XCEL ENERGY INC
Form S-1
February 14, 2003

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As filed with the Securities and Exchange Commission on February 14, 2003

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Xcel Energy Inc.

(Exact Name of Registrant as Specified in Its Charter)

MINNESOTA	**4931**	**41-0448030**
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

800 Nicollet Mall
Minneapolis, Minnesota 55402
(612) 330-5500

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

WAYNE H. BRUNETTI	**RICHARD C. KELLY**
President and Chief Executive Officer	Vice President and Chief Financial Officer
Xcel Energy Inc.	Xcel Energy Inc.
800 Nicollet Mall	800 Nicollet Mall
Minneapolis, Minnesota 55402	Minneapolis, Minnesota 55402
(612) 330-5500	(612) 330-5500

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copy to:

ROBERT J. JOSEPH

Jones Day
77 West Wacker Drive
Chicago, Illinois 60601
(312) 269-4176

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. þ

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Unit(1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
7 1/2% Convertible Senior Notes due 2007	$230,000,000	$1,211.27	$278,592,100	$25,630.48
Common Stock (par value $2.50 per share)(2)				
Rights to Purchase Common Stock (par value $2.50 per share)(2)				

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act, based on the average of the bid and asked prices of the notes on the Portal System on February 10, 2003 of $1,211.27 per $1,000 aggregate principal amount at maturity of the notes.

(2) Also being registered are an indeterminate number of shares of common stock issuable upon conversion of the notes registered hereby or in connection with a stock split, stock dividend, recapitalization or similar events and one right to purchase common stock pursuant to a stockholder protection rights agreement that trades with each share of common stock, for which no additional registration fee is payable pursuant to Rule 457(i) under the Securities Act.

The registrant hereby amends this registration statement on such date as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities where the offer or sale is not permitted.

Xcel Energy Inc.

800 Nicollet Mall, Suite 3000

Minneapolis, Minnesota 55402-2023
(612) 330-5500

$230,000,000

7 1/2% Senior Convertible Notes

due 2007

We sold the notes in a private offering on November 21, 2002. Selling security holders may use this prospectus to resell their notes and the shares of common stock issuable upon conversion of their notes. The notes mature on November 21, 2007. The notes are convertible, at the option of the holder, at any time on or prior to maturity into shares of our common stock. The notes are convertible at a conversion price of $12.33 per share, which is equal to a conversion rate of approximately 81.1359 shares of our common stock per $1,000 principal amount of notes, subject to adjustment as described in the prospectus.

We will pay interest on the notes on May 21 and November 21 of each year, beginning on May 21, 2003. The notes will mature on November 21, 2007. Holders of the notes may require us to purchase some or all of the notes for cash upon a change of control, as described in this prospectus, at a price equal to 100% of the principal amount of the notes tendered plus accrued and unpaid interest.

We will make additional payments of interest, referred to in this prospectus as protection payments, on the notes in an amount equal to any portion of our per share dividends on our common stock that exceeds $0.1875 per quarter that would have been payable to the holders of the notes if such holders had converted their notes on the record date for such dividend. Holders of the notes will not be entitled to any protection payment if the dividend triggering the protection payment causes an adjustment of the conversion rate.

The notes are unsecured and unsubordinated obligations and rank on parity in right of payment with all our existing and future unsecured and unsubordinated indebtedness. We are structured as a holding company and conduct substantially all of our business through our subsidiaries. The notes are effectively subordinate to all existing and future indebtedness and other liabilities of our subsidiaries.

The notes issued in the initial private placement are eligible for trading in the PORTAL System. We do not intend to list the notes on any other securities exchange or automated quotation system. Our common stock is traded on the New York Stock Exchange under the symbol XEL.

Investing in the notes involves risks. You should consider carefully the risk factors described under the caption Risk Factors beginning on page 7 of this prospectus before investing in the notes.

Please read this prospectus carefully before investing and retain it for your future reference.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is February 14, 2003

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You should rely only on the information provided in this prospectus. We have not authorized anyone else to provide you with different information. This prospectus does not constitute an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this prospectus.

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains statements that are not historical fact and constitute forward-looking statements. When we use words like believes, expects, anticipates, intends, plans, estimates, may, should, or similar expressions, or when we discuss our strategy or plans, we are ma forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Our future results may differ materially from those expressed in these forward-looking statements. These statements are necessarily based upon various assumptions involving judgments with respect to the future and other risks, including, among others:

- general economic conditions, including the availability of credit, actions of rating agencies and their impact on our access to capital and the ability of us and our subsidiaries to obtain financing on favorable terms;
- business conditions in the energy industry;
- competitive factors, including the extent and timing of the entry of additional competition in the markets served by us and our subsidiaries;
- unusual weather;
- state, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an impact on the rate structures, and affect the speed and degree to which competition enters the electric and gas markets;
- the higher risk associated with our nonregulated business compared with our regulated businesses;
- currency translation and transaction adjustments;
- risks related to the financial condition of NRG Energy, Inc., one of our wholly-owned subsidiaries including NRG s ability to reach agreements with its lenders and creditors to restructure its debt;
- risks associated with the California power market; and
- the other risk factors discussed under Risk Factors.

You are cautioned not to rely unduly on any forward-looking statements. These risks and uncertainties are discussed in more detail under Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business, Notes to Consolidated Financial Statements and Notes to Interim Consolidated Financial Statements included elsewhere in this prospectus.

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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by and should be read together with the more detailed information and financial statements included in this prospectus. Because this is a summary, it may not contain all the information that may be important to you. You should read the entire prospectus before making an investment decision. When used in this prospectus, the terms Xcel Energy, we, our and us refer to Xcel Energy Inc. and its consolidated subsidiaries, unless otherwise specified.

Our Business

We are a public utility holding company with six utility subsidiaries:

Northern States Power Company, a Minnesota corporation (NSP-Minnesota), which serves 1.3 million electric customers and 0.4 million gas customers in Minnesota, North Dakota and South Dakota;

Public Service Company of Colorado, a Colorado corporation (PSCo), which serves 1.3 million electric customers and 1.2 million gas customers in Colorado;

Southwestern Public Service Company, a New Mexico corporation (SPS), which serves 390,000 electric customers in portions of Texas, New Mexico, Oklahoma and Kansas;

Northern States Power Company, a Wisconsin corporation (NSP-Wisconsin), which serves 230,000 electric customers and 90,000 gas customers in northern Wisconsin and Michigan;

Cheyenne Light, Fuel and Power Company (Cheyenne), a Wyoming corporation, which serves 40,000 electric customers and 30,000 gas customers in and around Cheyenne, Wyoming; and

Black Mountain Gas Company (BMG), an Arizona corporation, which serves 9,300 customers in Arizona.

Our regulated businesses also include Viking Gas Transmission Company (Viking), which we sold on January 17, 2003, and WestGas InterState Inc. (WGI), both interstate natural gas pipelines.

We also own or have an interest in a number of nonregulated businesses, the largest of which is NRG Energy, Inc. As a result of the exchange of shares of Xcel Energy for publicly held shares of NRG, which was completed in June 2002, NRG is now an indirect wholly-owned subsidiary of ours. NRG is a global energy company, primarily engaged in the ownership and operation of power generation facilities and the sale of energy, capacity and related products.

In addition to NRG, our nonregulated subsidiaries include:

Utility Engineering (UE), which is involved in engineering, construction and design;

Seren Innovations, Inc. (Seren), which is involved in broadband telecommunications services;

e prime, inc. (e prime), which is involved in natural gas marketing and trading,

Planergy International Inc. (Planergy), which is involved in energy management consulting and demand-side management services;

Eloigne Company (Eloigne), which is involved in acquisition of rental housing projects that qualify for low-income housing tax credits; and

Xcel Energy International (XEI), an international independent power producer.

We are a registered holding company under the Public Utility Holding Company Act of 1935 (PUHCA). We were incorporated in 1909 under the laws of Minnesota as Northern States Power Company. On August 18, 2000, we merged with New Century Energies, Inc. (NCE) and our name was changed from Northern States Power Company to Xcel Energy Inc.

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Our principal executive offices are located at 800 Nicollet Mall, Suite 3000, Minneapolis, Minnesota 55402, and our telephone number at that location is (612) 330-5500.

Recent Developments

On November 7, 2002, our subsidiary, Xcel Energy Market Holdings Inc., reached an agreement to sell its wholly-owned subsidiary, Viking and Viking s ownership interest in Guardian Pipeline, L.L.C. (Guardian) to a subsidiary of Northern Border Partners, L.P. (NBP). The sale was completed on January 17, 2003. Pursuant to the agreement, NBP purchased Viking, including Viking s ownership interest in Guardian, for approximately $152 million, including the assumption of approximately $40 million of outstanding debt.

On November 8, 2002, we issued $100 million principal amount of 8% senior convertible notes (the Prior Notes) pursuant to a Securities Purchase Agreement with Citadel Equity Fund Ltd., Citadel Credit Trading Ltd. and Jackson Investment Fund Ltd. (together, the Purchasers). A portion of the proceeds of our initial issue and sale of the notes offered pursuant to this prospectus were used to redeem the Prior Notes on November 25, 2002. Upon redemption of the Prior Notes, we entered into an agreement with the Purchasers granting them the right, exercisable at any time and from time to time through November 24, 2003, to purchase notes in a private placement that are identical (other than issuance date) to the notes offered pursuant to this prospectus in an aggregate principal amount equal to $57,500,000. For additional information regarding the terms of the Securities Purchase Agreement and the terms of the 8% senior convertible notes, see Note 10 to our interim consolidated financial statements for the quarter ended September 30, 2002.

On November 12, 2002, we announced that our Board of Directors voted to elect Benjamin G.S. Fowke III to the position of vice president and treasurer. Mr. Fowke, who has 20 years of experience in the energy industry, previously served as vice president and chief financial officer of our commodity trading and marketing business unit.

On November 21, 2002, we issued the notes covered by this prospectus to Merrill, Lynch, Pierce, Fenner and Smith Incorporated and Lazard Frères & Co. L.L.C. in a private transaction. We received net proceeds from the sale of the notes, after deducting the initial purchasers discount and our offering expenses of approximately $220 million. As described above, a portion of the net proceeds from the sale of the notes were used to redeem the Prior Notes. The remaining net proceeds have and will be used for other general corporate purposes, including working capital.

On January 22, 2003, we entered in to a nine month credit facility with King Street Capital, L.P. and Perry Principals Investments LLC, pursuant to which we may borrow up to $100 million at an interest rate of 9% per annum.

On January 29, 2003, we announced that our preliminary earnings for 2002 were a net loss of $2.0 billion, or $5.26 per share, including NRG results and impacts, compared with net earnings of $791 million, or $2.30 per share, in 2001. Our earnings, excluding NRG s pro forma operating results and other NRG impacts, were $525 million, or $1.38 per share, compared with $591 million, or $1.72 per share, for the year 2001. The earnings are preliminary and unaudited. Consequently they are subject to change until audited results are publicly distributed. The consolidated audit of Xcel Energy, including the audit of NRG, is not expected until early March 2003.

In early November 2002, an NRG restructuring plan was presented to NRG s creditors. The restructuring plan also included a proposal addressing our continuing role and degree of ownership in NRG and obligations of NRG. In mid-December 2002, the NRG bank steering committee submitted a counter-proposal and in January 2003, the bondholder creditor committee issued its counter-proposal to the NRG restructuring plan. The counter-proposals would require substantial additional payments by us.

A new NRG restructuring proposal was presented to NRG s creditors in late January 2003. While we currently anticipate that any financial impact of the proposal will affect only 2003 results, there can be no assurance that the restructuring proposal ultimately agreed to will not impact our final earnings in 2002.

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The Offering

Issuer	Xcel Energy Inc.
Notes Offered	$230,000,000 principal amount of 7 1/2% Convertible Senior Notes due 2007 (including $30,000,000 pursuant to the overallotment option exercised by the initial purchasers in full).
Maturity	November 21, 2007
Interest Payment Dates	7 1/2% per annum on the principal amount, payable semiannually on May 21 and November 21, beginning on May 21, 2003.
Dividend Protection	We will make additional payments of interest, referred to in this prospectus as protection payments, on the notes in an amount equal to any portion of our per share dividends on our common stock that exceeds $0.1875 per quarter that would have been payable to the holders of the notes if such holders had converted their notes on the record date for such dividend. Holders of the notes will not be entitled to any protection payment if the dividend triggering the protection payment causes an adjustment to the conversion rate.
Conversion Rights	The notes are convertible, at the option of the holder, at any time on or prior to maturity into shares of our common stock at a conversion price of $12.33 per share, which is equal to a conversion rate of approximately 81.1359 shares of common stock per $1,000 principal amount of notes. The conversion rate is subject to adjustment. See Description of the Notes Conversion Rights.
Ranking	The notes are unsecured and unsubordinated obligations and rank on a parity in right of payment with all our existing and future unsecured and unsubordinated indebtedness. The indenture under which the notes are issued does not prevent us or our subsidiaries from incurring additional indebtedness, which may be secured by some or all of our assets, or other obligations. As of September 30, 2002, after giving effect to the sale of the notes and the use of a portion of the proceeds thereof to redeem the Prior Notes, we would have no secured indebtedness and our unsecured and unsubordinated indebtedness would have been approximately $1.2 billion. We are structured as a holding company and conduct substantially all of our business operations through our subsidiaries. The notes are effectively subordinated to all existing and future indebtedness and other liabilities and commitments of our subsidiaries. As of September 30, 2002, our subsidiaries had aggregate indebtedness and other liabilities of approximately $21.6 billion.
Change of Control	Upon a change of control event, each holder of the notes may require us to repurchase some or all of its notes for cash at a repurchase price equal to 100% of the principal amount of the notes plus accrued and unpaid interest. See Description of the Notes Change of Control Permits Purchase of Notes at the Option of the Holder.

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Use of Proceeds	We will not receive any proceeds from the sale by any selling security holder of the notes or the common stock issuable upon conversion of the notes. See Use of Proceeds.
DTC Eligibility	The notes were issued in book-entry form and are represented by permanent global certificates without coupons deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company in New York, New York. Beneficial interests in the notes are shown on, and transfers will be effected only through, records maintained by The Depository Trust Company and its direct and indirect participants, and any such interest may not be exchanged for certificated securities, except in limited circumstances. See Description of the Notes Form, Denomination and Registration.
Trading	The notes sold in the initial private placement are eligible for trading in the PORTAL System. We do not intend to list the notes on any other national securities exchange or automated quotation system. Our common stock is traded on the New York Stock Exchange under the symbol XEL.
Risk Factors	See Risk Factors and the other information in this prospectus before deciding to invest in the notes.

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Summary Historical Financial Data

The following tables present our summary consolidated historical financial data. The data presented in these tables are from Selected Consolidated Financial Data, included elsewhere in this prospectus. You should read that section for a further explanation of the consolidated financial data summarized here. You should also read the summary consolidated financial data presented below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, and our audited and unaudited consolidated financial statements and related notes and other financial information contained in this prospectus. The historical financial information may not be indicative of our future performance.

The consolidated financial statement information summarized in the tables below for 1999, 2000 and 2001 reflect reclassifications from amounts previously reported in our Annual Report on Form 10-K for the year ended December 31, 2001, due to:

changes in the presentation of electric and gas trading revenues and costs, as a result of adopting in 2002 the requirements of Emerging Issues Task Force Issue No. 02-03; and

the impact of discontinued operations for certain components of NRG. These reclassifications are necessary to provide historical information that is comparable and consistent with the amounts shown for the nine months ended September 30, 2002 and 2001 in the tables below.

The reclassifications did not change our earnings or cash flows from amounts previously reported in our Annual Report on Form 10-K for the year ended December 31, 2001.

	Nine months ended September 30,		Year ended December 31,		
	2002(1)	2001	2001	2000	1999(2)
					(unaudited)
	(unaudited)				
			(Thousands of dollars)		
Consolidated Income Statement Data:					
Operating revenue	$ 7,240,771	$8,979,337	$11,522,647	$9,369,839	$6,876,324
Operating (loss) income	$(1,926,093)	$1,555,026	$ 1,885,232	$1,505,159	$1,196,981
Interest charges and financing costs	$ 669,683	$ 584,530	$ 793,967	$ 674,820	$ 452,144
Net (loss) income	$(1,883,154)	$ 650,070	$ 794,966	$ 526,828	$ 570,933

	September 30, 2002(3)
	(Thousands of dollars) (unaudited)
Consolidated Balance Sheet Data:	
Total assets	$28,405,775
Short-term debt (including current maturities)(4)	$ 9,526,054
Long-term debt(4)	$ 6,889,364
Total debt	$16,415,418
Minority interest	$ 38,837
Mandatorily redeemable preferred securities of subsidiary trusts	$ 494,000
Preferred stockholders equity	$ 105,320
Common stockholders equity	$ 5,247,506
Total capitalization (includes short-term debt and minority interests)	$22,301,081

(1) Results for 2002 include two significant items that are described further in the notes to our interim consolidated financial statements: (a) impairment charges and disposal losses related to NRG s long-lived assets and equity investments, which reduced operating income by

$3.0 billion and net income by $2.9 billion; and (b) income tax benefits related to our investment in NRG, which increased net income

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by $676 million. Excluding these items, 2002 operating income would have been approximately $1.1 billion and 2002 net income would have been approximately $400 million.

(2) The 1999 consolidated financial data was derived from financial statements audited by Arthur Andersen LLP, independent public accountants. We have been unable to obtain the consent of Arthur Andersen LLP to the use of their report in this prospectus. The 1999 amounts, as reclassified, are unaudited.

(3) Actual capitalization amounts are as reported in the notes to our interim consolidated financial statements, which includes reclassification of discontinued operations of NRG. The components of such discontinued operations are segregated on the balance sheet, outside of apparent capitalization components. As a result, $227.7 million of short-term debt is reported as current liabilities held for sale; and $25.1 million of minority interest and $203.1 million of long-term debt are reported in the notes to our interim consolidated financial statements as noncurrent liabilities held for sale.

(4) Based on the defaults under certain NRG debt agreements, and NRG s lenders having the ability to call such debt within twelve months of September 30, 2002, $6.7 billion of NRG s long-term debt has been reclassified to current as of that date.

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RISK FACTORS

You should carefully consider the risks described below as well as all of the information set forth in this prospectus before purchasing the notes.

The risks described in this section are those that we consider to be the most significant to your decision whether to invest in the notes. If any of the events described below occurs, our business financial condition or results could be materially harmed. In addition, we may not be able to make payments on the notes, and this could result in your losing all or part of your investment.

Risks Related to Our Ownership of NRG

Our subsidiary, NRG, is in default under most of its debt obligations and could be deemed to be insolvent. Many of its subsidiaries are also in default on their debt obligations and could be deemed to be insolvent. If these entities were the subject of voluntary or involuntary bankruptcy proceedings, their creditors could attempt to make claims against us, including claims to substantively consolidate our assets and liabilities with those of NRG or its subsidiaries. These claims, if successful, would have a material adverse effect on our financial condition and liquidity, and on our ability to make payments on the notes.

Currently, NRG has failed to make scheduled payments on interest and/or principal on approximately $4.1 billion of its recourse debt and is in default under the related debt instruments. These missed payments also have resulted in cross-defaults of numerous other non-recourse and limited recourse debt instruments of NRG. In addition, on November 6, 2002, lenders accelerated the approximately $1.1 billion of debt under a construction revolver financing facility, thereby rendering the debt immediately due and payable. Further, on November 22, 2002, five former NRG executives filed an involuntary Chapter 11 petition against NRG in the United States Bankruptcy Court for the District of Minnesota. Under the United States Bankruptcy Code, NRG has full authority to continue to operate its business as if the involuntary petition had not been filed unless and until a court hearing on the validity of the involuntary petition is resolved adversely to NRG. On December 16, 2002, NRG responded to the involuntary petition, contesting the petitioners claims and filing a motion to dismiss the case. The bankruptcy court has set April 29, 2003 as the evidentiary hearing date to consider the motion to dismiss filed by NRG. Absent an agreement on a comprehensive restructuring plan, NRG will remain in default under its debt and other obligations, because it does not have sufficient funds to meet such requirements and obligations. As a result, the lenders will be able, if they so choose, to seek to enforce their remedies at any time, which would likely lead to a bankruptcy filing by NRG.

In addition to the missed debt payments, a significant amount of NRG s debt and other obligations contain terms which require that they be supported with letters of credit or cash collateral following a ratings downgrade. As a result of the downgrades that NRG has experienced since July 26, 2002, NRG estimates that it is in default of its obligations to post collateral ranging from $1.1 billion to $1.3 billion, principally to fund equity guarantees associated with its construction revolver financing facility, to fund debt service reserves and other guarantees related to NRG projects, and to fund trading operations.

In early November 2002, an NRG restructuring plan was presented to the creditors of NRG. The restructuring plan includes a proposal addressing our continuing role and degree of ownership in NRG and obligations to NRG. Based on the advice of our financial advisor that NRG could be deemed to be insolvent, and in return for a release of any and all claims against us, the plan proposes that we surrender our equity ownership of NRG and make a lump sum payment to NRG of $300 million. In mid-December 2002, the NRG bank steering committee submitted a counter-proposal to the NRG restructuring plan, which would require substantial additional payments by us. In January 2003, a new restructuring proposal was presented to NRG s creditors, and negotiations among NRG, NRG s creditors and ourselves are on-going.

There can be no assurance that NRG s creditors ultimately will accept any consensual restructuring plan, or that, in the interim, NRG s lenders and bondholders will continue to forbear from exercising any or all of the remedies available to them, including acceleration of NRG s indebtedness, commencement of an

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involuntary proceeding in bankruptcy and, in the case of certain lenders, realization on the collateral for their indebtedness.

Pending the resolution of NRG credit contingencies and the timing of possible asset sales, a portion of NRG s long-term debt obligations have been classified as current liabilities on our consolidated balance sheet due to lenders having the ability to accelerate such debt within twelve months of the balance sheet date. In the event that NRG is unable to effect a restructuring of its debt and other obligations and is unable to obtain adequate financing on acceptable terms, there would be substantial doubt as to NRG s ability to continue as a going concern. In any event, whether or not NRG becomes subject to a bankruptcy proceeding, it is unlikely that we ultimately will own any equity interest in NRG. As of September 30, 2002, we had contributed approximately $1.9 billion of capital to NRG, including the value of our shares exchanged for minority NRG stockholder shares in June 2002. As of September 30, 2002, the net worth of NRG Energy was a deficit of approximately $135 million.

If NRG does become subject to a bankruptcy proceeding, NRG or its creditors could seek to substantively consolidate us with NRG. The equitable doctrine of substantive consolidation would permit a bankruptcy court to disregard the separateness of related entities; such as NRG and us, and consolidate and pool the entities assets and liabilities and treat them as though held and incurred by one entity where the interrelationship between the entities warrants such consolidation. If NRG or its creditors were to assert such claims in an NRG bankruptcy proceeding, there can be no assurance as to how a bankruptcy court would resolve the issue. One of the creditors of an NRG project already has filed involuntary bankruptcy proceedings against that project and has included claims against NRG and us. If a bankruptcy court were to allow substantive consolidation of us with NRG, it would have a material adverse effect on us and on our ability to make payments on our obligations, including the notes, and could ultimately cause us to seek to restructure under the protection of the bankruptcy laws.

If our assets are substantively consolidated with those of NRG, or if we otherwise incur significant liabilities relating to NRG, we may not have sufficient resources to satisfy those claims, and it would adversely affect our ability to make payments on the notes.

If NRG enters or is placed in bankruptcy, we can provide no assurance that a bankruptcy court will not substantively consolidate us with NRG and make our assets available to satisfy NRG s obligations.

Even without substantive consolidation, however, we have certain other potential exposures to claims relating to NRG. In May 2002, we entered into a support and capital contribution agreement pursuant to which we agreed to provide up to $300 million to NRG under certain circumstances. We may be required to provide NRG with this $300 million.

We have also provided various guarantees and bond indemnities supporting certain of NRG s obligations, guaranteeing the payment or performance under specified agreements or transactions of NRG. As a result, our exposure under the guarantees is based upon the net liability of the relevant subsidiary under the specified agreements or transactions. The majority of our guarantees limit our exposure to a maximum amount stated in the guarantees. As of September 30, 2002, the maximum amount stated in our guarantees of obligations of NRG was approximately $234 million. Our aggregate exposure on guarantees of obligations of NRG was approximately $104 million as of December 31, 2002.

Even without substantive consolidation, we may also have additional potential exposure to certain liabilities relating to employee benefit plans maintained for the benefit of the employees of NRG:

Eligible current or former NRG employees participate in one of our qualified defined benefit pension plans, with the result that our plan is liable for past and future accruals for these employees. To the extent NRG is unable to contribute amounts necessary to fund these accruals, we would be required to do so. We expect to agree to make a $2 million funding contribution due by NRG to our plan in March 2003 and seek reimbursement from NRG for the payment, although it is unlikely that we would obtain such reimbursement.

Some current or former NRG employees participate in non-qualified deferred compensation plans that we or other subsidiaries, including NRG, maintain. To the extent NRG fails to pay benefits accrued by its current or former employees under these plans, such employees may seek payment from us. If we were found liable for such payment, we cannot assure you that the amount we would be required to pay would not be material.

Certain NRG current or former employees also participate in various welfare plans, including retiree medical and life plans, maintained by us. We have also provided guarantees for specified NRG severance and employment payments. We cannot assure you that benefits that we would be required to pay NRG current or former employees pursuant to these arrangements would, in the aggregate, not be material if NRG were unable to pay them when due.

NRG maintains a long-term incentive plan under which options for 2,914,839 of our shares are outstanding. Such options, which have a weighted average exercise price of $29.80, would become fully exercisable if a change of control (as defined in the plan) of NRG were to occur during or following bankruptcy proceedings. Of these options outstanding, none currently have an in-the-money spread.

NRG participates in a multiemployer pension plan covered by Title IV of the Employee Retirement Income Security Act of 1974, as amended (ERISA), with respect to certain employees covered by collective bargaining agreements. If NRG were to withdraw from this plan in a complete or partial withdrawal while it was a member of our controlled group within the meaning of ERISA (generally, subsidiaries of which we own directly or indirectly at least 80%), we would be liable under ERISA for any portion of the resulting withdrawal liability imposed under Title IV of ERISA that NRG is unable to pay. If such withdrawal were to occur now, we cannot assure you that the amount of withdrawal liability we would be required to pay would not be material.

In addition, we may incur liability for certain tax obligations of NRG. Under regulations issued by the U.S. Department of the Treasury, each member of a consolidated group during any part of a consolidated federal income tax return year is severally liable for the tax obligation of the entire consolidated group for that year. NRG was a member of our consolidated group before March 2001 and is eligible for re-inclusion in our consolidated group as of June 2002. It is likely, though not certain, that we will decide not to reconsolidate NRG for income tax purposes for 2002. If the IRS determines that NRG owes additional taxes and NRG does not pay them, the IRS would look to one or more members of the consolidated group, including us, for taxes owed by NRG for tax periods when NRG was a member of the consolidated group. If the IRS looked to us to pay taxes not paid by NRG, we would exercise any legal rights that are available for recovery of the payment from NRG, including in any NRG bankruptcy proceeding. We cannot assure you that any amounts that we would be required to pay to the IRS would not be material or that such amounts could be recovered from NRG.

We cannot assure you that we will have access to adequate funds in the event that we are substantively consolidated with NRG or we incur other significant liabilities relating to NRG. If these events were to occur, it would adversely affect our ability to make payments on the notes and you could risk the loss of your entire investment.

Recent and ongoing lawsuits relating to our ownership of NRG could impair our profitability and liquidity and could divert the attention of our management.

On July 31, 2002, a lawsuit purporting to be a class action on behalf of purchasers of our common stock between January 31, 2001 and July 26, 2002, was filed in the United States District Court in Minnesota. The complaint named Xcel Energy; Wayne H. Brunetti, chairman, president and chief executive officer; Edward J. McIntyre, former vice president and chief financial officer; and James J. Howard, former chairman, as defendants. Among other things, the complaint alleged violations of Section 10(b) of the Securities Exchange Act and Rule 10b-5 related to allegedly false and misleading disclosures concerning various issues, including round trip energy trades, the existence of cross-default provisions in our and NRG s credit agreements with lenders, NRG s liquidity and credit status, the supposed risks to our credit rating and the status of our internal controls to monitor trading of its power. Since the filing of the lawsuit on July 31, 2002, several

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additional lawsuits were filed with similar allegations, one of which added claims on behalf a purported class of purchasers of two series of NRG Senior Notes issued by NRG in January 2001. The cases have all been consolidated, and a consolidated amended complaint has been filed. The amended complaint charges false and misleading disclosures concerning round trip energy trades and the existence of provisions in our credit agreements with lenders for cross-defaults in the event of a default by NRG; it adds as additional defendants Gary R. Johnson, General Counsel, Richard C. Kelly, president of Xcel Energy Enterprises, two former executive officers of NRG (David H. Peterson, Leonard A. Bluhm) and one current executive officer of NRG (William T. Pieper) and a former independent director of NRG (Luella G. Goldberg); and it adds claims of false and misleading disclosures (also regarding round trip trades and the cross-defaults provisions) under Section 11 of the Securities Act. On August 15, 2002, a shareholder derivative action was filed in the same court as the class actions described above purportedly on our behalf, against our directors and certain present and former officers, citing essentially the same circumstances as the class actions and asserting breach of fiduciary duty. Subsequently, two additional derivative actions were filed in the state trial court for Hennepin County, Minnesota, against essentially the same defendants, focusing on alleged wrongful energy trading activities and asserting breach of fiduciary duty for failure to establish and maintain adequate accounting controls, abuse of control and gross mismanagement. In addition, complaints have been filed against us, certain of our present and former officers and directors and the members of our board of directors in the United States District Court for the District of Colorado under the Employee Retirement Income Security Act by participants in our 401(k) and ESOP plan, alleging breach of fiduciary duty in allowing or encouraging purchase, contribution and/or retention of our common stock in the plans, and misleading statements and omissions in that regard, and purporting to represent classes from as early as September 23, 1999 forward. If any one or combination of these cases results in a substantial monetary judgment against us or is settled on unfavorable terms, our profitability and liquidity could be materially adversely affected.

Defaults at additional NRG projects could cause us to recognize significant additional losses and write-downs.

Substantially all of NRG s operations are conducted by project subsidiaries and project affiliates. NRG s cash flow and ability to service corporate-level indebtedness when due are dependent upon receipt of cash dividends and distributions or other transfers from NRG s subsidiaries and project affiliates. The debt agreements of NRG s subsidiaries and project affiliates generally restrict their ability to pay dividends, make distributions or otherwise transfer funds to NRG. As of December 31, 2002, certain of NRG s subsidiaries and project affiliates are restricted from making cash payments to NRG: among others, Loy Yang, Killingholme, Energy Center Kladno, LSP Energy (Batesville), NRG South Central and NRG Northeast Generating do not currently meet the minimum debt service coverage ratios required for these projects to make payments to NRG. Crockett Cogeneration is also limited in its ability to make distributions to NRG and its other partners.

Many of the debt agreements of NRG s subsidiaries and project affiliates require the funding of debt service reserve accounts. Prior to the NRG downgrades, certain debt service reserve account funding requirements were satisfied by provision of a guarantee from NRG. Following the downgrade of NRG, those guarantees no longer qualified as acceptable credit support and the accounts were required to be funded with cash by NRG. The accounts were not funded with cash from NRG, and, after allowing for applicable cure periods, events of default were triggered under such project financings that allow the lenders to accelerate the project debt. NRG South Central Generating, NRG McClain, NRG MidAtlantic, Flinders, NRG Northeast Generating and Enfield are precluded from making payments to NRG due to unfunded debt service reserve accounts. During January 2003, ownership of the Killingholme and Brazos Valley projects was transferred to their lenders and NRG no longer has an interest in those projects.

Additional asset impairments may be recorded by NRG in periods subsequent to September 30, 2002, given the changing business conditions for NRG and the resolution of its pending restructuring plan. We are unable at this time to determine the possible magnitude of any additional NRG asset impairments, but they could be material.

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For additional information regarding our ownership of NRG and its potential implications on us, see Notes 6 and 7 to our interim consolidated financial statements.

Risks related to our Liquidity and Access to the Capital Markets

Our credit ratings have been recently lowered and could be further lowered in the future. If this were to occur, our access to capital would be negatively affected and the value of the notes could decline.

Our credit ratings and access to the capital markets have been significantly and negatively affected recently, and may be further affected in the future. As of December 31, 2002, our senior unsecured debt was rated BBB-by Standard & Poor s, Baa3 (negative outlook) by Moody s and BB+, with negative outlook, by Fitch. As a result, our ability to access needed capital and bank credit has been limited, and our cost of capital has increased materially. Any further downgrade of our debt securities would increase our cost of capital and impair our access to the capital markets. This could adversely affect our financial condition and results of operations.

On June 24, 2002, Standard & Poor s lowered the short-term rating on our commercial paper to A-3 from A-2 and on July 30, 2002, Fitch withdrew our commercial paper rating. Our commercial paper is currently not rated by Moody s. Consequently, we do not currently have access to the commercial paper market and refinanced our outstanding commercial paper as it matured with borrowings under our credit facilities. As of September 30, 2002, and after giving effect to the repayment of the $400 million credit facility at maturity on November 8, 2002, we had no commercial paper outstanding and had borrowings of approximately $400 million under our five-year credit facility, which matures in November 2005.

Our cost of new borrowings to replace our commercial paper is greater than the historical cost of our commercial paper. As a result of our loss of access to the commercial paper market and the current lack of additional capacity under our credit facility, we are more dependent upon accessing the capital markets. Access to the capital markets on favorable terms will be affected by our credit ratings (and the ratings of our affiliated companies) and prevailing conditions in the capital markets.

We cannot assure you that any of our current ratings or those of our affiliates, including NRG, will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency. In particular, under the current rating methodology used by Standard & Poor s, our ratings could be changed to reflect a change in credit ratings of any of our affiliates, including NRG. Further adverse developments related to NRG s liquidity and its debt and other obligations described above, and the actions we take to address that situation, could have an adverse effect on our credit ratings and therefore our liquidity. Any lowering of the rating of the notes offered hereby would likely reduce the value of the notes.

We have provided various guarantees and bond indemnities supporting certain of our subsidiaries by guaranteeing the payment or performance by such subsidiaries of specified agreements or transactions. Our exposure under the guarantees is based upon the net liability of the relevant subsidiary under the specified agreements or transactions. The majority of our guarantees limit our exposure to a maximum amount that is stated in the guarantees. As of September 30, 2002, we had guarantees outstanding with a maximum stated amount of approximately $864 million and actual current aggregate exposure of approximately $323 million, which amount may vary over time.

On November 21, 2002 Moody s rated the notes Baa3 (negative outlook). If either Standard & Poor s or Moody s were subsequently to downgrade our credit rating below investment grade, we may be required to provide credit enhancement in the form of cash collateral, letters of credit or other security to satisfy part or potentially all of these exposures.

Any such downgrading of our ratings would increase our cost of capital, impair our access to the capital markets and adversely affect our liquidity position.

Our reduced access to sources of liquidity may increase our cost of capital and our dependence on capital markets.

Historically, we have relied on bank lines of credit, the commercial paper market and dividends from our regulated utility subsidiaries to meet our cash requirements, including dividend payments to our shareholders, and the short-term liquidity requirements of our business. Given the recent events at NRG discussed above and the recent downgrades in our short-term ratings, we do not have access to the commercial paper market.

In addition, our $400 million revolving credit facility expired in November 2002, and we were not able to renew this facility on favorable terms. Consequently, we repaid the facility from funds from a new financing and from available cash. Our inability to obtain bank financing on favorable terms will limit our ability to contribute equity or make loans to our subsidiaries, including our regulated utilities, and may cause us to seek alternative sources of funds to meet temporary cash needs.

Furthermore, until the issues related to NRG are resolved, our access to the capital markets is likely to be constrained. Access to the capital markets and our cost of capital will be affected by our credit ratings (and the ratings of our affiliated companies) and prevailing conditions in the capital markets. If we are unable to access the capital markets on favorable terms, our ability to fund our operations and required capital expenditures and other investments may be adversely affected.

Our utility subsidiaries also rely on accessing the capital markets to support their capital expenditure programs and other capital requirements to maintain and build their utility infrastructure and comply with future requirements such as installing emission-control equipment. The ability of our utility subsidiaries to access the capital markets also has been negatively impacted by events at NRG.

We must rely on cash from our subsidiaries to make debt payments.

We are a holding company and thus our investments in our subsidiaries are our primary assets. Substantially all of our operations are conducted by our subsidiaries. Consequently, our operating cash flow and our ability to service our indebtedness, including the notes, depends upon the operating cash flow of our subsidiaries and the payment of funds by them to us in the form of dividends. Our subsidiaries are separate legal entities that have no obligation to pay any amounts due pursuant to the notes or to make any funds available for that purpose, whether by dividends or otherwise. In addition, each subsidiary s ability to pay dividends to us depends on any statutory and/or contractual restrictions that may be applicable to such subsidiary, which may include requirements to maintain minimum levels of working capital and other assets.

As discussed above, our utility subsidiaries are regulated by various state utility commissions which generally possess broad powers to ensure that the needs of the utility customers are being met. To the extent that the state commissions attempt to impose restrictions on the ability of our utility subsidiaries to pay dividends to us, it could adversely affect our ability to make payments on the notes or otherwise meet our financial obligations.

We are subject to regulatory restrictions on accessing capital.

We are a public utility holding company registered with the SEC under PUHCA. PUHCA contains limitations on the ability of registered holding companies and certain of their subsidiaries to issue securities. Such registered holding companies and subsidiaries may not issue securities unless authorized by an exemptive rule or order of the SEC.

Because the exemptions available to us are limited, we sought and received authority from the SEC under PUHCA for various financing arrangements. One of the conditions of our original financing order was that our ratio of common equity to total capitalization, on a consolidated basis, be at least 30 percent. During the quarter ended September 30, 2002, we were required to record significant asset impairment losses from sales or divestitures of NRG assets and businesses, from NRG s cancelling or deferring the funding of certain projects under construction, and from NRG s deciding not to contribute additional funds to certain projects already operating. As a result, our common equity ratio fell below 30 percent.

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In anticipation of falling below the 30 percent level, we obtained authorization from the SEC under PUHCA to engage in certain financing transactions and intrasystem loans through March 31, 2003, so long as our ratio of common equity to total capitalization, on an as adjusted basis, is at least 24 percent. As of September 30, 2002, our common equity ratio, as adjusted, was at least 24 percent. Financings authorized by the SEC included the issuance of debt (including convertible debt) to refinance or replace a $400 million credit facility that expired on November 8, 2002, issuance of $483 million of stock (less amounts of long-term debt issued as part of the refinancing of the $400 million credit facility) and the renewal of guarantees for trading obligations of NRG s power marketing subsidiary. The SEC reserved jurisdiction over additional securities issuances by us through June 30, 2003, while our common equity ratio is below 30 percent. After June 30, 2003, our common equity ratio must be at least 30 percent in order to engage in financing transactions without additional approval of the SEC.

On December 20, 2002, we filed a revised request with the SEC seeking additional financing authorization to conduct our business as proposed during 2003. We are seeking an increase of $500 million in the amount of long-term debt and common equity we are authorized to issue. In addition, we proposed that our common equity, as reflected on our most recent Form 10-K or Form 10-Q and as adjusted to reflect subsequent events that affect capitalization, will be at least 30 percent of total consolidated capitalization, provided that in any event that we do not satisfy the 30 percent common equity standard, we may issue common stock. We further asked the SEC to reserve jurisdiction over the authorization for us and our subsidiaries to engage in any other financing transactions authorized under current SEC orders and in the instant request at a time that we do not satisfy the 30 percent common equity standard. We also requested that the SEC permit us to pay dividends out of capital and unearned surplus in the event we cease to have retained earnings. The amount of dividends that we can pay is limited by PUHCA, in that we may not pay dividends out of capital or unearned surplus without approval of the SEC.

It is possible that we may be required to recognize further losses at NRG and that our common equity ratio may fall below the 24 percent level. If that occurs and we are unable to obtain additional relief from the SEC, we may not be able to issue securities, which could have a material adverse effect on our ability to make payments on the notes and otherwise meet our capital and other needs.

For additional information regarding our liquidity and capital resources, and the effect that the recent reductions in our credit ratings has had on our access to capital, see Note 10 to our interim consolidated financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Risks Associated with Our Business

There may be changes in the regulatory environment that impair our ability to recover costs from our customers.

We are subject to comprehensive regulation by several federal and state utility regulatory agencies, which significantly influences our operating environment and our ability to recover our costs from utility customers. The utility commissions in the states where our utility subsidiaries operate regulate many aspects of our utility operations including siting and construction of facilities, customer service and the rates that we can charge customers.

In light of the recent credit and liquidity events regarding NRG, we face enhanced scrutiny from our state regulators. On August 8, 2002, the MPUC asked for additional information related to the impact of NRG s financial circumstances on NSP-Minnesota. Subsequent to that date, several newspaper articles alleged concern about the reporting of service quality data and NSP-Minnesota s overall maintenance practices. In an order dated October 22, 2002, the MPUC opened an investigation into the accuracy of NSP-Minnesota s reliability records and to allow for further review of its maintenance and other service quality measures. The Minnesota Department of Commerce and Office of Attorney General have begun an investigation of these issues. There is no scheduled date for completion of these investigations and we cannot assure you that such investigations, and any attendant remedial actions, will not materially and adversely affect the financial position and results of operations of NSP-Minnesota.

The events relating to NRG could also negatively impact the positions taken by the Colorado Public Utilities Commission (CPUC) in PSCo s pending and future rate proceedings, which could result in reduced recovery of our costs. In May 2002, PSCo filed a combined general rate case with CPUC to address increased costs for providing energy to Colorado customers. PSCo has subsequently made revisions to the filing. The net impact of the filings (as currently filed) would increase electric revenue by approximately $233 million annually. This is based on approximately $186 million for fuel and purchased power energy expense and $47 million for the remaining cost of electric service. In addition, PSCo also requested a decrease in natural gas revenue by approximately $21 million to reflect lower wholesale gas costs. PSCo also requested that its authorized rate of return on equity be set at 12 percent for electricity and 12.25 percent for natural gas. Hearings in the case are scheduled for February and March, 2003.

As a result of the energy crisis in California and the financial troubles at a number of energy companies, including the financial challenges of NRG, the regulatory environments in which we operate have received an increased amount of public attention. The profitability of our utility operations is dependent on our ability to recover costs related to providing energy and utility services to our customers. It is possible that there could be changes in the regulatory environment that would impair our ability to recover costs historically absorbed by our customers. State utility commissions generally possess broad powers to ensure that the needs of the utility customers are being met. We may be asked to ensure that our ratepayers are not harmed as a result of the credit and liquidity events at NRG. The state utility commissions also may seek to impose restrictions on the ability of our utility subsidiaries to pay dividends to us. If successful, this could materially and adversely affect our ability to meet our financial obligations, including making payments on the notes.

As discussed above, our system also is subject to the jurisdiction of the SEC under PUHCA, which imposes a number of restrictions on the operations of registered holding company systems. These restrictions include, subject to certain exceptions, a requirement that the SEC approve securities issuances, payments of dividends out of capital or unearned surplus, sales and acquisitions of utility assets or of securities of utility companies and acquisitions of other businesses. PUHCA also generally limits the operations of a registered holding company like us to a single integrated public utility system, plus additional energy-related businesses. PUHCA rules require that transactions between affiliated companies in a registered holding company system be performed at cost, with limited exceptions.

The Federal Energy Regulatory Commission has jurisdiction over wholesale rates for electric transmission service and electric energy sold in interstate commerce, hydro facility licensing and certain other activities of our utility subsidiaries. Federal, state and local agencies also have jurisdiction over many of our other activities.

We are unable to predict the impact on our operating results from the future regulatory activities of any of these agencies. Changes in regulations or the imposition of additional regulations could have an adverse impact on our results of operations.

We are subject to commodity price risk, credit risk and other risks associated with energy markets.

We are exposed to market and credit risks in our generation, retail distribution and energy trading operations. To minimize the risk of market price and volume fluctuations, we enter into financial derivative instrument contracts to hedge purchase and sale commitments, fuel requirements and inventories of natural gas, distillate fuel oil, electricity and coal, and emission allowances. However, financial derivative instrument contracts do not eliminate the risk. Specifically, such risks include commodity price changes, market supply shortages, credit risk and interest rate changes. The impact of these variables could result in our inability to fulfill contractual obligations, significantly higher energy or fuel costs relative to corresponding sales contracts or increased interest expense.

Credit risk includes the risk that counterparties that owe us money or energy will breach their obligations. If the counterparties to these arrangements fail to perform, we may be forced to enter into alternative arrangements. In that event, our financial results could be adversely affected and we could incur losses.

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We mark our energy trading portfolio to estimated fair market value on a daily basis (mark-to-market accounting), which causes earnings variability. Market prices are utilized in determining the value of electric energy, natural gas and related derivative commodity instruments. For longer-term positions, which are limited to a maximum of eighteen months, and certain short-term positions for which market prices are not available, models based on forward price curves are utilized. These models incorporate estimates and assumptions as to a variety of factors such as pricing relationships between various energy commodities and geographic locations. Actual experience can vary significantly from these estimates and assumptions.

We may be subject to enhanced scrutiny and potential liabilities as a result of our trading operations.

On May 8, 2002, in response to disclosure by Enron Corporation of certain trading strategies used in 2000 and 2001 that may have violated market rules, the FERC ordered all sellers of wholesale electricity and/or ancillary services to the California Independent System Operator or Power Exchange, including us, to respond to data requests, including requests about the use of certain trading strategies. On May 22, 2002, we reported to the FERC that we had not engaged directly in the trading strategies identified in the May 8th inquiry. On May 21, 2002, the FERC supplemented the May 8th request by ordering all sellers of wholesale electricity and/or ancillary services in the United States portion of the Western Systems Coordinating Council during 2000 and 2001 to report whether they had engaged in activities referred to as wash, round trip or sell/buyback trading. On May 31, 2002, we reported that we had not engaged in so-called round trip electricity trading identified in the May 21st inquiry.

On May 13, 2002, independently and not in direct response to any regulatory inquiry, we reported that PSCo had engaged in transactions in 1999 and 2000 with the trading arm of Reliant Resources, Inc. in which it bought power from Reliant and simultaneously sold the same quantity back to Reliant. We have received subpoenas from the Commodities Futures Trading Commission for disclosure related to these round trip trades and other trading in electricity and natural gas for the period from January 1, 1999 to the present involving us or any of our subsidiaries.

We also have received a subpoena from the SEC for documents concerning round trip trades in electricity and natural gas with Reliant Resources, Inc. for the period from January 1, 1999 to the present. The SEC subpoena is issued pursuant to a formal order of private investigation that does not name us. Based upon accounts in the public press, we believe that similar subpoenas in the same investigation have been served on other industry participants. We are cooperating with the regulators and taking steps to assure satisfactory compliance with the subpoenas.

If it is determined that we acted improperly in connection with these trading activities, we could be subject to a range of potential sanctions, including civil penalties and loss of market-based trading authority.

In addition, a number of actions have been filed in state and federal courts relating to power sales in California and other Western markets from May 2000 through June 2001. Xcel Energy and PSCo have been named in the California litigation and it is possible that we could be brought into the additional litigation, or named in future proceedings. There are also actions pending at FERC regarding these and similar issues. We cannot assure you that we will not have to pay refunds or other damages as a result of these proceedings. Any such refunds or damages could have an adverse effect on our financial results.

We are subject to environmental laws and regulations which could be difficult and costly to comply with.

We are subject to a number of environmental laws and regulations affecting many aspects of our past, present and future operations, including air emissions, water quality, wastewater discharges, and the management of wastes and hazardous substances. These laws and regulations generally require us to obtain and comply with a wide variety of environmental registrations, licenses, permits, inspections and other approvals. Environmental laws and regulations can also require us to perform environmental remediations, including remediations of properties formerly used to manufacture gas, and to install pollution control equipment at our facilities. Both public officials and private individuals may seek to enforce the applicable environmental laws and regulations against us. We cannot assure you that existing environmental laws or regulations will not be revised or that new laws or regulations seeking to protect the environment will not be

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adopted or become applicable to us or that we will not identify in the future conditions that will result in obligations or liabilities under existing environmental laws and regulations. Revised or additional laws or regulations which result in increased compliance costs or additional operating restrictions, or currently unanticipated costs or restrictions under existing laws or regulations, particularly if those costs are not fully recoverable from our customers, could have a material adverse effect on our results of operations.

We received a Notice of Violation from the United States Environmental Protection Agency alleging violations of the New Source Review requirements of the Clean Air Act at two of our stations in Colorado and we continue to respond to information requests related to several of our plants in Minnesota. The ultimate financial impact to us is uncertain at this time.

On July 1, 2002, we received a Notice of Violation (NOV) from the United States Environmental Protection Agency (EPA) alleging violations of the New Source Review (NSR) requirements of the Clean Air Act at PSCo s Comanche and Pawnee Stations in Colorado. The NOV sp