

XCEL ENERGY INC
Form U-13-60
April 30, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM U-13-60

ANNUAL REPORT

FOR THE PERIOD

Beginning January 1, 2003 and ending December 31, 2003

TO THE

U.S. SECURITIES AND EXCHANGE COMMISSION

OF

XCEL ENERGY SERVICES INC.

(Exact Name of Reporting Company)

A Subsidiary SERVICE COMPANY
(Mutual or Subsidiary)

Date of Incorporation April 2, 1997

State or Sovereign Power under which Incorporated or Organized: Delaware

Location of Principal Executive Offices of Reporting Company: Minneapolis, MN

Name, title, and address of officer to whom correspondence concerning this
report should be addressed:

Teresa S. Madden	Vice President and	414 Nicollet Mall Minneapolis, MN 55402
(Name)	Controller	(Address)
	(Title)	

Name of Principal Holding Company Whose Subsidiaries are served by Reporting Company:

XCEL ENERGY INC.

INSTRUCTIONS FOR USE OF FORM U-13-60

- 1. Time of Filing.** Rule 94 provides that on or before the first day of May in each calendar year, each mutual service company and each subsidiary service company as to which the Commission shall have made a favorable finding pursuant to Rule 88, and every service company whose application for approval or declaration pursuant to Rule 88 is pending shall file with the Commission an annual report on Form U-13-60 and in accordance with the Instructions for that form.
 - 2. Number of Copies.** Each annual report shall be filed in duplicate. The company should prepare and retain at least one extra copy for itself in case correspondence with reference to the report becomes necessary.
 - 3. Period Covered by Report.** The first report filed by any company shall cover the period from the date the Uniform System of Accounts was required to be made effective as to that company under Rules 82 and 93 to the end of that calendar year. Subsequent reports should cover a calendar year.
 - 4. Report Format.** Reports shall be submitted on the forms prepared by the Commission. If the space provided on any sheet of such form is inadequate, additional sheets may be inserted of the same size as a sheet of the form or folded to each size.
 - 5. Money Amounts Displayed.** All money amounts required to be shown in financial statements may be expressed in whole dollars, in thousands of dollars or in hundred thousands of dollars, as appropriate and subject to provisions of Regulation S-X (210.3-01(b)).
 - 6. Deficits Displayed.** Deficits and other like entries shall be indicated by the use of either brackets or a parenthesis with corresponding reference in footnotes. (Regulation S-X, 210.3-01(c))
 - 7. Major Amendments or Corrections.** Any company desiring to amend or correct a major omission or error in a report after it has been filed with the Commission shall submit an amended report including only those pages, schedules, and entries that are to be amended or corrected. A cover letter shall be submitted requesting the Commission to incorporate the amended report changes and shall be signed by a duly authorized officer of the company.
 - 8. Definitions.** Definitions contained in Instruction 01-8 to the Uniform System of Accounts for Mutual Service Companies and Subsidiary Service Companies, Public Utility Holding Company Act of 1935, as amended February 2, 1979 shall be applicable to words or terms used specifically within this Form U-13-60.
 - 9. Organization Chart.** The service company shall submit with each annual report a copy of its current organization chart.
 - 10. Methods of Allocation.** The service company shall submit with each annual report a listing of the currently effective methods of allocation being used by the service company and on file with the Securities and Exchange Commission pursuant to the Public Utility Holding Company Act of 1935.
 - 11. Annual Statement of Compensation for Use of Capital Billed.** The service company shall submit with each annual report a copy of the annual statement supplied to each associate company in support of the amount of compensation for use of capital billed during the calendar year.
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LISTING OF SCHEDULES AND ANALYSIS OF ACCOUNTS

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Description of Schedules and Accounts	Schedule or Account Number	Page Number
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ANNUAL REPORT OF XCEL ENERGY SERVICES INC.**SCHEDULE I-COMPARATIVE BALANCE SHEET**

(thousands of dollars)

Give balance sheet of the Company as of December 31 of the current and prior year.

ACCOUNT	ASSETS AND OTHER DEBITS		AS OF DECEMBER 31,	
			2003	2002
	SERVICE COMPANY PROPERTY			
101	Service company property	(Schedule II)	\$	\$
107	Construction work in progress	(Schedule II)		
	Total Property			
108	Less accumulated provision for depreciation and amortization of service company property	(Schedule III)		
	Net Service Company Property			
	INVESTMENTS			
123	Investments in associate companies	(Schedule IV)		
124	Other investments	(Schedule IV)	3,707	3,823
	Total Investments		3,707	3,823
	CURRENT AND ACCRUED ASSETS			
131	Cash		314	(4,582)(1)
134	Special deposits			
135	Working funds		15	15
136	Temporary cash investments	(Schedule IV)		
141	Notes receivable		26,175	
143	Accounts receivable		1,039	1,454
144	Accumulated provision for uncollectable accounts			
146	Accounts receivable from associate companies	(Schedule V)	104,285	99,387
152	Fuel stock expenses undistributed	(Schedule VI)		
154	Materials and supplies			
163	Stores expense undistributed	(Schedule		61

		VII)		
165	Prepayments		39,413	47,834
174	Miscellaneous current and accrued assets	(Schedule VIII)		
			<u> </u>	<u> </u>
	Total Current and Accrued Assets		<u>171,241</u>	<u>144,169</u>
	DEFERRED DEBITS			
181	Unamortized debt expense			
184	Clearing accounts		1	(11)
186	Miscellaneous deferred debits	(Schedule IX)	62,959	44,644
188	Research, development, or demonstration expenditures	(Schedule X)		
190	Accumulated deferred income taxes			
			<u> </u>	<u> </u>
	Total Deferred Debits		<u>62,960</u>	<u>44,633</u>
	TOTAL ASSETS AND OTHER DEBITS		<u>\$237,908</u>	<u>\$192,625</u>

(1) Includes outstanding checks

ANNUAL REPORT OF XCEL ENERGY SERVICES INC.**SCHEDULE I-COMPARATIVE BALANCE SHEET**

(thousands of dollars)

ACCOUNT	LIABILITIES AND PROPRIETARY CAPITAL	AS OF DECEMBER	
		31, 2003	2002
	PROPRIETARY CAPITAL		
201	Common stock issued (Schedule XI)	\$	\$
211	Miscellaneous paid-in-capital (Schedule XI)	(38)	(82)
215	Appropriated retained earnings (Schedule XI)		
216	Unappropriated retained earnings (Schedule XI)		
	Total Proprietary Capital	(38)	(82)
	LONG-TERM DEBT		
223	Advances from associate companies (Schedule XII)		
224	Other long-term debt (Schedule XII)		
225	Unamortized premium on long-term debt		
226	Unamortized discount on long-term debt-debit		
	Total Long-Term Debt		
	CURRENT AND ACCRUED LIABILITIES		
231	Notes payable		
232	Accounts payable	127,359	79,781
233	Notes payable to associate companies (Schedule XIII)	46,275	65,909
234	Accounts payable to associate companies (Schedule XIII)		
236	Taxes accrued	11,040	(939)
237	Interest accrued		
238	Dividends declared		
241	Tax collections payable	2,494	3,101
242	Miscellaneous current and accrued liabilities (Schedule XIII)		(47)
	Total Current and Accrued Liabilities	187,168	147,805
	DEFERRED CREDITS AND OTHER		

NON-CURRENT LIABILITIES		
228	Accumulated provision for pension and benefits	14,032 11,004
253	Other deferred credits	25,239 22,643
255	Accumulated deferred investment tax credits	
	Total Deferred Credits and Other Non-Current Liabilities	39,271 33,647
282	ACCUMULATED DEFERRED INCOME TAXES	11,507 11,255
	TOTAL LIABILITIES AND PROPRIETARY CAPITAL	\$237,908 \$192,625

ANNUAL REPORT OF XCEL ENERGY SERVICES INC.

For the Year Ended December 31, 2003

SCHEDULE II-SERVICE COMPANY PROPERTY

(thousands of dollars)

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	ADDITIONS	RETIREMENTS OR SALES	OTHER CHANGES (1), (4)	BALANCE AT CLOSE OF YEAR
SERVICE COMPANY PROPERTY					
Account					
301 Organization	\$	\$	\$	\$	\$
303 Miscellaneous intangible plant					
304 Land and land rights					
305 Structures and improvements					
306 Leasehold improvements					
307 Equipment (2)					
308 Office furniture and equipment					
309 Automobiles, other vehicles and related garage equipment					
310 Aircraft and airport equipment					
311 Other service company property (3)					
	—	—	—	—	—
SUB-TOTAL					
107 Construction work in progress (4)					
	—	—	—	—	—
TOTAL	\$	\$	\$	\$	\$

(1) Provide an explanation of those changes considered material: None

(2) Subaccounts are required for each class of equipment owned. The service company shall provide a listing by subaccount of equipment additions during the year and the balance at the close of the year: None

(3) Describe other service company property: None

(4) Describe construction work in progress: None

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For the Year Ended December 31, 2003

**SCHEDULE III-ACCUMULATED PROVISION FOR DEPRECIATION
AND AMORTIZATION OF SERVICE COMPANY PROPERTY**

(thousands of dollars)

DESCRIPTION	BALANCE	ADDITION	RETIREMENTS	OTHER	BALANCE
	AT BEGINNING OF YEAR	TO ACCOUNT 403	OR SALES	CHANGES (1)	AT CLOSE OF YEAR
Account					
301 Organization	\$	\$	\$	\$	\$
303 Miscellaneous intangible plant					
304 Land and land rights					
305 Structures and improvements					
306 Leasehold improvements					
307 Equipment					
308 Office furniture and equipment					
309 Automobiles, other vehicles and related garage equipment					
310 Aircraft and airport equipment					
311 Other service company property					
	—	—	—	—	—
TOTAL	\$	\$	\$	\$	\$
	—	—	—	—	—

(1) Provide an explanation of those changes considered material: None

ANNUAL REPORT OF XCEL ENERGY SERVICES INC.

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SCHEDULE IV INVESTMENTS

(thousands of dollars)

INSTRUCTIONS: Complete the following schedule concerning investments.

Under Account 124, Other Investments , state each investment separately, with description, including the name of issuing company, number of shares or principal amount, etc.

Under Account 136, Temporary Cash Investments , list each investment separately.

ACCOUNT	ASSETS AND OTHER DEBITS	BALANCE AT BEGINNING OF YEAR	BALANCE AT CLOSE OF YEAR
123	Investment in associate companies	\$	\$
124	Other investments:		
	Pacific Life Insurance Co.; Key Man Life Insurance (1)	3,321	3,707
	US Bancorp; Rabbi Trust (1)	502	
136	Temporary cash investments	_____	_____
	TOTAL	\$ 3,823	\$ 3,707
		_____	_____

(1) Funding vehicles for deferred compensation obligations

ANNUAL REPORT OF XCEL ENERGY SERVICES INC.

For the Year Ended December 31, 2003

SCHEDULE V-ACCOUNTS RECEIVABLE FROM ASSOCIATE COMPANIES

(thousands of dollars)

INSTRUCTIONS: Complete the following schedule listing accounts receivable from each associate company. Where the service company has provided accommodation or convenience payments for associate companies, a separate listing of total payments for each associate company by subaccount should be provided.

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	BALANCE AT CLOSE OF YEAR
Account 146 Accounts Receivable from Associate Companies		
Public Service Company of Colorado (PSCo)	\$ 26,264	\$ 33,138
Northern States Power Company (a Minnesota Corp.) (NSP-MN)	45,398	25,931
Xcel Energy Inc.	6,330	17,718
Southwestern Public Service Company (SPS)	6,335	15,013
Northern States Power Company (a Wisconsin Corp.) (NSP-WI)	4,789	6,652
Xcel Energy Markets Holdings Inc.	231	1,312
Planergy International Inc.	470	1,155
Utility Engineering Corporation	3,238	1,151
Cheyenne Light, Fuel and Power Company	462	761
Xcel Energy International Inc.	27	299
Seren Innovations, Inc.	171	294
e prime, inc.	183	173
Xcel Energy Products and Services Inc.	190	169
XERS Inc.	228	162
1480 Welton, Inc.	136	75
Xcel Energy Ventures Inc.	541	71
NCE Communications, Inc.	1	43
United Power & Land Company	28	37
Xcel Energy Performance Contracting Inc.		32
e prime Energy Marketing, Inc.	14	32
Eloigne Company	15	27
P.S.R. Investments, Inc.	4	16
Xcel Energy Wyco Inc.	8	7
Xcel Energy Transco Inc.		6
Xcel Energy-Cadence Inc.	(1)	2
WestGas InterState, Inc.	1	2
Reddy Kilowatt Corporation	1	2
Xcel Energy Wholesale Group Inc.		2

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Xcel Energy Retail Holdings Inc.		1
Chippewa and Flambeau Improvement Company		1
e prime Florida, Inc.		1
Wyco Development LLC	1	
NRG Energy, Inc.	4,384	
Viking Gas Transmission Company	146	
Black Mountain Gas Company	(180)	
XEPS LLC (dissolved)	(28)	
	<u> </u>	<u> </u>
 TOTAL	 \$ 99,387	 \$ 104,285
	<u> </u>	<u> </u>

ANNUAL REPORT OF XCEL ENERGY SERVICES INC.

For the Year Ended December 31, 2003

SCHEDULE V ACCOUNTS RECEIVABLE FROM ASSOCIATE COMPANIES

(thousands of dollars)

INSTRUCTIONS: Complete the following schedule listing accounts receivable from each associate company. Where the service company has provided accommodation or convenience payments for associate companies, a separate listing of total payments for each associate company by subaccount should be provided.

	TOTAL PAYMENTS
Analysis of Convenience or Accommodation Payments:	
NSP-MN	\$ 51,251
PSCo	36,508
SPS	18,377
Xcel Energy Inc.	7,504
NSP-WI	7,475
Xcel Energy Markets Holdings Inc.	2,269
Utility Engineering Corporation	1,483
Seren Innovations, Inc.	855
Cheyenne Light, Fuel and Power Company	606
Xcel Energy International Inc.	327
NRG Energy, Inc.	182
Planergy International Inc.	177
Xcel Energy Products and Services Inc.	173
United Power & Land Company	122
e prime, inc.	89
Black Mountain Gas Company	86
Eloigne Company	67
Viking Gas Transmission Company	47
1480 Welton, Inc.	41
XERS Inc.	32
Xcel Energy Wyco Inc.	6
P.S.R. Investments, Inc.	6
Chippewa and Flambeau Improvement Company	6
NCE Communications, Inc.	4
Xcel Energy-Cadence Inc.	2
Reddy Kilowatt Corporation	1
TOTAL PAYMENTS	\$127,696

The majority of convenience payments relate to insurance, donations, employee benefits, postage, freight, printing, facility services, banking activity, legal services, strategic planning contracts, software, hardware, communications and advertising.

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For the Year Ended December 31, 2003

SCHEDULE VI FUEL STOCK EXPENSES UNDISTRIBUTED

(thousands of dollars)

INSTRUCTIONS: Report the amount of labor and expenses incurred with respect to fuel stock expenses during the year and indicate amount attributable to each associate company. Under the section headed Summary list below give an overall report of the fuel functions performed by the service company.

DESCRIPTION	LABOR EXPENSE TOTAL		
Account 152 Fuel Stock Expenses Undistributed	\$	\$	\$
	—	—	—
TOTAL	\$	\$	\$
	—	—	—

Summary: None

SCHEDULE VII STORES EXPENSE UNDISTRIBUTED

INSTRUCTIONS: Report the amount of labor and expenses incurred with respect to stores expenses during the year and indicate amount attributable to each associate company.

DESCRIPTION	LABOR EXPENSE TOTAL		
Account 163 Stores Expenses Undistributed	\$	\$	\$
	—	—	—
TOTAL	\$	\$	\$
	—	—	—

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For the Year Ended December 31, 2003

SCHEDULE VIII MISCELLANEOUS CURRENT AND ACCRUED ASSETS

(thousands of dollars)

INSTRUCTIONS: Provide detail of items in this account. Items less than \$10,000 may be grouped, showing the number of items in each group.

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	BALANCE AT CLOSE OF YEAR
Account 174 Miscellaneous Current and Accrued Assets	\$ _____	\$ _____
TOTAL	\$ _____	\$ _____

SCHEDULE IX MISCELLANEOUS DEFERRED DEBITS

(thousands of dollars)

INSTRUCTIONS: Provide detail of items in this account. Items less than \$10,000 may be grouped by class showing the number of items in each class.

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	BALANCE AT CLOSE OF YEAR
Account 186 Miscellaneous Deferred Debits		
Prepaid pension	\$44,644 _____	\$62,959 _____
TOTAL	\$44,644 _____	\$62,959 _____

SCHEDULE X RESEARCH, DEVELOPMENT OR DEMONSTRATION EXPENDITURES

(thousands of dollars)

INSTRUCTIONS: Provide a description of each material research, development, or demonstration project which incurred costs by the service corporation during the year.

DESCRIPTION		BALANCE AT BEGINNING OF YEAR	BALANCE AT CLOSE OF YEAR
Account 188	Research, Development, or Demonstration Expenditures	\$ _____	\$ _____
TOTAL		\$ _____	\$ _____

ANNUAL REPORT OF XCEL ENERGY SERVICES INC.

For the Year Ended December 31, 2003

SCHEDULE XI PROPRIETARY CAPITAL

(thousands of dollars, except per share data)

ACCOUNT NUMBER	CLASS OF STOCK	NUMBER OF SHARES AUTHORIZED	PAR OR STATED VALUE PER SHARE	OUTSTANDING AT CLOSE OF PERIOD	
				NUMBER OF SHARES	TOTAL AMOUNT
201	Common Stock Issued	1,000	\$ 0.01	1,000	\$

INSTRUCTIONS: Classify amounts in each account with a brief explanation, disclosing the general nature of transactions which give rise to the amounts.

DESCRIPTION	AMOUNT
Account 211 Miscellaneous Paid-In Capital	\$ 1
Accumulated Other Comprehensive Income: unrealized investments gains (losses)	(39)
Account 215 Appropriated Retained Earnings	—
TOTAL	\$ (38)

INSTRUCTIONS: Give particulars concerning net income or (loss) during the year, distinguishing between compensation for the use of capital owned or net loss remaining from servicing nonassociates per the General Instructions of the Uniform System of Accounts. For dividends paid during the year in cash or otherwise, provide rate percentage, amount of dividend, date declared and date paid.

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	NET INCOME OR (LOSS)	DIVIDENDS PAID	BALANCE AT CLOSE OF YEAR

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Account 216	Unappropriated Retained Earnings	\$	\$	\$	\$
		_____	_____	_____	_____
TOTAL		\$	\$	\$	\$
		_____	_____	_____	_____

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For the Year Ended December 31, 2003

SCHEDULE XII LONG-TERM DEBT

(thousands of dollars)

INSTRUCTIONS: Advances from associate companies should be reported separately for advances on notes and advances on open accounts. Names of associate companies from which advances were received shall be shown under the class and series of obligation column. For Account 224 - Other long-term debt provide the name of creditor company or organization, terms of the obligation, date of maturity, interest rate, and the amount authorized and outstanding.

NAME OF CREDITOR	TERM OF OBLIGATION CLASS & SERIES OF OBLIGATION	DATE OF INTEREST Maturity	RATE	AMOUNT AUTHORIZED	BALANCE		DEDUCTIONS (1)	BALANCE AT END OF YEAR
					AT BEGINNING OF YEAR	ADDITIONS		
Account 223 - Advances From Associate Companies:					\$	\$	\$	\$
Account 224 - Other Long-Term Debt:					—	—	—	—
TOTAL					\$	\$	\$	\$
					—	—	—	—

(1) Give an explanation of deductions: None

ANNUAL REPORT OF XCEL ENERGY SERVICES INC.

For the Year Ended December 31, 2003

SCHEDULE XIII CURRENT AND ACCRUED LIABILITIES

(thousands of dollars)

INSTRUCTIONS: Provide balance of notes and accounts payable to each associate company. Give description and amount of miscellaneous current and accrued liabilities. Items less than \$10,000 may be grouped, showing the number of items in each group.

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	BALANCE AT CLOSE OF YEAR
Account 233 Notes Payable to Associate Companies Notes Payable - Xcel Energy Inc.	\$ 65,909	\$ 46,275
TOTAL	\$ 65,909	\$ 46,275
Account 234 Accounts Payable to Associate Companies	\$	\$
TOTAL	\$	\$
Account 242 Miscellaneous Current and Accrued Liabilities Current Liability Suspense Account	\$ (47)	\$
TOTAL	\$ (47)	\$

ANNUAL REPORT OF XCEL ENERGY SERVICES INC.

For the Year Ended December 31, 2003

Schedule XIV NOTES TO FINANCIAL STATEMENTS

INSTRUCTIONS: The space below is provided for important notes regarding the financial statements or any account thereof. Furnish particulars as to any significant contingent assets or liabilities existing at the end of the year. Notes relating to financial statements shown elsewhere in this report may be indicated here by reference.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Organization and Financial Statement Presentation**

Xcel Energy Services Inc. (XES or the Company) is a wholly owned subsidiary of Xcel Energy Inc. (Xcel Energy). XES is the service company for Xcel Energy and its subsidiaries and began its operations effective August 1, 2000. XES provides various administrative, management, environmental and other support services to Xcel Energy and its subsidiaries, at cost, pursuant to service agreements approved by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (PUHCA), as amended. The majority of the services performed by XES for Xcel Energy and its subsidiaries are provided to Xcel Energy's four major operating utilities, Northern States Power Company, a Minnesota corporation (NSP-Minnesota), Northern States Power Company, a Wisconsin corporation (NSP-Wisconsin), Public Service Company of Colorado (PSCo) and Southwestern Public Service Company (SPS).

Until 2003, Xcel Energy's regulated businesses included Viking Gas Transmission Co., which was sold in January 2003, and Black Mountain Gas Co., which was sold in October 2003.

Xcel Energy also divested its ownership interest in NRG Energy, Inc. (NRG), an independent power producer, in 2003. At Dec. 31, 2002, NRG was a wholly-owned subsidiary of Xcel Energy. On May 14, 2003, NRG and certain of its affiliates filed voluntary petitions in the U.S. Bankruptcy Court for the Southern District of New York for reorganization under Chapter 11 of the U.S. Bankruptcy Code to restructure their debt. On Dec. 5, 2003, NRG completed its reorganization and emerged from bankruptcy. As a result, Xcel Energy divested its ownership interest in NRG.

Regulation

XES is subject to regulation by the SEC under the PUHCA. XES's accounting policies conform to accounting principles generally accepted in the United States of America. XES maintains its accounts in accordance with the Uniform System of Accounts for Mutual Service Companies as administered by the SEC.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amount of financial instruments approximates fair value. Fair values have been determined through information obtained from market sources and management estimates.

Income Taxes

The Company's operations are included in the consolidated Federal income tax return of Xcel Energy. The allocation of income tax consequences to the Company, including alternative minimum tax, is calculated under a parent company policy which provides that benefits or liabilities created by the Company, computed on a separate return basis, will be allocated to (and paid to or by) the Company to the extent the benefits are usable or additional liabilities are incurred in Xcel Energy's consolidated tax returns. Deferred taxes are provided on temporary differences between the financial accounting and tax bases of assets and liabilities using the tax rates that are in effect at the balance sheet date (see Note 6).

Stock-based Compensation

The Company uses the intrinsic value based method of accounting for its stock-based compensation plan.

2. COMMON STOCK

XES is authorized to issue 1,000 shares of Common Stock at a par value of one cent (\$0.01) per share. As of Dec. 31, 2003, all shares of common stock were issued and held by Xcel Energy.

3. SHORT-TERM BORROWINGS

At Dec. 31, 2003, Xcel Energy had \$400 million in credit facilities with several banks.

Period Beginning	Term	Credit Line
November 2000	5 years	\$400 million

The line of credit provides short-term financing in the form of notes payable to banks and letters of credit. At Dec. 31, 2003, there were \$18.5 million in letters of credit outstanding under the Xcel Energy credit facilities. The borrowing rate under this line of credit is based on either the bank's published base rate or the applicable London Interbank Offered Rate (LIBOR) plus a euro dollar rate margin.

The Board of Directors has authorized the Company to borrow directly from Xcel Energy. At Dec. 31, intercompany borrowings outstanding and the weighted average interest rate were as follows (dollars in thousands):

	2003	2002
Intercompany borrowings	\$ 20,100	\$65,909
Weighted average interest rate	1.24%	2.79%

Beginning in 2003 and upon receiving the necessary state regulatory approvals, NSP-Minnesota, NSP-Wisconsin, PSCo, SPS and Cheyenne Light Fuel and Power (Cheyenne), a wholly-owned utility subsidiary of Xcel Energy, will participate in a utility money pool. At Dec. 31, 2003, Cheyenne is the only utility that has received the necessary approvals for participation in the money pool. The utility money pool arrangement allows excess funds of the holding company to be made available to the utility subsidiaries for short-term borrowing purposes. It also allows excess funds of the utility subsidiaries to be made available to one another; however, the money pool arrangement does not allow loans to the Xcel Energy parent company. The utility money pool is funded with either external or internal funds, or

both. The cost of external funds is the underlying cost of credit facility borrowings. The rate for internal funds is the 30-day commercial paper rate for the previous month-end.

XES is the administrator of the utility money pool. At Dec. 31, 2003, XES held a note payable to Xcel Energy and a note receivable from Cheyenne, both in the amount of \$26.2 million, related to funds contributed to the utility money pool from Cheyenne. The interest rate for funds in the utility money pool was 1.02% at Dec. 31, 2003.

4. COMMITMENTS AND CONTINGENCIES

Leasing Programs

The Company made payments for leases of various facilities used in the normal course of business. The majority of the operating leases are under a leasing program that has initial noncancelable terms of one year, while the remaining leases have various terms. These leases may be renewed or replaced. No material restrictions exist in these leasing agreements concerning

dividends, additional debt, or further leasing. Rental expense for the years ended Dec. 31, 2003 and 2002 was approximately \$12.5 million and \$18.0 million, respectively.

Estimated future minimum lease payments at Dec. 31, 2003 are as follows (thousands of dollars):

2004	\$10,092
2005	10,383
2006	8,405
2007	5,907
2008	5,907
All years thereafter	5,907

Technology Agreement

XES has a contract that extends through 2011 with International Business Machines Corporation (IBM) for information technology services. The contract is cancelable at our option, although there are financial penalties for early termination. In 2003, XES paid IBM \$114.2 million under the contract and \$19.4 million for other project business. The contract also has a committed minimum payment each year from 2004 through 2011.

5. BENEFIT PLANS AND OTHER POSTRETIREMENT BENEFITS

Xcel Energy offers various benefit plans to its benefit employees. At Dec. 31, 2003, there were 10,854 Xcel Energy employees (including 2,973 Company employees) eligible for benefits.

Pensions

The Company participates in various tax qualified noncontributory defined benefit pension plans, which cover substantially all Xcel Energy employees. Xcel Energy, as the plan sponsor, has overall responsibility for directly allocating such costs of each individual plan to each of the participating employers. The plans' actuaries determined this allocation based on benefit obligations for active participants. Benefits are based on a combination of years of service, the employee's average pay and Social Security benefits.

Xcel Energy's policy is to fully fund into an external trust the actuarially determined pension costs recognized for ratemaking and financial reporting purposes, subject to the limitations of applicable employee benefit and tax laws. Plan assets principally consist of the common stock of public companies, corporate bonds and U.S. government securities. The target range for the Plan's asset allocation is 75 to 80 percent with equity investments, 5 to 10 percent with fixed income investments, no cash investments and 10 to 15 percent with nontraditional investments, such as real estate, timber ventures, private equity and venture capital.

The actual composition of pension plan assets at Dec. 31 was:

	<u>2003</u>	<u>2002</u>
Equity securities	75%	68%
Debt securities	14	16

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Real estate	3	
Cash		4
Nontraditional investments	8	12
	<u> </u>	<u> </u>
	100%	100%

Summary information of the actuarially computed benefit obligation, plan assets, funded status and prepaid pension asset for the Xcel Energy plans at Dec. 31, 2003 and 2002, is presented in the following table (in thousands):

	2003	2002
Benefit obligation	\$2,632,491	\$2,505,576
Fair value of plan assets	3,024,661	2,639,963
Funded status: Plan assets exceed benefit obligations	\$ 392,170	\$ 134,387
Xcel Energy prepaid pension asset	\$ 567,227	\$ 466,229

The Company's net periodic pension credit for the years ended Dec. 31, 2003 and 2002 was \$18.3 million and \$22.7 million, respectively. Significant assumptions used by the Company's actuary in the determination of these amounts are presented in the following table:

	2003	2002
Significant assumptions used to measure benefit obligations:		
Discount rate for year-end valuation	6.25%	6.75%
Expected average long-term increase in compensation level	3.50%	4.00%
Significant assumptions used to measure costs:		
Expected average long-term rate of return on assets	9.25%	9.50%

Defined Contribution Plans

The Company participates in various defined contribution plans, which cover substantially all Xcel Energy employees. Total contributions to these plans by Xcel Energy were approximately \$15.9 million and \$18.3 million in 2003 and 2002, respectively.

Until May 6, 2002, Xcel Energy had a leveraged employee stock ownership plan (ESOP) that covered substantially all employees of NSP-Minnesota and NSP-Wisconsin. Xcel Energy made contributions to this noncontributory, defined contribution plan to the extent it realized tax savings from dividends paid on certain ESOP shares. ESOP contributions had no material effect on Xcel Energy earnings because the contributions were essentially offset by the tax savings provided by the dividends paid on ESOP shares. Xcel Energy allocated leveraged ESOP shares to participants when it repaid ESOP loans with dividends on stock held by the ESOP.

In May 2002, the ESOP was terminated and its assets were combined into the Xcel Energy Retirement Savings 401(k) Plan. The ESOP component of the 401(k) Plan is no longer leveraged.

Postretirement Health Care Benefits

The Company participates in various health and welfare plans administered by Xcel Energy. Xcel Energy has contributory health and welfare benefit plans that provide health care and death benefits to most Xcel Energy retirees. The NSP plan was terminated for nonbargaining employees retiring after 1998 and for bargaining employees after 1999. In conjunction with the 1993 adoption of Statement of Financial Accounting Standards No. 106 Employers Accounting for Postretirement Benefits Other Than Pensions, Xcel Energy elected to amortize the unrecognized accumulated postretirement benefit obligation (APBO) on a straight-line basis over 20 years.

The investment strategy for the postretirement health care fund assets is fairly conservative, with minimal exposure to equity markets and a focus on fixed income and cash equivalents to preserve investment capital while earning modest income.

The actual composition of postretirement benefit plan assets at Dec. 31, was:

	2003	2002
Fixed income/debt securities	2%	2%
Equity mutual fund securities	14	12
Cash equivalents	84	85
Other	—	1
	100%	100%

Summary information of the actuarially computed benefit obligation, plan assets, funded status and accrued benefit cost for the Xcel Energy plans at Dec. 31 is presented in the following table (in thousands):

	2003	2002
Benefit obligation	\$775,230	\$767,975
Fair value of plan assets	285,861	250,983
Funded status: Plan obligations exceed assets	\$489,369	\$516,992
Xcel Energy accrued benefit liability recorded	\$120,510	\$151,967

The Company's net periodic postretirement benefit cost for the years ended Dec. 31, 2003 and 2002 was \$1.3 million and \$2.7 million, respectively. Significant assumptions used by the Company's actuary in the determination of these amounts are presented in the following table:

	2003	2002
Significant assumptions used to measure benefit obligations:		
Discount rate for year-end valuation	6.25%	6.75%
Significant assumptions used to measure costs:		
Expected average long-term rate of return on assets	8.0-9.0%	9.0%

The assumed health care cost trend rate for 2003 is approximately 7.5 percent, decreasing gradually to 5.5 percent in 2007 and remaining level thereafter. A 1-percent increase in the assumed health care cost trend rate would increase the Company's total accumulated benefit obligation by approximately \$2,943,000 and the service and interest cost components of net periodic postretirement benefit costs by approximately \$233,000. A 1-percent decrease in the

assumed health care cost trend rate will decrease the Company's total accumulated benefit obligation by approximately \$2,544,000 and the service and interest cost components of net periodic postretirement benefit costs by approximately \$202,000.

Impact of 2003 Medicare Legislation On Dec. 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act expanded Medicare to include, for the first time, coverage for prescription drugs. This new coverage is generally effective Jan. 1, 2006. Many of Xcel Energy's retiree medical programs provide prescription drug coverage for retirees over age 65 with coverage at least equivalent to the benefit to be provided under Medicare. While retirees remain in Xcel Energy's postretirement health care plan without participating in the new Medicare prescription drug coverage, Medicare will share the cost of Xcel Energy's plan. This legislation has therefore reduced Xcel Energy's share of the obligation for future retiree medical benefits.

The postretirement health care benefit obligation shown in the chart previously is the actuarial present value, as of Dec. 31, 2003, of Xcel Energy's share of future retiree medical benefits attributable to service through the current year. This obligation has been reduced to reflect the effects of this legislation. The FASB has not yet issued authoritative guidance on the method it prefers to reflect the Act in these calculations. In addition, regulations implementing this legislation have not yet been issued by Medicare agencies. As a result, when guidance and regulations are issued, the estimates of future costs and obligations could change and previously estimated information may require revision.

As of Dec. 31, 2003, Xcel Energy had reduced the postretirement health care benefit obligation by \$64.6 million due to the expected sharing of the cost of the program by Medicare under the new legislation. Also, beginning in 2004, it is expected that the annual net periodic postretirement benefit cost will be reduced by approximately \$10 million as a result of the expected sharing of the cost of the program by Medicare, with similar savings in subsequent years. This reduction includes both the decrease in the cost of future benefits being earned during this year, and an amortization of the benefit obligation reduction,

previously noted, over approximately nine years. These estimated reductions do not reflect any changes that may result in future levels of participation in the plan or the associated per capita claims cost due to the availability of prescription drug coverage for Medicare-eligible retirees. Also, in reflecting this legislation, Medicare cost sharing for a plan has been assumed only if Xcel Energy's projected contribution to the plan is expected to be at least equal to the Medicare Part D basic benefit.

6. INCOME TAXES

The provision for income taxes for the years ended Dec. 31, 2003 and 2002 consist of the following (in thousands of dollars):

	2003	2002
Current income taxes:		
Federal	\$ 164	\$(2,833)
State	(380)	(393)
	<u> </u>	<u> </u>
Total current income taxes	(216)	(3,226)
	<u> </u>	<u> </u>
Deferred income taxes:		
Federal	380	1,319
State	71	183
	<u> </u>	<u> </u>
Total deferred income taxes	451	1,502
	<u> </u>	<u> </u>
Total provision for income taxes	\$ 235	\$(1,724)
	<u> </u>	<u> </u>

A reconciliation of the statutory U.S. income tax rate and the effective tax rates for the years ended Dec. 31, 2003 and 2002 follows (dollars in thousands):

	2003		2002	
Tax computed at U.S. statutory rate on pre-tax accounting income	\$ 82	35%	\$ (604)	35%
Increase (decrease) in tax from:				
State income taxes, net of Federal income tax benefit	(211)	(90)	(136)	7
Non-deductible business meals	395	168	110	(6)
Stock options	(155)	(66)	(1,838)	107

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Lobbying expenses	140	60	709	(41)
Other	(16)	(7)	35	(2)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total income taxes	\$ 235	100%	\$(1,724)	100%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The tax effects of significant temporary differences representing deferred tax liabilities and assets are as follows (in thousands):

	2003	2002
Deferred income tax liabilities:		
Difference between book and tax basis of property	\$ 1,415	\$
Information systems charges	2,500	4,537
Pension related costs	19,929	12,338
Rent adjustments	2,307	2,307
Vacation liability	652	447
Prepaid advertising	175	
Total	\$26,978	\$19,629
Deferred income tax assets:		
Postretirement benefit costs	\$ 4,913	\$ 4,249
Employee severance costs	504	4,125
NOL carryforward adjustment	199	
Executive incentive plans	9,855	
Total	\$15,471	\$ 8,374
Net deferred income tax liability	\$11,507	\$11,255

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For the Year Ended December 31, 2003

SCHEDULE XV - COMPARATIVE STATEMENT OF INCOME

(thousands of dollars)

ACCOUNT	DESCRIPTION	CURRENT YEAR	PRIOR YEAR
	INCOME		
457	Services rendered to associate companies	\$707,781	\$ 633,205
458	Services rendered to nonassociate companies		
421	Miscellaneous income and loss		
	TOTAL INCOME	707,781	633,205
	EXPENSES		
920	Salaries and wages	267,482	219,445
921	Office supplies and expenses	242,493	419,257
922	Administrative expenses transferred - credit	(11,370)	(174,628)
923	Outside services employed	94,845	101,253
924	Property insurance	72	141
925	Injuries and damages	4,222	7,324
926	Employee pensions and benefits	22,021	6,641
928	Regulatory commission expenses	(5)	(36)
930.1	General advertising expenses	13,767	9,071
930.2	Miscellaneous general expenses	15,250	14,533
931	Rents	9,169	7,930
932	Maintenance of structures and equipment	1	
935	Maintenance of general plant		
	OTHER EXPENSES		
403	Depreciation and amortization expense		
408	Taxes other than income taxes	17,389	14,760
409	Income taxes	(216)	(3,226)
410	Provision for deferred income taxes	451	1,502
411	Provision for deferred income taxes - credit		
411.5	Investment tax credit		
416	Expense from merchandise jobbing and contract work		
417.1	Expenses of nonutility operations		
426.1	Donations	3,728	1,310
426.4	Civic and Political Activities	3,578	
426.5	Other deductions	23,866	6,942
427	Interest on long-term debt		

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430	Interest on debt to associate companies	1,635	1,345
431	Other interest expense	(597)	(359)
		<u> </u>	<u> </u>
	TOTAL EXPENSE	<u>707,781</u>	<u>633,205</u>
	NET INCOME OR (LOSS)	<u>\$</u>	<u>\$</u>

ANNUAL REPORT OF XCEL ENERGY SERVICES INC.

For the Year Ended December 31, 2003

ANALYSIS OF BILLING**ASSOCIATE COMPANIES ACCOUNT 457**

(thousands of dollars)

NAME OF ASSOCIATE COMPANY	DIRECT COSTS CHARGED	INDIRECT COSTS CHARGED	COMPENSATION FOR USE OF CAPITAL	TOTAL AMOUNT BILLED
	457-1	457-2	457-3	
NSP-MN	\$226,870	\$39,406	\$ 241	