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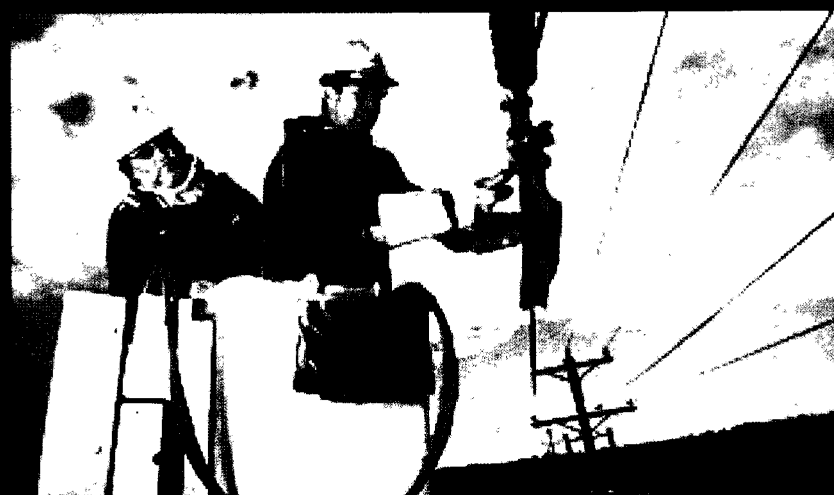
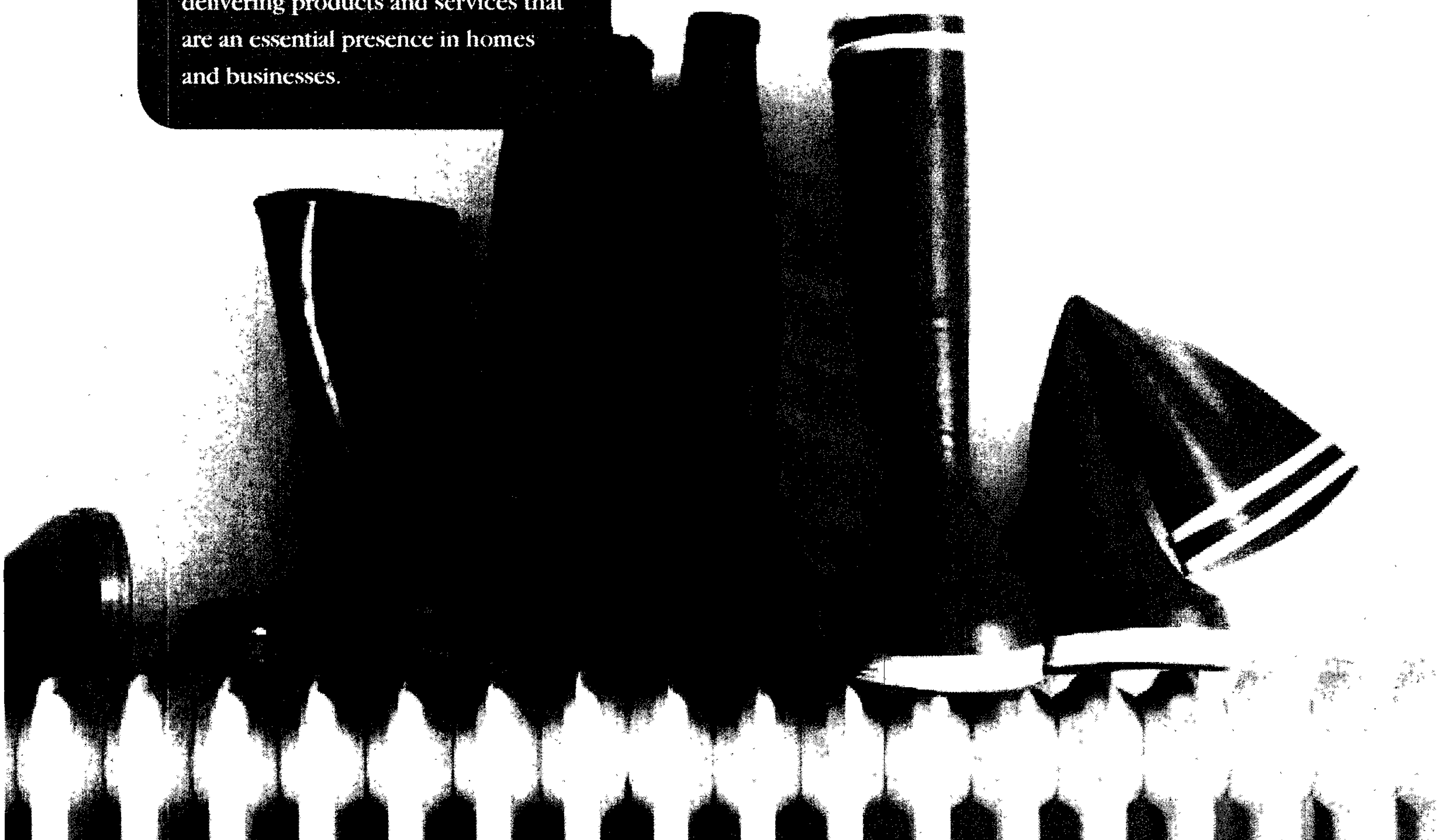


you get all of our energy

2005 ANNUAL REPORT

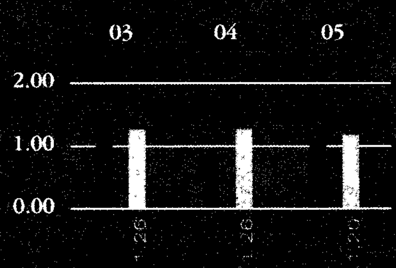
Xcel Energy

Xcel Energy employees bring all of their energy to their jobs every day, delivering products and services that are an essential presence in homes and businesses.



XCEL ENERGY EARNINGS PER SHARE

dollars per share (diluted)



Total earnings per share
■ Earnings per share from continuing operations

FINANCIAL HIGHLIGHTS

	2005	2004
Earnings per common share - diluted	$ **1.23**	$ 0.87
Discontinued operations	$ **0.03**	$ (0.39)
Earnings per common share - diluted before discontinued operations	$ **1.20**	$ 1.26
Dividends annualized	$ **0.86**	$ 0.83
Stock price (close)	$ **18.46**	$ 18.20
Assets (millions)	$ **21,648**	$ 20,305
Book value per common share	$ **13.37**	$ 12.99

Some of the sections in this annual report, including the letter to shareholders on page 1, contain forward-looking statements. For a discussion of factors that could affect operating results, please see the management's discussion and analysis on page 16.

ON THE COVER: Keith Reif (top, left) and Joel Bialas are district representatives in South Dakota who go the extra mile for customers.

COMPANY DESCRIPTION

Xcel Energy Inc. is a major U.S. electric and natural gas company, with annual revenues of $10 billion. Based in Minneapolis, Minn., Xcel Energy operates in 10 western and Midwestern states. The company provides a comprehensive portfolio of energy-related products and services to 3.3 million electricity customers and 1.8 million natural gas customers.

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DEAR SHAREHOLDERS

Having spent my entire career in the energy business, I'm proud to have an opportunity to lead Xcel Energy. I have great respect for this company and its employees and feel a tremendous obligation to its shareholders and customers. Rest assured, we are moving in the right direction, with all of our energy focused on building value for you and meeting the energy needs of a thriving service area.

In 2005, we made good progress in executing our corporate strategy and began to capture the benefits of that effort. Ours is a straightforward plan – to invest in our core electric and natural gas businesses and earn our authorized return – that we continue to refine as we move forward.

TAKING A NEW APPROACH

One of my first decisions was to restructure Xcel Energy's corporate operations to ensure greater accountability for financial results on an operating company level. I've named four executives to head those operating companies, who in turn report to Paul Bonavia, President – Utilities Group. Recognizing that each operating area is unique, the new structure should enable us to build stronger customer and community relationships. At the same time, we will benefit from the efficiencies of our centralized organization.

The restructuring was just one of many decisions designed to help us achieve our corporate goals in 2005. Let's look back at the year, beginning with financial results.

Year-end financial results were in the range we expected based on our initial earnings guidance of $1.18 to $1.28 per share that we described in last year's annual report. Earnings from continuing operations were $499 million, or $1.20 per share on a diluted basis, in 2005 compared with $522 million, or $1.26 per share, in 2004.

Total earnings for the year, which include the impact of discontinued operations, were $513 million, or $1.23 per share, in 2005 compared with $356 million, or 87 cents per share, in 2004. Although we had higher operating margins in 2005, they were offset by higher operating and maintenance expenses related to nuclear plant outages, employee benefit costs, uncollectible receivable expenses and higher depreciation expenses. In addition, the year-to-year comparison was affected by the fact that we recorded greater tax benefits in 2004.

We are beginning to see positive results from our regulatory efforts, including constructive natural gas rate cases in

Wisconsin, Minnesota and Colorado; an electricity case in Wisconsin; and interim rates from an electricity case in Minnesota. In addition, we are earning a cash return on our emission-reduction efforts in Minnesota.

That momentum leads us to believe we can achieve earnings from continuing operations in the range of $1.25 to $1.35 per share in 2006. Over the next several years, our goal is to grow earnings per share an average of 5 percent to 7 percent per year, which is an increase from our earlier growth rate objective.

Another important goal is to grow your annual dividend rate at 2 percent to 4 percent per year. In 2005, we increased it by 3 cents per share, a 3.6 percent increase. We also are working hard to raise our credit ratings and maintain Xcel Energy's low-risk profile. Strong financial performance and increased earnings growth, combined with a growing dividend, should deliver an attractive, low-risk total return.

EXECUTING OUR STRATEGY

We build value for you by investing in our core businesses and earning a return on that investment. Our focus on core operations began by discontinuing businesses that were not strong contributors to that core. Over the past five years, we've divested 10 businesses or subsidiaries, realizing cash proceeds of nearly $440 million.

At the same time, we are investing $7 billion over the next five years in our core operations to grow our business and help us respond to an increase in electric demand and a decrease in available electric supply. We anticipate a need for 3,400 megawatts in Colorado by 2013 and 3,100 megawatts in Minnesota by 2019.

Those investments, in fact, represent the biggest building boom our company has experienced since the 1980s. Seeing the efforts through to successful completion is a big assignment, but we have the proven project management skills to achieve it, which is clear in the progress we've made to date.

We added three new natural gas-fired combustion turbines at our Blue Lake facility in Minnesota and our Angus Anson plant in South Dakota, for a total of 480 megawatts. The $96 million project was completed on schedule, under budget and in time for the summer's high electric demand.

It's full speed ahead on a $1 billion effort in Minnesota to convert our Riverside and High Bridge coal-fired plants to natural gas and refurbish our King coal-fired plant with advanced emission-control equipment. That effort will dramatically reduce emissions while adding 300 megawatts.

Construction also is under way at Comanche 3, a 750-megawatt generating unit at our Comanche coal-fired facility near Pueblo, Colo. We will own 500 megawatts of the new unit, which should begin producing electricity by the fall of 2009. Our investment is $1 billion, including transmission costs.

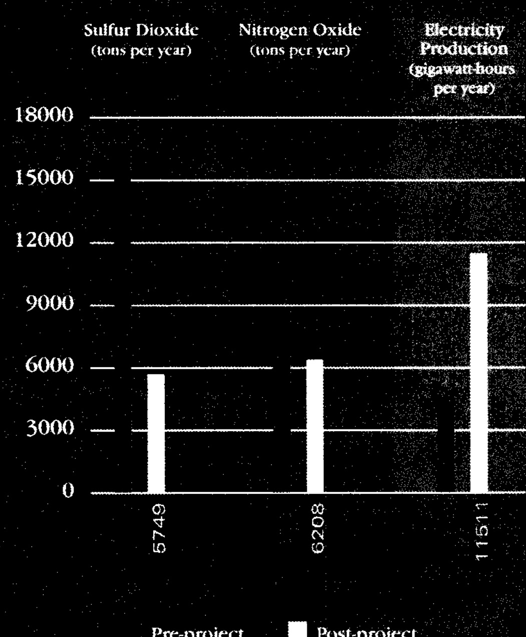
To support additional generation and enhance the reliability of our electrical system, we are making significant investments in upgrading and building transmission lines. In Colorado, we successfully completed a $43 million project that included replacing 70 miles of transmission line with double-circuit, higher-voltage capability. In southwest Minnesota, we have final approval for a transmission project that includes 159 miles of new transmission line, 40 miles of upgraded line and several new substations. The effort will enable us to deliver more wind power from the Buffalo Ridge area of the state.

EARNING OUR AUTHORIZED RETURN

In addition to investing in our core businesses, we work hard to recover and earn a fair return on that investment

Chairman, President and CEO Dick Kelly (left) visits the Comanche 3 construction site to discuss progress with Mike Hernandez, Comanche Station director, and Marie Mornis, senior engineer. As illustrated in the chart, overall sulfur dioxide and nitrogen oxide emissions from the facility will decline and electricity production will increase with the addition of the new unit.

COMANCHE STATION ENVIRONMENTAL IMPROVEMENTS WITH COMANCHE 3



through our regulatory efforts. We completed several rate cases in 2005, have a number of regulatory filings pending and will file additional rate cases as the year progresses. Our goal is to ensure a regulatory framework that meets the needs of customers, while allowing us to earn a return sufficient to retain and attract capital to our business.

That's why we were pleased when the Minnesota Legislature in 2005 approved legislation allowing Xcel Energy and other regulated utilities to recover investments in new electric transmission facilities without filing a general rate case. In Texas, the Legislature authorized annual recovery for transmission infrastructure improvements. Both pieces of legislation should support necessary new investment.

Equally important are efforts to maintain and continue operating our existing generating assets. In 2005, we filed a license renewal application with the Nuclear Regulatory Commission (NRC) for our Monticello nuclear plant. At the same time, we asked the state of Minnesota for a certificate of need to build an independent fuel storage facility at the plant for used nuclear fuel. Both our Monticello and Prairie Island nuclear plants are valuable assets with exceptional operating records. In 2005, they maintained the NRC's highest rating for operational excellence and are in a category reserved for facilities that have earned the NRC's highest level of confidence.

PROTECTING THE ENVIRONMENT

Xcel Energy's commitment to environmental protection is another indication of operational excellence, but also illustrates our concern for customers and communities. Simply put, environmental leadership is good business – for our nation, our customers and our shareholders. Xcel Energy has an outstanding history of bold environmental initiatives and close cooperation with policy makers, stakeholders and communities. I want that legacy to continue and believe it will result in a stronger, more profitable company.

In 2005, we announced several new initiatives to help reduce the environmental impact of electricity production, including our plan to acquire a significant amount of new wind generation for our Colorado system. We expect the additional capacity to make us the largest retail provider of wind power in the nation by 2007.

At the end of the year, we had 1,077 megawatts of wind power on our system. In addition, our Windsource program is the nation's largest voluntary wind energy program, with 46,577 customers in Colorado, Minnesota and New Mexico at the end of 2005.

Xcel Energy is evaluating the operational and economic feasibility of a clean-coal technology called integrated gasification combined cycle (IGCC), with the possibility of pursuing a demonstration plant. IGCC technology uses a chemical process to turn coal into a gas that is then burned in a modified combustion-turbine, combined-cycle generator to make electricity. In particular, we'd like to determine whether IGCC would work at reasonable cost with western coal at high altitudes. The potential benefits of the technology include reduced emissions and the prospect of removing carbon dioxide and storing it at a lower cost than is possible today. We want to explore the storage possibility as well.

In another unique venture, we are partnering with the National Renewable Energy Laboratory in Colorado to investigate using wind energy to create hydrogen. The hydrogen can be stored and used to generate electricity when the wind isn't blowing or used for transportation fuel. Xcel Energy chairs the Hydrogen Utility Group, which was formed in 2005 to explore the common interests utilities may have in developing infrastructure to support a hydrogen economy.

Concerning solar energy, we are investigating the possibility of developing a photovoltaic installation in southern Colorado that could deliver up to eight megawatts of solar power. It would be the largest photovoltaic facility in the nation.

Exploring innovative technologies is critical to advancing our business and supporting our environmental leadership efforts. But the heart of our commitment continues to be the outstanding environmental compliance record that we maintain as we responsibly operate our facilities every day. We also take great pride in voluntary efforts, including emission-reduction projects in Minnesota and Colorado, and our carbon management strategy.

CARING FOR CUSTOMERS AND THE COMMUNITY

Our customers were especially concerned about rising energy prices in 2005, prompting us to launch a proactive effort to help those who had trouble paying their heating bills. In Minnesota, we made a $1 million donation to the Salvation Army's HeatShare program and matched customer contributions to the program up to $500,000. In Colorado, we donated $2 million to Energy Outreach Colorado and matched customer contributions up to $1 million. In total, we donated up to $5 million across our service territory to assist needy customers with their heating bills. Those contributions were on top of the more than $15 million that Xcel Energy and our customers normally devote to energy assistance programs every year.

Energy conservation obviously plays an important role in helping customers manage their bills, and few utilities can match our effort. For more than two decades, we've worked with customers to help them conserve energy and manage its use. Over those years, our customers saved enough electricity to enable us to avoid building eight 250-megawatt power plants. In 2005, we expanded our energy-saving efforts in Colorado, introducing new programs for both residential and business customers.

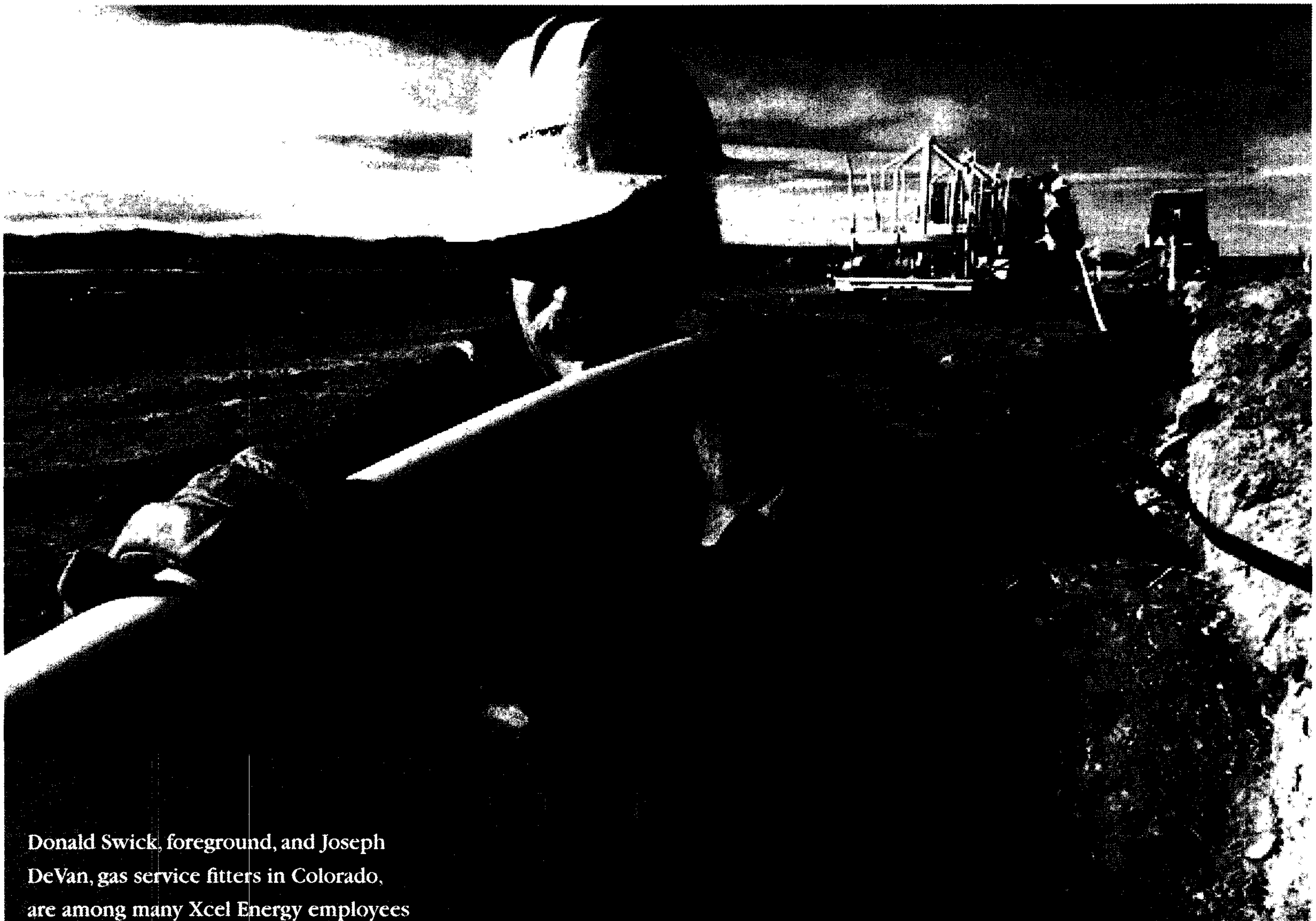
Xcel Energy is fortunate to operate in a thriving service territory, with employment and job growth numbers equal or better than the national average. We help sustain that strength with corporate donations and the volunteer efforts of our employees and retirees. In 2005, Xcel Energy's contributions to the community were valued at $11.4 million, including Xcel Energy Foundation grants, corporate contributions and community grants, in-kind donations to nonprofit organizations, matching gifts and United Way donations. Our employees and retirees, in fact, pledged more than $2 million to support local United Way efforts, which the Foundation matched for a contribution of more than $4 million.

Looking back at 2005, some of my best experiences include meeting with Xcel Energy employees, thanking them for their contributions and discovering anew their determination to make us successful. All of us, in fact, work hard every day to earn your trust and confidence. When we say *You Get All of Our Energy*, we mean it.

In closing, we'd like to welcome Richard H. Truly, who joined our board of directors in September, and wish former Chairman and CEO Wayne Brunetti a long and happy retirement.

Sincerely,

Richard C. Kelly
Chairman, President and CEO



Donald Swick, foreground, and Joseph DeVan, gas service fitters in Colorado, are among many Xcel Energy employees building value for shareholders with their expertise and dedication.

*

Our 2005 annual report to shareholders illustrates the expertise, dedication and heart that Xcel Energy employees bring to their jobs every day. Through individual actions – both large and small – our employees demonstrate a commitment to making Xcel Energy a strong and respected company. They want us to succeed. And they care about their customers and communities, often going above and beyond the call of duty to serve them.

An excellent example is the story of Keith Reif and Joel Bialas, the South Dakota district representatives who appear on our cover. Traveling home in late November after working long hours in wind, sleet and snow to repair damage caused by an ice storm and blizzard, the men rescued five people stranded by the storm. When they reached their destination, Bialas and his wife opened their home to four of the travelers. The fifth was taken to a local hospital for an overnight stay.

Reif and Bialas serve small towns in southeastern South Dakota, with a collective 47 years of experience. The mayor of Fulton, S.D., summed up the gratitude of hundreds of customers when she commended Xcel Energy employees for working "diligently in extreme conditions to restore power to our town after the recent ice storm." She encouraged us to be proud of that kind of dedication – and we are.

BUILDING VALUE FOR YOU

We believe, in fact, that every employee effort directed toward maintaining operational excellence, achieving outstanding customer service or accomplishing our corporate strategy builds value for you. Consider the determination demonstrated by employees who worked on the initial stages of Comanche 3, the 750-megawatt, coal-fired unit we are building in Colorado. Comanche 3 is the result of an historic settlement agreement between the company and more than 20 parties to the case, including

many environmental groups. Just getting to the construction phase took long hours of work and negotiation, with efforts to secure union labor agreements, air-quality permits, and water supply and local land use approvals. And Comanche 3 is only one of several significant construction projects that will enable us to meet a growing demand for energy while we grow our business.

Another example of diligence is represented by the volume of work and attention to detail involved in filing rate cases and other regulatory requests to enable us to earn our authorized return. In those instances, employees compile thousands of pieces of information from all areas of the company, ensure its accuracy and remain ready to respond to additional regulatory requests. The same employees devote considerable time to efforts such as securing permission to recover transmission costs without filing general rate cases.

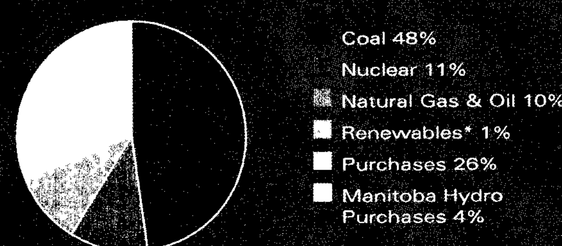
Achieving successful federal legislation takes a similar kind of stamina. Xcel Energy employees – including retired Chairman and CEO Wayne Brunetti – worked for years to encourage Congress to pass a comprehensive energy bill, which finally occurred in 2005. The legislation removes many traditional hurdles for new investment in our industry and replaces them with incentives that will help attract new investors and promote growth.

SERVING OUR CUSTOMERS

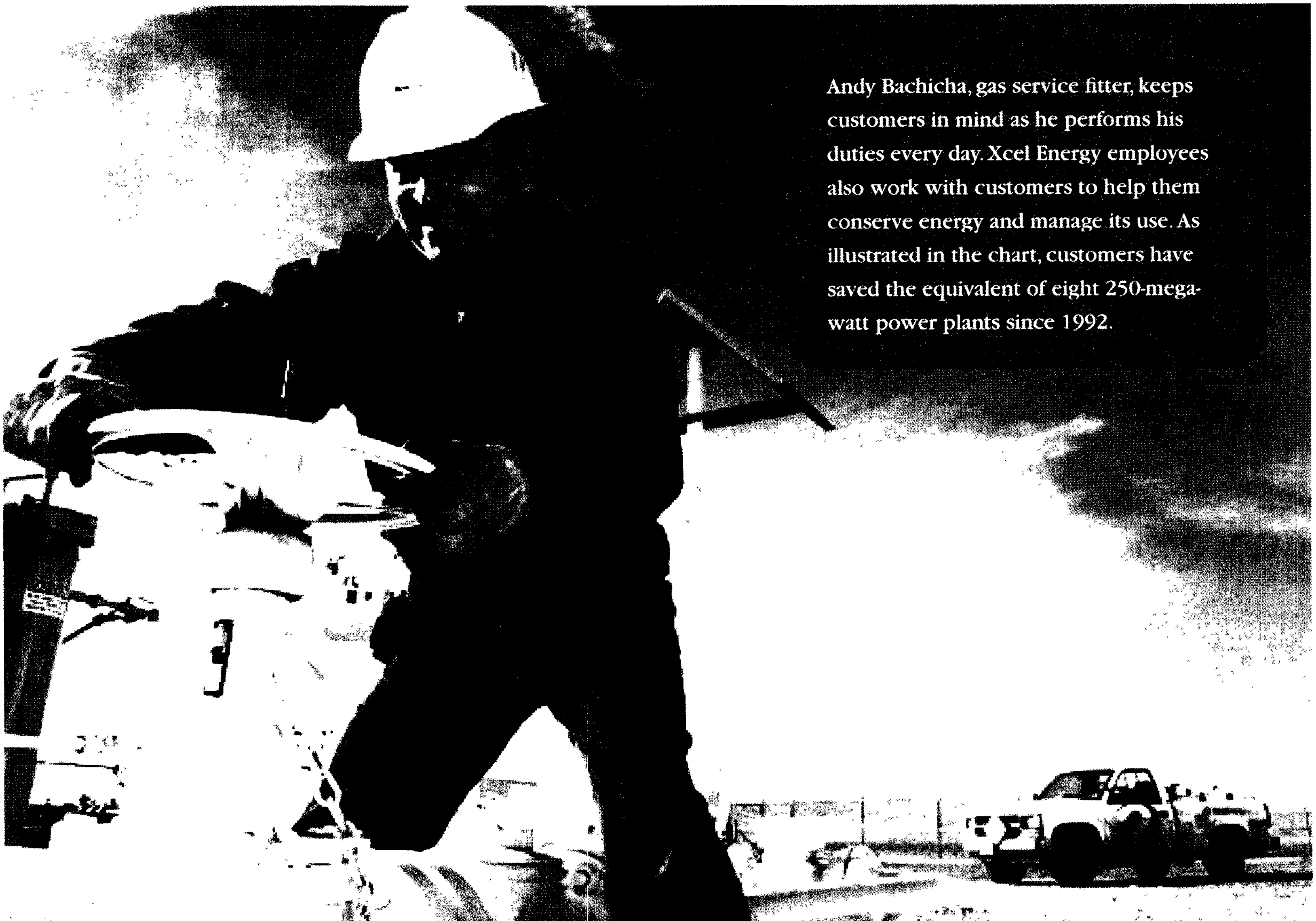
Teamwork and innovation characterize the efforts employees make for customers. Our new outbound calling program is a good example. Following a widespread outage, we generate calls to customers to tell them what caused the outage and when their power will be restored. The process starts with employees in our control center who identify the region affected by the outage and use software to generate a list of affected customers. Employees in our marketing and sales operations group then record and generate the call, which

Ronnie Cordova is a plant operator at Xcel Energy's Comanche coal-fired facility who contributes to the company's reputation for excellent operations. Xcel Energy's balanced portfolio of generating sources, as illustrated in the chart, also is important to operational excellence.

PORTFOLIO OF ENERGY RESOURCES



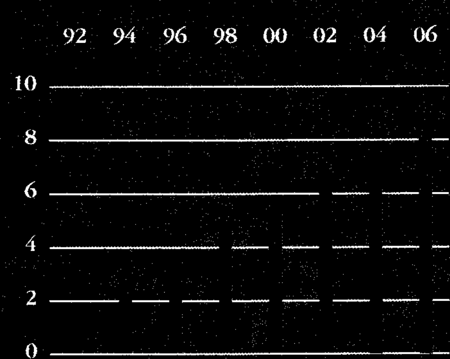
* Renewables include wind, hydro and biomass.



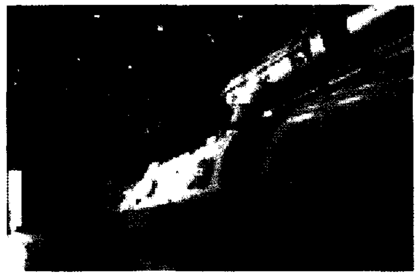
Andy Bachicha, gas service fitter, keeps customers in mind as he performs his duties every day. Xcel Energy employees also work with customers to help them conserve energy and manage its use. As illustrated in the chart, customers have saved the equivalent of eight 250-megawatt power plants since 1992.

EFFECTIVE DEMAND-SIDE MANAGEMENT

number of plants avoided through conservation and load management



One plant = 250-megawatt combined cycle

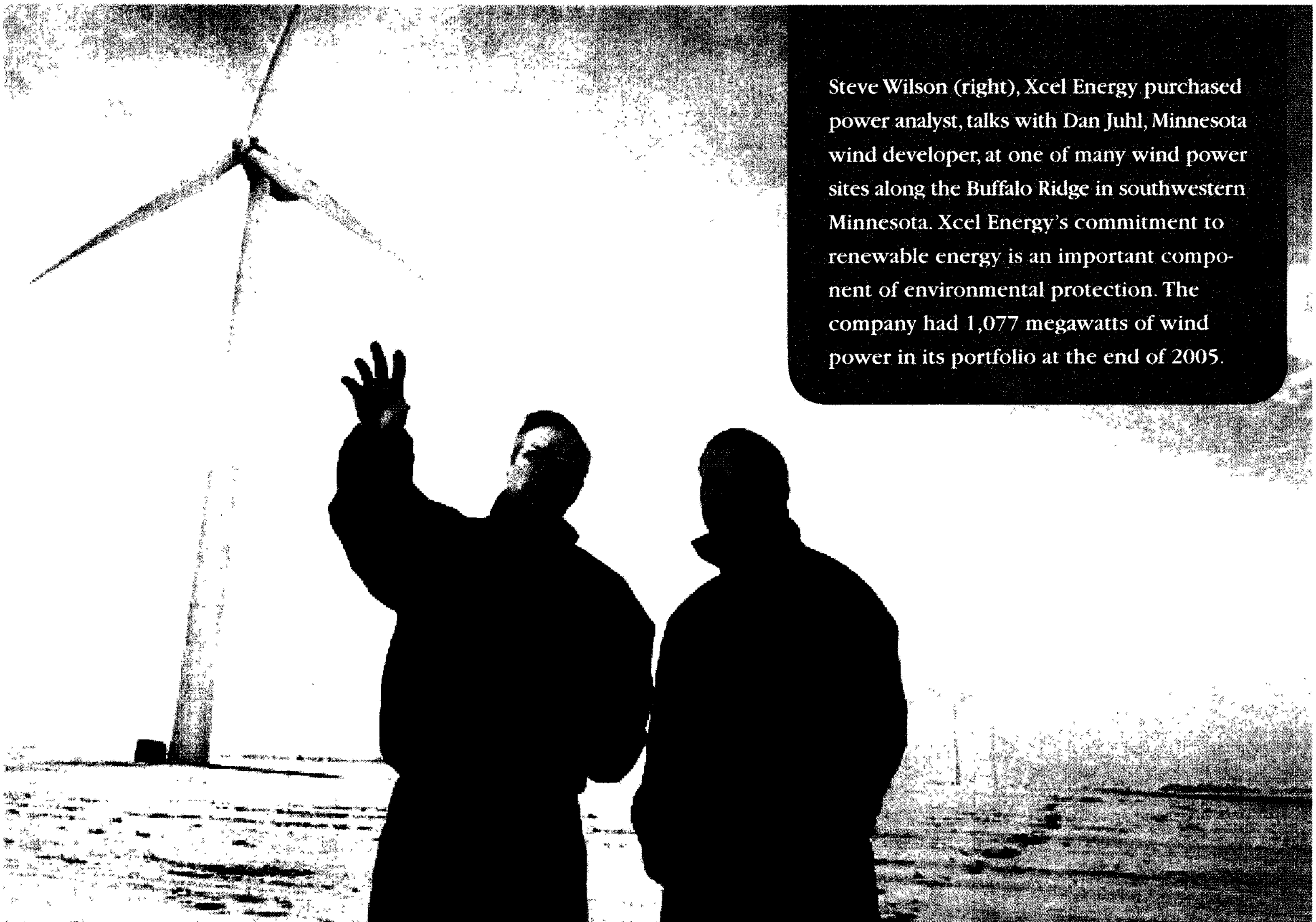


can reach thousands of customers. Response to the new approach has been favorable, with one customer saying she was impressed with Xcel Energy's compassion during storm-restoration work and appreciated the automated phone messages updating her on the situation.

Communication is the hallmark of another program designed to enhance customer service. In 2005, Xcel Energy began offering Language Line, which connects customers who don't speak English with interpreters who speak their language. We also employ more than 30 bilingual employees in our Amarillo, Texas, call center, who handle both Spanish and English calls. No matter the language, Xcel Energy customer call representatives build strong customer relationships with every call – whether they're responding to simple questions or helping customers determine payment plans. In fact, Xcel Energy ranked in the top quartile for residential customer relationship satisfaction among nearly 100 energy utilities in a recent benchmarking study.

As was true in South Dakota, Xcel Energy employees especially shine for customers when they are involved in storm-restoration work. In 2005, opportunities were abundant: increased thunderstorms and hot weather, in addition to the end-of-season ice storm, all strained our electrical system. Long before the storms hit, however, we devoted significant effort and funding to improving reliability with equipment replacement and testing efforts as well as a focus on avoiding repeat outages.

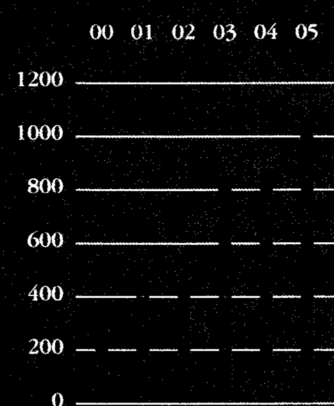
Our crews also helped restore power after hurricanes in Texas and Florida. Those trips involved much behind-the-scenes work to move crews and equipment across the country and stay in touch with them to meet their ongoing needs. Electric utilities maintain mutual-aid agreements for storm-restoration work, with affected energy companies reimbursing us for all costs associated with storm cleanup.

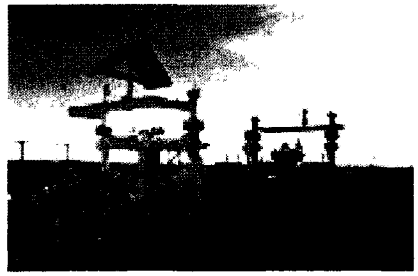


Steve Wilson (right), Xcel Energy purchased power analyst, talks with Dan Juhl, Minnesota wind developer, at one of many wind power sites along the Buffalo Ridge in southwestern Minnesota. Xcel Energy's commitment to renewable energy is an important component of environmental protection. The company had 1,077 megawatts of wind power in its portfolio at the end of 2005.

XCEL ENERGY WIND GENERATION

in megawatts





Most important, employees performed their work safely, which is a strong indicator of operational excellence – and also reflects the effort we devoted to safety in 2005. In every major business area of the company, employees exceeded their safety goals.

ENVIRONMENTAL PROTECTION

Protecting the environment is an effort that encompasses many areas of the company. At its foundation is compliance with environmental rules and regulations, which involves securing and maintaining permits, testing the air and water, handling data, filing reports and ensuring all equipment is operating properly – just to cover the basics.

As we take on voluntary and unique environmental efforts, the work becomes anything but routine. In 2005, for example, we established a first-of-its-kind partnership with the National Renewable Energy Laboratory (NREL) to evaluate siting options for commercial rooftop solar electricity systems in Colorado. NREL was looking for a practical use for its solar data, and Xcel Energy was working to comply with Amendment 37, a Colorado ballot initiative that requires the company to have an estimated 18 megawatts of solar power in place by 2007. At least half of that energy must come from on-site, customer-owned generation facilities. The partnership demonstrates our commitment to develop renewable energy options for customers, and merges NREL's expertise with our drive for innovation.

Securing wind energy is another interesting Xcel Energy job that takes collaboration and flexibility. Our employees initially work together to determine resource needs and then negotiate power purchase agreements, help facilitate regulatory approvals and manage contracts. Much of our work to promote renewable energy requires tenacity and a certain degree of creativity to overcome obstacles as projects move from an idea to a generating source.

A COMMITMENT TO COMMUNITY

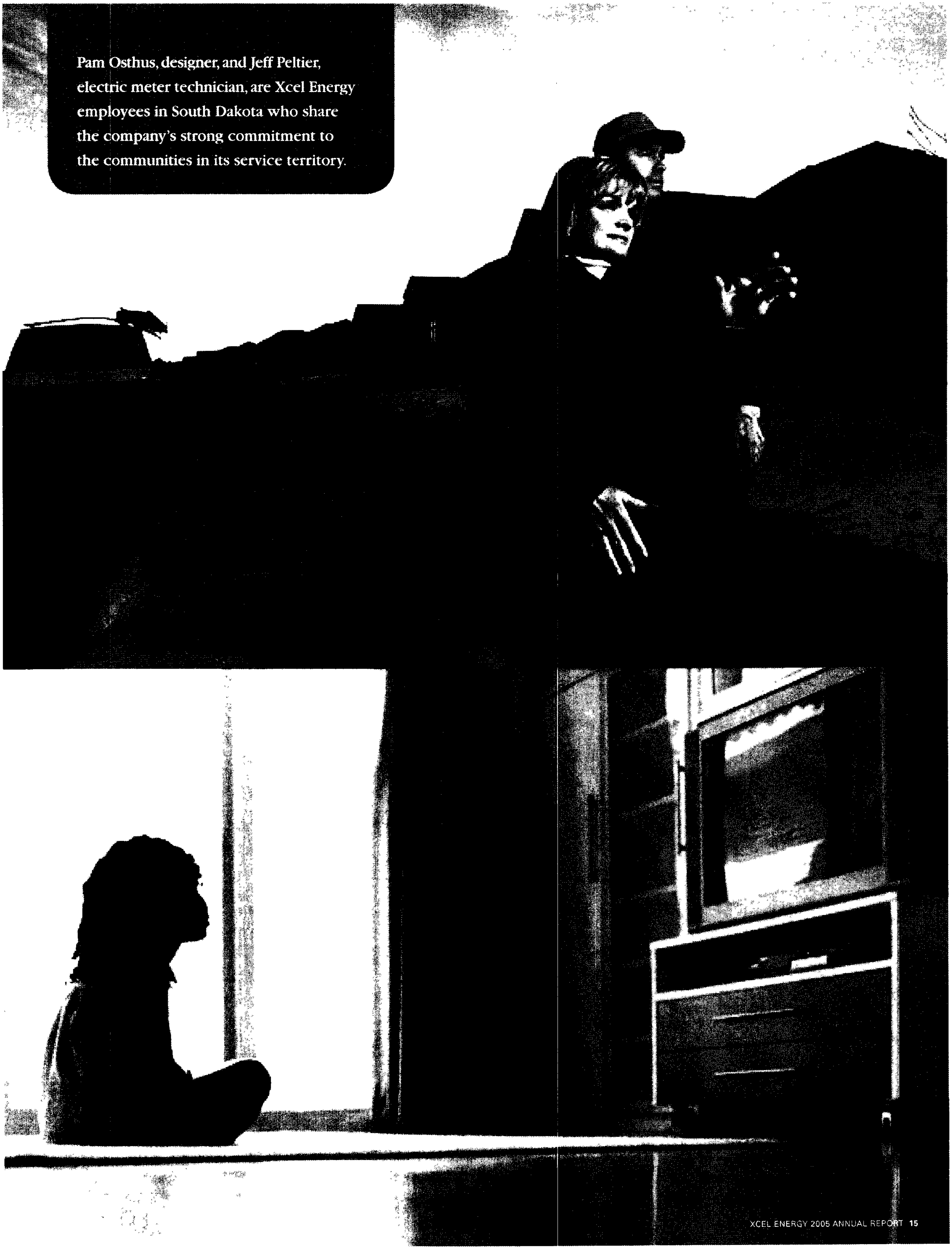
Many Xcel Energy efforts, including customer service and environmental protection, contribute to the company's commitment to the communities it serves. This is another area where our employees and retirees excel, whether they are building houses for Habitat for Humanity, volunteering as mentors or delivering Meals on Wheels.

Our response to Hurricane Katrina is an example of corporate social responsibility coupled with employee compassion. Following the hurricane, we made an immediate $100,000 donation to the American Red Cross and then began matching employee and retiree donations. In the meantime, we provided the funds necessary to send relief workers from the American Refugee Committee to New Orleans, La. That group established a working clinic that continues to rotate medical staff in and out of the city.

Some areas of the company launched their own projects, including fund-raising and clothing drives. An employee in Texas helped organize an evening of New Orleans cuisine and live music to help ease the stress of evacuees adapting to new surroundings. In Denver, Colo., the company participated in a job fair for evacuees in that city.

Overall, employees and retirees contributed more than $126,000 to the Hurricane Katrina relief effort. They also donated more than $37,000 to aid victims of the Southeast Asia tsunami and more than $542,000 to nonprofit agencies and institutes of higher education, making 2005 a banner year for employee and retiree contributions. Xcel Energy matched those contributions dollar for dollar.

In the community or on the job, Xcel Energy employees give it their all. We're proud of their commitment and believe their energy and enthusiasm are instrumental in accomplishing our corporate strategy and building value for you.



Pam Osthus, designer, and Jeff Peltier, electric meter technician, are Xcel Energy employees in South Dakota who share the company's strong commitment to the communities in its service territory.

BUSINESS SEGMENTS AND ORGANIZATIONAL OVERVIEW

Xcel Energy Inc. (Xcel Energy), a Minnesota corporation, is a public utility holding company. In 2005, Xcel Energy continuing operations included the activity of four utility subsidiaries that serve electric and natural gas customers in 10 states. These utility subsidiaries are Northern States Power Co., a Minnesota corporation (NSP-Minnesota); Northern States Power Co., a Wisconsin corporation (NSP-Wisconsin); Public Service Company of Colorado (PSCo); and Southwestern Public Service Co. (SPS). These utilities serve customers in portions of Colorado, Kansas, Michigan, Minnesota, New Mexico, North Dakota, Oklahoma, South Dakota, Texas and Wisconsin. Along with WestGas InterState Inc. (WGI), an interstate natural gas pipeline, these companies comprise our continuing regulated utility operations.

Xcel Energy's nonregulated subsidiaries reported in continuing operations include Eloigne Co. (investments in rental housing projects that qualify for low-income housing tax reported credits).

Discontinued utility operations include Viking Gas Transmission Co. (Viking), an interstate natural gas pipeline company that was sold in January 2003; Black Mountain Gas Co. (BMG), a regulated natural gas and propane distribution company that was sold in October 2003; and Cheyenne Light, Fuel and Power Co. (Cheyenne), a regulated electric and natural gas utility that was sold in January 2005.

During 2003, Planergy International, Inc. (Planergy), (energy management solutions) closed, with final dissolution completed in 2004. Several nonregulated subsidiaries are presented as a component of discontinued operations. They include Utility Engineering (UE), an engineering, design and construction management firm; Quixx Corp., a former subsidiary of UE that partners in cogeneration projects; Seren Innovations, Inc. (Seren), a broadband communications services company; NRG Energy, Inc. (NRG), an independent power producer; Xcel Energy International, Inc., an international independent power producer; and e prime inc. (e prime), a natural gas marketing and trading company.

Discontinued operations classifications are the result of sales or plans to sell by management. See Note 2 to the Consolidated Financial Statements for further discussion of discontinued operations.

FORWARD-LOOKING STATEMENTS

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," "believe," "estimate," "expect," "intend," "may," "objective," "outlook," "plan," "project," "possible," "potential," "should" 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 the availability of credit and its 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; actions of credit rating agencies; 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; effects of geopolitical events, including war and acts of terrorism; state, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rates or have an impact on asset operation or ownership; structures that 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; costs and other effects of legal and administrative proceedings, settlements, investigations and claims; actions of accounting regulatory bodies; the items described under Factors Affecting Results of Continuing 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 "Risk Factors" in Item 1A of Xcel Energy's Annual Report on Form 10-K for the year ended Dec. 31, 2005, and Exhibit 99.01 to Xcel Energy's Annual Report on Form 10-K for the year ended Dec. 31, 2005.

MANAGEMENT'S STRATEGIC PLAN

Xcel Energy's strategy, which we call Building the Core, is to invest in our core utility businesses and earn the return authorized by our regulatory commissions. We plan to invest approximately $7 billion over the next five years in our core operations to grow our business in response to an increase in customer demand. We anticipate a need for additional energy supply in both Colorado and Minnesota during the next 15 years. Additionally, we continue to focus on enhancing the reliability of our electrical system, which includes making significant investment in our transmission and distribution systems.

Over the past five years, we've divested 10 businesses or subsidiaries that were not closely linked to our core electric and natural gas businesses, realizing cash proceeds of nearly $440 million. Today, we're a vertically integrated utility and we intend to stay that way.

Our strategy of Building the Core has three phases. The first phase is obtaining legislative and regulatory support for our large investment initiatives prior to making the investment. To avoid excessive risk for the company, it is critical to reduce regulatory uncertainty before making large capital investments. We accomplished this for both the Metro Emission Reduction Project (MERP) in Minnesota and the Comanche 3 coal plant in Colorado. Transmission legislation has been passed in Minnesota, allowing that state's regulatory commission to approve recovery for transmission investments without filing a general rate case. In Texas, the legislature authorized annual recovery for transmission infrastructure improvements. Both pieces of legislation will support necessary new investment in our transmission system.

The second phase is making those investments. In a normal year, we spend approximately $1 billion on capital projects. In addition to our base level of capital investment, we expect to spend approximately $1 billion on MERP and $1 billion on Comanche 3 through 2010. As a result of these investments, as well as continued investments in our transmission and distribution system to ensure continued reliability and to meet our customer growth requirements, we expect that our rate base, or the amount on which we earn a return, will grow annually by slightly more than 4 percent on average. Finally, such investments will always be made with a clear focus on optimizing environmental protection, a significant priority for Xcel Energy.

The third phase is earning a fair return on our investments. To ensure that we earn a fair return, our regulatory strategy is to receive regulatory approval for rate riders as well as general rate cases. A rate rider is a mechanism that allows us to recover certain costs and returns on investments without the costs and delays of filing a rate case. These riders allow for timely revenue recovery and are good mechanisms to recover the costs of large projects or other costs that vary over time. As an example, a rider for MERP went into effect in January 2006, allowing us to earn a return on the project while the facility is being constructed.

We also are filing general rate cases to increase revenue recovery in most of the states in which we operate. In 2005, we filed several rate cases as part of our regulatory strategy. These rate cases, and others that we plan to file in 2006, are some of the building blocks of our earnings growth plan. Following is the current status of these initiatives:
- We reached constructive decisions in the Colorado natural gas case and Wisconsin electric and natural gas cases, which will increase revenue in 2006 (see Factors Affecting Results of Continuing Operations for further discussion).
- We are on track with the Minnesota electric case, where interim rates, subject to refund, went into effect in January 2006. We expect a decision in the third quarter of this year.
- Later in the year we plan to file electric cases in Colorado, Texas, New Mexico, and possibly North Dakota and South Dakota. If we are successful, these cases should increase revenue and earnings in 2007.

Our regulatory strategy is based on filing reasonable rate requests designed to provide recovery of legitimate expenses and a return on our utility investments. We believe that our commissions will provide us with reasonable recovery, and it's important to note that our financial plans include this assumption. Recent constructive results, along with past rulings, are evidence of reasonable regulatory treatment and give us confidence that we are pursuing the right strategy.

With any strategic plan, there are goals and objectives. We feel the following financial objectives are both realistic and achievable:
- Annual earnings-per-share growth rate target of 5 percent to 7 percent from 2005–2009;
- Annual dividend increases of 2 percent to 4 percent; and
- Senior unsecured debt credit ratings in the BBB+ to A range.

Successful execution of our Building the Core strategic plan should allow us to achieve our financial objectives, which in turn should provide investors with an attractive total return on a low-risk investment.

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 Consolidated Financial Statements and Notes. All note references refer to the Notes to Consolidated Financial Statements.

SUMMARY OF FINANCIAL RESULTS

The following table summarizes the earnings contributions of Xcel Energy's business segments on the basis of generally accepted accounting principles (GAAP). Continuing operations consist of the following:
- Regulated utility subsidiaries, operating in the electric and natural gas segments; and
- Several nonregulated subsidiaries and the holding company, where corporate financing activity occurs.

Discontinued operations consist of the following:
- Quixx Corp., which was classified as held for sale in the third quarter of 2005 based on a decision to divest this investment;
- Utility Engineering Corp., which was sold in April 2005;
- Seren, a portion of which was sold in November 2005, with the remainder sold in January 2006;
- Viking and BMG, which were sold in 2003;
- Cheyenne, which was sold in January 2005;
- NRG, which emerged from bankruptcy and was divested in late 2003; and
- Xcel Energy International and e prime, which were classified as held for sale in late 2003 based on the decision to divest them.

Certain items in the statements of operations have been reclassified from prior-period presentation to conform to the 2005 presentation. See Note 2 to the Consolidated Financial Statements for a further discussion of discontinued operations.

Contribution to earnings (Millions of dollars)	**2005**	2004	2003
GAAP income (loss) by segment			
Regulated electric utility segment income – continuing operations	**$440.6**	$466.3	$461.3
Regulated natural gas utility segment income – continuing operations	**71.2**	86.1	94.1
Other utility results *(a)*	**27.6**	6.1	6.0
Total utility segment income – continuing operations	**539.4**	558.5	561.4
Holding company costs and other results *(a)*	**(40.3)**	(36.2)	(38.6)
Total income – continuing operations	**499.1**	522.3	522.8
Regulated utility income (loss) – discontinued operations	**0.2**	(9.0)	26.8
NRG loss – discontinued operations	**(1.1)**	–	(251.4)
Other nonregulated income (loss) – discontinued operations *(b)*	**14.8**	(157.3)	324.2
Total income (loss) – discontinued operations	**13.9**	(166.3)	99.6
Total GAAP net income	**$513.0**	$356.0	$622.4

Contribution to earnings per share	**2005**	2004	2003
GAAP earnings (loss) per share contribution by segment			
Regulated electric utility segment – continuing operations	**$1.04**	$1.10	$1.10
Regulated natural gas utility segment – continuing operations	**0.17**	0.20	0.22
Other utility results *(a)*	**0.06**	0.02	0.01
Total utility segment earnings per share – continuing operations	**1.27**	1.32	1.33
Holding company costs and other results *(a)*	**(0.07)**	(0.06)	(0.07)
Total earnings per share – continuing operations	**1.20**	1.26	1.26
Regulated utility earnings (loss) – discontinued operations	**–**	(0.02)	0.06
NRG loss – discontinued operations	**–**	–	(0.60)
Other nonregulated earnings (loss) – discontinued operations *(b)*	**0.03**	(0.37)	0.78
Total earnings (loss) per share – discontinued operations	**0.03**	(0.39)	0.24
Total GAAP earnings per share – diluted	**$1.23**	$0.87	$1.50

(a) Not a reportable segment. Included in All Other segment results in Note 17 to the Consolidated Financial Statements.

(b) Includes tax benefit related to NRG. See Note 2 to the Consolidated Financial Statements.

Earnings from continuing operations for 2005 were lower than in 2004. The 2005 results had higher operating margins, which were offset by higher operating and maintenance expenses, including scheduled nuclear plant outages in 2005, higher employee benefit costs, higher uncollectible receivable expense and higher depreciation expense. In addition, tax expense recorded in 2005 was higher than 2004, primarily attributable to tax benefits recorded in 2004 related to the successful resolution of various income tax audit issues.

While earnings from continuing operations for 2004 were flat compared with 2003, 2004 results were favorably impacted by electric sales growth, short-term wholesale markets and lower depreciation, offset by the negative impact of unfavorable weather, legal settlement costs and the impact of certain regulatory accruals, compared with the same period in 2003.

Income from discontinued operations in 2005 includes the positive impact of a $17 million tax benefit recorded to reflect the final resolution of Xcel Energy's divested interest in NRG. This was partially offset by Seren's operating losses during 2005.

The loss from discontinued operations in 2004 is largely due to an after-tax impairment charge of $143 million, or 34 cents per share, related to Seren. In addition, the loss from discontinued operations in 2004 is attributable in part to an after-tax loss of $13 million, or 3 cents per share, associated with the disposition of Cheyenne.

The earnings in 2003 from discontinued operations are primarily due to an adjustment to previously estimated tax benefits related to Xcel Energy's write-off of its investment in NRG. Results from discontinued operations are discussed in the Discontinued Operations section later.

Weather Xcel Energy's earnings can be significantly affected by weather. Unseasonably hot summers or cold winters increase electric and natural gas sales, but also can increase expenses. Unseasonably mild weather reduces electric and natural gas sales, but may not reduce expenses. The impact of weather on earnings is based on the number of customers, temperature variances and the amount of natural gas or electricity the average customer historically has used per degree of temperature.

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 2005 increased earnings by an estimated 3 cents per share;
- Weather in 2004 decreased earnings by an estimated 8 cents per share; and
- Weather in 2003 was close to normal and had minimal impact on earnings per share.

STATEMENT OF OPERATIONS ANALYSIS – CONTINUING OPERATIONS

The following discussion summarizes the items that affected the individual revenue and expense items reported in the Consolidated Statements of Operations.

ELECTRIC UTILITY, SHORT-TERM WHOLESALE AND COMMODITY TRADING MARGINS

Electric fuel and purchased power expenses tend to vary with changing retail and wholesale sales requirements and unit cost changes in fuel and purchased power. Due to fuel and purchased energy cost-recovery mechanisms for retail customers in several states, most fluctuations in these costs do not materially affect electric utility margin.

Xcel Energy has two distinct forms of wholesale sales: short-term wholesale and commodity trading. Short-term wholesale refers to energy-related purchase and sales activity, and the use of certain financial instruments associated with the fuel required for, and energy produced from, Xcel Energy's generation assets or the energy and capacity purchased to serve native load. Commodity trading is not associated with Xcel Energy's generation assets or the energy and capacity purchased to serve native load. Short-term wholesale and commodity trading activities are considered part of the electric utility segment.

Short-term wholesale and commodity trading margins reflect the estimated impact of regulatory sharing, if applicable. Commodity trading revenues are reported net of related costs (i.e., on a margin basis) in the Consolidated Statements of Operations. Commodity trading costs include purchased power, transmission, broker fees and other related costs.

The following table details the revenue and margin for base electric utility, short-term wholesale and commodity trading activities:

(Millions of dollars)	Base Electric Utility	Short-Term Wholesale	Commodity Trading	Consolidated Totals
2005				
Electric utility revenue (excluding commodity trading)	**$7,038**	**$196**	**$ -**	**$7,234**
Fuel and purchased power	**(3,802)**	**(120)**	**-**	**(3,922)**
Commodity trading revenue	**-**	**-**	**730**	**730**
Commodity trading costs	**-**	**-**	**(720)**	**(720)**
Gross margin before operating expenses	**$3,236**	**$ 76**	**$ 10**	**$3,322**
Margin as a percentage of revenue	**46.0%**	**38.8%**	**1.4%**	**41.7%**
2004				
Electric utility revenue (excluding commodity trading)	$5,989	$220	$ -	$6,209
Fuel and purchased power	(2,916)	(125)	-	(3,041)
Commodity trading revenue	-	-	610	610
Commodity trading costs	-	-	(594)	(594)
Gross margin before operating expenses	$3,073	$ 95	$ 16	$3,184
Margin as a percentage of revenue	51.3%	43.2%	2.6%	46.7%
2003				
Electric utility revenue (excluding commodity trading)	$5,724	$179	$ -	$5,903
Fuel and purchased power	(2,588)	(118)	-	(2,706)
Commodity trading revenue	-	-	333	333
Commodity trading costs	-	-	(316)	(316)
Gross margin before operating expenses	$3,136	$ 61	$ 17	$3,214
Margin as a percentage of revenue	54.8%	34.1%	5.1%	51.5%

The following summarizes the components of the changes in base electric utility revenue and base electric utility margin for the years ended Dec. 31:

Base Electric Utility Revenue

(Millions of dollars)	2005 vs. 2004	2004 vs. 2003
Sales growth (excluding weather impact)	**$ 57**	$ 73
Estimated impact of weather	**91**	(74)
Fuel and purchased power cost recovery	**706**	230
Firm wholesale	**67**	62
Capacity sales	**15**	(2)
Quality-of-service obligations	**7**	(12)
Conservation and non-fuel riders	**16**	(5)
Texas fuel reconciliation settlement	**21**	(25)
Other	**69**	18
Total base electric utility revenue increase	**$1,049**	$265

2005 Comparison with 2004 Base electric revenues increased due to higher fuel and purchased power costs, which are largely recovered from customers; weather-normalized retail sales growth of approximately 1.4 percent; higher sales attributable to warmer than normal summer temperatures in 2005; higher revenues from firm wholesale customers; and lower regulatory accruals related to the Texas fuel reconciliation settlement.

2004 Comparison with 2003 Base electric utility revenues increased due to higher fuel and purchased power costs, which are largely recovered from customers; weather-normalized retail sales growth of approximately 1.8 percent; and higher revenues from firm wholesale customers. Partially offsetting the higher revenues was the impact of significantly cooler summer temperatures in 2004, compared with the summer of 2003, as well as estimated customer refunds related to quality-of-service obligations in Colorado and the estimated Texas fuel reconciliation settlement.

Base Electric Utility Margin

(Millions of dollars)	2005 vs. 2004	2004 vs. 2003
Estimated impact of weather on sales	**$ 75**	$(56)
Sales growth (excluding weather impact)	**42**	55
Conservation and non-fuel revenue	**16**	(6)
Texas fuel reconciliation settlement	**21**	(25)
Quality-of-service obligations	**7**	(12)
Under-recovery of fuel costs (NSP-Wisconsin)	**(15)**	(10)
Under-recovery and timing of recovery of fuel costs (other jurisdictions)	**(14)**	(20)
Firm wholesale	**23**	27
Pricing and other	**8**	(16)
Total base electric utility margin increase (decrease)	**$163**	$(63)

2005 Comparison to 2004 Base electric utility margin increased due to the impact of weather, weather-normalized sales growth, higher firm wholesale margins, higher conservation and non-fuel rider revenues and lower accruals related to the fuel reconciliation proceedings in Texas, partially offset by higher amortization expense and lower regulatory accruals associated with potential customer refunds related to service-quality obligations in Colorado. These increases were partially offset by higher fuel and purchased energy costs not recovered through direct pass-through recovery mechanisms.

2004 Comparison to 2003 Base electric utility margin decreased due to the impact of weather, higher fuel and purchased energy costs not recovered through direct pass-through recovery mechanisms and regulatory accruals associated with potential customer refunds related to service-quality obligations in Colorado and fuel-reconciliation proceedings in Texas. These decreases were partially offset by weather-normalized sales growth.

Short-Term Wholesale and Commodity Trading Margin

2005 Comparison to 2004 Short-term wholesale and commodity trading margins decreased $25 million for 2005 compared with 2004. The higher 2004 results reflect the impact of more favorable market conditions and higher levels of surplus generation available to sell. In addition, a pre-existing contract contributed $17 million of margin in the first quarter of 2004 and expired at that time.

2004 Comparison to 2003 Short-term wholesale and commodity trading margins increased approximately $33 million in 2004 compared with 2003. The increase reflects a number of market factors, including higher market prices and additional resources available for sale, and the pre-existing contract described above.

NATURAL GAS UTILITY MARGINS

The following table details the changes in natural gas utility revenue and margin. The cost of natural gas tends to vary with changing sales requirements and the unit cost of wholesale natural gas purchases. However, due to purchased natural gas cost-recovery mechanisms for sales to retail customers, fluctuations in the wholesale cost of natural gas have little effect on natural gas margin. See further discussion under Factors Affecting Results of Continuing Operations.

(Millions of dollars)	**2005**	2004	2003
Natural gas utility revenue	**$2,307**	$1,916	$1,678
Cost of natural gas purchased and transported	**(1,823)**	(1,446)	(1,191)
Natural gas utility margin	**$ 484**	$ 470	$ 487

The following summarizes the components of the changes in natural gas revenue and margin for the years ended Dec. 31:

Natural Gas Revenue

(Millions of dollars)	**2005 vs. 2004**	2004 vs. 2003
Sales growth (excluding weather impact)	**$ –**	$ (3)
Purchased natural gas adjustment clause recovery	**397**	257
Rate changes – Colorado, Minnesota and North Dakota	**6**	(15)
Estimated impact of weather	**(5)**	(10)
Transportation and other	**(7)**	9
Total natural gas revenue increase	**$391**	$238

2005 Comparison to 2004 Natural gas revenue increased primarily due to higher natural gas costs in 2005, which are recovered from customers. Retail natural gas weather-normalized sales were flat when compared to 2004, largely due to the rising cost of natural gas and its impact on customer usage.

2004 Comparison to 2003 Natural gas revenue increased primarily due to higher natural gas costs in 2004, which are recovered from customers. Retail natural gas weather-normalized sales declined in 2004, largely due to the rising cost of natural gas and its impact on customer usage.

Natural Gas Margin

(Millions of dollars)	**2005 vs. 2004**	2004 vs. 2003
Sales growth (excluding weather impact)	**$ 1**	$ –
Estimated impact of weather on firm sales	**(2)**	(5)
Rate changes – Colorado, Minnesota and North Dakota	**6**	(15)
Transportation	**6**	1
Other	**3**	2
Total natural gas margin increase (decrease)	**$14**	$(17)

2005 Comparison to 2004 Natural gas margin increased due to rate changes in Minnesota and North Dakota, and higher transportation margins, partially offset by the impact of warmer winter temperatures in 2005 compared with 2004.

2004 Comparison to 2003 Natural gas margin decreased due to a full year of a base rate decrease in Colorado, which was effective July 1, 2003, and the impact of warmer winter temperatures in 2004 compared with 2003.

NONREGULATED OPERATING MARGINS

The following table details the changes in nonregulated revenue and margin included in continuing operations:

(Millions of dollars)	**2005**	2004	2003
Nonregulated and other revenue	**$74**	$75	$134
Nonregulated cost of goods sold	**(25)**	(29)	(81)
Nonregulated margin	**$49**	$46	$ 53

2004 Comparison to 2003 Nonregulated revenue decreased in 2004, due primarily to the discontinued consolidation of an investment in an independent power-producing entity that was no longer majority owned.

NON-FUEL OPERATING EXPENSES AND OTHER ITEMS

Other Utility Operating and Maintenance Expenses Other operating and maintenance expenses for 2005 increased by approximately $87 million, or 5.5 percent, compared with 2004. An outage at the Monticello nuclear plant and higher outage costs at Prairie Island in 2005 increased costs by approximately $26 million. Employee benefit costs were higher in 2005, primarily due to increased pension benefits and long-term disability costs. Also contributing to the increase were higher uncollectible receivable costs, attributable in part to modifications to the bankruptcy laws, higher fuel prices and certain changes in the credit and collections process.

Other operating and maintenance expenses for 2004 increased by approximately $21 million, or 1.4 percent, compared with 2003. Of the increase, $12 million was incurred to assist with the storm damage repair in Florida and was offset by increased revenue. The remaining increase of $9 million is primarily due to higher electric service reliability costs, higher information technology costs, higher plant-related costs, higher costs related to a customer billing system conversion and increased costs primarily related to compliance with the Sarbanes-Oxley Act of 2002. The higher costs were partially offset by lower employee benefit and compensation costs and lower nuclear plant outage costs.

(Millions of dollars)	**2005 vs. 2004**	2004 vs. 2003
Higher (lower) employee benefit costs	**$31**	$(12)
Higher (lower) nuclear plant outage costs	**26**	(13)
Higher uncollectible receivable costs	**19**	2
Higher donations to energy assistance programs	**4**	1
Higher mutual aid assistance costs	**1**	12
Higher electric service reliability costs	**9**	9
Higher (lower) information technology costs	**(6)**	8
Higher (lower) plant-related costs	**(7)**	4
Higher costs related to customer billing system conversion	**4**	4
Higher costs to comply with Sarbanes-Oxley Act of 2002	**-**	4
Other	**6**	2
Total operating and maintenance expense increase	**$87**	$ 21

Other Nonregulated Operating and Maintenance Expenses Other nonregulated operating and maintenance expenses decreased $16 million, or 35.4 percent, in 2005 compared with 2004, primarily due to the accrual of $18 million in 2004 for a settlement agreement related to shareholder lawsuits.

Other nonregulated operating and maintenance expenses decreased $9 million, or 17.5 percent, in 2004 compared with 2003. This decrease resulted from the dissolution of Planergy International and the discontinued consolidation of an investment in an independent power-producing entity that was no longer majority owned after the divestiture of NRG.

Depreciation and Amortization Depreciation and amortization expense for 2005 increased by approximately $61 million, or 8.7 percent, compared with 2004. The changes were primarily due to the installation of new steam generators at Unit 1 of the Prairie Island nuclear plant and software system additions, both of which have relatively short depreciable lives compared with other capital additions. The Prairie Island steam generators are being depreciated over the remaining life of the plant operating license, which expires in 2013. In addition, the Minnesota Renewable Development Fund and renewable cost-recovery amortization, which is recovered in revenue as a non-fuel rider and does not have an impact on net income, increased over 2004. The increase was partially offset by the changes in useful lives and net salvage rates approved by Minnesota regulators in August 2005.

Depreciation and amortization expense for 2004 decreased by $21 million, or 2.9 percent, compared with 2003. The reduction is largely due to several regulatory decisions. In 2004, as a result of a Minnesota Public Utilities Commission (MPUC) order, NSP-Minnesota modified its decommissioning expense recognition, which served to reduce decommissioning accruals by approximately $18 million in 2004 compared with 2003.

In addition, effective July 1, 2003, the Colorado Public Utilities Commission (CPUC) lengthened the depreciable lives of certain electric utility plant at PSCo as a part of the general Colorado rate case, reducing annual depreciation expense by $20 million. PSCo experienced the full impact of the annual reduction in 2004, resulting in a decrease in depreciation expense of $10 million for 2004 compared with 2003. These decreases were partially offset by plant additions.

Interest and Other Income (Expense), Net Interest and other income (expense), net decreased $8 million in 2005 compared with 2004. The decrease is due to interest income related to the finalization of prior-period IRS audits of $10.5 million in 2004, partially offset by a $2.2 million gain on the sale of water rights in 2005.

Interest and other income, net of nonoperating expenses increased $15 million in 2004 compared with 2003. The increase is due mostly to interest income related to the finalization of prior-period IRS audits of $10.5 million.

Interest and Financing Costs The 2005 interest charges and financing costs increased approximately $8 million, or 1.9 percent when compared with 2004, primarily due to increased short-term borrowing levels.

The 2004 interest charges and financing costs decreased approximately $17 million, or 3.7 percent when compared with 2003. The decrease for the year reflects savings from refinancing higher coupon debt during 2003 and lower credit line fees, partially offset by interest expense related to prior-period IRS audits.

Income Tax Expense The effective income tax rate for continuing operations was 25.8 percent for 2005, compared with 23.7 percent in 2004. Income taxes recorded in 2005 reflect tax benefits of $10.0 million, primarily from increased research credits and a net operating loss carry back. Excluding the tax benefits, the effective rate for 2005 would have been 27.3 percent.

In 2004, income tax benefits of $37.1 million were recorded, which included $22.3 million related to the successful resolution of various audit issues and other adjustments to current and deferred taxes. The effective income tax rate for continuing operations was 23.7 percent for 2004, compared with 24.6 percent for the same period in 2003. Excluding the tax benefits, the effective rate for 2004 would have been 29.1 percent.

See Note 8 to the Consolidated Financial Statements.

HOLDING COMPANY AND OTHER RESULTS

The following tables summarize the net income and earnings-per-share contributions of the continuing operations of Xcel Energy's nonregulated businesses and holding company results:

Contribution to Xcel Energy's earnings (Millions of dollars)	**2005**	2004	2003
Eloigne Company	**$ 6.2**	$ 8.5	$ 7.7
Financing costs – holding company	**(52.7)**	(44.7)	(44.1)
Holding company and other results	**6.2**	–	(2.2)
Total nonregulated/holding company loss – continuing operations	**$(40.3)**	$(36.2)	$(38.6)

Contribution to Xcel Energy's earnings per share	**2005**	2004	2003
Eloigne Company	**$ 0.01**	$ 0.02	$ 0.02
Financing costs and preferred dividends – holding company	**(0.09)**	(0.08)	(0.09)
Holding company and other results	**0.01**	–	–
Total nonregulated/holding company loss per share – continuing operations	**$(0.07)**	$(0.06)	$(0.07)

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

The earnings-per-share impact of financing costs and preferred dividends for 2005, 2004 and 2003 included above reflects dilutive securities, as discussed further in Note 9 to the Consolidated Financial Statements. The impact of the dilutive securities, if converted, is a reduction of interest expense resulting in an increase in net income of approximately $14 million, or 3 cents per share, in 2005; $15 million, or 4 cents per share, in 2004; and $11 million, or 3 cents per share, in 2003.

STATEMENT OF OPERATIONS ANALYSIS – DISCONTINUED OPERATIONS (NET OF TAX)

A summary of the various components of discontinued operations is as follows for the years ended Dec. 31:

	2005	2004	2003
Income (loss) in millions			
Viking Gas Transmission Co.	**$ –**	$ 1.3	$ 21.9
Black Mountain Gas	**–**	–	2.4
Cheyenne Light, Fuel and Power Co.	**0.2**	(10.3)	2.5
Regulated utility segments – income (loss)	**0.2**	(9.0)	26.8
NRG segment – loss	**(1.1)**	–	(251.4)
NRG-related tax benefits (expense)	**17.2**	(12.8)	404.4
Xcel Energy International	**0.1**	7.3	(45.5)
e prime	**(0.1)**	(1.8)	(17.8)
Seren	**1.8**	(156.6)	(18.3)
Utility Engineering / Quixx Corp.	**(4.4)**	4.7	3.0
Other	**0.2**	1.9	(1.6)
Nonregulated/other – income (loss)	**14.8**	(157.3)	324.2
Total income (loss) from discontinued operations	**$13.9**	$(166.3)	$ 99.6
Income (loss) per share			
Viking Gas Transmission Co.	**$ –**	$ –	$ 0.05
Black Mountain Gas	**–**	–	0.01
Cheyenne Light, Fuel and Power Co.	**–**	(0.02)	–
Regulated utility segments – income per share	**–**	(0.02)	0.06
NRG segment – loss per share	**–**	–	(0.60)
NRG-related tax benefits (expense)	**0.04**	(0.03)	0.96
Xcel Energy International	**–**	0.02	(0.11)
e prime	**–**	–	(0.04)
Seren	**–**	(0.37)	(0.04)
Utility Engineering / Quixx Corp.	**(0.01)**	0.01	0.01
Other	**–**	–	–
Nonregulated/other – income (loss) per share	**0.03**	(0.37)	0.78
Total income (loss) per share from discontinued operations	**$0.03**	$ (0.39)	$ 0.24

REGULATED UTILITY RESULTS – DISCONTINUED OPERATIONS

In January 2004, Xcel Energy agreed to sell Cheyenne. Consequently, Xcel Energy reported Cheyenne results as a component of discontinued operations for all periods presented. The sale was completed in January 2005 and resulted in an after-tax loss of approximately $13 million, or 3 cents per share, which was accrued in December 2004.

During 2003, Xcel Energy sold Viking and BMG. After-tax disposal gains of $23.3 million, or 6 cents per share, were recorded primarily related to the sale of Viking. Xcel Energy recorded minimal income related to Viking in 2003, due to its sale in January of that year.

NRG RESULTS – DISCONTINUED OPERATIONS

Xcel Energy's share of NRG results for 2003 is shown as a component of discontinued operations due to NRG's emergence from bankruptcy in December 2003 and Xcel Energy's corresponding divestiture of its ownership interest in NRG. Xcel Energy financial statements do not contain any results of NRG operations in 2005 and 2004.

NRG's results included in Xcel Energy's earnings for 2003 were as follows:

(Millions of dollars)	Six months ended June 30, 2003
Total NRG loss	$(621)
Losses not recorded by Xcel Energy under the equity method *	370
Equity in losses of NRG included in Xcel Energy results for 2003	$(251)

** These represent NRG losses incurred in the first and second quarters of 2003 that were in excess of the amounts recordable by Xcel Energy under the equity method of accounting limitations.*

As of the bankruptcy filing date (May 14, 2003), Xcel Energy had recognized $263 million of NRG's impairments and related charges as these charges were recorded by NRG prior to May 14, 2003. Consequently, Xcel Energy recorded its equity in NRG results in excess of its financial commitment to NRG under the settlement agreement reached in March 2003 among Xcel Energy, NRG and NRG's creditors. These excess losses were reversed upon NRG's emergence from bankruptcy in December 2003.

OTHER NONREGULATED RESULTS – DISCONTINUED OPERATIONS

In April 2005, Zachry Group, Inc. acquired all of the outstanding shares of UE, a nonregulated subsidiary. In August 2005, Xcel Energy's board of directors approved management's plan to pursue the sale of Quixx Corp., a former subsidiary of UE that partners in cogeneration projects and was not included in the sale of UE to Zachry. As a result, Xcel Energy is reporting UE and Quixx as components of discontinued operations for all periods presented.

In September 2004, Xcel Energy's board of directors approved management's plan to pursue the sale of Seren. As a result of the decision, Seren is accounted for as discontinued operations. In November 2005, Xcel Energy sold Seren's California assets to WaveDivision Holdings, LLC. In January 2006, Xcel Energy sold Seren's Minnesota assets to Charter Communications.

During 2003, Xcel Energy's board of directors approved management's plan to exit businesses conducted by e prime and Xcel Energy International. e prime ceased conducting business in 2004. Also during 2004, Xcel Energy completed the sales of the Argentina subsidiaries of Xcel Energy International.

2005 Nonregulated Results Compared with 2004 Results of discontinued nonregulated operations in 2005 include the impact of a $5 million reduction to the original asset impairment for Seren and the positive impact of a $17 million tax benefit recorded to reflect the final resolution of Xcel Energy's divested interest in NRG. In 2004, the NRG tax basis study was updated and previously recognized tax benefits were reduced by $13 million.

2004 Nonregulated Results Compared with 2003 Results of discontinued nonregulated operations in 2004 include the impact of the sales of the Argentina subsidiaries of Xcel Energy International. The sales were completed in three transactions, with a total sales price of approximately $31 million. In addition to the sales price, Xcel Energy also received approximately $21 million at the closing of one transaction as redemption of its capital investment. The sales resulted in a gain of approximately $8 million, including approximately $7 million of income tax benefits realizable upon the sale of the Xcel Energy International assets.

In addition, 2004 results from discontinued operations include the impact of an after-tax impairment charge for Seren of $143 million, or 34 cents per share. The impairment charge was recorded based on operating results, market conditions and preliminary feedback from prospective buyers.

Tax Benefits Related to Investment in NRG Xcel Energy has recognized tax benefits related to the divestiture of NRG. Since these tax benefits are related to Xcel Energy's investment in discontinued NRG operations, they are reported as discontinued operations.

During 2002, Xcel Energy recognized an initial estimate of the expected tax benefits of $706 million. Based on the results of a 2003 preliminary tax basis study of NRG, Xcel Energy recorded $404 million of additional tax benefits in 2003. In 2004, the NRG basis study was updated and previously recognized tax benefits were reduced by $13 million. In 2005, a $17 million tax benefit was recorded to reflect the final federal income tax resolution of Xcel Energy's divested interest in NRG.

Based on current forecasts of taxable income and tax liabilities, Xcel Energy expects to realize approximately $1.1 billion of cash savings from these tax benefits through a refund of taxes paid in prior years and reduced taxes payable in future years. In 2005, 2004 and 2003, Xcel Energy used $24 million, $345 million and $116 million, respectively, of these tax benefits, and expects to use $180 million in 2006. The remainder of the tax benefit carry forward is expected to be used over subsequent years.

FACTORS AFFECTING RESULTS OF CONTINUING 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 natural gas service within their respective jurisdictions and affect Xcel Energy's ability to recover its costs from customers. The historical and future trends of Xcel Energy's operating results have been, and are expected to be, affected by a number of factors, including the following:

General Economic Conditions

Economic conditions may have a material impact on Xcel Energy's operating results. The United States economy continues to grow as measured by projected growth in the gross domestic product. Management cannot predict the impact of a future economic slowdown, fluctuating energy prices, terrorist activity, war or the threat of war. However, Xcel Energy could experience a material adverse impact to its results of operations, future growth or ability to raise capital resulting from a general slowdown in future economic growth or a significant increase in interest rates.

Sales Growth

In addition to the impact of weather, customer sales levels in Xcel Energy's utility businesses can vary with economic conditions, energy prices, customer usage patterns and other factors. Weather-normalized sales growth for retail electric utility customers was 1.4 percent in 2005 compared with 2004, and 1.8 percent in 2004 compared with 2003. Weather-normalized sales growth for firm natural gas utility customers was approximately 0.2 percent in 2005 compared with 2004, and (1.9) percent in 2004 compared with 2003. Projections indicate that weather-normalized sales growth in 2006 compared with 2005 will range between 1.3 percent and 1.7 percent for retail electric utility customers and 0.0 percent to 1.0 percent for firm natural gas utility customers.

Fuel Supply and Costs

Coal Deliverability Xcel Energy's operating utilities have varying dependence on coal-fired generation. At the utilities, coal-fired generation comprises between 60 percent and 85 percent of the total annual generation. Approximately 70 percent of the annual coal requirements are supplied from the Powder River Basin in Wyoming. Delivery of coal from the Powder River Basin has been disrupted by train derailments and other operational problems purportedly caused by deteriorated rail track beds of approximately 140 miles in length in Wyoming. The BNSF Railway Co. (BNSF) and the Union Pacific Railroad (UPRR) jointly own the rail line. The BNSF operates and maintains the rail line.

The coal delivery issues began in the first half of 2005. Based on discussions with the railroads, Xcel Energy expects that disrupted coal deliveries will continue at least through the first part of 2006. Xcel Energy has taken a number of steps to mitigate the impact of the reduced coal deliveries. These steps include modifying the dispatch of certain generation facilities to conserve coal inventories. This modified dispatch was in place during the second half of 2005 and has continued in 2006, to date. In response to this reduced coal dispatch, Xcel Energy has increased purchases from third parties and has increased the use of natural gas for electric generation. In addition, Xcel Energy negotiated for the acquisition of additional, higher capacity rail cars and is working to upgrade certain coal-handling facilities. Delivery of the new cars began in January 2006 and will continue over the course of the year. The upgrades to the coal-handling facilities are expected to be completed in the first half of 2006.

Despite these efforts, coal inventories have declined to below target levels. While Xcel Energy has secured, under contract, approximately 99 percent of anticipated 2006 coal requirements, it cannot predict the likelihood of receiving the required coal. While Xcel Energy is planning to rebuild inventories during the year, there is no guarantee that it will be able to do so. The ultimate impact of coal availability cannot be fully assessed at this time, but could impact future financial results.

The cost of purchased power and natural gas for electric generation is higher than for coal-fired electric generation. The use of these sources to replace coal-fired electric generation increased the price of electricity for retail and wholesale customers. Xcel Energy's utility subsidiaries have discussed this situation with their respective state regulatory commissions.

In Colorado, PSCo is subject to a retail electric adjustment clause that recovers fuel, purchased energy and resource costs. The Electric Commodity Adjustment (ECA) is an incentive adjustment mechanism that compares actual fuel and purchased energy expenses in a calendar year to a benchmark formula. The benchmark formula increases with natural gas prices, but not necessarily with increased volumes of natural gas usage due to coal supply disruption. Therefore, any disruption in coal supply could adversely affect fuel cost recovery. For 2005, PSCo recorded an incentive accrual of $8.5 million. The ECA provides for an $11.25 million cap on any cost sharing over or under the allowed ECA formula rate. Any cost in excess of the $11.25 million cap is completely recovered from customers, while any savings in excess of the $11.25 million cap is completely refunded to customers. Subject to the terms of the ECA, PSCo anticipates it would recover any increased fuel and purchased energy costs greater than the cap from its customers.

Natural gas prices in 2005 were higher than projected when the ECA tariff rates were set in January 2005. On Oct. 5, 2005, PSCo filed an application to adjust the ECA rate for November and December 2005 to reduce the ECA deferred balance and to update its projection of natural gas prices. This application was granted, which resulted in an increase to 2005 electric revenue of approximately $70 million, including unbilled revenues. As of Dec. 31, 2005, PSCo was carrying a deferred ECA balance, including unbilled revenue, of approximately $15 million.

In Texas, fuel and purchased energy costs are recovered through a fixed fuel and purchased energy recovery factor, which is part of SPS' retail electric rates. If SPS will materially over-recover or under-recover these costs, the factor may be revised upon application by SPS or action by the Public Utility Commission of Texas (PUCT). The regulations require surcharging of under-recovered amounts, including interest, when they exceed 4 percent of SPS' annual fuel and purchased energy costs, as allowed by the PUCT, if the condition is expected to continue. On Dec. 21, 2005, SPS reached a settlement with various parties that set the fuel surcharge request at $76.9 million, to be recovered over a 15-month period. The PUCT approved this settlement on Feb. 9, 2006, and the surcharge went into effect Feb. 13, 2006.

In New Mexico, increases and decreases in fuel and purchased energy costs, including deferred amounts, are recovered through a monthly fuel and purchased power clause with a two-month lag. Wholesale customers, under the Federal Energy Regulatory Commission (FERC) jurisdiction also pay a monthly fuel cost adjustment calculated on actual fuel and purchased power costs in accordance with the FERC's fuel clause regulations.

While SPS believes that it should be allowed to recover these higher costs, the ultimate success of recovery could significantly impact the future of SPS and possibly Xcel Energy.

NSP-Minnesota's retail electric rate schedules in the Minnesota, North Dakota and South Dakota jurisdictions include a fuel clause adjustment (FCA) to billings and revenues for changes in prudently incurred cost of fuel, fuel-related items and purchased energy. NSP-Minnesota is permitted to recover these costs through FCA mechanisms individually approved by the regulators in each jurisdiction. The FCA mechanisms allow NSP-Minnesota to bill customers for the cost of fuel and fuel-related items used to generate electricity at its plants and energy purchased from other suppliers. In general, capacity costs are not recovered through the FCA. NSP-Minnesota's electric wholesale customers also have an FCA provision in their contracts. NSP-Minnesota anticipates it will recover increased costs resulting from its mitigation plan through the FCA.

In Wisconsin, NSP-Wisconsin does not have an automatic electric fuel clause adjustment for Wisconsin retail customers. NSP-Wisconsin may seek deferred accounting treatment and future rate recovery of increased costs due to an "emergency" event, if that event causes fuel and purchased power costs to exceed the amount included in rates on an annual basis by more than 2 percent. Coal deliverability has not resulted in an emergency event to date.

Natural Gas Costs A variety of market factors have contributed to significantly higher natural gas prices. The direct impact of these higher costs is generally mitigated for Xcel Energy through recovery of such costs from customers through various fuel cost-recovery mechanisms. However, higher fuel costs could significantly impact the results of operations, if requests for recovery are unsuccessful. In addition, the higher fuel costs could reduce customer demand or increase bad debt expense, which could also have a material impact on Xcel Energy's results of operations. Delays in the timing of the collection of fuel cost recoveries as compared with expenditures for fuel purchases are expected to have an impact on the cash flows of Xcel Energy. Xcel Energy is unable to predict the future natural gas prices or the ultimate impact of such prices on its results of operations or cash flows.

Pension Plan Costs and Assumptions

Xcel Energy's pension costs are based on an actuarial calculation that includes a number of key assumptions, most notably the annual return level that pension investment assets will earn in the future and the interest rate used to discount future pension benefit payments to a present value obligation for financial reporting. In addition, the actuarial calculation uses an asset-smoothing methodology to reduce the volatility of varying investment performance over time. Note 10 to the Consolidated Financial Statements discusses the rate of return and discount rate used in the calculation of pension costs and obligations in the accompanying financial statements.

Pension costs have been increasing in recent years, and are expected to increase further over the next several years, due to lower-than-expected investment returns experienced in prior years and decreases in interest rates used to discount benefit obligations. While investment returns exceeded the assumed level of 8.75 percent in 2005, 9.0 percent in 2004 and 9.25 percent in 2003, investment returns in 2002 and 2001 were below the assumed level of 9.5 percent, and discount rates have declined from the 7.25-percent to 8-percent levels used in the 1999 through 2002 cost determinations, to 6.0 percent used in 2005. Xcel Energy continually reviews its pension assumptions and, in 2006, expects to maintain the investment return assumption at 8.75 percent and to lower the discount rate assumption to 5.75 percent.

The investment gains or losses resulting from the difference between the expected pension returns assumed on asset levels and actual returns earned are deferred in the year the difference arises and recognized over the subsequent five-year period. This gain or loss recognition occurs by using a five-year, moving-average value of pension assets to measure expected asset returns in the cost-determination process, and by amortizing deferred investment gains or losses over the subsequent five-year period. Based on current assumptions and the recognition of past investment gains and losses over the next five years, Xcel Energy currently projects that the pension costs recognized for financial reporting purposes in continuing operations will increase from a credit, or negative expense, of \$2.4 million in 2005 to an expense of \$15.3 million in 2006 and \$18.7 million in 2007. Pension costs were a credit in 2005 due to the recognized investment asset returns exceeding the other pension cost components, such as benefits earned for current service and interest costs for the effects of the passage of time on discounted obligations.

Xcel Energy bases its discount rate assumption on benchmark interest rates from Moody's Investors Service (Moody's), and has consistently benchmarked the interest rate used to derive the discount rate to the movements in the long-term corporate bond indices for bonds rated Aaa through Baa by Moody's, which have a period to maturity comparable to our projected benefit obligations. At Dec. 31, 2005, the annualized Moody's Baa index rate was 6.21 percent, and the Aaa index rate was 5.26 percent. Accordingly, Xcel Energy lowered the discount rate to 5.75 percent as of Dec. 31, 2005. This rate was used to value the actuarial benefit obligations at that date, and will be used in 2006 pension cost determinations. At Dec. 31, 2004, the annualized Moody's Baa index rate was 6.10 percent and the Aaa index rate was 5.43 percent. The corresponding pension discount rate was 6.00 percent.

If Xcel Energy were to use alternative assumptions for pension cost determinations, a 1-percent change would result in the following impact on the estimated pension costs recognized by Xcel Energy:

- A 100 basis point higher rate of return, 9.75 percent, would decrease 2006 recognized pension costs by \$17.0 million;
- A 100 basis point lower rate of return, 7.75 percent, would increase 2006 recognized pension costs by \$17.0 million;
- A 100 basis point higher discount rate, 6.75 percent, would decrease 2006 recognized pension costs by \$5.4 million; and
- A 100 basis point lower discount rate, 4.75 percent, would increase 2006 recognized pension costs by \$7.1 million.

Alternative Employee Retirement Income Security Act of 1974 (ERISA) funding assumptions would also change the expected future cash funding requirements for the pension plans. Cash funding requirements can be affected by changes to actuarial assumptions, actual asset levels and other calculations prescribed by the funding requirements of income tax and other pension-related regulations. These regulations did not require cash funding in recent years for Xcel Energy's pension plans, and do not require funding in 2006. Assuming that future asset return levels equal the actuarial assumption of 8.75 percent for the years 2006 and 2007, Xcel Energy projects, under current funding regulations, that no cash funding would be required for 2006 or 2007. Actual performance can affect these funding requirements significantly. Current funding regulations are under legislative review in 2006 and, if not retained in their current form, could change these funding requirements materially.

Regulation

Public Utility Holding Company Act of 1935 (PUHCA) Historically, Xcel Energy has been a registered holding company under the PUHCA. As a registered holding company, Xcel Energy, its utility subsidiaries and certain of its nonutility subsidiaries have been subject to extensive regulation by the SEC under the PUHCA with respect to numerous matters, including issuances and sales of securities, acquisitions and sales of certain utility properties, payments of dividends out of capital and surplus, and intra-system sales of certain nonpower goods and services. In addition, the PUHCA generally limited 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.

On Aug. 8, 2005, President Bush signed into law the Energy Policy Act of 2005 (Energy Act), significantly changing many federal statutes and repealing the PUHCA as of Feb. 8, 2006. However, as part of the repeal of the PUHCA, the FERC was given authority to review the books and records of holding companies and their nonutility subsidiaries to the extent relevant to the charges of jurisdictional utilities, authority to review service company cost allocations, and more authority over the merger and acquisition of public utilities. With the repeal of the PUHCA, state commissions were given similar authority to review the books and records of holding companies and their nonutility subsidiaries. Despite these increases in the FERC's authority, Xcel Energy believes that the repeal of the PUHCA will lessen its regulatory burdens and give it more flexibility in the event it were to choose to expand its utility or nonutility businesses.

Besides repealing the PUHCA, the Energy Act is also expected to have substantial long-term effects on energy markets, energy investment and regulation of public utilities and holding company systems by the FERC and the U.S. Department of Energy (DOE). The FERC and the DOE are in various stages of rulemaking in implementing the Energy Policy Act. While the precise impact of these rulemakings cannot be determined at this time, Xcel Energy generally views the Energy Act as legislation that will enhance the utility industry going forward.

Customer Rate Regulation The FERC and various state regulatory commissions regulate Xcel Energy's utility subsidiaries. Decisions by these regulators can significantly impact Xcel Energy's results of operations. Xcel Energy expects to periodically file for rate changes based on changing energy market and general economic conditions.

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 general 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 new investments, sales growth, conservation and demand-side management efforts, and the cost of capital. In addition, the return on equity authorized is set by regulatory commissions in rate proceedings. The most recently authorized electric utility returns are 11.47 percent for NSP-Minnesota; 11.0 percent for NSP-Wisconsin; 10.75 percent for PSCo; and 11.5 percent for SPS. The most recently authorized natural gas utility returns are 10.4 percent for NSP-Minnesota, 11.0 percent for NSP-Wisconsin and 10.5 percent for PSCo.

Wholesale Energy Market Regulation In April 2005, a Day 2 wholesale energy market operated by the Midwest Independent Transmission System Operator, Inc. (MISO) was implemented to centrally dispatch all regional electric generation and apply a regional transmission congestion management system. MISO now centrally issues bills and payments for many costs formerly incurred directly by NSP-Minnesota and NSP-Wisconsin. Both bills and payments from MISO for participation in this centrally dispatched market are received, resulting in a net cost in serving Xcel Energy's native load obligation. This net result is recorded as a component of operating and maintenance expenses. The MPUC issued an interim order in April 2005 allowing MISO Day 2 charges to be recovered through the NSP-Minnesota Fuel Clause Adjustment (FCA) mechanism. In December 2005, the MPUC issued a second interim order approving the recovery of certain MISO charges through the FCA mechanism, but requiring that additional charges either be recovered as part of a general rate case or through an annual review process outside the FCA mechanism, and requiring refunds of non-FCA costs. However, the December 2005 MPUC order also suspended the refund obligation until such time as it could reconsider the matter. On Feb. 9, 2006, the MPUC voted to reconsider its December 2005 order. The MPUC on reconsideration determined that parties be directed to determine which charges are appropriately in the FCA and which are more appropriately established in base rates, and report back to the MPUC in 60 days; to grant deferred accounting treatment for costs ultimately determined to be included in base rates for a period of 36 months, with recovery of deferred amounts to be reviewed in a general rate case; and that amounts collected to date through the FCA under the April and December 2005 interim orders are not subject to refund. As a result, NSP-Minnesota will be allowed to recover its prudently incurred MISO costs either through existing fuel clause mechanisms or in base rates. In March 2005, the PSCW issued an interim order allowing NSP-Wisconsin deferred accounting treatment of MISO charges. However, the PSCW staff issued an interpretive memorandum in October 2005 asserting that certain MISO costs may not be recovered through the interim fuel cost mechanism and may not be deferrable. NSP-Wisconsin and the other Wisconsin utilities contested the PSCW's interpretation in their November comments to the PSCW. To date, NSP-Wisconsin has deferred approximately $5.7 million of MISO Day 2 costs as a regulatory asset.

Xcel Energy has notified MISO that NSP-Minnesota and NSP-Wisconsin may seek to withdraw from MISO if rate recovery of Day 2 costs is not allowed. Withdrawal would require the FERC's approval and could require Xcel Energy to pay a withdrawal fee.

In addition, pursuant to the FERC's orders, NSP-Minnesota and NSP-Wisconsin are billed for certain MISO charges associated with the loads of certain wholesale transmission service customers taking service under pre-MISO grandfathered agreements (GFA). In March 2005, Xcel Energy filed for the FERC's approval to pass through these charges to GFA customers. The FERC accepted the filing subject to refund and hearing procedures. In 2005, NSP-Minnesota and NSP-Wisconsin were billed for $1.1 million of MISO charges, which have not yet been recovered from GFA customers. The likelihood of full rate recovery is uncertain at this time. In addition, Xcel Energy has filed an appeal of the FERC orders.

Capital Expenditure Regulation Xcel Energy's utility subsidiaries make substantial investments in plant additions to build and upgrade power plants, and expand and maintain the reliability of the energy distribution system. In addition to filing for increases in base rates charged to customers to recover the costs associated with such investments, in 2003 the CPUC and MPUC approved proposals to recover, through a rate surcharge, certain costs to upgrade generation plants and lower emissions in the Denver and Minneapolis-St. Paul metropolitan areas. These rate-recovery mechanisms are expected to provide significant cash flows to enable recovery of costs incurred on a timely basis.

Future Cost Recovery Regulated public utilities are allowed to record as regulatory assets certain costs that are expected to be recovered from customers in future periods, and to record as regulatory liabilities certain income items that are expected to be refunded to customers in future periods. In contrast, nonregulated enterprises would expense these costs and recognize the income in the current period. 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 effect on Xcel Energy's results of operations in the period the write-off is recorded.

At Dec. 31, 2005, Xcel Energy reported on its balance sheet regulatory assets of approximately $963 million and regulatory liabilities of approximately $1.7 billion that would be recognized in the statement of operations 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. See Notes 1 and 16 to the Consolidated Financial Statements for further discussion of regulatory deferrals.

Pending and Recently Concluded Regulatory Proceedings

NSP-Minnesota Electric Rate Case In November 2005, NSP-Minnesota requested an electric rate increase of $168 million, or 8.05 percent. This increase was based on a requested 11 percent return on common equity, a projected common equity ratio to total capitalization of 51.7 percent and a projected electric rate base of $3.2 billion. On Dec. 15, 2005, the MPUC authorized an interim rate increase of $147 million, subject to refund, which became effective on Jan. 1, 2006. The anticipated procedural schedule is as follows:
- March 2nd – Intervenor Direct Testimony
- March 30th – Rebuttal Testimony
- April 13th – Surrebuttal Testimony
- April 20th – April 28th – Evidentiary Hearings
- May 24th – Initial Briefs
- June 6th – Reply Briefs
- July 6th – Administrative Law Judge Report
- September 5th – MPUC Order

NSP-Wisconsin 2006 General Rate Case In 2005, NSP-Wisconsin requested an electric revenue increase of $58.3 million and a natural gas revenue increase of $8.1 million, based on a 2006 test year, an 11.9 percent return on equity and a common equity ratio of 56.32 percent. On Jan. 5, 2006, the PSCW approved an electric revenue increase of $43.4 million and a natural gas revenue increase of $3.9 million, based on an 11.0 percent return on equity and a 54 percent common equity ratio target. The new rates were effective Jan. 9, 2006. The order authorized the deferral of an additional $6.5 million in costs related to nuclear decommissioning and manufactured gas plant site clean up for recovery in the next rate case. The order also prohibits NSP-Wisconsin from paying dividends above $42.7 million, if its actual calendar year average common equity ratio is or will fall below 54.03 percent. It also imposes an asymmetrical electric fuel clause bandwidth of positive 2 percent to negative 0.5 percent outside of which NSP-Wisconsin would be permitted to request or be required to change rates.

PSCo Natural Gas Rate Case In 2005, PSCo filed for an increase of $34.5 million in natural gas base rates in Colorado, based on a return on equity of 11.0 percent with a common equity ratio of 55.49 percent.

On Jan. 19, 2006, the CPUC approved a settlement agreement between PSCo and other parties to the case. Final rates became effective Feb. 6, 2006. The terms of the settlement include:
- Natural gas revenue increase of $22 million;
- Return on common equity of 10.5 percent;
- Earnings over 10.5 percent return on common equity will be refunded back to customers;
- Common equity ratio of 55.49 percent; and
- Customer charges for the residential and commercial sales classes of $10 and $20 per month, respectively.

Tax Matters

Interest Expense Deductibility PSCo's wholly owned subsidiary, PSR Investments, Inc. (PSRI), owns and manages permanent life insurance policies, known as COLI policies, on some of PSCo's employees. At various times, borrowings have been made against the cash values of these COLI policies and deductions taken on the interest expense on these borrowings. The IRS has challenged the deductibility of such interest expense deductions and has disallowed the deductions taken in tax years 1993 through 1999. Should the IRS ultimately prevail on this issue, tax and interest payable through Dec. 31, 2005, would reduce earnings by an estimated $361 million. In 2004, Xcel Energy received formal notification that the IRS will seek penalties. If penalties (plus associated interest) are also included, the total exposure through Dec. 31, 2005, is approximately $428 million. Xcel Energy estimates its annual earnings for 2006 would be reduced by $44 million, after tax, which represents 10 cents per share, if COLI interest expense deductions were no longer available. See Note 14 to the Consolidated Financial Statements for further discussion.

COLI Dow Chemical Court Decision On Jan. 23, 2006, the 6th Circuit of the U.S. Court of Appeals issued an opinion in a federal income tax case involving the interest deductions for a COLI program at Dow Chemical Company. The 6th Circuit denied the tax deductions and reversed the decision of the trial court in the case.

Xcel Energy has analyzed the impact of the Dow decision on its pending COLI litigation and concluded there are significant factual differences between its case and the Dow case. The court's opinion in the Dow case outlined three indicators of potential economic benefits to be examined in a COLI case and noted that the outcome of COLI cases is very fact determinative. These indicators are:
- Positive pre-deduction cash flows;
- Mortality gains; and
- The buildup of cash values.

In a split decision, the 6th Circuit found that the Dow COLI plans possessed none of these indicators of economic substance. However, in Xcel Energy's COLI case, the plans were projected to have sizeable pre-deduction cash flows, based upon the relevant assumptions when purchased. Moreover, the plans presented the opportunity for mortality gains that were not eliminated either retroactively or prospectively. Xcel Energy's COLI plans had no provision for giving back any mortality gains that it might realize. In addition, Xcel Energy's plans had large cash value increases that were not encumbered by loans during the first seven years of the policies. Consequently, Xcel Energy believes that the facts and circumstances of its case are stronger than Dow's case and continues to believe its case has strong merit.

Environmental Matters

Environmental costs include payments for nuclear plant decommissioning, storage and ultimate disposal of spent nuclear fuel, disposal of hazardous materials and waste, remediation of contaminated sites and monitoring of discharges to the environment. A trend of greater environmental awareness and increasingly stringent regulation has caused, and may continue to cause, higher operating expenses and capital expenditures for environmental compliance.

In addition to nuclear decommissioning and spent nuclear fuel disposal expenses, costs charged to operating expenses for environmental monitoring and disposal of hazardous materials and waste were approximately:
- $147 million in 2005;
- $133 million in 2004; and
- $133 million in 2003.

Xcel Energy expects to expense an average of approximately $176 million per year from 2006 through 2010 for similar costs. However, the precise timing and amount of environmental costs, including those for site remediation and disposal of hazardous materials, are currently unknown. Additionally, the extent to which environmental costs will be included in and recovered through rates is not certain.

Capital expenditures placed in service on environmental improvements at regulated facilities were approximately:
- $37.1 million in 2005;
- $20.9 million in 2004; and
- $58.5 million in 2003.

The regulated utilities expect to incur approximately $438 million in capital expenditures for compliance with environmental regulations and environmental improvements in 2006, and approximately $714 million of related expenditures during the period from 2007 through 2010. Included in these amounts are expenditures to reduce emissions of generating plants in Minnesota and Colorado. Approximately $347 million and $392 million of these expenditures, respectively, are related to modifications to reduce the emissions of NSP-Minnesota's generating plants located in the Minneapolis-St. Paul metropolitan area pursuant to MERP, which are recoverable from customers through cost-recovery mechanisms. Expected expenditures related to environmental modifications on Comanche Units 1 and 2 are approximately $26 million in 2006 and $62 million during the period from 2007 through 2010. The remaining expected capital expenditures relate to various other environmental projects. See Note 14 to the Consolidated Financial Statements for further discussion of Xcel Energy's environmental contingencies.

The issue of global climate change is receiving increased attention. Debate continues concerning the extent to which the earth's climate is warming, the causes of climate variations that have been observed and the ultimate impact that might result from a changing climate. There also is considerable debate regarding public policy for the approach that the United States should follow to address the issue. The United Nations-sponsored Kyoto Protocol, which establishes greenhouse gas reduction targets for developed nations, entered into force on Feb. 16, 2005. President Bush has declared that the United States will not ratify the protocol and is opposed to legislative mandates, preferring a program based on voluntary efforts and research on new technologies. Xcel Energy is closely monitoring the issue from both scientific and policy perspectives. While it is not possible to know the eventual outcome, Xcel Energy believes the issue merits close attention and is taking actions it believes are prudent to be best positioned for a variety of possible outcomes. Xcel Energy is participating in a voluntary carbon management program and has established goals to reduce its volume of carbon dioxide emissions by 12 million tons by 2009, and to reduce carbon intensity by 7 percent by 2012. In certain regulatory jurisdictions, the evaluation process for future generating resources incorporates the risk of future carbon limits through the use of a carbon cost adder or externality costs. Xcel Energy also is involved in other projects to improve available methods for managing carbon.

Impact of Nonregulated Investments

In the past, Xcel Energy's investments in nonregulated operations have had a significant impact on its results of operations. As a result of the divestiture of NRG and other nonregulated operations, Xcel Energy does not expect that its investments in nonregulated operations will continue to have such a significant impact on its results. Xcel Energy does not expect to make any material investments in nonregulated projects.

Inflation

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Preparation of the Consolidated Financial Statements and related disclosures in compliance with GAAP requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies necessarily involves judgments regarding future events, including the likelihood of success of particular projects, legal and regulatory challenges and anticipated recovery of costs. These judgments, in and of themselves, could materially impact the Consolidated Financial Statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment also may have a significant effect, not only on the operation of the business, but on the results reported through the application of accounting measures used in preparing the Consolidated Financial Statements and related disclosures, even if the nature of the accounting policies applied have not changed. The following is a list of accounting policies that are most significant to the portrayal of Xcel Energy's financial condition and results, and that require management's most difficult, subjective or complex judgments. Each of these has a higher potential likelihood of resulting in materially different reported amounts under different conditions or using different assumptions. Each critical accounting policy has been discussed with the audit committee of the Xcel Energy board of directors.

Accounting Policy	Judgments/Uncertainties Affecting Application	See Additional Discussion At
Regulatory Mechanisms and Cost Recovery	– External regulatory decisions, requirements and regulatory environment – Anticipated future regulatory decisions and their impact – Impact of deregulation and competition on ratemaking process and ability to recover costs	Management's Discussion and Analysis: Factors Affecting Results of Continuing Operations Regulation Notes to Consolidated Financial Statements Notes 1, 14 and 16
Nuclear Plant Decommissioning and Cost Recovery	– Costs of future decommissioning – Availability of facilities for waste disposal – Approved methods for waste disposal – Useful lives of nuclear power plants – Future recovery of plant investment and decommissioning costs	Notes to Consolidated Financial Statements Notes 1, 14 and 15
Income Tax Accruals	– Application of tax statutes and regulations to transactions – Anticipated future decisions of tax authorities – Ability of tax authority decisions/positions to withstand legal challenges and appeals – Ability to realize tax benefits through carry backs to prior periods or carry overs to future periods	Management's Discussion and Analysis: Factors Affecting Results of Continuing Operations Tax Matters Notes to Consolidated Financial Statements Notes 1, 8 and 14
Benefit Plan Accounting	– Future rate of return on pension and other plan assets, including impact of any changes to investment portfolio composition – Discount rates used in valuing benefit obligation – Actuarial period selected to recognize deferred investment gains and losses	Management's Discussion and Analysis: Factors Affecting Results of Continuing Operations Pension Plan Costs and Assumptions Notes to Consolidated Financial Statements Notes 1 and 10
Asset Valuation	– Regional economic conditions affecting asset operation, market prices and related cash flows – Regulatory and political environments and requirements – Levels of future market penetration and customer growth	Management's Discussion and Analysis: Results of Operations Statement of Operations Analysis Discontinued Operations Factors Affecting Results of Continuing Operations Impact of Nonregulated Investments Notes to Consolidated Financial Statements Note 2

Xcel Energy continually makes informed judgments and estimates related to these critical accounting policy areas, based on an evaluation of the varying assumptions and uncertainties for each area. For example:

- Probable outcomes of regulatory proceedings are assessed in cases of requested cost recovery or other approvals from regulators.
- The ability to operate plant facilities and recover the related costs over their useful operating lives, or such other period designated by Xcel Energy's regulators, is assumed.
- Probable outcomes of reviews and challenges raised by tax authorities, including appeals and litigation where necessary, are assessed.
- Projections are made regarding earnings on pension investments, and the salary increases provided to employees over their periods of service.
- Future cash inflows of operations are projected in order to assess whether they will be sufficient to recover future cash outflows, including the impact of product price changes and market penetration to customer groups.

The information and assumptions underlying many of these judgments and estimates will be affected by events beyond the control of Xcel Energy, or otherwise change over time. This may require adjustments to recorded results to better reflect the events and updated information that becomes available. The accompanying financial statements reflect management's best estimates and judgments of the impact of these factors as of Dec. 31, 2005.

RECENTLY IMPLEMENTED ACCOUNTING CHANGES

For a discussion of significant accounting policies, see Note 1 to the Consolidated Financial Statements.

PENDING ACCOUNTING CHANGES

Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004) – "Share Based Payment" (SFAS No. 123R)

In December 2004, the FASB issued SFAS No. 123R related to equity-based compensation. This statement replaces the original SFAS No. 123 – "Accounting for Stock-Based Compensation." Under SFAS No. 123R, companies are no longer allowed to account for their share-based payment awards using the intrinsic value allowed by previous accounting requirements, which did not require any expense to be recorded on stock options granted with an equal to or greater than fair market value exercise price. Instead, equity-based compensation arrangements will be measured and recognized based on the grant-date fair value using an option-pricing model (such as Black-Scholes or Binomial) that considers at least six factors identified in SFAS No. 123R. An expense related to the difference between the grant-date fair value and the purchase price would be recognized over the vesting period of the options. Under previous guidance, companies were allowed to initially estimate forfeitures or recognize them as they actually occurred. SFAS No. 123R requires companies to estimate forfeitures on the date of grant and to adjust that estimate when information becomes available that suggests actual forfeitures will differ from previous estimates. Revisions to forfeiture estimates will be recorded as a cumulative effect of a change in accounting estimate in the period in which the revision occurs.

Previous accounting guidance allowed for compensation expense related to performance share plans to be reversed if the target was not met. However, under SFAS No. 123R, compensation expense for performance share plans that expire unexercised due to the company's failure to reach a certain target stock price cannot be reversed. Any accruals made for Xcel Energy's restricted stock unit plan that were granted in 2004 and based on a total shareholder return could not be reversed if the target was not met. Implementation of SFAS No. 123R is required for annual periods beginning after June 15, 2005. Xcel Energy is required to adopt the provisions in the first quarter of 2006. Implementation is not expected to have a material impact on net income or earnings per share.

Accounting for Uncertain Tax Positions In July 2004, the FASB discussed potential changes or clarifications in the criteria for recognition of income tax benefits, which may result in raising the threshold for recognizing tax benefits that have some degree of uncertainty. In July 2005, the FASB issued an exposure draft on accounting for uncertain tax positions under SFAS No. 109 – "Accounting for Income Taxes." As issued, the exposure draft would have been effective Dec. 31, 2005, and only tax benefits that meet the "probable" recognition threshold would be recognized or continue to be recognized on the effective date. Initial derecognition amounts would be reported as a cumulative effect of a change in accounting principle.

Subsequent to the comment period that closed in September 2005, the FASB announced that the effective date of its new interpretation will be delayed, with a revised pronouncement to be released no earlier than the first quarter of 2006. In redeliberations in November 2005, the FASB decided that the benefit recognition approach in the exposure draft should be retained, but that the initial recognition threshold should be "more likely than not" rather than "probable." In redeliberations on Jan. 11, 2006, the FASB addressed the issues of transition and effective date. For Xcel Energy, the new interpretation, if and when issued, is likely to be effective beginning Jan. 1, 2007, with any cumulative effect of the change reflected in retained earnings. Although Xcel Energy has not assessed the impact of a new recognition threshold on all of its open tax positions, based on available information, it believes that its COLI tax position meets the "more likely than not" threshold, and therefore it plans to continue to recognize all COLI tax benefits in full. See Factors Affecting Results of Continuing Operations – Tax Matters for further discussion of this matter.

DERIVATIVES, RISK MANAGEMENT AND MARKET RISK

In the normal course of business, Xcel Energy and its subsidiaries are exposed to a variety of market risks. Market risk is the potential loss that may occur as a result of changes in the market or fair value of a particular instrument or commodity. All financial and commodity-related instruments, including derivatives, are subject to market risk. These risks, as applicable to Xcel Energy and its subsidiaries, are discussed in further detail later.

Commodity Price Risk Xcel Energy and its subsidiaries are exposed to commodity price risk in their electric and natural gas operations. Commodity price risk is managed by entering into both long- and short-term physical purchase and sales contracts for electric capacity, energy and energy-related products, and for various fuels used in generation and distribution activities. Commodity price risk is also managed through the use of financial derivative instruments. Xcel Energy's risk-management policy allows it to manage commodity price risk within each rate-regulated operation to the extent such exposure exists.

Short-Term Wholesale and Commodity Trading Risk Xcel Energy's subsidiaries conduct various short-term wholesale and commodity trading activities, including the purchase and sale of capacity, energy and energy-related instruments. These marketing activities are primarily focused on specific regions where market knowledge and experience have been obtained and are generally less than one year in length. Xcel Energy's risk-management policy allows management to conduct these activities within approved guidelines and limitations as approved by the company's risk-management committee, which is made up of management personnel not directly involved in the activities governed by the policy.

Certain contracts and financial instruments within the scope of these activities qualify for hedge accounting treatment under SFAS No. 133 – "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133).

The fair value of the commodity trading contracts as of Dec. 31, 2005, was as follows:

(Millions of dollars)	
Fair value of trading contracts outstanding at Jan. 1, 2005	$ –
Contracts realized or settled during the year	(6.1)
Fair value of trading contract additions and changes during the year	10.0
Fair value of contracts outstanding at Dec. 31, 2005	$ 3.9

As of Dec. 31, 2005, the fair values by source for the commodity trading and hedging net asset or liability balances were as follows:

COMMODITY TRADING CONTRACTS

Futures/Forwards

(Thousands of dollars)	Source of Fair Value	Maturity Less than 1 Year	Maturity 1 to 3 Years	Maturity 4 to 5 Years	Maturity Greater than 5 Years	Total Futures/ Forwards Fair Value
NSP-Minnesota	1	$ 663	$ –	$ –	$ –	$ 663
	2	15	1,109	322	–	1,446
PSCo	1	1,352	–	–	–	1,352
	2	1,382	261	–	–	1,643
Total futures/forwards fair value		$ 3,412	$1,370	$322	$ –	$ 5,104

Options

(Thousands of dollars)	Source of Fair Value	Maturity Less than 1 Year	Maturity 1 to 3 Years	Maturity 4 to 5 Years	Maturity Greater than 5 Years	Total Options Fair Value
NSP-Minnesota	2	$ (251)	$ –	$ –	$ –	$ (251)
PSCo	2	(922)	–	–	–	(922)
Total options fair value		$(1,173)	$ –	$ –	$ –	$(1,173)

HEDGE CONTRACTS

Futures/Forwards

(Thousands of dollars)	Source of Fair Value	Maturity Less than 1 Year	Maturity 1 to 3 Years	Maturity 4 to 5 Years	Maturity Greater than 5 Years	Total Futures/ Forwards Fair Value
NSP-Minnesota	2	$ 2,927	$ –	$ –	$ –	$ 2,927
PSCo	2	1,944	–	–	–	1,944
Total futures/forwards fair value		$ 4,871	$ –	$ –	$ –	$ 4,871

Options

(Thousands of dollars)	Source of Fair Value	Maturity Less than 1 Year	Maturity 1 to 3 Years	Maturity 4 to 5 Years	Maturity Greater than 5 Years	Total Options Fair Value
NSP-Minnesota	2	$ (583)	$ –	$ –	$ –	$ (583)
NSP-Wisconsin	2	726	–	–	–	726
PSCo	2	(1,954)	1,036	–	–	(918)
Total options fair value		$ (1,811)	$1,036	$ –	$ –	$ (775)

1 Prices actively quoted or based on actively quoted prices.

2 Prices based on models and other valuation methods. These represent the fair value of positions calculated using internal models when directly and indirectly quoted external prices or prices derived from external sources are not available. Internal models incorporate the use of options pricing and estimates of the present value of cash flows based upon underlying contractual terms. The models reflect management's estimates, taking into account observable market prices, estimated market prices in the absence of quoted market prices, the risk-free market discount rate, volatility factors, estimated correlations of commodity prices and contractual volumes. Market price uncertainty and other risks also are factored into the model.

Normal purchases and sales transactions, as defined by SFAS No. 133, and certain other long-term power purchase contracts are not included in the fair values by source tables as they are not included in the commodity trading operations and are not qualifying hedges.

At Dec. 31, 2005, a 10-percent increase in market prices over the next 12 months for commodity trading contracts would decrease pretax income from continuing operations by approximately $0.7 million, whereas a 10-percent decrease would increase pretax income from continuing operations by approximately $0.8 million.

Xcel Energy's short-term wholesale and commodity trading operations measure the outstanding risk exposure to price changes on transactions, contracts and obligations that have been entered into, but not closed, using an industry standard methodology known as Value-at-Risk (VaR). VaR expresses the potential change in fair value on the outstanding transactions, contracts and obligations 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. The VaR model employs a 95-percent confidence interval level based on historical price movement, lognormal price distribution assumption, delta half-gamma approach for non-linear instruments and a three-day holding period for both electricity and natural gas.

As of Dec. 31, 2005, the VaRs for the commodity trading operations were:

		During 2005		
(Millions of dollars)	**Year ended Dec. 31, 2005**	**Average**	**High**	**Low**
Commodity trading *(a)*	**$2.06**	**$1.44**	**$4.43**	**$0.26**

(a) Comprises transactions for NSP-Minnesota, PSCo and SPS.

As of Dec. 31, 2004, the VaRs for the commodity trading operations were:

		During 2004		
(Millions of dollars)	Year ended Dec. 31, 2004	Average	High	Low
Commodity trading *(a)*	$0.29	$0.97	$2.09	$0.27

(a) Comprises transactions for NSP-Minnesota, PSCo and SPS.

Interest Rate Risk Xcel Energy and its subsidiaries are subject to the risk of fluctuating interest rates in the normal course of business. Xcel Energy's policy allows interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate derivatives such as swaps, caps, collars and put or call options.

Xcel Energy engages in hedges of cash flow and fair value exposure. The fair value of interest rate swaps designated as cash flow hedges is initially recorded in Other Comprehensive Income. Reclassification of unrealized gains or losses on cash flow hedges of variable rate debt instruments from Other Comprehensive Income into earnings occurs as interest payments are accrued on the debt instrument, and generally offsets the change in the interest accrued on the underlying variable rate debt. Hedges of fair value exposure are entered into to hedge the fair value of a recognized asset, liability or firm commitment. Changes in the derivative fair values that are designated as fair value hedges are recognized in earnings as offsets to the changes in fair values of related hedged assets, liabilities or firm commitments. To test the effectiveness of such swaps, a hypothetical swap is used to mirror all the critical terms of the underlying debt and regression analysis is utilized to assess the effectiveness of the actual swap at inception and on an ongoing basis. The fair value of interest rate swaps is determined through counterparty valuations, internal valuations and broker quotes. There have been no material changes in the techniques or models used in the valuation of interest rate swaps during the periods presented.

At Dec. 31, 2005 and 2004, a 100-basis-point change in the benchmark rate on Xcel Energy's variable rate debt would impact pretax interest expense by approximately $10.3 million and $6.8 million, respectively. See Note 12 to the Consolidated Financial Statements for a discussion of Xcel Energy and its subsidiaries' interest rate swaps.

Xcel Energy and its subsidiaries also maintain trust funds, as required by the Nuclear Regulatory Commission (NRC), to fund certain costs of nuclear decommissioning, which are subject to interest rate risk and equity price risk. As of Dec. 31, 2005 and 2004, these funds were invested primarily in domestic and international equity securities and fixed-rate fixed-income securities. Per NRC mandates, these funds may be used only for activities related to nuclear decommissioning. The accounting for nuclear decommissioning recognizes that costs are recovered through rates; therefore fluctuations in equity prices or interest rates do not have an impact on earnings.

Credit Risk In addition to the risks discussed previously, Xcel Energy and its subsidiaries are exposed to credit risk. Credit risk relates to the risk of loss resulting from the nonperformance by a counterparty of its contractual obligations. 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 counterparties. Xcel Energy employs additional credit risk control mechanisms when appropriate, such as letters of credit, parental guarantees, standardized master netting agreements and termination provisions that allow for offsetting of positive and negative exposures. The credit exposure is monitored and, when necessary, the activity with a specific counterparty is limited until credit enhancement is provided.

At Dec. 31, 2005, a 10-percent increase in prices would have resulted in a net mark-to-market increase in credit risk exposure of $44.2 million, while a decrease of 10 percent would have resulted in a decrease of $41.1 million.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

(Millions of dollars)	**2005**	2004	2003
Cash provided by (used in) operating activities			
Continuing operations	**$1,131**	$1,128	$1,106
Discontinued operations	**53**	(315)	275
Total	**$1,184**	$ 813	$1,381

Cash provided by operating activities for continuing operations was basically unchanged for 2005 and 2004. Cash provided by operating activities for discontinued operations increased $368 million during 2005 compared with 2004. During 2004, Xcel Energy paid $752 million pursuant to the NRG settlement agreement, which was partially offset by tax benefits received.

Cash provided by operating activities for continuing operations increased $22 million during 2004 compared with 2003, due to timing of payments made for trade payables partially offset by increased inventory costs related to higher natural gas costs, which will be collected from customers in future periods. Cash provided by operating activities for discontinued operations decreased $590 million during 2004 compared with 2003. During 2004, Xcel Energy paid $752 million pursuant to the NRG settlement agreement, which was partially offset by tax benefits received.

(Millions of dollars)	**2005**	2004	2003
Cash provided by (used in) investing activities			
Continuing operations	**$(1,362)**	$(1,268)	$(1,055)
Discontinued operations	**136**	37	126
Total	**$(1,226)**	$(1,231)	$ (929)

Cash used in investing activities for continuing operations increased $94 million during 2005 compared with 2004, primarily due to increased 2005 utility capital expenditures and restricted cash released in 2004. Cash provided by investing activities for discontinued operations increased $99 million during 2005 compared with 2004, primarily due to the receipt of proceeds from the sale of Cheyenne and Seren in 2005.

Cash used in investing activities for continuing operations increased $213 million during 2004 compared with 2003, primarily due to increased utility capital expenditures. Cash provided by investing activities for discontinued operations decreased $89 million during 2004 compared with 2003, primarily due to the receipt of proceeds from the sale of Viking in 2003.

(Millions of dollars)	**2005**	2004	2003
Cash provided by (used in) financing activities			
Continuing operations	**$111**	$(111)	$(346)
Discontinued operations	**–**	–	(21)
Total	**$111**	$(111)	$(367)

Cash flow from financing activities related to continuing operations increased $222 million during 2005 compared with 2004, primarily due to increased short-term borrowings.

Cash flow from financing activities related to continuing operations increased $235 million during 2004 compared with 2003, primarily due to increased short-term borrowings partially offset by a common stock repurchase.

See discussion of trends, commitments and uncertainties with the potential for future impact on cash flow and liquidity under Capital Sources.

CAPITAL REQUIREMENTS

Utility Capital Expenditures, Nonregulated Investments and Long-Term Debt Obligations The estimated cost of the capital expenditure programs of Xcel Energy and its subsidiaries, excluding discontinued operations, and other capital requirements for the years 2006, 2007 and 2008 are shown in the table below.

(Millions of dollars)	2006	2007	2008
Electric utility	$1,386	$1,381	$1,169
Natural gas utility	110	113	132
Common utility	84	81	81
Total utility	1,580	1,575	1,382
Other nonregulated	–	–	2
Total capital expenditures	1,580	1,575	1,384
Debt maturities	835	339	632
Total capital requirements	$2,415	$1,914	$2,016

The capital expenditure forecast includes PSCo's share of the 750-megawatt Comanche 3 coal-fired plant in Colorado and the MERP project, which will reduce the emissions of three of NSP-Minnesota's generating plants. The MERP project is expected to cost approximately $1 billion, with major construction starting in 2005 and finishing in 2009. Xcel Energy began recovering the costs of the emission-reduction project through customer rate increases effective Jan. 1, 2006. Comanche 3 is expected to cost approximately $1.35 billion, with major construction starting in 2006 and finishing in 2010. The CPUC has approved sharing one-third ownership of this plant with other parties. Consequently, Xcel Energy's capital expenditure forecast includes $1 billion, approximately two-thirds of the total cost.

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 restructuring requirements, compliance with future requirements to install emission-control equipment, and merger, acquisition and divestiture opportunities to support corporate strategies may impact actual capital requirements.

Contractual Obligations and Other Commitments Xcel Energy has contractual obligations and other commercial commitments that will need to be funded in the future, in addition to its capital expenditure programs. The following is a summarized table of contractual obligations and other commercial commitments at Dec. 31, 2005. See additional discussion in the Consolidated Statements of Capitalization and Notes 3, 4, 13 and 14 to the Consolidated Financial Statements.

		Payments Due by Period			
(Thousands of dollars)	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Long-term debt, principal and interest payments	$ 10,387,694	$1,236,074	$1,672,323	$2,148,700	$ 5,330,597
Capital lease obligations	98,684	6,447	12,426	11,794	68,017
Operating leases *(a)*	208,249	41,376	64,589	48,055	54,229
Unconditional purchase obligations *(b)*	11,972,606	2,573,587	2,639,833	2,057,622	4,701,564
Other long-term obligations	265,925	38,213	55,376	52,706	119,630
Payments to vendors in process	129,315	129,315	-	-	-
Short-term debt	746,120	746,120	-	-	-
Total contractual cash obligations *(c)*	$23,808,593	$4,771,132	$4,444,547	$4,318,877	$10,274,037

(a) Under some leases, Xcel Energy would have to sell or purchase the property that it leases if it chose to terminate before the scheduled lease expiration date. Most of Xcel Energy's railcar, vehicle and equipment and aircraft leases have these terms. At Dec. 31, 2005, the amount that Xcel Energy would have to pay if it chose to terminate these leases was approximately $110.8 million.

(b) Obligations to purchase fuel for electric generating plants, and electricity and natural gas for resale. Certain contractual purchase obligations are adjusted based on indexes. However, the effects of price changes are mitigated through cost-of-energy adjustment mechanisms.

(c) Xcel Energy also has outstanding authority under contracts and blanket purchase orders to purchase up to approximately $600 million of goods and services through the year 2020, in addition to the amounts disclosed in this table and in the forecasted capital expenditures.

Common Stock Dividends Future dividend levels will be dependent on Xcel Energy's results of operations, financial position, cash flows and other factors, and will be evaluated by the Xcel Energy board of directors. Xcel Energy's objective is to deliver the financial results that will enable the board of directors to grant annual dividend increases in the range of 2 percent to 4 percent per year. Xcel Energy's dividend policy balances:

- Projected cash generation from utility operations;
- Projected capital investment in the utility businesses;
- A reasonable rate of return on shareholder investment; and
- The impact on Xcel Energy's capital structure and credit ratings.

In addition, there are certain statutory limitations that could affect dividend levels. Under the PUHCA, unless there was an order from the SEC, a holding company or any subsidiary could only declare and pay dividends out of retained earnings. Xcel Energy had $562 million of retained earnings at Dec. 31, 2005, and expects to declare dividends as scheduled. With the repeal of the PUHCA, this limitation on a holding company's dividends will no longer apply. Notwithstanding the repeal of the PUHCA, federal law will still limit the ability of public utilities within a holding company system to declare dividends. Specifically, under the Federal Power Act, a public utility may not pay dividends from any funds properly included in a capital account. The cash to pay dividends to Xcel Energy shareholders is primarily derived from dividends received from the utility subsidiaries. The utility subsidiaries are generally limited in the amount of dividends allowed by state regulatory commissions to be paid to the holding company. The limitation is imposed through equity ratio limitations that range from 30 percent to 60 percent. Some utility subsidiaries must comply with bond indenture covenants or restrictions under credit agreements for debt to total capitalization ratios.

The Articles of Incorporation of Xcel Energy place restrictions on the amount of common stock dividends it can pay when preferred stock is outstanding. Under the provisions, dividend payments may be restricted if Xcel Energy's capitalization ratio (on a holding company basis only, i.e., not on a consolidated basis) is less than 25 percent. For these purposes, the capitalization ratio is equal to common stock plus surplus, divided by the sum of common stock plus surplus plus long-term debt. Based on this definition, Xcel Energy's capitalization ratio at Dec. 31, 2005, was 84 percent. Therefore, the restrictions do not place any effective limit on Xcel Energy's ability to pay dividends because the restrictions are only triggered when the capitalization ratio is less than 25 percent or will be reduced to less than 25 percent through dividends (other than dividends payable in common stock), distributions or acquisitions of Xcel Energy common stock.

CAPITAL SOURCES

Xcel Energy expects to meet future financing requirements by periodically issuing short-term debt, long-term debt, common stock and preferred securities to maintain desired capitalization ratios.

Registered holding companies and certain of their subsidiaries, including Xcel Energy and its utility subsidiaries, were limited under the PUHCA in their ability to issue securities. Registered holding companies and their subsidiaries could not issue securities unless authorized by an exemptive rule or order of the SEC. Because Xcel Energy does not qualify for any of the main exemptive rules, it had received financing authority from the SEC under the PUHCA for various financing arrangements. Xcel Energy's current financing authority permits it, subject to certain conditions, to issue through June 30, 2008, up to $1.8 billion of new long-term debt, common equity and equity-linked securities, and $1.0 billion of short-term debt securities during the new authorization period, provided that the aggregate amount of long-term debt, common equity, and equity-linked and short-term debt securities issued during the new authorization period does not exceed $2.0 billion.

Xcel Energy's ability to issue securities under the financing authority was subject to a number of conditions. One of the conditions of the financing authority was that Xcel Energy's consolidated ratio of common equity to total capitalization be at least 30 percent. As of Dec. 31, 2005, the common equity ratio was approximately 42 percent. Additional conditions require that a security to be issued, must at least be rated investment grade by at least one nationally recognized rating agency. Finally, all outstanding securities that are rated must be rated investment grade by at least one nationally recognized rating agency. On Feb. 10, 2006, Xcel Energy's senior unsecured debt was considered investment grade by Standard & Poor's Ratings Services (Standard & Poor's), Moody's and Fitch Ratings (Fitch).

Upon the repeal of the PUHCA, these limitations on Xcel Energy's financings generally will no longer apply, nor will the PUHCA restrictions generally apply to the financings by the utility subsidiaries. However, utility financings and intra-system financing will become subject to the jurisdiction of the FERC under the Federal Power Act. The FERC has granted a blanket authorization for certain intra-system financings involving holding companies. Requests to the FERC to clarify its rules or grant similar blanket authorizations are presently pending before the FERC. Xcel Energy and the utility subsidiaries are presently evaluating the specific applications that they will need to file with the FERC due to the repeal of the PUHCA.

It is possible that in lieu of requesting authority from the FERC for intra-system financings, Xcel Energy and the utility subsidiaries may rely in the interim on a transitional savings clause that would permit such financing transactions to the extent authorized by the SEC financing order and so long as the conditions in the SEC financing order continue to be satisfied.

Short-Term Funding Sources Historically, Xcel Energy has used a number of sources to fulfill short-term funding needs, including operating cash flow, notes payable, commercial paper and bank lines of credit. The amount and timing of short-term funding needs depend in large part on financing needs for construction expenditures and working capital. Another significant short-term funding need is the dividend payment.

As of Feb. 14, 2006, Xcel Energy and its utility subsidiaries had the following committed credit facilities available to meet its liquidity needs:

(Millions of dollars)	Facility	Drawn*	Available	Cash	Liquidity	Maturity
NSP-Minnesota	$ 450	$162.7	$ 287.3	$ –	$ 287.3	April 2010
NSP-Wisconsin	–	–	–	–	–	
PSCo	600	212.0	388.0	49.2	437.2	April 2010
PSCo	50	–	50.0	–	50.0	April 2006
SPS	250	82.0	168.0	12.7	180.7	April 2010
Xcel Energy – holding company	700	393.5	306.5	0.8	307.3	November 2009
Total	$2,050	$850.2	$1,199.8	$62.7	$1,262.5	

* *Includes direct borrowings, outstanding commercial paper and letters of credit.*

Operating cash flow as a source of short-term funding is affected by such operating factors as weather; regulatory requirements, including rate recovery of costs; environmental regulation compliance and industry deregulation; changes in the trends for energy prices; and supply and operational uncertainties, all of which are difficult to predict. See further discussion of such factors under Statement of Operations Analysis.

Short-term borrowing as a source of funding is affected by regulatory actions and access to reasonably priced capital markets. For additional information on Xcel Energy's short-term borrowing arrangements, see Note 3 to the Consolidated Financial Statements. Access to reasonably priced capital markets is dependent in part on credit agency reviews and ratings. The following ratings reflect the views of Moody's, Standard & Poor's, and Fitch. A security rating is not a recommendation to buy, sell or hold securities, and is subject to revision or withdrawal at any time by the rating agency. As of Feb. 23, 2006, the following represents the credit ratings assigned to various Xcel Energy companies:

Company	Credit Type	Moody's	Standard & Poor's	Fitch
Xcel Energy	Senior Unsecured Debt	Baa1	BBB-	BBB+
Xcel Energy	Commercial Paper	P-2	A-2	F2
NSP-Minnesota	Senior Unsecured Debt	A3	BBB-	A
NSP-Minnesota	Senior Secured Debt	A2	A-	A+
NSP-Minnesota	Commercial Paper	P-2	A-2	F1
NSP-Wisconsin	Senior Unsecured Debt	A3	BBB	A
NSP-Wisconsin	Senior Secured Debt	A2	A-	A+
PSCo	Senior Unsecured Debt	Baa1	BBB-	BBB+
PSCo	Senior Secured Debt	A3	A-	A-
PSCo	Commercial Paper	P-2	A-2	F2
SPS	Senior Unsecured Debt	Baa1	BBB	A-
SPS	Commercial Paper	P-2	A-2	F2

Note: Moody's highest credit rating for debt is Aaa and lowest investment grade rating is Baa3. Both Standard & Poor's and Fitch's highest credit rating for debt is AAA and lowest investment grade rating is BBB-. Moody's prime ratings for commercial paper range from P-1 to P-3. Standard & Poor's ratings for commercial paper range from A-1 to A-3, and Fitch's ratings for commercial paper range from F1 to F3.

In the event of a downgrade of its credit ratings to below investment grade, Xcel Energy may be required to provide credit enhancements in the form of cash collateral, letters of credit or other security to satisfy all or a part of its exposures under guarantees outstanding. See a list of guarantees at Note 13 to the Consolidated Financial Statements. Xcel Energy has no explicit rating triggers in its debt agreements.

Money Pool Xcel Energy has established a utility money pool arrangement with the utility subsidiaries and received required state regulatory approvals. The utility money pool allows for short-term loans between the utility subsidiaries and from the holding company to the utility subsidiaries at market-based interest rates. The utility money pool arrangement does not allow loans from the utility subsidiaries to the holding company. NSP-Minnesota, PSCo and SPS participate in the utility money pool pursuant to approval from their respective state regulatory commissions. No borrowings or loans were outstanding at Dec. 31, 2005. Borrowing limits are $250 million, $250 million and $100 million, respectively. As a consequence of the repeal of the PUHCA and the recent amendments to section 203 of the Federal Power

Act, it may be necessary for Xcel Energy and the utility subsidiaries to submit its existing money pool arrangement to the FERC for its approval. Xcel Energy and the utility subsidiaries are presently evaluating the situation.

Registration Statements Xcel Energy's Articles of Incorporation authorize the issuance of 1 billion shares of common stock. As of Dec. 31, 2005, Xcel Energy had approximately 403 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, 2005, Xcel Energy had approximately 1 million shares of preferred stock outstanding. Xcel Energy and its subsidiaries have the following registration statements on file with the SEC, pursuant to which they may sell, from time to time, securities:

- In February 2002, Xcel Energy filed a $1 billion shelf registration with the SEC. Xcel Energy may issue debt securities, common stock and rights to purchase common stock under this shelf registration. Xcel Energy has approximately $482.5 million remaining under this registration. Xcel Energy has approximately $400 million remaining under the $1 billion unsecured debt shelf registration filed with the SEC in 2000.
- On March 22, 2005, NSP-Minnesota filed a shelf registration statement with the SEC to register an additional $1 billion of secured or unsecured debt securities, which may be issued from time to time in the future. This registration became effective on April 7, 2005, and supplements the $40 million of debt securities previously registered with the SEC. After issuance of $250 million of first mortgage bonds in July 2005, as discussed later, $790 million remains available under the currently effective registration statement.
- PSCo has an effective shelf registration statement with the SEC under which $800 million of secured first collateral trust bonds or unsecured senior debt securities were registered. PSCo has approximately $225 million remaining under this registration.

FUTURE FINANCING PLANS

Xcel Energy generally expects to fund its operations and capital investments primarily through internally generated funds. Xcel Energy plans to refinance existing long-term debt or scheduled long-term debt maturities at each of the regulated operating utilities based on prevailing market conditions. To facilitate potential long-term debt issuances at the utility subsidiaries, SPS intends to file a long-term debt shelf registration statement with the SEC for up to $500 million in 2006, and NSP-Wisconsin may file a long-term debt shelf registration for up to $100 million.

OFF-BALANCE-SHEET ARRANGEMENTS

Xcel Energy does not have any off-balance-sheet arrangements that have or are reasonably likely to have a current or future effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

EARNINGS GUIDANCE

Xcel Energy's 2006 earnings per share from continuing operations guidance and key assumptions are detailed in the following table.

	2006 Diluted Earnings Per Share Range
Utility operations	$1.25 – $1.35
COLI tax benefit	0.10
Other nonregulated subsidiaries	(0.10)
Xcel Energy Continuing Operations	$1.25 – $1.35

Key Assumptions for 2006:

- Normal weather patterns are experienced;
- Reasonable rate recovery is approved in the Minnesota electric rate case;
- Weather-adjusted retail electric utility sales grow by approximately 1.3 percent to 1.7 percent;
- Weather-adjusted retail natural gas utility sales grow by approximately 0.0 percent to 1.0 percent;
- Short-term wholesale and commodity trading margins are projected to be within a range of approximately $30 million to $50 million;
- Other utility operating and maintenance expenses increase between 3 percent and 4 percent from 2005 levels;
- Depreciation expense increases approximately $100 million to $110 million, which includes increases in decommissioning accruals that are expected to be recovered through rates approved in the Minnesota electric rate case;
- Interest expense increases approximately $10 million to $15 million from 2005 levels;
- Allowance for funds used during construction recorded for equity financing is expected to increase approximately $10 million to $15 million from 2005 levels;
- Xcel Energy continues to recognize COLI tax benefits;
- The effective tax rate for continuing operations is approximately 27 percent to 29 percent; and
- Average common stock and equivalents total approximately 428 million shares, based on the "If Converted" method for convertible notes.

MANAGEMENT REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The management of Xcel Energy is responsible for establishing and maintaining adequate internal control over financial reporting. Xcel Energy's internal control system was designed to provide reasonable assurance to the company's management and board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Xcel Energy management assessed the effectiveness of the company's internal control over financial reporting as of Dec. 31, 2005. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework.* Based on our assessment, we believe that, as of Dec. 31, 2005, the company's internal control over financial reporting is effective based on those criteria.

Xcel Energy's independent auditors have issued an audit report on our assessment of the company's internal control over financial reporting. Their report appears on the following page.

RICHARD C. KELLY
Chairman, President and Chief Executive Officer
February 24, 2006

BENJAMIN G.S. FOWKE III
Vice President and Chief Financial Officer
February 24, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Xcel Energy Inc.

We have audited management's assessment, included in the accompanying *Management Report On Internal Controls Over Financial Reporting*, that Xcel Energy Inc. and subsidiaries (the "Company") maintained effective internal control *over financial reporting* as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2005, of the Company and our report dated February 24, 2006, expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Minneapolis, Minnesota
February 24, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Xcel Energy Inc.

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of Xcel Energy Inc. and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of operations, common stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Xcel Energy Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2006, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

Minneapolis, Minnesota
February 24, 2006

(Thousands of dollars, except per share data)	2005	2004	2003
		Year ended Dec. 31	
Operating revenues			
Electric utility	**$7,243,637**	$6,225,245	$5,919,938
Natural gas utility	**2,307,385**	1,915,514	1,677,768
Nonregulated and other	**74,455**	74,802	133,561
Total operating revenues	**9,625,477**	8,215,561	7,731,267
Operating expenses			
Electric fuel and purchased power - utility	**3,922,163**	3,040,759	2,705,839
Cost of natural gas sold and transported - utility	**1,823,123**	1,445,773	1,190,996
Cost of sales - nonregulated and other	**24,676**	28,757	80,683
Other operating and maintenance expenses - utility	**1,679,172**	1,591,718	1,570,492
Other operating and maintenance expenses - nonregulated	**28,493**	44,109	53,485
Depreciation and amortization	**767,321**	705,955	727,307
Taxes (other than income taxes)	**287,810**	282,775	278,034
Total operating expenses	**8,532,758**	7,139,846	6,606,836
Operating income	**1,092,719**	1,075,715	1,124,431
Interest and other income (expense), net (see Note 11)	**857**	9,316	(5,234)
Allowance for funds used during construction - equity	**21,627**	33,648	25,338
Interest charges and financing costs			
Interest charges - (includes other financing costs of $25,829, $27,296 and $31,992, respectively)	**463,370**	458,294	448,690
Allowance for funds used during construction - debt	**(20,744)**	(23,814)	(20,402)
Distributions on redeemable preferred securities of subsidiary trusts	**-**	-	22,731
Total interest charges and financing costs	**442,626**	434,480	451,019
Income from continuing operations before income taxes	**672,577**	684,199	693,516
Income taxes	**173,539**	161,935	170,692
Income from continuing operations	**499,038**	522,264	522,824
Income (loss) from discontinued operations - net of tax (see Note 2)	**13,934**	(166,303)	99,568
Net income	**512,972**	355,961	622,392
Dividend requirements on preferred stock	**4,241**	4,241	4,241
Earnings available to common shareholders	**$ 508,731**	$ 351,720	$ 618,151
Weighted average common shares outstanding (in thousands)			
Basic	**402,330**	399,456	398,765
Diluted	**425,671**	423,334	418,912
Earnings (loss) per share - basic			
Income from continuing operations	**$ 1.23**	$ 1.30	$ 1.30
Income (loss) from discontinued operations (see Note 2)	**0.03**	(0.42)	0.25
Earnings per share	**$ 1.26**	$ 0.88	$ 1.55
Earnings (loss) per share - diluted			
Income from continuing operations	**$ 1.20**	$ 1.26	$ 1.26
Income (loss) from discontinued operations (see Note 2)	**0.03**	(0.39)	0.24
Earnings per share	**$ 1.23**	$ 0.87	$ 1.50

See Notes to Consolidated Financial Statements.

	Year ended Dec. 31		
(Thousands of dollars)	**2005**	2004	2003
Operating activities			
Net income	**$ 512,972**	$ 355,961	$622,392
Remove (income) loss from discontinued operations	**(13,934)**	166,303	(99,568)
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	**782,074**	739,025	757,838
Nuclear fuel amortization	**45,330**	43,296	43,401
Deferred income taxes	**205,058**	57,273	100,869
Amortization of investment tax credits	**(11,620)**	(12,189)	(12,439)
Allowance for equity funds used during construction	**(21,627)**	(33,648)	(25,338)
Undistributed equity in earnings of unconsolidated affiliates	**(712)**	(3,342)	(4,833)
Impairment of assets	**2,887**	–	8,856
Unrealized gain (loss) on derivative financial instruments	**(3,923)**	6,206	2,404
Change in accounts receivable	**(250,305)**	(123,044)	(129,408)
Change in inventories	**(94,605)**	(46,220)	(911)
Change in other current assets	**(289,250)**	(190,827)	(174,793)
Change in accounts payable	**281,430**	133,278	106,087
Change in other current liabilities	**30,923**	2,494	(4,855)
Change in other noncurrent assets	**(81,506)**	(6,485)	(142,849)
Change in other noncurrent liabilities	**37,242**	39,669	59,306
Operating cash flows (used in) provided by discontinued operations	**53,283**	(314,575)	274,582
Net cash provided by operating activities	**1,183,717**	813,175	1,380,741
Investing activities			
Utility capital/construction expenditures	**(1,304,468)**	(1,274,290)	(944,421)
Allowance for equity funds used during construction	**21,627**	33,648	25,338
Purchase of investments in external decommissioning fund	**(576,001)**	(305,328)	(144,367)
Proceeds from the sale of investments in external decommissioning fund	**494,529**	228,676	61,031
Nonregulated capital expenditures and asset acquisitions	**(6,976)**	(2,122)	(2,055)
Proceeds from sale of assets	**11,228**	–	–
Equity investments, loans, deposits and sales of nonregulated projects	**–**	(4,082)	10,588
Restricted cash	**(6,226)**	42,628	(38,488)
Other investments	**5,075**	12,474	(22,380)
Investing cash flows provided by discontinued operations	**135,577**	37,119	125,904
Net cash used in investing activities	**(1,225,635)**	(1,231,277)	(928,850)
Financing activities			
Short-term borrowings – net	**433,820**	253,737	(428,580)
Proceeds from issuance of long-term debt	**2,529,408**	419,848	1,689,317
Repayment of long-term debt, including reacquisition premiums	**(2,517,698)**	(438,595)	(1,307,012)
Proceeds from issuance of common stock	**9,085**	6,985	3,219
Repurchase of common stock	**–**	(32,023)	–
Dividends paid	**(343,092)**	(320,444)	(303,316)
Financing cash flows (used in) provided by discontinued operations	**(200)**	(200)	(20,500)
Net cash (used in) provided by financing activities	**111,323**	(110,692)	(366,872)
Net increase (decrease) in cash and cash equivalents	**69,405**	(528,794)	85,019
Net increase (decrease) in cash and cash equivalents – discontinued operations	**(20,570)**	(12,018)	6,510
Net increase in cash and cash equivalents – adoption of FIN No. 46	**–**	3,439	–
Cash and cash equivalents at beginning of year	**23,361**	560,734	469,205
Cash and cash equivalents at end of year	**$ 72,196**	$ 23,361	$560,734
Supplemental disclosure of cash flow information			
Cash paid for interest (net of amounts capitalized)	**$ 417,016**	$ 423,673	$402,506
Cash paid for income taxes (net of refunds received)	**$ 10,625**	$(355,639)	$ (6,379)

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(Thousands of dollars)	Dec. 31 2005	2004
Assets		
Current assets:		
Cash and cash equivalents	**$ 72,196**	$ 23,361
Accounts receivable – net of allowance for bad debts: $39,798 and $34,299, respectively	**1,011,569**	761,264
Accrued unbilled revenues	**614,016**	435,431
Materials and supplies inventories – at average cost	**159,560**	161,323
Fuel inventory – at average cost	**64,987**	64,265
Natural gas inventories – at average cost	**310,610**	214,964
Recoverable purchased natural gas and electric energy costs	**395,070**	264,628
Derivative instruments valuation – at market	**213,138**	129,218
Prepayments and other	**99,904**	149,538
Current assets held for sale and related to discontinued operations	**200,811**	367,248
Total current assets	**3,141,861**	2,571,240
Property, plant and equipment, at cost:		
Electric utility plant	**18,870,516**	18,236,957
Natural gas utility plant	**2,779,043**	2,617,552
Common utility and other property	**1,518,266**	1,476,553
Construction work in progress	**783,490**	721,335
Total property, plant and equipment	**23,951,315**	23,052,397
Less accumulated depreciation	**(9,357,414)**	(9,050,636)
Nuclear fuel – net of accumulated amortization: $1,190,386 and $1,145,228, respectively	**102,409**	74,308
Net property, plant and equipment	**14,696,310**	14,076,069
Other assets:		
Nuclear decommissioning fund and other investments	**1,145,659**	1,023,481
Regulatory assets	**963,403**	850,636
Derivative instruments valuation – at market	**451,937**	424,786
Prepaid pension asset	**683,649**	642,873
Other	**164,212**	175,174
Noncurrent assets held for sale and related to discontinued operations	**401,285**	540,584
Total other assets	**3,810,145**	3,657,534
Total assets	**$21,648,316**	$20,304,843
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt	**$ 835,495**	$ 223,655
Short-term debt	**746,120**	312,300
Accounts payable	**1,187,489**	903,609
Taxes accrued	**235,056**	216,439
Dividends payable	**87,788**	83,405
Derivative instruments valuation – at market	**191,414**	135,098
Other	**345,807**	348,557
Current liabilities held for sale and related to discontinued operations	**43,657**	112,931
Total current liabilities	**3,672,826**	2,335,994
Deferred credits and other liabilities:		
Deferred income taxes	**2,191,794**	2,065,665
Deferred investment tax credits	**131,400**	143,028
Regulatory liabilities	**1,710,820**	1,630,545
Derivative instruments valuation – at market	**499,390**	450,883
Asset retirement obligations	**1,292,006**	1,091,089
Customer advances	**310,092**	303,928
Minimum pension liability	**88,280**	62,669
Benefit obligations and other	**343,201**	327,662
Noncurrent liabilities held for sale and related to discontinued operations	**6,936**	89,242
Total deferred credits and other liabilities	**6,573,919**	6,164,711
Minority interest in subsidiaries	**3,547**	3,220
Commitments and contingencies (see Note 14)		
Capitalization (see Statements of Capitalization):		
Long-term debt	**5,897,789**	6,493,020
Preferred stockholders' equity	**104,980**	104,980
Common stockholders' equity	**5,395,255**	5,202,918
Total liabilities and equity	**$21,648,316**	$20,304,843

See Notes to Consolidated Financial Statements.

(Thousands)	Common Stock Issued Shares	Par Value	Capital in Excess of Par Value	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at Dec. 31, 2002	398,714	$ 996,785	$4,038,151	$(100,942)	$(269,010)	$4,664,984
Net income				622,392		622,392
Currency translation adjustments					182,829	182,829
Minimum pension liability					9,710	9,710
Net derivative instrument fair value changes during the period (see Note 12)					(14,005)	(14,005)
Unrealized gain – marketable securities					340	340
Comprehensive income for 2003						801,266
Dividends declared:						
Cumulative preferred stock			(720)	(3,181)		(3,901)
Common stock			(149,521)	(149,606)		(299,127)
Issuances of common stock	251	627	2,591			3,218
Balance at Dec. 31, 2003	398,965	$ 997,412	$3,890,501	$ 368,663	$ (90,136)	$5,166,440
Net income				355,961		355,961
Currency translation adjustments					(3)	(3)
Minimum pension liability					(7,935)	(7,935)
Net derivative instrument fair value changes during the period (see Note 12)					(8,024)	(8,024)
Unrealized gain – marketable securities					164	164
Comprehensive income for 2004						340,163
Dividends declared:						
Cumulative preferred stock				(4,241)		(4,241)
Common stock				(323,742)		(323,742)
Issuances of common stock	3,297	8,243	48,078			56,321
Purchases for restricted stock issuance	(1,800)	(4,500)	(27,523)			(32,023)
Balance at Dec. 31, 2004	400,462	$1,001,155	$3,911,056	$ 396,641	$(105,934)	$5,202,918
Net income				512,972		512,972
Minimum pension liability					(17,271)	(17,271)
Net derivative instrument fair value changes during the period (see Note 12)					(8,919)	(8,919)
Unrealized gain – marketable securities					63	63
Comprehensive income for 2005						486,845
Dividends declared:						
Cumulative preferred stock				(4,241)		(4,241)
Common stock				(343,234)		(343,234)
Issuances of common stock	2,925	7,313	45,654			52,967
Balance at Dec. 31, 2005	**403,387**	**$1,008,468**	**$3,956,710**	**$ 562,138**	**$(132,061)**	**$5,395,255**

See Notes to Consolidated Financial Statements.

Long-Term Debt (Thousands of dollars)	Dec. 31 2005	2004
NSP-Minnesota		
First Mortgage Bonds, Series due:		
Dec. 1, 2005, 6.125%	**$ -**	$ 70,000
Dec. 1, 2006, 4.1% *(a)*	**2,420**	4,750
Dec. 1, 2006–2008, 4.5%–5% *(a)*	**7,490**	9,790
Aug. 1, 2006, 2.875%	**200,000**	200,000
Aug. 1, 2010, 4.75%	**175,000**	175,000
Aug. 28, 2012, 8%	**450,000**	450,000
March 1, 2019, 8.5% *(b)*	**27,900**	27,900
Sept. 1, 2019, 8.5% *(b)*	**100,000**	100,000
July 1, 2025, 7.125%	**250,000**	250,000
March 1, 2028, 6.5%	**150,000**	150,000
April 1, 2030, 8.5% *(b)*	**69,000**	69,000
July 15, 2035, 5.25%	**250,000**	-
Senior Notes, due Aug. 1, 2009, 6.875%	**250,000**	250,000
Borrowings under credit facility, due April 2010, 5.05%	**250,000**	-
Retail Notes, due July 1, 2042, 8%	**185,000**	185,000
Other	**519**	367
Unamortized discount – net	**(7,278)**	(7,759)
Total	**2,360,051**	1,934,048
Less current maturities	**204,833**	74,685
Total NSP-Minnesota long-term debt	**$2,155,218**	$1,859,363
PSCo		
First Mortgage Bonds, Series due:		
Nov. 1, 2005, 6.375%	**$ -**	$ 134,500
June 1, 2006, 7.125%	**125,000**	125,000
April 1, 2008, 5.625% *(b)*	**-**	18,000
Oct. 1, 2008, 4.375%	**300,000**	300,000
June 1, 2012, 5.5% *(b)*	**-**	50,000
Oct. 1, 2012, 7.875%	**600,000**	600,000
March 1, 2013, 4.875%	**250,000**	250,000
April 1, 2014, 5.5%	**275,000**	275,000
April 1, 2014, 5.875% *(b)*	**-**	61,500
Sept. 1, 2017, 4.375% *(b)*	**129,500**	-
Jan. 1, 2019, 5.1% *(b)*	**48,750**	48,750
Jan. 1, 2024, 7.25%	**-**	110,000
Unsecured Senior A Notes, due July 15, 2009, 6.875%	**200,000**	200,000
Secured Medium-Term Notes, due March 5, 2007, 7.11%	**100,000**	100,000
Capital lease obligations, 11.2% due in installments through 2028	**47,581**	48,935
Unamortized discount	**(3,524)**	(5,870)
Total	**2,072,307**	2,315,815
Less current maturities	**126,334**	135,854
Total PSCo long-term debt	**$1,945,973**	$2,179,961
SPS		
Unsecured Senior B Notes, due Nov. 1, 2006, 5.125%	**$ 500,000**	$ 500,000
Unsecured Senior A Notes, due March 1, 2009, 6.2%	**100,000**	100,000
Unsecured Senior C and D Notes, due Oct. 1, 2033, 6%	**100,000**	100,000
Pollution control obligations, securing pollution control revenue bonds, due:		
July 1, 2011, 5.2%	**44,500**	44,500
July 1, 2016, 3.58% at Dec. 31, 2005, and 2% at Dec. 31, 2004	**25,000**	25,000
Sept. 1, 2016, 5.75%	**57,300**	57,300
Unamortized discount	**(1,024)**	(1,338)
Total	**825,776**	825,462
Less current maturities	**500,000**	-
Total SPS long-term debt	**$ 325,776**	$ 825,462

See Notes to Consolidated Financial Statements.

Long-Term Debt – continued (Thousands of dollars)	Dec. 31 2005	2004
NSP-Wisconsin		
First Mortgage Bonds, Series due:		
Oct. 1, 2018, 5.25%	**$ 150,000**	$ 150,000
Dec. 1, 2026, 7.375%	**65,000**	65,000
Senior Notes, due Oct. 1, 2008, 7.64%	**80,000**	80,000
City of La Crosse Resource Recovery Bond, Series due Nov. 1, 2021, 6% *(a)*	**18,600**	18,600
Fort McCoy System Acquisition, due Oct. 15, 2030, 7%	**828**	862
Unamortized discount	**(919)**	(985)
Total	**313,509**	313,477
Less current maturities	**34**	34
Total NSP-Wisconsin long-term debt	**$ 313,475**	$ 313,443
Other Subsidiaries		
Various Eloigne Co. Affordable Housing Project Notes, due 2007–2045, 0%–9.89%	**$ 95,692**	$ 110,412
Other	**2,217**	9,830
Total	**97,909**	120,242
Less current maturities	**4,294**	13,082
Total other subsidiaries long-term debt	**$ 93,615**	$ 107,160
Xcel Energy Inc.		
Unsecured senior notes, Series due:		
July 1, 2008, 3.4%	**$ 195,000**	$ 195,000
Dec. 1, 2010, 7%	**600,000**	600,000
Convertible notes, Series due:		
Nov. 21, 2007, 7.5%	**230,000**	230,000
Nov. 21, 2008, 7.5%	**57,500**	57,500
Borrowings under credit facility, due November 2009, 3.09%	**-**	140,000
Fair value hedge, carrying value adjustment	**(14,073)**	(8,333)
Unamortized discount	**(4,695)**	(6,536)
Total Xcel Energy Inc. debt	**$1,063,732**	$ 1,207,631
Total long-term debt from continuing operations	**$ 5,897,789**	$6,493,020
Long-Term Debt from Discontinued Operations		
First Mortgage Bonds – Cheyenne:		
Due Jan. 1, 2024, 7.5%	**$ -**	$ 7,800
Industrial Development Revenue Bonds, due Sept. 1, 2021–March 1, 2027, variable rate, 2.12% at Dec. 31, 2004	**-**	17,000
Total long-term debt from discontinued operations	**$ -**	$ 24,800
Cumulative Preferred Stock – authorized 7,000,000 shares of $100 par value; outstanding shares: 2005: 1,049,800; 2004: 1,049,800		
$3.60 series, 275,000 shares	**$ 27,500**	$ 27,500
$4.08 series, 150,000 shares	**15,000**	15,000
$4.10 series, 175,000 shares	**17,500**	17,500
$4.11 series, 200,000 shares	**20,000**	20,000
$4.16 series, 99,800 shares	**9,980**	9,980
$4.56 series, 150,000 shares	**15,000**	15,000
Total preferred stockholders' equity	**$ 104,980**	$ 104,980
Common Stockholders' Equity		
Common stock – authorized 1,000,000,000 shares of $2.50 par value; outstanding shares: 2005: 403,387,159; 2004: 400,461,804	**$1,008,468**	$1,001,155
Capital in excess of par value on common stock	**3,956,710**	3,911,056
Retained earnings	**562,138**	396,641
Accumulated other comprehensive income (loss)	**(132,061)**	(105,934)
Total common stockholders' equity	**$5,395,255**	$5,202,918

(a) Resource recovery financing

(b) Pollution control financing

See Notes to Consolidated Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and System of Accounts Xcel Energy's utility subsidiaries are engaged principally in the generation, purchase, transmission, distribution and sale of electricity and in the purchase, transportation, distribution and sale of natural gas. Xcel Energy and its subsidiaries were subject to the regulatory provisions of the PUHCA. The utility subsidiaries are subject to regulation by the FERC and state utility commissions. All of the utility companies' accounting records conform to the FERC uniform system of accounts or to systems required by various state regulatory commissions, which are the same in all material respects.

On Aug. 8, 2005, President Bush signed into law the Energy Act, significantly changing many federal energy statutes. The Energy Act is expected to have a substantial long-term effect on energy markets, energy investment, and regulation of public utilities and holding company systems by the FERC, the SEC and the DOE. The FERC was directed by the Energy Act to address many areas previously regulated by other governmental entities under the statutes and determine whether changes to such previous regulations are warranted. The issues that the FERC has been required to consider associated with the repeal of the PUHCA include, but are not limited to, the expansion of the FERC authority to review mergers and sales of public utility companies and the expansion of the FERC authority over the books and records of holding companies and public utility companies, and the appropriate cost standard for the provision of non-power goods and services by service companies. The FERC is in various stages of rulemaking on these and other issues. Xcel Energy cannot predict the impact the new rulemakings will have on its operations or financial results, if any.

Principles of Consolidation In 2005, Xcel Energy continuing operations included the activity of four utility subsidiaries that serve electric and natural gas customers in 10 states. These utility subsidiaries are NSP-Minnesota, NSP-Wisconsin, PSCo and SPS. These utilities serve customers in portions of Colorado, Kansas, Michigan, Minnesota, New Mexico, North Dakota, Oklahoma, South Dakota, Texas and Wisconsin. Along with WGI, an interstate natural gas pipeline, these companies comprise our continuing regulated utility operations.

Xcel Energy's nonregulated subsidiaries in continuing operations include Eloigne Co. (investments in rental housing projects that qualify for low-income housing reported tax credits). 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 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.

Discontinued utility operations include the activity of Viking, an interstate natural gas pipeline company that was sold in January 2003; BMG, a regulated natural gas and propane distribution company that was sold in October 2003; and Cheyenne, a regulated electric and natural gas utility that was sold in January 2005. See Note 2 to the Consolidated Financial Statements for more information on the discontinued operations of Viking, BMG and Cheyenne.

During 2005, Xcel Energy's board of directors approved management's plan to pursue the sale of UE (engineering, construction and design) and Quixx Corp. (a former subsidiary of UE that partners in cogeneration projects). During 2004, Xcel Energy's board of directors approved management's plan to pursue the sale of Seren (broadband telecommunications services). During 2003, Planergy International, Inc. (energy management solutions) closed and began selling a majority of its business operations, with final dissolution occurring in 2004. During 2003, Xcel Energy also divested its ownership interest in NRG, an independent power producer. On May 14, 2003, NRG filed for bankruptcy to restructure its debt. As a result of the reorganization, Xcel Energy relinquished its ownership interest in NRG. During 2003, the board of directors of Xcel Energy also approved management's plan to exit businesses conducted by the nonregulated subsidiaries Xcel Energy International and e prime. NRG, Xcel Energy International, e prime, Seren, Planergy International, Inc., UE and Quixx Corp. are presented as components of discontinued operations. See Note 2 to the Consolidated Financial Statements.

In 2004, Xcel Energy began consolidating the financial statements of subsidiaries in which it has a controlling financial interest, pursuant to the requirements of FASB Interpretation No. 46, as revised (FIN No. 46). Historically, consolidation has been required only for subsidiaries in which an enterprise has a majority voting interest. As a result, Xcel Energy is required to consolidate a portion of its affordable housing investments made through Eloigne, which for periods prior to 2004 are accounted for under the equity method. As of Dec. 31, 2005, the assets of the affordable housing investments consolidated as a result of FIN No. 46, as revised, were approximately $136 million and long-term liabilities were approximately $75 million, including long-term debt of $72 million. Investments of $51 million, previously reflected as a component of investments in unconsolidated affiliates, have been consolidated with the entities' assets initially recorded at their carrying amounts as of Jan. 1, 2004. The long-term debt is collateralized by the affordable housing projects and is nonrecourse to Xcel Energy.

Xcel Energy uses the equity method of accounting for its investments in partnerships, joint ventures and certain projects for which it does not have a controlling financial interest. Under this method, a proportionate share of pretax income is recorded as equity earnings from investments in affiliates. In the consolidation process, all significant intercompany transactions and balances are eliminated. Xcel Energy has investments in several plants and transmission facilities jointly owned with other utilities. These projects are accounted for on a proportionate consolidation basis, consistent with industry practice. See Note 7 to the Consolidated Financial Statements.

Revenue Recognition Revenues related to the sale of energy are generally recorded when service is rendered or energy is delivered to customers. However, the determination of the energy sales to individual customers is based on the reading of their meter, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated.

Xcel Energy's utility subsidiaries have various rate-adjustment mechanisms in place that currently provide for the recovery of certain purchased natural gas and electric fuel and purchased energy costs. These cost-adjustment tariffs may increase or decrease the level of costs recovered through base rates and are revised periodically, as prescribed by the appropriate regulatory agencies, for any difference between the total