. We have a proven record of identifying actions and successfully executing them, often before it is standard practice. That's why we have every confidence that Xcel Energy will not only weather the current storm but thrive – and our customers and shareholders will benefit.

As we navigate these new waters, we are rigorously examining all of our regulated utility businesses to determine how best to position them in a competitive environment. We are creating a business model that will enable us to deliver excellent customer service at a low price, while we continue to look for opportunities to grow. We are managing our nonregulated businesses as a portfolio. If they no longer deliver value for you, we will restructure or sell them.

One of the best examples of positioning our businesses for the future is the innovative system we created for operating our nuclear plants. With increasing regulation and costs, owners of one or two nuclear plants find it challenging to remain viable in a competitive market. Some utilities are selling their nuclear plants. Others are shutting down units prematurely.

We took a different approach by forming the Nuclear Management Company (NMC) in 1999 with three other utilities to operate our nuclear plants, as well as those of the other utilities. As operator, NMC employs best practices across the fleet of plants. It takes advantage of economies of scale. And it ensures continued safe, reliable operations – all of which enhances value for you. In August 2000, we officially transferred operating authority to NMC. In November, Consumers Energy joined NMC, transferring operating responsibility of its Palisades nuclear plant. Today, NMC operates six nuclear plants, which have a far brighter future than they did previously.

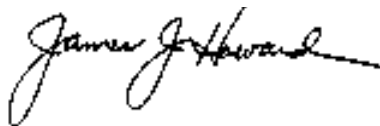
The same kind of innovative approach that created NMC will guide us in other endeavors as we go forward. We will take advantage of new technology. We will design new products and services to meet customers' needs and improve their lives. We will pursue energy-related business opportunities when they add value. We will explore creative partnerships with vendors that leverage our effectiveness.

And while we're being innovative, we will honor the tried and true commitments that have always been important to us. We remain committed to supporting the communities in our service territory and to protecting the environment. We remain committed to providing employees with meaningful work and to ensuring that everyone is treated with respect. Our future is bright because we have an experienced leadership team and talented, energetic employees with an excellent work ethic.

In fact, our employees were remarkable during the merger. While they worked tirelessly to complete the transaction, they also stayed focused on the needs of our customers and continued to provide safe, reliable energy. As we build the new company, they remain equally committed to outstanding customer service and to delivering value for you.

Consider again our list of attributes: size and scope, strong financials, growth opportunities, creative employees, a thriving service territory, a history of managing change and an innovative approach to growing shareholder value. There's no doubt about it. The sky's the limit – and we're ready to soar. Thank you for your continued trust and support.

Sincerely,



James J. Howard
Chairman of the Board



Wayne H. Brunetti
President and Chief Executive Officer

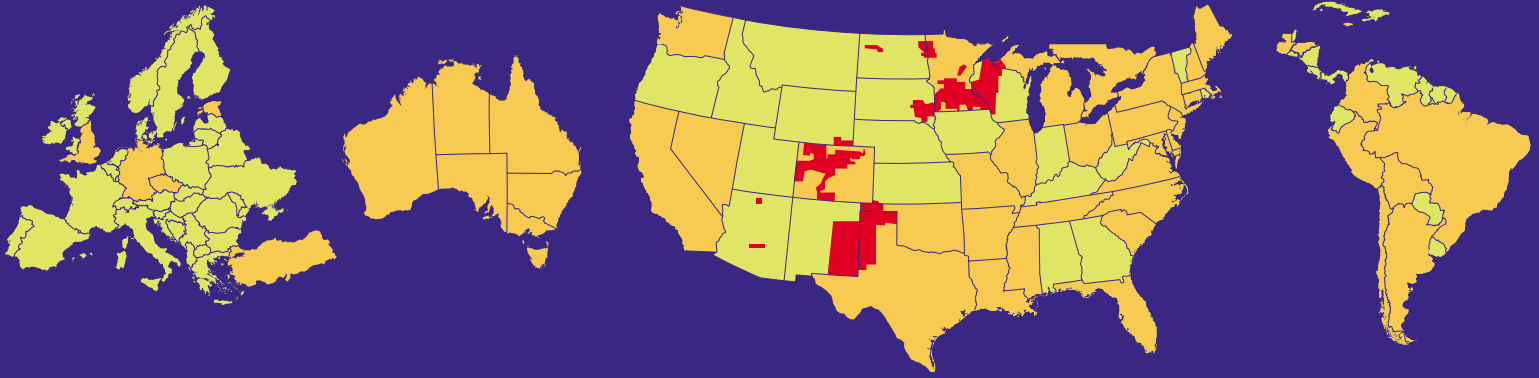
March 2, 2001

EUROPE

AUSTRALIA

NORTH AMERICA

LATIN AMERICA



NRG Energy
Xcel Energy

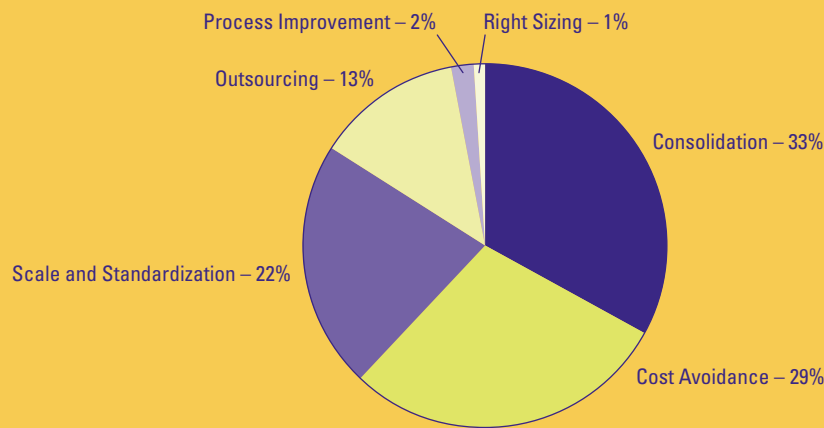
XCEL ENERGY WORLDWIDE

XCEL ENERGY, THE FOURTH-LARGEST COMBINATION NATURAL GAS AND ELECTRIC UTILITY IN THE NATION, OPERATES IN ARIZONA, COLORADO, KANSAS, MICHIGAN, MINNESOTA, NEW MEXICO, NORTH DAKOTA, OKLAHOMA, SOUTH DAKOTA, TEXAS, WISCONSIN AND WYOMING. THE COMPANY SERVES 3.1 MILLION ELECTRIC CUSTOMERS AND 1.5 MILLION NATURAL GAS CUSTOMERS. XCEL ENERGY OWNS 82 PERCENT OF NRG ENERGY, WHICH HAS PROJECTS OPERATING, UNDER CONSTRUCTION OR IN DEVELOPMENT IN 28 STATES AND 17 COUNTRIES.

MEASURABLE VALUE

We created Xcel Energy to improve our competitive position in order to provide greater value for you. As a merged corporation, we can achieve economies of scale, share best practices across the organization and tap into a greater wealth of employee knowledge and expertise. We now have the financial strength and flexibility to pursue new opportunities in the competitive energy marketplace. Together, we are a stronger and better company, able to take full advantage of a promising future.





SOURCES OF SYNERGIES

Sources of \$1.4 Billion Merger Savings over 10 Years (excludes cost to achieve)



THE POWER OF TWO

The merger of New Century Energies (NCE) and Northern States Power Co. (NSP) is a complementary combination with both companies bringing individual strengths to the new corporation. With a rapidly growing service territory, NCE had thriving retail electric and natural gas businesses. NSP also operated in a prosperous part of the country and had a strong concentration of electric generating resources through its subsidiary NRG Energy, Inc.

Today, Xcel Energy has a healthy balance of energy supply, delivery and retail assets. Domestically, we serve 3.1 million electric customers and 1.5 million natural gas customers, and own 15,450 megawatts of electric generating capacity, making us the eighth-largest utility generator in the United States. Our major generating facilities include 16 coal plants, 16 natural gas plants, two nuclear plants, 28 hydroelectric plants, six oil-fired plants, four refuse-derived fuel plants and one wind farm. We also own 16,303 miles of electric transmission lines, 73,098 miles of electric distribution lines and 29,074 miles of natural gas pipeline.

As a merged corporation, Xcel Energy achieves greater diversity in terms of sales and revenues, customer mix and regulation, which strengthens our overall position. Because we operate in a larger service territory, for example, our sales and revenues are not dependent on just one metropolitan area or one type of industry. If unusual weather negatively affects operations in one part of our region, it won't necessarily affect another.

Regulation also varies across our 12-state territory, reflecting the needs of customers and investors in each state. We also have a more diverse group of investors, which gives us a stronger base.

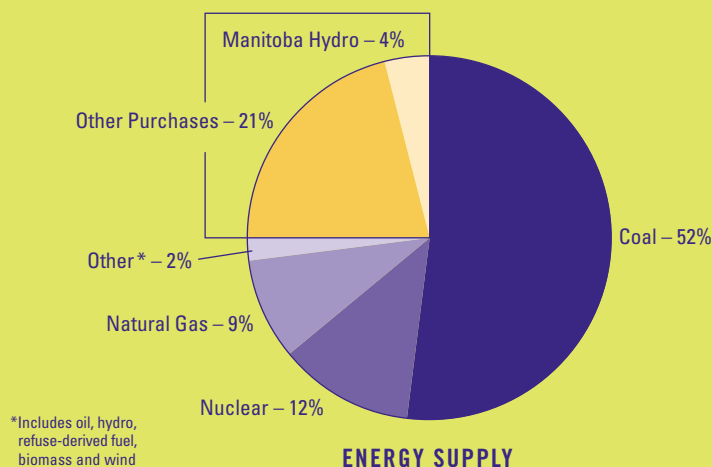
Going forward, an important measure of the merger's success is our ability to capture post-merger cost savings – or synergies. The savings we achieve will contribute to earnings growth, which in turn provides greater value for you. We've identified a variety of synergy sources, including taking advantage of economies of scale, implementing best practices, reducing redundancies in corporate functions and outsourcing other efforts.

In 2000, for example, we entered into a strategic partnership with IBM Global Services to provide information technology services that will allow us to discover the best ways to use technology in order to cost effectively meet the needs of our customers.

FUNDAMENTAL STRENGTH

Xcel Energy's utility operations, which include our Energy Supply, Delivery and Retail organizations, are the foundation of our business. Characterized by excellent operations, solid growth and a strong commitment to customers, our core businesses are looking to the future. To thrive in a competitive environment, they are striving to provide outstanding customer service, drive costs out of their businesses and create opportunities for growth.





BUILDING ON A RELIABLE FOUNDATION

Reliability is a hallmark of excellent operations, and Xcel Energy delivered strong results in several areas. Thanks to diligent work by employees, our electric delivery system in Colorado performed well despite the stress caused by more than 60 days of temperatures exceeding 90 degrees. We also improved reliability by shortening the average amount of time a customer is without electricity during the year, as well as the duration of individual outages.

In terms of availability, Xcel Energy's electric generating facilities remain among the top 10 of United States power plants. Unit 1 of our Prairie Island nuclear plant set an operating record of 554 days of continuous operation, breaking its previous record of 462 days.

Employee-safety results represent another measure of operational excellence. In 2000, we reduced the number of lost-time incidents by 26 percent and the number of OSHA cases by 17 percent, exceeding our goals.

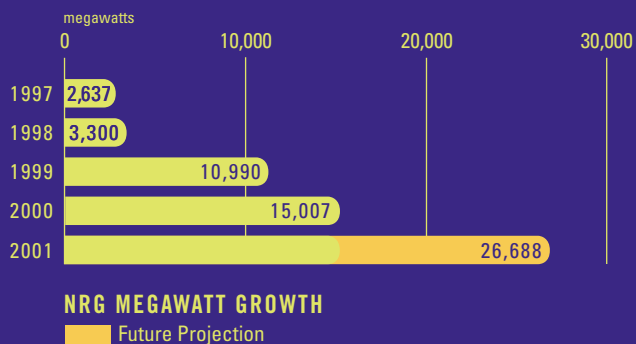
To support growth on the electric system and improve reliability, we have a number of major transmission projects under way. One of the largest is a 345-kilovolt transmission line that stretches from Amarillo, Texas, to Holcomb, Kan., and on to Lamar, Colo., a distance of more than 300 miles. The first phase of the line should be complete this year, with the second phase to Colorado in service by 2004. At Lamar, we also will construct a high-voltage, direct-current facility that permits interconnections between the

Eastern and Western electrical grids of the United States. The project will provide ongoing economic opportunities to move power between different electricity grids and increase the reliability of the respective electric systems.

While we pay close attention to the fundamentals of our utility businesses, we also are working to implement a regulatory model across our service territory that will better reward our operational excellence. Often referred to as performance-based regulation, the system allows us to retain more earnings if we exceed certain performance standards. If we don't meet the standards, our level of earnings is reduced. The model is more illustrative of a competitive market and can benefit both customers and shareholders through superior performance. In 2000, the North Dakota Public Service Commission approved the new model, defining performance measures for reliability, price and customer satisfaction. Colorado also has implemented performance-based regulation.

ENTERPRISING GROWTH

Xcel Energy's competitive businesses, which are consolidated in our Enterprises business unit, are important growth engines for the company. Diverse and dynamic, these subsidiaries enable us to profit from the new energy marketplace. We manage them as a portfolio, fostering their growth when they deliver solid returns, restructuring or selling them when they do not meet our expectations or no longer support our overall strategy. From power generation to energy distribution to engineering expertise, the skills that made our core utility businesses strong are leveraged in our competitive efforts.



A STRONG PORTFOLIO

Our principal nonregulated subsidiary is NRG Energy, Inc. With projects operating, under construction or in development in 28 states and 17 countries, NRG specializes in acquiring, developing, constructing and operating power plants. Today, the company is the largest independent power producer (IPP) in Australia, the second-largest IPP in the United States and the fifth-largest worldwide. NRG is also the second-largest thermal energy provider through its subsidiary NRG Thermal, second-largest landfill gas-to-electricity provider through its subsidiary NEO, and third-largest refuse-derived fuel producer in the United States.

In 2000, NRG added more than 4,000 megawatts of owned generation for a total of more than 15,000 megawatts worldwide. The company pursues projects based on the market in which they operate, their potential return and whether their generating status — which includes baseload, intermediate or peaking operations — strengthens NRG's existing portfolio. With the domestic retail electric market opening for competition, 80 percent of NRG's recent purchases were in the United States.

Among the company's most significant acquisitions was the purchase of 5,633 megawatts of generating assets from LS Power, a privately held IPP. NRG and Dynegy agreed to acquire 1,330 megawatts of power generation facilities from Sierra Pacific Resources, which serves the rapidly growing Las Vegas market. The company also agreed to purchase 1,051 megawatts

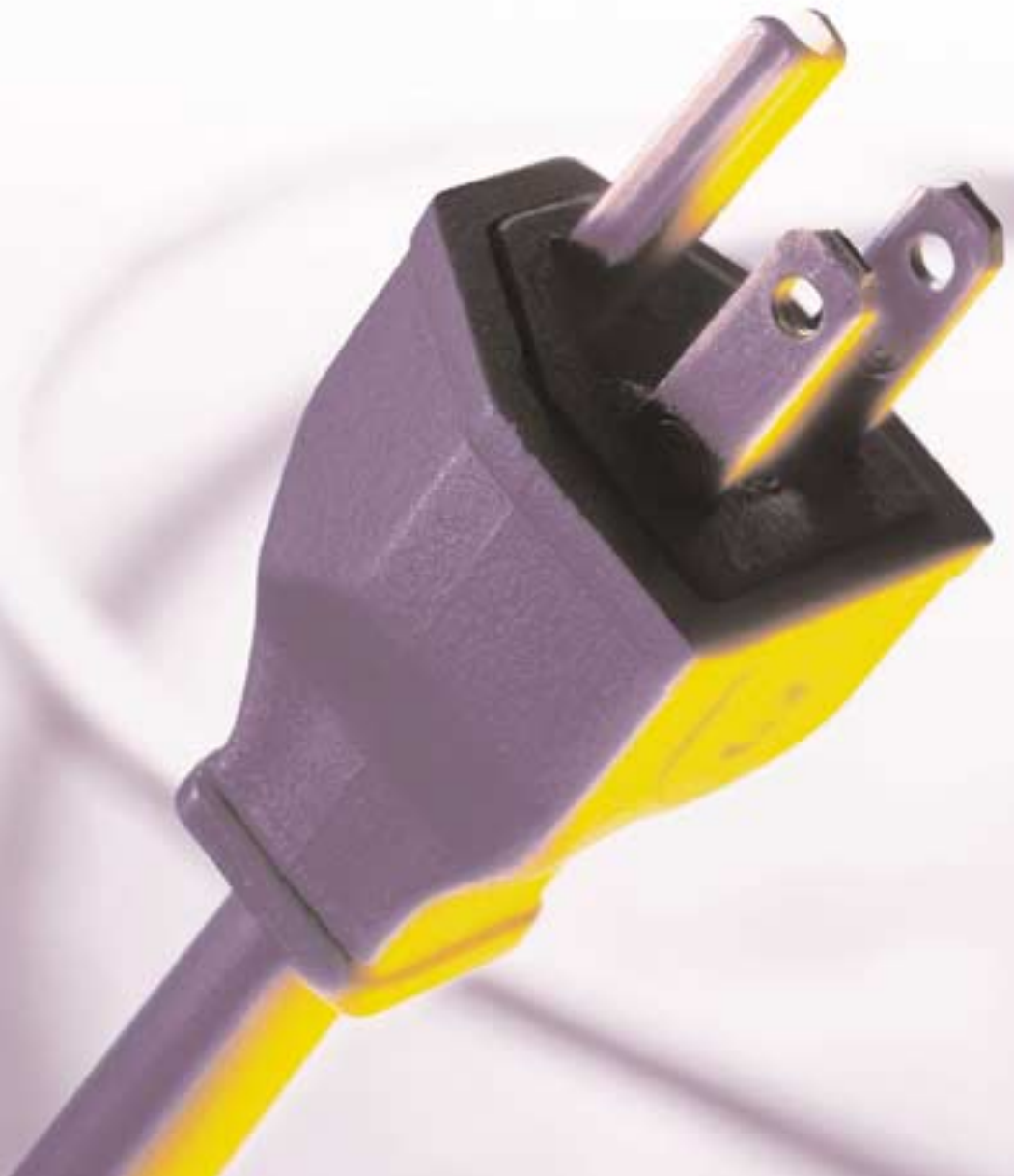
of generation in Connecticut, represented by the Bridgeport and New Haven Harbor Stations, from Wisconsin Energy Corporation. Internationally, NRG was the successful bidder in the purchase of Flinders Power, South Australia's final generation company to be privatized.

Another thriving operation is our Utility Engineering (UE) subsidiary, an engineering and design firm that is now among the top 15 power engineering companies in the nation. In 2000, UE acquired Proto-Power Corporation, an engineering services and consulting firm based in Connecticut, and Applied Power Associates, an architectural and engineering firm based in Nebraska.

Our portfolio also includes Seren Innovations, Inc., which delivers high-speed Internet access, telephone service, cable TV and video-on-demand. Our Planergy International subsidiary provides high-quality energy services to industrial and institutional customers. Located in Redmond, Calif., Planergy International represents the consolidation of our Energy Masters International and The Planergy Group subsidiaries.

COMPETITIVE SPIRIT

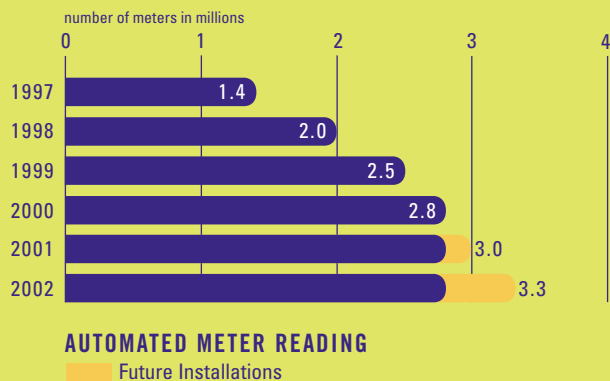
While the wholesale electricity market has been competitive for several years, the retail market is moving toward competition on a state-by-state basis. About half of the states in the United States have either enacted or endorsed legislation to create a competitive market. As competition increases, Xcel Energy's goal is to ensure an adequate supply of electricity, sufficient transmission capacity to move the power, competitive prices and greater options for customers, and a strong return for investors.



CUSTOMER FOCUSED

Caring for customers is a top priority at Xcel Energy, and we're off to a strong start. When J.D. Power and Associates asked residential electric customers to rate their electricity provider in a variety of categories, Xcel Energy ranked among the top 10 for all utilities and was number one for utilities with a million or more electric customers. A competitive energy marketplace makes customer care especially important. If customers are satisfied with Xcel Energy today, they will be more likely to choose us when they have that choice. Our goal is to offer customers creative options in meeting their energy needs. We also work hard to make our customer contacts as convenient, friendly and informative as possible.





OFFERING CREATIVE OPTIONS

One of our most significant and successful customer care initiatives is our work to help customers conserve energy and manage its use. Over the past decade, we've built one of the most aggressive energy conservation efforts in the country, which remains a vital part of our energy resource plan. The longevity of our effort is a particular source of pride as energy prices once again take center stage. We've stayed the course with energy conservation, and our customers have benefited. Over the next five years, we plan to expand the program.

We recognize that in addition to safe, reliable, reasonably priced energy, customers want options – from the kind of energy they buy to how they interact with us. In 2000, we announced an expansion of our *Windsource* program, the largest, customer-driven wind energy program in the country. *Windsource* offers Colorado customers the opportunity to buy wind-generated power. More than 15,000 participants already have signed on, including some 400 businesses and four wholesale customers.

To provide additional payment options, we began offering online billing in 2000 to customers in our northern region, which allows them to pay their bills electronically. We plan to extend online billing across our system and also are developing a variety of other e-business offerings to make customers' contacts with us faster and more efficient.

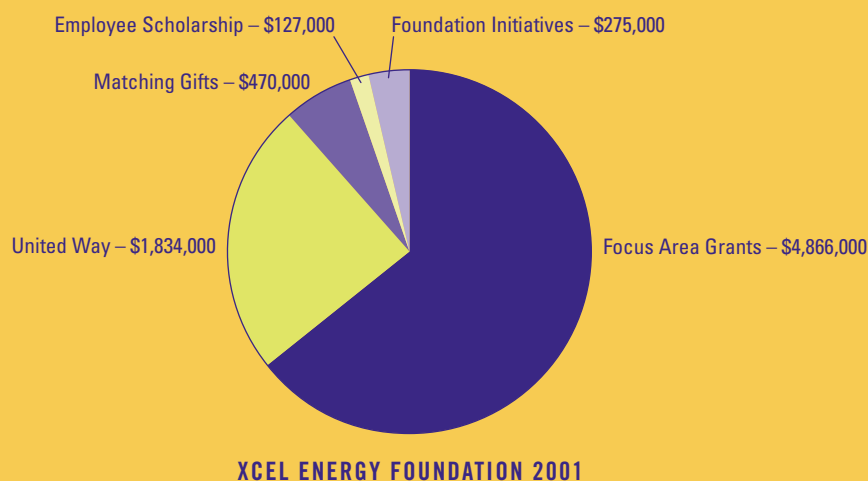
With 61 percent of our customer meters on an automated system, Xcel Energy leads the nation in providing customers this new technology. Automated meter reading reduces billing errors. It also enables us to gather information more frequently than once a month, which improves service and our ability to develop new products to meet customer needs.

While we work hard to give customers more electronic options, we also realize that personal contacts with customers are vitally important. Customers especially appreciate the kindness and respect that Xcel Energy employees show them – as illustrated by these messages of appreciation from customers. "I'm sure some of my questions seemed quite ignorant," wrote one satisfied customer, "but not only did [your customer service representative] explain them to me, she did it in the most pleasant way possible, never rushing me or cutting me off." Another wrote, "I would like to thank the gentleman who took my call. He was so polite. It was a pleasure talking to him."



COMMITTED TO COMMUNITY

As an integral part of the communities we serve, Xcel Energy is committed to their economic and social well-being. Our contributions include corporate grants, economic development efforts and employee and retiree volunteerism. We also believe that our environmental initiatives and public safety efforts contribute to quality of life in our service territory. Xcel Energy is only as healthy as the communities in which we operate. Our employees live and work here – and Xcel Energy plans to stay.



XCEL ENERGY FOUNDATION 2001



CONTRIBUTING TO QUALITY OF LIFE

To consolidate our contribution efforts, we recently created the Xcel Energy Foundation, which targets our corporate funding in three areas: supporting educational opportunities, building stronger communities and increasing accessibility to arts and culture. Our goals include helping young people get the education necessary to secure good jobs. We want to aid community efforts to provide citizens – especially low- and moderate-income populations – with safe, affordable housing and economic opportunities. And we are working to give more people a chance to benefit from rich and diverse cultural experiences.

Our economic development efforts range from state and regional strategic planning initiatives to hands-on assistance for individual businesses. We provide operating funds to a variety of organizations, and our employees support community growth by serving on the boards of many of the same organizations.

Xcel Energy employees, retirees and their families supported a record number of volunteer initiatives in 2000, dealing with youth tutoring and mentoring, affordable housing, the elderly and care for the environment. Among the programs benefiting from our army of volunteers were Habitat for Humanity, Junior Achievement and Meals on Wheels. Our employees and retirees also came through for the United Way, pledging \$1.6 million to United Way agencies throughout the service territory. Combined with our corporate grant, our total contribution to the United Way is \$3.4 million.

In addition to meeting state and federal environmental regulations, we have a variety of projects under way to improve environmental protection. Construction began in fall 2000 on a project that will convert two units of our Black Dog coal-fired plant in Minnesota to natural gas. Repowering will give us greater operating efficiency and benefit the environment. We also are moving forward with a natural gas repowering effort at our Fort St. Vrain plant in Colorado, a nuclear plant decommissioned in 1996. In Denver, we initiated a voluntary plan to reduce emissions at area power plants, spending \$205 million to reduce sulfur dioxide emissions by 70 percent and nitrogen oxide emissions by 40 percent.

Another responsibility we take very seriously is public safety education. From live safety demonstrations to free educational materials to advertising, we make every effort to ensure that the public understands how to remain safe around electricity and natural gas.

On Aug. 18, 2000, New Century Energies, Inc. (NCE) and Northern States Power Co. (NSP) merged and formed Xcel Energy Inc. Xcel Energy, a Minnesota corporation, is a registered holding company under the Public Utility Holding Company Act (PUHCA). Each share of NCE common stock was exchanged for 1.55 shares of Xcel Energy common stock. NSP shares became Xcel Energy shares on a one-for-one basis. The merger was structured as a tax-free, stock-for-stock exchange for shareholders of both companies (except for fractional shares) and accounted for as a pooling-of-interests. As part of the merger, NSP transferred its existing utility operations that were being conducted directly by NSP at the parent company level to a newly formed subsidiary of Xcel Energy named Northern States Power Company.

Xcel Energy directly owns six utility subsidiaries that serve electric and natural gas customers in 12 states. These six utility subsidiaries are Northern States Power Company, a Minnesota corporation (NSP-Minnesota); Northern States Power Company, a Wisconsin corporation (NSP-Wisconsin); Public Service Company of Colorado (PSCo); Southwestern Public Service Company (SPS); Black Mountain Gas Company (BMG); and Cheyenne Light, Fuel and Power Company (Cheyenne). Their service territories include portions of Arizona, Colorado, Kansas, Michigan, Minnesota, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Wisconsin and Wyoming. Xcel Energy's regulated businesses also include Viking Gas Transmission Company and WestGas InterState Inc. (WGI), both interstate natural gas pipeline companies.

Xcel Energy also owns or has an interest in a number of nonregulated businesses, the largest of which is NRG Energy, Inc., a publicly traded, independent power producer. Xcel Energy indirectly owns 82 percent of NRG. Xcel Energy owned 100 percent of NRG until the second quarter of 2000, when NRG completed its initial public offering. NRG expects to issue additional common stock during March 2001, which will cause Xcel Energy's ownership interest in NRG to decline. For more information, see NRG Initial Public Offering discussed under Liquidity and Capital Resources.

In addition to NRG, Xcel Energy's nonregulated subsidiaries include Seren Innovations, Inc. (broadband telecommunications services), e prime, inc. (natural gas marketing and trading), Planergy International, Inc. (energy management, consulting and demand-side management services) and Eloigne Company (acquisition of rental housing projects that qualify for low-income housing tax credits). Xcel Energy also reports in its nonregulated activities its 50-percent stake in Yorkshire Power, a regional electric company in the United Kingdom. Subsequent to year end, Xcel Energy has agreed to sell a substantial portion of this investment. For more information, see Note 11 to the Financial Statements.

Xcel Energy owns the following additional direct subsidiaries, some of which are intermediate holding companies with additional subsidiaries: Xcel Energy Wholesale Energy Group Inc., Xcel Energy Markets Holdings Inc., Xcel Energy International Inc., Xcel Energy Ventures Inc., Xcel Energy Retail Holdings Inc., Xcel Energy Communications Group Inc., Xcel Energy WYCO Inc. and Xcel Energy O & M Services Inc. Xcel Energy and its subsidiaries collectively are referred to as Xcel Energy.

XCEL ENERGY'S MISSION AND GUIDING PRINCIPLES

Xcel Energy's mission is to provide energy and service solutions that advance the productivity and lifestyle of our customers, foster growth of our employees and enhance value for our shareholders.

Xcel Energy's guiding principles include: focusing on the customer, respecting people, managing with facts, continually improving our business, focusing on the prevention of problems and promoting a safe and challenging work environment.

FINANCIAL REVIEW

The following discussion and analysis by management focuses on those factors that had a material effect on Xcel Energy's financial condition, results of operations and cash flows during the periods presented, or are expected to have a material impact in the future. It should be read in conjunction with the accompanying Financial Statements and Notes.

Except for the historical statements contained in this report, the matters discussed in the following discussion and analysis are forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "estimate," "expect," "objective," "outlook," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include, but are not limited to: general economic conditions, including their impact on capital expenditures and the ability of Xcel Energy and its subsidiaries to obtain financing on favorable terms; business conditions in the energy industry; competitive factors, including the extent and timing of the entry of additional competition in the markets served by Xcel Energy and its subsidiaries; unusual weather; state, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures and affect the speed and degree to which competition enters the electric and natural gas markets; the higher risk associated with Xcel Energy's nonregulated businesses compared with its regulated businesses; currency translation and transaction adjustments; risks associated with the California power market; the items described under "Factors Affecting Results of Operations;" and the other risk factors listed from time to time by Xcel Energy in reports filed with the Securities and Exchange Commission (SEC), including Exhibit 99.04 to Xcel Energy's Report on Form 8-K dated Aug. 21, 2000.

RESULTS OF OPERATIONS

Xcel Energy's earnings per share for the past three years were as follows:

Contribution to earnings per share

| | 2000 | 1999 | 1998 |
|---|---------|--------|--------|
| Total regulated earnings before extraordinary items | \$ 1.26 | \$1.51 | \$1.71 |
| Total nonregulated | 0.34 | 0.19 | 0.20 |
| Extraordinary items (see Note 12) | (0.06) | | |
| Total earnings per share | \$ 1.54 | \$1.70 | \$1.91 |

Earnings in 2000 were reduced by 52 cents per share for special charges related to the merger and 6 cents per share for extraordinary items. For more information on these and other significant factors that had an impact on earnings, see below.

Significant Factors that Impacted 2000 Results

Special Charges Xcel Energy's earnings for 2000 were reduced by 52 cents per share for special charges related to the merger to form Xcel Energy. During the third quarter and fourth quarter of 2000, Xcel Energy expensed pretax special charges of \$241 million, or 52 cents per share, for costs related to the merger between NSP and NCE. Of these special charges, approximately 44 cents per share were associated with the costs of merging regulated operations and 8 cents per share were associated with merger impacts on nonregulated activities. See Note 2 to the Financial Statements for more information on these charges.

Xcel Energy has completed the majority of its merger-related transition and integration activities in 2000 and expects to fully realize in 2001 and future years the operating synergies anticipated from the merger of NSP and NCE. Xcel Energy does not expect to incur any additional merger costs after 2000.

Extraordinary Items – Electric Utility Restructuring Xcel Energy's earnings for 2000 were reduced by 6 cents per share for two extraordinary items related to the discontinuation of regulatory accounting for SPS' generation business. During the second quarter of 2000, SPS wrote off its generation-related regulatory assets and other deferred costs for an extraordinary charge of approximately \$19.3 million before tax, or \$13.7 million after tax. During the third quarter of 2000, SPS recorded an additional extraordinary charge of \$8.2 million before tax, or \$5.3 million after tax, related to the tender offer and defeasance of approximately \$295 million of first mortgage bonds. For more information, see Note 12 to the Financial Statements.

Significant Factors that Impacted 1999 Results

Conservation Incentive Recovery Earnings for 1999 were reduced by 7 cents per share due to the disallowance of 1998 conservation incentives for NSP-Minnesota. In June 1999, the Minnesota Public Utilities Commission (MPUC) denied NSP-Minnesota recovery of 1998 lost margins, load management discounts and incentives associated with state-mandated programs for electric energy conservation. Xcel Energy recorded a \$35 million charge in 1999 based on this action. NSP-Minnesota appealed the MPUC decision and in December 2000, the Minnesota Court of Appeals reversed the MPUC decision.

In January 2001, the MPUC appealed the lower court decision to the Minnesota Supreme Court. On Feb. 23, 2001, the Minnesota Supreme Court declined to hear the MPUC's appeal. NSP-Minnesota is awaiting an order from the MPUC regarding the implementation of the appeals court decision before adjusting any liabilities recorded for this matter. As of Dec. 31, 2000, NSP-Minnesota had recorded a liability of \$40 million, including carrying charges, for potential refunds to customers pending the final resolution of this matter.

In addition, based on the 1999 change in MPUC policy on conservation incentives and regulatory uncertainty, beginning in 1999 management discontinued the accrual of conservation incentives other than those approved by the MPUC.

Special Charges During 1999, Xcel Energy expensed pretax special charges of \$31 million, or 7 cents per share, stemming from asset impairments related to goodwill and marketable securities associated with nonregulated activities. See Note 2 to the Financial Statements for more information on these charges.

Nonregulated Subsidiaries

Contribution to Xcel Energy's earnings per share

| | 2000 | 1999 | 1998 |
|---|---------|---------|---------|
| NRG* | \$ 0.46 | \$ 0.17 | \$ 0.13 |
| Yorkshire Power | 0.13 | 0.13 | 0.12 |
| e prime | (0.02) | (0.01) | (0.01) |
| Seren Innovations | (0.07) | (0.03) | (0.01) |
| Planergy International | (0.08) | (0.06) | (0.03) |
| Financing costs and preferred dividends | (0.07) | (0.03) | (0.03) |
| Other nonregulated | (0.01) | 0.02 | 0.03 |
| Total nonregulated earnings per share | \$ 0.34 | \$ 0.19 | \$ 0.20 |

*NRG's earnings for 2000 in this report exclude earnings of approximately 8 cents per share related to minority interests.

NRG NRG's earnings for 2000 benefited from increased electric revenues resulting from recently acquired generation assets. During 2000, NRG increased its megawatt ownership interest in generating facilities in operation by more than 4,000 megawatts. NRG's earnings for 2000 were also influenced by favorable weather conditions that increased demand for electricity in the northeast and western United States, market dynamics, strong performance from existing assets and higher market prices for electricity. As a consequence of the dynamics in the electricity markets during 2000, NRG's earnings contribution to Xcel Energy is estimated to have been approximately 8 cents per share more for the year than would occur under normal circumstances, and there can be no assurance that such dynamics will occur again. See Note 14 to the Financial Statements for a description of recent lawsuits against NRG and other power producers and marketers involving the California electricity markets and a discussion of NRG's receivables related to the California power market.

e prime e prime's results for 2000 were reduced by special charges, recorded during the third quarter, of 2 cents per share for contractual obligations and other costs associated with post-merger changes in the strategic operations and related revaluations of e prime's energy marketing business.

Seren Innovations As expected, Seren's expansion of its broadband communications network in Minnesota and California resulted in increased losses for 2000.

Planergy International Planergy's results for 2000 were reduced by special charges of 4 cents per share for the write-offs of goodwill and project development costs. During the third quarter of 2000, Planergy and Energy Masters International (EMI), both wholly owned subsidiaries of Xcel Energy, were combined to form Planergy International. As a result of this combination, Planergy reassessed its business model and made a strategic realignment, which resulted in the write-off of \$22 million (before tax) of goodwill and project development costs.

In addition, Planergy's results for 1999 were reduced by a special charge of 4 cents per share to write off goodwill that was recorded for EMI's acquisitions of Energy Masters Corp. in 1995 and Energy Solutions International in 1997. EMI wrote off approximately \$17 million of goodwill (before tax) during the fourth quarter of 1999.

Financing Costs and Preferred Dividends Nonregulated results include interest expense and preferred dividends, which are incurred at the Xcel Energy and intermediate holding company levels and are not directly assigned to individual subsidiaries.

Other Other nonregulated results for 2000 were reduced by special charges of 2 cents per share recorded during the third quarter. These special charges include \$10 million in asset write-downs and losses resulting from various other nonregulated business ventures that are no longer being pursued.

In addition, other nonregulated results for 1999 were reduced by special charges of 3 cents per share for a valuation write-down of Xcel Energy's investment in the publicly traded common stock of CellNet Data Systems, Inc.

Income Statement Analysis

Electric Utility Margins

The following table details the changes in electric utility revenue and margin. Electric production expenses tend to vary with changing retail and wholesale sales requirements and unit cost changes in fuel and purchased power. Due to fuel clause cost recovery mechanisms for retail customers in several states, most fluctuations in energy costs do not materially affect electric margin. However, the fuel cost recovery mechanisms in the various jurisdictions do not allow for complete recovery of all variable production expenses and, therefore, higher costs can result in an adverse margin and earnings impact.

| (Millions of dollars) | 2000 | 1999 | 1998 |
|--|---------|---------|---------|
| Electric retail and firm wholesale revenue | \$5,006 | \$4,671 | \$4,638 |
| Short-term wholesale revenue | 674 | 251 | 346 |
| Total electric utility revenue | 5,680 | 4,922 | 4,984 |
| Electric retail and firm wholesale fuel and purchase power | 2,026 | 1,766 | 1,661 |
| Short-term wholesale fuel and purchase power | 542 | 193 | 312 |
| Total electric utility fuel and purchase power | 2,568 | 1,959 | 1,973 |
| Electric retail and firm wholesale margin | 2,980 | 2,905 | 2,977 |
| Short-term wholesale margin | 132 | 58 | 34 |
| Total electric utility margin | \$3,112 | \$2,963 | \$3,011 |

Electric revenue increased by approximately \$758 million, or 15.4 percent, in 2000. Electric margin increased by approximately \$149 million, or 5.0 percent, in 2000. Electric margins reflect the impact of customer sharing due to the incentive cost adjustment (ICA). Weather normalized retail sales increased by 3.6 percent in 2000, increasing retail revenue by approximately \$153 million and retail margin by approximately \$88 million. More favorable temperatures during 2000 increased retail revenue by approximately \$36 million and retail margin by approximately \$22 million. These retail margin increases were partially offset by regulatory adjustments, relating to the earnings test in Texas and system reliability and availability in Colorado. Short-term wholesale revenue and margin increased due to the expansion of Xcel Energy's wholesale marketing operations and favorable market conditions.

Electric revenue decreased by approximately \$62 million, or 1.2 percent, and electric margin decreased by approximately \$48 million, or 1.6 percent, in 1999. Retail revenue and margin also decreased due to the disallowance of 1998 conservation incentives in Minnesota, which reduced retail revenue and margin by \$78 million compared with 1998. The disallowance of 1998 conservation incentives was recorded during 1999, as a result of the timing of an MPUC decision.

Despite customer growth, retail sales increased only 0.5 percent, largely due to mild weather in Colorado and Texas. In addition, retail margin was reduced by approximately \$19 million in 1999 due to higher purchased power costs in Minnesota and Wisconsin not recoverable in rates. Electric revenue decreased due to lower short-term wholesale revenue reflecting market conditions.

Gas Utility Margins

The following table details the changes in gas utility revenue and margin. The cost of gas tends to vary with changing sales requirements and the unit cost of gas purchases. However, due to purchased gas cost recovery mechanisms for retail customers, fluctuations in the cost of gas have little effect on gas margin.

| <i>(Millions of dollars)</i> | 2000 | 1999 | 1998 |
|---------------------------------------|---------|---------|---------|
| Gas revenue | \$1,469 | \$1,141 | \$1,110 |
| Cost of gas purchased and transported | (948) | (683) | (659) |
| Gas margin | \$ 521 | \$ 458 | \$ 451 |

Gas revenue increased by approximately \$328 million, or 28.7 percent, in 2000, primarily due to increases in the cost of natural gas, which are largely recovered through various adjustment clauses in most of the jurisdictions in which Xcel Energy operates. Gas margin increased by approximately \$63 million, or 13.8 percent, in 2000. More favorable temperatures during 2000 increased gas revenue by approximately \$82 million and gas margins by approximately \$33 million.

Gas revenue increased by approximately \$31 million, or 2.8 percent, and margin increased by approximately \$7 million, or 1.6 percent, in 1999, largely due to increased retail sales, which increased 3.2 percent compared with 1998. In addition, gas revenue and margin in 1999 increased due to higher base rates resulting from PSCo's 1998 rate case, which became effective in July 1999.

Electric and Gas Trading Margins

Xcel Energy's trading operations are conducted mainly by PSCo and e prime. Trading revenues and costs of goods sold do not include the revenue and production costs associated with energy produced from generation assets or results from NRG. The following table details the changes in electric and gas trading revenue and margin.

| <i>(Millions of dollars)</i> | 2000 | 1999 | 1998 |
|------------------------------|----------|--------|--------|
| Trading revenue | \$ 2,056 | \$ 951 | \$ 135 |
| Trading cost of goods sold | (2,017) | (946) | (134) |
| Trading margin | \$ 39 | \$ 5 | \$ 1 |

Trading revenue increased by approximately \$1.1 billion and trading margin increased by approximately \$34 million in 2000. Trading revenue increased by approximately \$816 million and trading margin increased by approximately \$4 million in 1999. The increase in trading revenue and margin is a result of the expansion of electric trading at PSCo and natural gas trading at e prime.

Nonregulated Operating Margins

The following table details the changes in nonregulated revenue and margin.

| <i>(Millions of dollars)</i> | 2000 | 1999 | 1998 |
|----------------------------------|----------|--------|--------|
| Nonregulated and other revenue | \$ 2,204 | \$ 689 | \$ 382 |
| Earnings from equity investments | 183 | 112 | 116 |
| Nonregulated cost of goods sold | (1,048) | (323) | (204) |
| Nonregulated margin | \$ 1,339 | \$ 478 | \$ 294 |

Nonregulated and other revenue increased by approximately \$1.5 billion in 2000, largely due to NRG's acquisition of generation facilities during 2000 and the full-year impact of generating assets acquired during 1999. Earnings from equity investments increased by approximately \$71 million in 2000, primarily due to increased equity earnings from NRG projects. The increase in NRG equity earnings is primarily due to increased earnings from its investments in West Coast Power LLC and Rocky Road LLC, which benefited from warmer weather conditions and market dynamics. Nonregulated margin increased by approximately \$861 million in 2000, largely due to NRG's acquisition of generation facilities during 2000. NRG's revenue and margin also increased as a consequence of the dynamics in the electricity markets in which NRG operated in during 2000, and there can be no assurance that such dynamics will occur again. For more information, see Note 14 to the Financial Statements for a description of recent lawsuits against NRG and other power producers and marketers involving the California electricity markets and a discussion of NRG's receivables related to the California power market.

Nonregulated and other revenue increased by approximately \$307 million in 1999, largely due to NRG's acquisition of generation facilities during 1999 in the Northeast region of the United States. Earnings from equity investments decreased by approximately \$4 million, or 3.4 percent, in 1999, primarily due to lower earnings from NRG's West Coast power generating affiliate as a result of cool summer weather during 1999 compared with the summer of 1998. Nonregulated margin increased by approximately \$184 million in 1999, largely due to NRG's acquisition of generation facilities during 1999 in the Northeast region of the United States.

Non-Fuel Operating Expense and Other Items

Other utility operating and maintenance expense for 2000 increased by approximately \$71 million, or 5.3 percent, compared with 1999. The increase is largely due to the timing of outages at the Monticello and Prairie Island nuclear plants and at the Sherco coal-fired power plant, increased bad debt reserves related to wholesale and retail customers, increased transmission costs in the Southwest Power Pool, start-up costs to establish the Nuclear Management Co. and higher employee-related costs. Other utility operation and maintenance expense decreased approximately \$27 million, or 2.0 percent, in 1999, primarily due to lower benefit costs and cost-control efforts.

Nonregulated other operation and maintenance expense increased by approximately \$354 million in 2000 and \$79 million in 1999. These increases are primarily due to costs of operations acquired, increased business development activities and legal, technical and accounting expenses resulting from NRG's expanding operations. In addition, costs also increased due to Seren's expansion of its broadband communications network in Minnesota and California.

Depreciation and amortization expense increased \$113 million, or 16.6 percent, in 2000 and \$52 million, or 8.4 percent, in 1999, primarily due to acquisitions of generating facilities by NRG and increased additions to utility plant.

During 1998, NRG recorded gains of approximately \$26 million on the partial sale of NRG's interest in the Enfield project and approximately \$2 million on the sale of NRG's interest in the Mid-Continent Power facility.

Interest expense increased \$243 million, or 58.7 percent, in 2000 and \$70 million, or 20.2 percent, in 1999, primarily due to increased debt levels to finance several asset acquisitions by NRG.

Weather

Xcel Energy's earnings can be significantly affected by weather. Unseasonably hot summers or cold winters increase electric and natural gas sales, but can also increase expenses, which may not be fully recoverable. Unseasonably mild weather reduces electric and natural gas sales. The following summarizes the estimated impact on the earnings of the utility subsidiaries of Xcel Energy due to temperature variations from historical averages.

- Weather in 2000 increased earnings by an estimated 1 cent per share.
- Weather in 1999 decreased earnings by an estimated 9 cents per share.
- Weather in 1998 decreased earnings by an estimated 4 cents per share.

Factors Affecting Results of Operations

Xcel Energy's utility revenues depend on customer usage, which varies with weather conditions, general business conditions and the cost of energy services. Various regulatory agencies approve the prices for electric and gas service within their respective jurisdictions. In addition, Xcel Energy's nonregulated businesses are becoming a more significant factor in Xcel Energy's earnings. The historical and future trends of Xcel Energy's operating results have been and are expected to be affected by the following factors:

Competition and Industry Restructuring

The structure of the electric and natural gas utility industry continues to change rapidly. Many states are implementing retail competition with an unbundling of regulated energy services. Merger and acquisition activity over the past few years has been significant as utilities combine to capture economies of scale and/or establish a strategic niche in preparing for the future. Some regulated utilities are divesting generation assets. All utilities are required to provide non-discriminatory access to the use of their transmission systems. The transition to this competitive environment will be extremely challenging during the next few years and will most likely have significant impacts on the industry.

Some states have begun to allow retail customers to choose their electricity supplier, and many other states are considering retail access proposals. Four states in our service territory – Texas, New Mexico, Oklahoma and Michigan – currently are expected to allow customers to choose their electricity supplier in 2002. In Texas, a pilot restructuring program is scheduled to begin in June 2001, with expanded retail competition beginning January 2002. In New Mexico, retail competition is scheduled to begin in January 2002 for some customers and July for the rest. In Oklahoma, a 1997 restructuring law provides for customer choice by July 2002, pending further action from the Oklahoma Legislature. In Michigan, customer choice is expected to begin in January 2002. Following the supply and price disruptions in California, restructuring initiatives may be delayed or modified in some of the states in which we operate.

Major issues that must be addressed include mitigating market power, divestiture of generation capacity, transmission constraints, legal separation, the refinancing of securities, modification of mortgage indentures, implementation of procedures to govern affiliate transactions, investments in information technology and the pricing of unbundled services, all of which have significant financial implications. Xcel Energy cannot predict the outcome of its restructuring proceedings at this time. The resolution of these matters may have a significant impact on the financial position, results of operations and cash flows of Xcel Energy. For more information on restructuring in Texas and New Mexico, see Note 12 to the Financial Statements.

With respect to Xcel Energy's other primary regulatory jurisdictions, the Minnesota Legislature continues to study industry restructuring issues, but has determined that further study is necessary before any action can be taken. During 1998, an electric restructuring bill was passed in Colorado that established an advisory panel to conduct an evaluation of restructuring. During 1999, this panel concluded that Colorado should not open its markets to competition. The Wisconsin Legislature has been focusing its efforts on improving electric reliability by requiring utility infrastructure improvements prior to addressing customer choice.

California Power Market

NRG operates in and sells to the wholesale power market in California. During the fourth quarter of 2000, the inability of certain California utilities to recover rising energy costs through regulated prices charged to retail customers created financial difficulties. The California utilities have appealed to state agencies and regulators for the opportunity to be reimbursed for costs incurred that are not currently recoverable through the existing rate structure. Absent such relief, some of the utilities have indicated they may be unable to continue to service their debt and/or otherwise pay obligations, or would consider discontinuing energy service to customers to avoid incurring costs that are not recoverable. Due to these circumstances, various bond rating agencies have lowered the credit rating of the California utilities to below investment grade. California state agencies and regulators, along with federal agencies such as the Federal Energy Regulatory Commission (FERC) have characterized the situation as a national emergency. Although changes may be necessary in the California utility regulatory model to address the problem in the long run, in the short term the alternatives being discussed include financial support for distressed utilities to ensure continued energy service to California customers. However, at this time it is unknown whether or when such financial support will be made available to California utilities.

As of Dec. 31, 2000, approximately 11 percent of NRG's net megawatts of operating projects and construction were located in California. NRG expects this percentage of net megawatts in California to decline to 7 percent by the end of 2001. In addition, Xcel Energy's wholesale trading operation sells power to California. See Note 14 to the Financial Statements for a description of recent lawsuits against NRG and other power producers and marketers involving the California electricity markets and a discussion of Xcel Energy and NRG's receivables related to the California power market.

Cheyenne Purchase Power Agreement

For the past 37 years, Cheyenne has purchased all energy requirements from PacifiCorp. Cheyenne's full-requirements power purchase agreement with PacifiCorp expired in December 2000. During 2000, Cheyenne issued a request for proposal and conducted negotiations with PacifiCorp and other wholesale power suppliers. During 2000, as contract details for a new agreement were being finalized, supply conditions and market prices in the western United States dramatically changed. Cheyenne was unable to execute an agreement with PacifiCorp for the prices and terms Cheyenne had been negotiating. Additionally, PacifiCorp failed to provide the FERC and Cheyenne a 60-day notice to terminate service, as required by the Federal Power Act. Cheyenne filed a complaint with the FERC, requesting that PacifiCorp continue providing service under the existing tariff through the 60-day notice period. On Feb. 7, 2001, the FERC issued an order requiring PacifiCorp to provide service under the terms of the old contract through Feb. 24, 2001.

Cheyenne has begun implementing the changes required to transition from a full-requirements customer to an operating utility as the best means of providing energy supply. In February 2001, PSCo filed an agreement with the FERC to provide a portion of Cheyenne's service. Cheyenne has also entered into agreements with other producers to meet both short term and long term energy supply needs and continues to negotiate with suppliers to meet its load requirements for the summer of 2001.

Total purchased power costs are projected to increase approximately \$80 million in 2001 with costs anticipated to fall each year thereafter. Purchased power and natural gas costs are recoverable in Wyoming. Cheyenne is required to file applications with the Wyoming Public Service Commission (WPSC) for approval of adjustment mechanisms in advance of the proposed effective date. Cheyenne expects to make its request for an electric cost adjustment increase in March 2001.

The filing is expected to mitigate customer impacts through a pricing plan that would defer certain first-year costs. In addition, Cheyenne expects to make other filings to create new options for customers to move load to off-peak hours and to provide additional conservation opportunities. While the precise outcome of this matter cannot be predicted, management believes that it will not have a material adverse effect on its results of operations or financial conditions.

Regulation

Following the merger of NSP and NCE, Xcel Energy became a registered holding company under the PUHCA. As a result, Xcel Energy, its utility subsidiaries and certain of its non-utility subsidiaries are subject to extensive regulation by the SEC under PUHCA with respect to issuances and sales of securities, acquisitions and sales of certain utility properties and intra-system sales of certain goods and services. In addition, PUHCA generally limits the ability of registered holding companies to acquire additional public utility systems and to acquire and retain businesses unrelated to the utility operations of the holding company. Xcel Energy believes that it has adequate authority (including financing authority) under existing SEC orders and regulations for it and its subsidiaries to conduct their businesses as proposed during 2001 and will seek additional authorization when necessary.

The electric and natural gas rates charged to customers of Xcel Energy's utility subsidiaries are approved by the FERC and the regulatory commissions in the states in which they operate. The rates are generally designed to recover plant investment, operating costs and an allowed return on investment. Xcel Energy requests changes in rates for utility services through filings with the governing commissions. Because comprehensive rate changes are requested infrequently in some states, changes in operating costs can affect Xcel Energy's financial results. In addition to changes in operating costs, other factors affecting rate filings are sales growth, conservation and demand-side management efforts and the cost of capital.

Except for Wisconsin electric operations, most of the retail rate schedules for Xcel Energy's utility subsidiaries provide for periodic cost-of-energy and resource adjustments to billings and revenues for changes in the cost of fuel for electric generation, purchased energy, purchased natural gas and, in Minnesota and Colorado, conservation and energy management program costs. In Minnesota, changes in electric capacity costs are not recovered through the fuel clause. For Wisconsin electric operations, where cost-of-energy adjustment clauses are not used, the biennial retail rate review process and an interim fuel cost hearing process provide the opportunity for rate recovery of changes in electric fuel and purchased energy costs in lieu of a cost-of-energy adjustment clause. In Colorado, PSCo has an ICA, which allows for an equal sharing among customers and shareholders of certain fuel and energy costs and certain gains and losses on trading margins.

Regulated public utilities are allowed to record as assets certain costs that would be expensed by nonregulated enterprises and to record as liabilities certain gains that would be recognized as income by nonregulated enterprises. If restructuring or other changes in the regulatory environment occur, Xcel Energy may no longer be eligible to apply this accounting treatment and may be required to eliminate such regulatory assets and liabilities from its balance sheet. Such changes could have a material, adverse affect on Xcel Energy's results of operations in the period the write-off is recorded. As discussed in Note 12 to the Financial Statements, SPS' generation business no longer follows SFAS 71.

At Dec. 31, 2000, Xcel Energy reported on its balance sheet regulatory assets of approximately \$365 million and regulatory liabilities of approximately \$204 million that would be recognized in the income statement in the absence of regulation. In addition to a potential write-off of regulatory assets and liabilities, restructuring and competition may require recognition of certain stranded costs not recoverable under market pricing. Xcel Energy currently does not expect to write off any stranded costs unless market price levels change or cost levels increase above market price levels. See Notes 1 and 16 to the Financial Statements for further discussion of regulatory deferrals.

As of Dec. 31, 2000, SPS had approximately \$104 million of unrecovered energy costs, largely due to increases in the cost of natural gas for generating electricity. These costs would typically be recovered through SPS' filings with state commissions. As part of restructuring in Texas, the fuel cost recovery mechanism will not be in effect after 2001. Consistent with past practices, SPS has requested recovery of these costs. Management is confident that these unrecovered energy costs were prudent and will ultimately be recovered from customers.

Merger Rate Agreements

As part of the merger approval process, Xcel Energy agreed to reduce its rates in several jurisdictions. The discussion below summarizes the rate reductions in Colorado, Minnesota, Texas and New Mexico.

As part of the merger approval process in Colorado, PSCO agreed to:

- Reduce its retail electric rates by \$11 million annually through June 2002;
- File a combined electric and natural gas rate case in 2002, with new rates effective January 2003;
- Cap merger costs associated with the electric operations at \$30 million and amortize the merger costs for rate-making purposes through 2003; and
- Continue the Performance Based Regulatory Plan (PBRP) and the Quality Service Plan (QSP) currently in effect through 2006 with modifications to cap electric earnings at a 10.5-percent return on equity for 2002, no earnings sharing in 2003 since new base rates would have recently been established and increase potential refunds if quality standards are not met, including a QSP for natural gas operations.

As part of the merger approval process in Minnesota, NSP-Minnesota agreed to:

- Reduce its Minnesota electric rates by \$10 million annually for 2001–2005;
- Not increase its electric rates through 2005, except under limited circumstances; and
- Not seek the recovery of certain merger costs from customers and meet various quality standards.

As part of the merger approval process in Texas, SPS agreed to:

- Guarantee annual merger savings credits of approximately \$4.8 million and amortize merger costs through 2005;
- Retain the current fuel-recovery mechanism to pass along fuel cost savings to retail customers through 2001; and
- Comply with various service quality and reliability standards covering service installations and upgrades, light replacements, customer service call centers and electric service reliability.

As part of the merger approval process in New Mexico, SPS agreed to:

- Guarantee annual merger savings credits of approximately \$780,000 and amortize merger costs beginning July 2000 through December 2004;
- Share net non-fuel operating and maintenance savings equally among retail customers and shareholders;
- Retain the current fuel recovery mechanism to pass along fuel cost savings to retail customers; and
- Not pass along any negative rate impacts of the NCE/NSP merger.

PSCo Performance-Based Regulatory Plan

The Colorado Public Utility Commission (CPUC) established an electric PBRP under which PSCo operates. The major components of this regulatory plan include:

- An annual electric earnings test with the sharing of earnings in excess of an 11-percent return on equity for 1997–2001;
- An annual electric earnings test with the sharing between customers and shareholders of earnings in excess of a 10.50-percent return on equity for 2002;
- No earnings sharing for 2003;
- An annual electric earnings test with the sharing of earnings in excess of the return on equity set in the 2002 rate case for 2004–2006;
- A Quality Service Plan (QSP) that provides for refunds to customers if PSCo does not achieve certain performance measures relating to electric reliability and customer service; and
- An ICA that provides for the sharing of energy costs and savings relative to an annual target cost per delivered kilowatt-hour.

PSCo regularly monitors and records as necessary an estimated customer refund obligation under the earnings test. In April of each year following the measurement period, PSCo files its proposed rate adjustment under the PBRP. The CPUC conducts proceedings to review and approve these rate adjustments annually. PSCo has recorded an estimated customer refund obligation for 2000 of approximately \$12.2 million. PSCo has also recorded an estimated customer refund obligation for 2000 under the QSP electric reliability performance measure of approximately \$6.7 million. In November 2000, the CPUC ruled on the unresolved issues related to the 1998 earnings test. PSCo filed to reduce customer rates by \$5.1 million effective January 2001, in compliance with the CPUC decision for both the 1998 and 1999 earnings test years. The procedural schedule for the 1999 earnings test has been established, with hearings set for April 2001.

SPS Earnings Test

In Texas, SPS operates under an earnings test in which excess earnings are returned to the customer. In May 2000, SPS filed its 1999 Earnings Report with the Public Utilities Commission of Texas (PUCT), indicating no excess earnings. In September 2000, the PUCT staff and the Office of Public Utility Counsel (OPUC) filed a Notice of Disagreement with the PUCT, indicating adjustments to SPS' calculations, which would result in excess earnings. During 2000, SPS recorded an estimated obligation of approximately \$11.4 million for 1999 and 2000. In February 2001, the PUCT ruled on the disputed issues. These adjustments will not materially affect the estimated obligation previously booked.

Environmental Matters

Xcel Energy incurs several types of environmental costs, including nuclear plant decommissioning; storage and ultimate disposal of spent nuclear fuel; disposal of hazardous materials and wastes; remediation of contaminated sites; and monitoring of discharges into the environment. Because of greater environmental awareness and increasingly stringent regulation, Xcel Energy has experienced increasing environmental costs. This trend has caused, and may continue to cause, slightly higher operating expenses and capital expenditures for environmental compliance. In addition, NRG's acquisition of existing generation facilities will tend to increase nonutility costs for environmental compliance.

In addition to nuclear decommissioning and spent nuclear fuel disposal expenses, costs charged to Xcel Energy's operating expenses for environmental monitoring and disposal of hazardous materials and wastes were approximately:

- \$64 million in 2000
- \$55 million in 1999
- \$56 million in 1998

Xcel Energy expects to spend approximately \$72 million per year for 2001–2005. However, the precise timing and amount of environmental costs, including those for site remediation and disposal of hazardous materials, are currently unknown.

Capital expenditures on environmental improvements at its utility facilities, which include the costs of constructing spent nuclear fuel storage casks, were approximately:

- \$57 million in 2000
- \$126 million in 1999
- \$101 million in 1998

Xcel Energy expects to incur approximately \$132 million in capital expenditures for compliance with environmental regulations in 2001 and approximately \$297 million for 2001–2005. See Notes 14 and 15 to the Financial Statements for further discussion of Xcel Energy's environmental contingencies.

Impact of Nonregulated Investments

Xcel Energy's earnings from nonregulated operations have increased significantly due to acquisitions. Xcel Energy expects to continue investing in nonregulated projects, including domestic and international power production projects through NRG, international projects through Xcel Energy International, natural gas trading and marketing through e prime, construction projects through Utility Engineering and broadband communications systems through Xcel Communications. Xcel Energy's nonregulated businesses may carry a higher level of risk than its traditional utility businesses due to a number of factors, including:

- Competition, operating risks, dependence on certain suppliers and customers, and domestic and foreign environmental and energy regulations;
- Partnership and government actions and foreign government, political, economic and currency risks; and
- Development risks, including uncertainties prior to final legal closing.

Some of Xcel Energy's nonregulated subsidiaries have project investments (as listed in Note 11 to the Financial Statements) consisting of minority interests, which may limit the financial risk, but may also limit the ability to control the development or operation of the projects. In addition, significant expenses may be incurred for projects pursued by Xcel Energy's subsidiaries that do not materialize. The aggregate effect of these factors creates the potential for volatility in the nonregulated component of Xcel Energy's earnings. Accordingly, the historical operating results of Xcel Energy's nonregulated businesses may not necessarily be indicative of future operating results.

Subsequent Event In late February 2001, Xcel Energy reached an agreement in principle to sell at book value all of its investment in Yorkshire Power except for an interest of approximately 5 percent. Xcel Energy is retaining this interest to comply with pooling-of-interests accounting requirements associated with the merger of NSP and NCE in 2000. Following completion of the transaction, proceeds of the sale will be used by Xcel Energy to pay down short-term debt and eliminate an equity issuance planned for the second half of 2001.

Inflation

Inflation at its current level is not expected to materially affect Xcel Energy's prices or returns to shareholders.

Accounting Changes

The Financial Accounting Standards Board (FASB) has proposed new accounting standards that would require the full accrual of nuclear plant decommissioning and certain other site exit obligations. Material adjustments to Xcel Energy's balance sheet would occur upon implementation of the FASB's proposal, which would be no earlier than 2002. However, the effects of regulation are expected to minimize or eliminate any impact on operating expenses and earnings from this future accounting change. For further discussion of the expected impact of this change, see Note 15 to the Financial Statements.

In June 1998, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment to FASB Statement No. 133."

SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met or specific exclusions are applicable. Special accounting for qualifying hedges allows a derivative instrument's gains and losses to offset related results on the hedged item in the income statement, to the extent effective, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

SFAS 133 will apply to Xcel Energy's accounting for commodity futures and options contracts, index or fixed price swaps and basis swaps used to hedge price volatility in the markets. SFAS 133 will also apply to Xcel Energy's accounting for interest rate swaps used to hedge exposure to changes in interest rates and foreign currency hedges. Xcel Energy may apply hedge accounting to account for these derivative instruments, provided they meet specific hedge accounting criteria.

Xcel Energy plans to adopt SFAS 133 in 2001, as required. Xcel Energy expects the following:

- An initial gain or loss recorded in the first quarter of 2001 related to the cumulative effect of applying the new accounting method to periods prior to 2001, which will be reported as a separate after-tax gain or loss based on market pricing levels in effect at Jan. 1, 2001;
- Increased volatility in future earnings due to the impact of market fluctuations on derivative instruments used by Xcel Energy and its subsidiaries; and
- Potential changes in Xcel Energy's business practices.

Xcel Energy has completed its implementation of SFAS 133 in January 2001. Based on market prices as of Dec. 31, 2000, there was no material impact from the cumulative effect reported in earnings and a net loss of approximately \$42 million reported in other comprehensive income (equity) due to implementation of SFAS 133.

Derivatives, Risk Management and Market Risk

Xcel Energy is exposed to market and credit risks in its generation, retail distribution and energy trading operations. To minimize the risk of market price and volume fluctuations, Xcel Energy enters into financial derivative instrument contracts to hedge purchase and sale commitments, fuel requirements and inventories of its natural gas, distillate fuel oil, electricity and coal business, and emission allowances. The primary objective of Xcel Energy's trading operations is to maximize asset value, while minimizing the related exposure to changes in commodity prices and counterparty default. These operations include wholesale power trading and natural gas marketing and trading activities.

Xcel Energy monitors its exposure to fluctuations in interest rates and foreign exchange and may execute swaps, forward exchange contracts or other financial derivative instruments to manage these exposures. Xcel Energy manages all of its market risks through various policies and procedures that allow for the use of various derivative instruments in the energy and financial markets.

Commodity Price Risk Xcel Energy has continued to develop and expand its gas and power marketing and trading activities, and management expects to continue the growth of these activities during 2001. As a result, Xcel Energy's exposure to changes in commodity prices may increase and earnings may experience volatility. To manage exposure to price volatility in the natural gas and electricity markets, Xcel Energy uses a variety of energy contracts, both financial and physical. These contracts consist mainly of commodity forward contracts and options, index or fixed price swaps and basis swaps.

Xcel Energy measures its open exposure to commodity price changes using the Value-at-Risk (VaR) methodology. VaR expresses the potential loss in fair value of all open forward contract and option positions over a particular period of time, with a given confidence interval under normal market conditions. Xcel Energy utilizes the variance/covariance approach in calculating VaR, which assumes that all price returns/profitability are normally and independently distributed. The model employs a 95 percent confidence interval level based on historical price movement, normal price distribution and a holding period of 21 days.

NRG has developed a 12-month rolling VaR based on generation assets, load obligations and bilateral physical and financial transactions. This model encompasses the following generating regions: Entergy, NEPOOL and NYPP. NRG is in the process of expanding the model into other geographical areas. The VaR for NRG reflects its merchant strategy and calculated estimated earnings variability over the next three days based on a confidence factor of 95 percent. The volatility estimate is based on a lognormal calculation of the latest 30-day closes for forward markets where NRG has an exposure.

As of Dec. 31, 2000, the calculated VaRs were:

| (Millions of dollars) | Year Ended Dec. 31, 2000 | Average | High | Low |
|-----------------------|-----------------------------|---------|-------|------|
| OPERATIONS | | | | |
| Regulated trading | 4.62 | 1.42 | 7.23 | 0.08 |
| Regulated wholesale | 1.40 | 0.73 | 4.70 | 0.01 |
| e prime retail | 0.69 | 0.70 | 1.94 | 0.12 |
| e prime wholesale | 0.03 | 0.35 | 1.37 | 0.02 |
| NRG | 116.0 | 80.0 | 125.0 | 50.0 |

Xcel Energy does not use VaR to measure the commodity risk inherent in its regulated generation and retail sales operations. In its major regulatory jurisdictions, Xcel Energy has limited exposure to commodity risk due to fuel-cost recovery adjustment mechanisms. In Minnesota, fuel cost increases may be passed along in full to retail consumers.

In Colorado, a sharing mechanism between shareholders and customers exists that utilizes an established benchmark per unit cost for energy. Consequently, changes in any eligible costs collected under this benchmark approach have a resultant market risk. The impact of eligible production and fuel cost volatility on Colorado jurisdiction retail business shows that as of Dec. 31, 2000, a 15-percent increase in eligible production and fuel costs would result in a loss in income from these contracts of approximately \$18 million. Conversely, a 15-percent decrease in eligible production and fuel costs would result in a positive income gain from these contracts of approximately \$39 million. This analysis assumes that there were no changes in energy consumption, customer growth, operations, energy dispatch, regulatory guidelines or market conditions. This analysis is solely focused on the change in fuel eligible production and fuel costs and the resultant market risk due to the ICA mechanism in the state of Colorado. The market risk caused by change in eligible production and fuel costs, under the ICA mechanism, is affected by margins earned on certain trading activities. Generally, these margins serve to mitigate the impact of market risk on Xcel Energy and the customer.

Interest Rate Risk Xcel Energy and its subsidiaries have both long-term and short-term debt instruments that subject Xcel Energy and certain of its subsidiaries to the risk of loss associated with movements in market interest rates. This risk is limited for Xcel Energy's regulated companies, primarily due to cost-based rate regulation. In the future, management anticipates utilizing financial instruments to manage its exposure to changes in interest rates. These instruments may include interest rate swaps, caps, collars, exchange-traded futures contracts and put or call options on U.S. Treasury securities.

At Dec. 31, 2000, a 100-basis point change in the benchmark rate on Xcel Energy's variable debt would impact net income by approximately \$15.8 million. As a result of interest rate swaps, which converted floating-rate debt into fixed-rate debt, NRG did not have material interest rate exposure as of Dec. 31, 2000.

Currency Exchange Risk Xcel Energy's investment in Yorkshire Power, a foreign currency-denominated joint venture, and various NRG foreign projects also expose Xcel Energy to currency translation rate risk. NRG has an investment in the Kladno project located in the Czech Republic. SFAS No. 52 – "Foreign Currency Translation" requires foreign currency gains and losses to flow through the income statement if settlement of an obligation is in a currency other than the local currency of the entity. A portion of the Kladno project debt is in non-local currency (U.S. dollars and German deutsche marks). As of Dec. 31, 2000, if the value of the Czech koruna decreased by 10 percent in relation to the U.S. dollar and the German deutsche mark, NRG would have recorded a \$3.6 million loss (after tax) on the currency transaction adjustment. If the value of the Czech koruna increased by 10 percent, NRG would have recorded a \$3.6 million gain (after tax) on the currency transaction adjustment.

At Dec. 31, 2000, Xcel Energy's exposure to changes in foreign currency exchange rates through its investment in Yorkshire Power is not material to its consolidated financial position, results of operations or cash flows.

Credit Risk In addition to the risks discussed previously, Xcel Energy and its subsidiaries are exposed to credit risk in its risk management activities. Credit risk relates to the risk of loss resulting from the nonperformance by a counterparty of its contractual obligations. As Xcel Energy continues to expand its natural gas and power marketing and trading activities, its exposure to credit risk and counterparty default may increase. Xcel Energy and its subsidiaries maintain credit policies intended to minimize overall credit risk and actively monitor these policies to reflect changes and scope of operations.

Xcel Energy and its subsidiaries conduct standard credit reviews for all of its counterparties. Xcel Energy employs additional credit risk control mechanisms when appropriate, such as letters of credit, parental guarantees and standardized master netting agreements that allow for offsetting of positive and negative exposures. The credit exposure is monitored and, when necessary, the activity with a specific counterparty is limited until credit enhancement is provided. See Note 14 to the Financial Statements for a discussion of NRG's receivable related to the California power market.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

(Millions of dollars)

| | 2000 | 1999 | 1998 |
|---|---------|---------|---------|
| Net cash provided by operating activities | \$1,408 | \$1,325 | \$1,362 |

Cash provided by operating activities increased during 2000, compared with 1999, primarily due to improvements in working capital and additional depreciation, a non-cash reduction to earnings. Cash provided by operating activities decreased slightly during 1999, compared with 1998, primarily due to a decrease in working capital due to timing of cash flows.

(Millions of dollars)

| | 2000 | 1999 | 1998 |
|---------------------------------------|-----------|-----------|-----------|
| Net cash used in investing activities | \$(3,347) | \$(2,953) | \$(1,221) |

Cash used in investing activities increased during 2000, compared with 1999, primarily due to acquisitions of existing generating facilities by NRG. Cash used in investing activities increased during 1999, compared with 1998, primarily due to acquisitions of existing generating facilities by NRG and increased levels of utility capital expenditures.

(Millions of dollars)

| | 2000 | 1999 | 1998 |
|---|---------|---------|---------|
| Net cash provided by (used in) financing activities | \$2,016 | \$1,668 | \$(169) |

Cash provided by financing activities increased during 2000, compared with 1999, primarily due to the issuance of debt to finance NRG asset acquisitions in 2000. Cash provided by financing activities increased during 1999, compared with 1998, primarily due to the issuance of debt to finance NRG asset acquisitions in 1999.

Prospective Capital Requirements

The estimated cost, as of Dec. 31, 2000, of the capital expenditure programs of Xcel Energy and its subsidiaries and other capital requirements for the years 2001, 2002 and 2003 are shown in the table below.

| <i>(Millions of dollars)</i> | 2001 | 2002 | 2003 |
|-----------------------------------|---------|---------|---------|
| Electric utility | \$ 931 | \$ 979 | \$ 962 |
| Gas utility | 162 | 209 | 146 |
| Common utility | 114 | 107 | 38 |
| Total utility | 1,207 | 1,295 | 1,146 |
| NRG | 3,138 | 1,341 | 1,517 |
| Other nonregulated | 91 | 53 | 12 |
| Total capital expenditures | 4,436 | 2,689 | 2,675 |
| Sinking funds and debt maturities | 605 | 311 | 663 |
| Total capital requirements | \$5,041 | \$3,000 | \$3,338 |

The capital expenditure programs of Xcel Energy are subject to continuing review and modification. Actual utility construction expenditures may vary from the estimates due to changes in electric and natural gas projected load growth, the desired reserve margin and the availability of purchased power, as well as alternative plans for meeting Xcel Energy's long-term energy needs. In addition, Xcel Energy's ongoing evaluation of merger, acquisition and divestiture opportunities to support corporate strategies, address restructuring requirements and comply with future requirements to install emission control equipment may impact actual capital requirements. For more information, see Notes 12 and 14 to the Financial Statements.

Xcel Energy's subsidiaries expect to invest significant amounts in nonregulated projects in the future. Financing requirements for nonregulated project investments will vary depending on the success, timing and level of involvement in projects currently under consideration. These investments could cause significant changes to the capital requirement estimates for nonregulated projects and property. Long-term financing may be required for such investments.

NRG expects to invest approximately \$3.1 billion in 2001 for nonregulated projects and property, which include acquisitions and project investments. NRG's future capital requirements may vary significantly. For 2001, NRG's capital requirements reflect expected acquisitions of existing generation facilities, including the Conectiv fossil assets, North Valmy, LS Power, Clark gas-fired assets, Reid Gardner coal-fired assets and the Bridgeport and New Haven Harbor coal-fired facilities.

Common Stock Dividend

Xcel Energy initially adopted a dividend of \$1.50 per share on an annual basis for 2000. Future dividend levels will be dependent upon Xcel Energy's results of operations, financial position, cash flows and other factors, and will be evaluated by the Xcel Energy board of directors.

Capital Sources

Xcel Energy expects to meet future financing requirements by periodically issuing long-term debt, short-term debt, common stock and preferred securities to maintain desired capitalization ratios. Over the long term, Xcel Energy's equity investments in and acquisitions of nonregulated projects are expected to be financed at the nonregulated subsidiary level from internally generated funds or the issuance of subsidiary debt. Financing requirements for the nonregulated projects, in excess of equity contributions from partners, are expected to be fulfilled through project or subsidiary debt and in the case of NRG, additional common equity or preferred offerings to the public. The financing needs are subject to continuing review and can change depending on market and business conditions and changes, if any, in the construction programs and other capital requirements of Xcel Energy and its subsidiaries.

NRG Initial Public Offering (IPO) During the second quarter of 2000, NRG completed an IPO of approximately 32.4 million shares priced at \$15 per share. Upon completion of the IPO, Xcel Energy owns approximately 147.6 million Class A shares of NRG common stock, or 82 percent of NRG's outstanding shares. Management has concluded that this offering of NRG stock did not affect Xcel Energy's ability to use the pooling-of-interests method of accounting for the merger of NSP and NCE. The offering's net proceeds of approximately \$454 million were used exclusively by NRG for general corporate purposes, including funding a portion of NRG's project investments and other capital requirements for 2000. No proceeds of this offering were received by Xcel Energy. A portion of the proceeds was accounted for as a gain on the sale of 18 percent of Xcel Energy's ownership in NRG. This gain of \$216 million was not recorded in earnings, but is consistent with Xcel Energy's accounting policy, which was recorded as an increase in the common stock premium component of stockholders' equity.

During 2000, Xcel Energy's board of directors authorized NRG to raise up to \$600 million of equity through a follow-on offering. NRG expects to issue up to 18.4 million shares of common stock in March 2001. If all 18.4 million shares of common stock are issued, Xcel Energy's ownership interest in NRG will decline to approximately 75 percent. In addition, NRG expects to issue 8 million equity units in March 2001. Each equity unit comprises a debenture and an obligation to acquire one share of NRG common stock no later than 2004. The ultimate issuance of common stock, number of shares issued and amount of capital raised will be dependent upon market conditions. No proceeds of any such offering would be received by Xcel Energy.

If Xcel Energy's ownership interest in NRG declines to less than 80 percent, then NRG will no longer be included in Xcel Energy's federal consolidated income tax return. We do not expect this to have a material impact on our earnings.

NRG Revolving Credit Facility During the first quarter of 2001, NRG entered into a \$2.5 billion revolving funding program, which will be used to finance a significant portion of NRG's U.S. acquisitions and development projects over the next five years. This revolving credit facility will allow NRG to procure temporary funding for both the non-recourse debt portion as well as equity contributions for new projects through an expedient and simplified review and approval process. NRG is permitted under the revolver to repay borrowed funds, thus making them available to be borrowed again. NRG plans to do that by refinancing projects in the long-term capital or bank markets when construction projects reach commercial operation or the market conditions are favorable. Any unutilized borrowing capacity may be redeployed for future projects.

Registration Statements Xcel Energy's Articles of Incorporation authorize the issuance of 1 billion shares of common stock. As of Dec. 31, 2000, Xcel Energy had approximately 341 million shares of common stock outstanding. In addition, Xcel Energy's Articles of Incorporation authorize the issuance of 7 million shares of \$100 par value preferred stock. On Dec. 31, 2000, Xcel Energy had approximately 1 million shares of preferred stock outstanding.

During 2000, Xcel Energy filed a \$1 billion universal debt shelf registration with the SEC. During the fourth quarter of 2000, Xcel Energy issued \$600 million of unsecured debt under this shelf registration.

PSCo has an effective shelf registration statement with the SEC under which \$300 million of senior debt securities are available for issuance.

During 2000, NRG filed a shelf registration with the SEC. Based on this registration, NRG can issue up to \$1.65 billion of an indeterminate amount of debt securities, preferred stock, common stock, depository shares, warrants and convertible securities. This registration includes \$150 million of securities that are being carried forward from a previous NRG shelf registration.

Short-Term Borrowing Arrangements For information on Xcel Energy's short-term borrowing arrangements, see Note 3 to the Financial Statements.

Shareholder Rights Plan Xcel Energy recently adopted a shareholder rights plan. The plan is subject to SEC approval. For more information, see Note 9 to the Financial Statements.