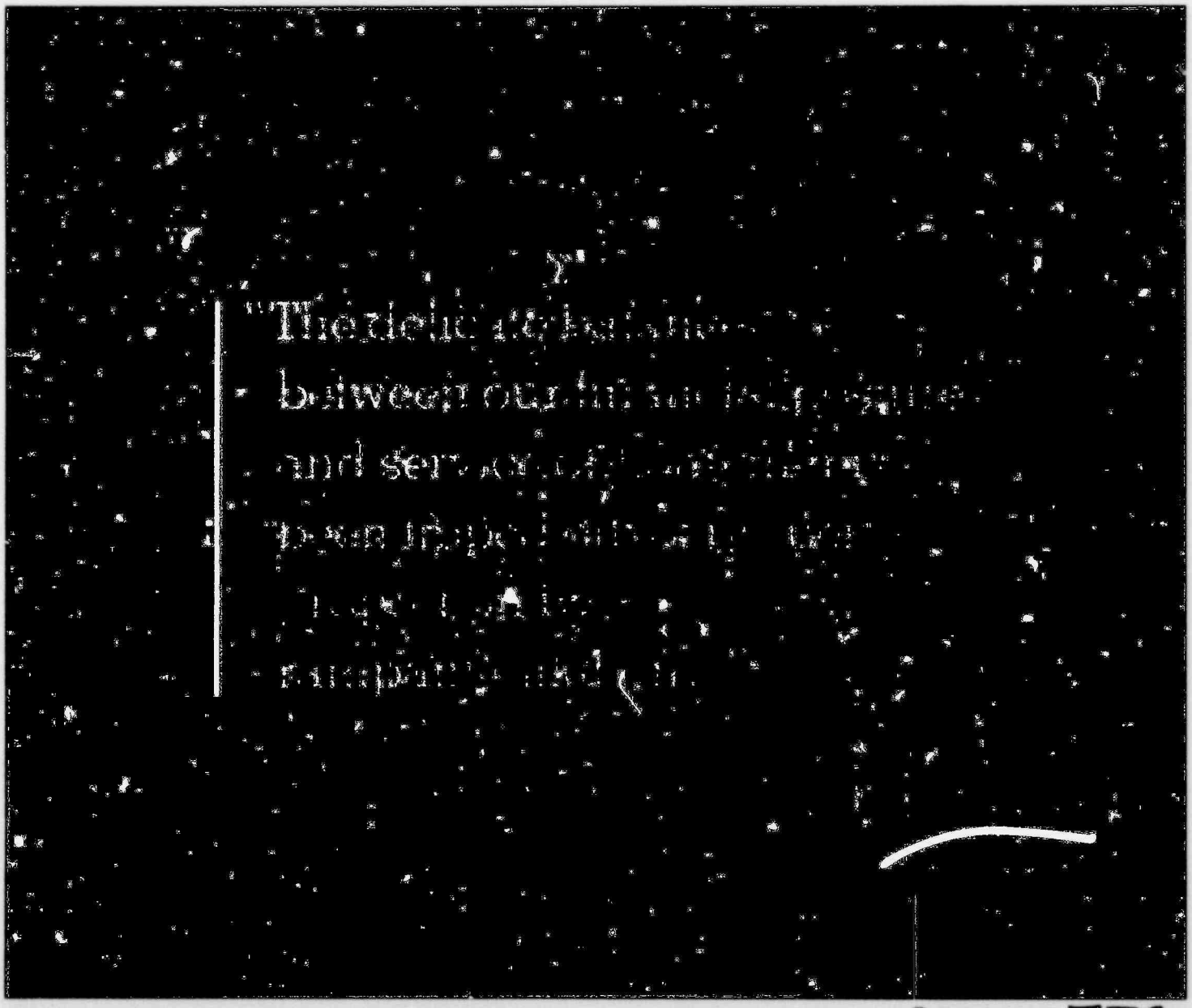
PUBLIC SERVICE COMPANY OF COLORADO
ANNUAL REPORT 1979



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Annual Meeting

The Annual Meeting of Shareholders will be held on April 16, 1980 at 2:00 p.m. (MST) at Public Service Company headquarters, 550 15th Street, Denver, Colorado. Notices, proxy statements and proxies are mailed more than 30 days prior to the Annual Meeting. Management sincerely hopes that all shareholders who are able to do so will attend the meeting in person.

The Cover: The statement on the cover is an excerpt from Management's Commentary on the state of the company, which begins on page 4.

A copy of Public Service Company's 1979 report to the U. S. Securities and Exchange Commission on Form 10K is available without charge upon request to the Shareholder Services, P. O. Box 840, Room 1048, Denver, Colorado 80201.

Public Service Company: A Changing Profile

Public Service Company is a combination utility providing electric, natural gas and steam service in Colorado, and electric and natural gas service in the Cheyenne, Wyoming area.

The Company is the largest utility in Colorado serving 2.5 million of its estimated 2.9 million people. Approximately 1.9 million of the population served by the Company lives in Metropolitan Denver. Electric generation and transmission facilities and natural gas distribution lines bring utility service to more than 200 urban, suburban and rural communities throughout most areas of the state.

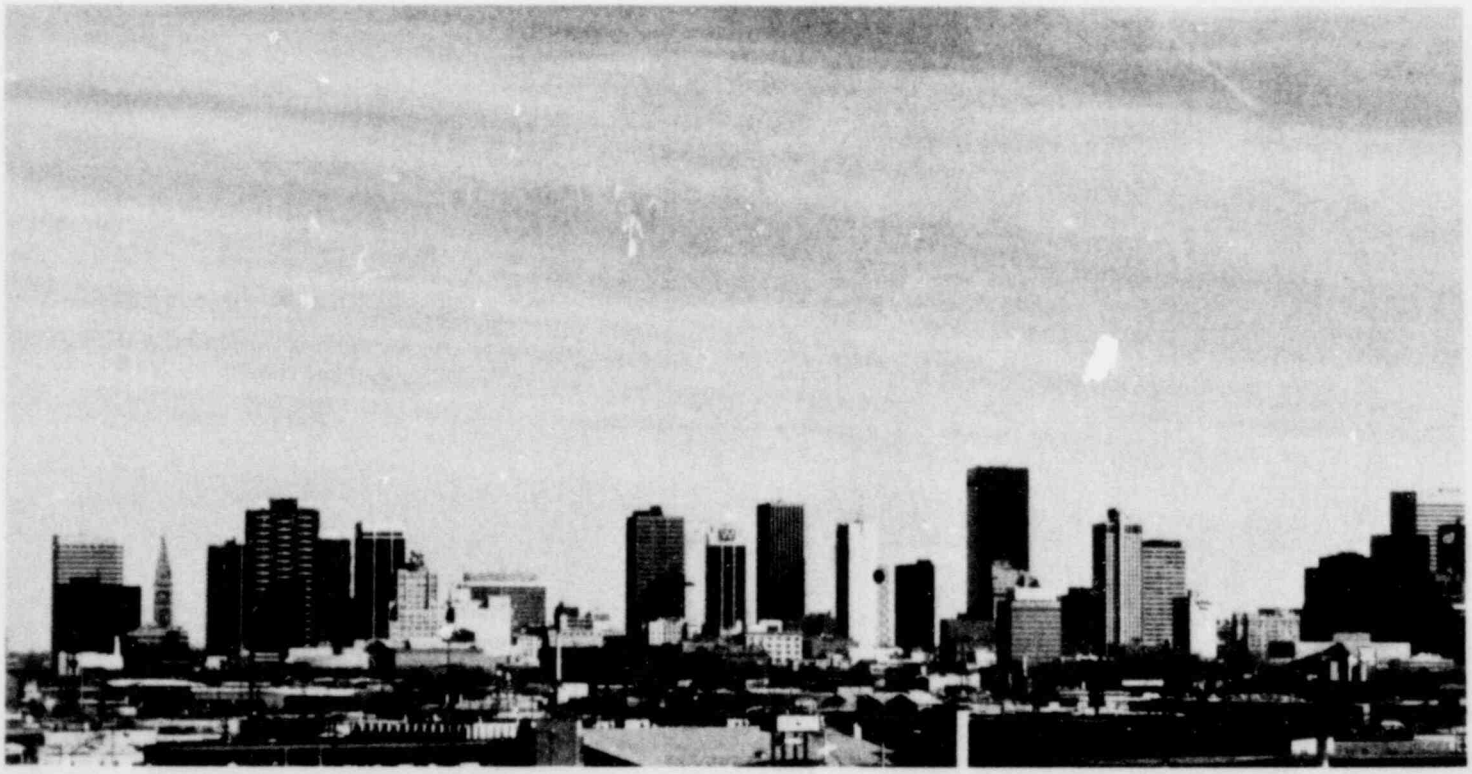
The heartbeat of Public Service Company's electric system is at the 9 major generating stations located throughout Colorado. Plants with names like Arapahoe, Cherokee, Comanche, Pawnee and Zuni stir the imagination about western heritage but have a technological capability that is definitely late 20th century. Add to this about 16,000 miles of transmission and distribution lines stretching through the mountains, across the plains and under busy metropolitan areas, countless poles and wires, natural gas distribution systems and storage facilities, a small army of service vehicles, a computer bank that brings the whole picture together and 6,000 men and women with diversified talents and skills and you begin to get an idea of the scope of the Company's operation.

Four operating subsidiaries complete the network of operations. Cheyenne Light, Fuel and Power Company provides gas and electric utility services to the Cheyenne, Wyoming area. Home Light and Power Company serves electricity to Greeley, Colorado. Western Slope Gas Company is engaged in the transmission and wholesale supply of natural gas. Fuel Resources Development Co. explores, develops and produces natural gas and oil in Colorado, Montana, North Dakota, Texas, Utah and Wyoming.

The Company's service territory is a unique study in contrasting characteristics. It consists of large cities and rural communities; diversified businesses such as agriculture, tourism, mining, retail and manufacturing; city apartments, downtown condominiums, suburban single family houses and mountain hideaways.

Denver is a city rushing toward tomorrow. It is one of the fastest growing metropolitan centers in the country, making Colorado the fifth fastest growing state in the United States. Denver has rapidly evolved as the Rocky Mountain energy resource center in an area rich in coal, gas, oil, uranium and many valuable metals. Employment opportunities are at attractive levels. People are continuing to move into the state. Consequently, population is increasing more rapidly than the national growth rate.

The demand for utility services in the near and long term future will parallel that growth. But the impact of inflation, inadequate rate relief and impractical government regulation have cast a shadow of uncertainty over the utility industry. Public Service Company in 1980 is a far different utility than the one that wrote a remarkable story of progress for more than a century. The malaise of the latter part of the 1970's has forced the Company to focus on a new set of priorities... a set of priorities that will carry it through the 1980's.



Year In Review

Net Income Declines

Net income for 1979 was $55.8 million, or $1.35 per share, on operating revenues of $926.5 million compared with net income of $57.7 million, or $1.66 per share, on operating revenues of $729.8 million in calendar 1978.

The rise in operating revenues results from increases in electric and gas sales, modestly higher rates, and, more importantly, from the recovery of greatly increased electric fuel and purchased gas costs which are billed to our customers under provisions of the Company's rate tariffs.

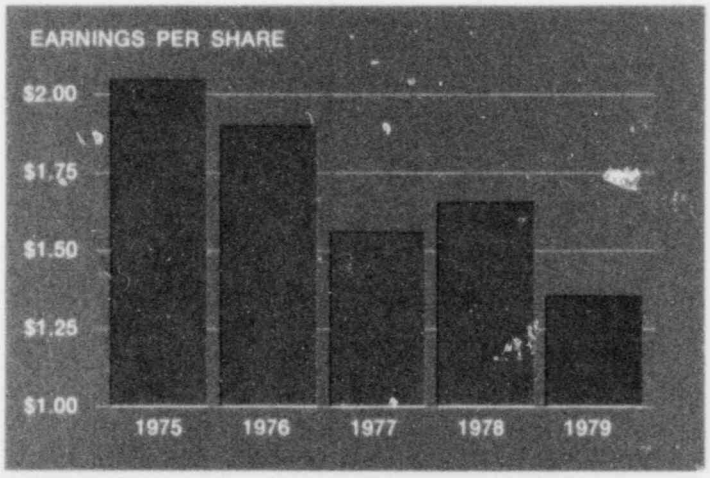
Net income was adversely affected by sharply higher operating expenses and subsidiary losses. The full impact of the 5 percent annual rate increase granted by the Colorado Public Utilities Commission in November was not felt until late December, and thus had only a minimal effect on earnings for the period. Per share earnings declined primarily because of a 17.5 percent increase in the average number of common shares outstanding during the year.

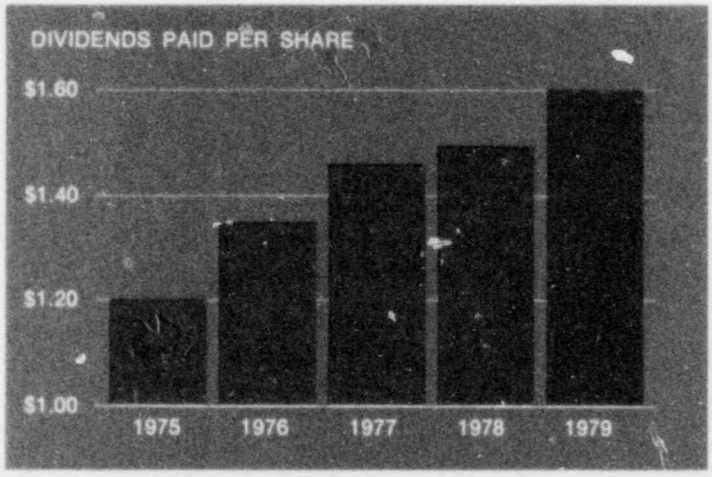
Specifically, here is how these and other factors adversely impacted financial performance:

- Expenses for fuel used in electric generation, purchased power costs and natural gas purchased for resale increased 41 percent, or $151 million. Because of the lag in recovering the increased costs from our customers through adjustment provisions of the Company's tariffs, operating revenues derived in this manner did not fully offset these increased expenses.
- Fort St. Vrain Nuclear Generating Station was operated on a limited basis because of numerous scheduled shutdowns. Consequently, sales of electricity from this plant did not offset depreciation, maintenance and other operating costs that resulted from acceptance of the plant for commercial operation as of January 1, 1979.
- Purchased power from other utilities increased 30 percent to compensate for the lack of generating capability.

Financial	**1979**	**1978**	**% Change**
Earnings Per Average Share of Common Stock	**$1.35**	$1.66	(18.7)
Dividends Paid Per Common Share	**$1.60**	$1.49½	7.0
Shares of Common Stock (thousands)			
Average	**31,225**	26,572	17.5
Year-End	**32,326**	29,250	10.5
Total Operating Revenues (000)	**$ 926,510**	$ 729,778	27.0
Total Operating Expenses (000)	**$ 836,766**	$ 636,515	31.5
Net Income (000)	**$ 55,809**	$ 57,701	(3.3)
Gross Utility Plant Investment (000)	**$2,270,283**	$2,020,275	12.4
Gross Plant Construction Expenditures (000)	**$ 320,806**	$ 209,049	52.8
Operations			
Electric Operating Revenues (000)	**$ 507,587**	$ 421,732	20.4
Electric Kilowatt-Hour Sales (millions)	**14,659**	13,754	6.6
Total Electric Customers	**794,533**	764,779	3.9
Gas Operating Revenues (000)	**$ 410,537**	$ 303,300	35.4
Gas Sales (MMCF)	**213,274**	206,700	3.2
Total Gas Customers	**658,219**	633,607	3.9

- Fuel Resources Development Co., a wholly-owned subsidiary, had sharply greater losses resulting from expensing sizable nonrecurring costs of dry holes, lease and well abandonments and impairments.





Settlement Reached on Fort St. Vrain

The long-standing issue of acceptance for commercial operation of the Fort St. Vrain Nuclear Generating Station between Public Service Company and General Atomic Company, the primary contractor, was resolved in 1979.

General Atomic compensated Public Service Company for the shortcomings in the performance of the nuclear plant and has agreed to provide certain services and fuel supplies as part of the overall settlement. Public Service Company accepted the plant for commercial operation as of January 1, 1979 and is fully responsible for its future performance.

Public Service Company accepted the plant for commercial operation at 200 megawatts electric generation based on General Atomic paying the following compensation costs:

- $60 million to be used to reduce plant investment on the Company's books;
- $97 million in future payments for construction of additional electric production facilities to replace the capacity reduction at Fort St. Vrain;
- $8 million for the shipment, storage, handling and disposal of spent nuclear fuel elements used at Fort St. Vrain;
- up to $5 million to study and solve the reactor temperature fluctuations, and up to $10 million for miscellaneous related services.

In addition, General Atomic will provide the Company, at no cost, enough fuel to operate the plant at the reduced capacity through 1984 and will continue to supply fuel for Fort St. Vrain through 1992 with the Company paying only General Atomic's actual costs.

Energy Sales Rise

Energy sales continued to outpace the national growth patterns. The Company's total number of electric and natural gas customers went up 4 percent, which is about twice the utility industry average.

Electric sales increased 6.6 percent to 14.7 billion kilowatt hours. Natural gas sales rose 3.2 percent to 213 billion cubic feet.

The sources of 1979 operating revenues by customer classification were as follows:

	Electric	Gas
Residential	33.1%	46.2%
Commercial	36.5%	31.0%
Industrial	21.1%	17.5%
Other	9.3%	5.3%

Company Granted General Rate Increase

The Company was authorized to raise its total electric, natural gas and steam rates an average of 5.3 percent. The new rates, based on the Company's operating expenses in 1978, will increase annual revenues $40.4 million. The rate hike represents 63 percent of the total $64.4 million requested.

The rates were effective with meter readings on November 26, 1979. The Commission granted the Company a 9.53 percent overall rate of return and a 14.6 percent return on common equity. The Company had asked that the return on equity be raised to 16 percent from the 14.2 percent previously authorized by the Commission in August, 1978.

Construction Expenditures Reflect Area Growth

The Company's 1979 capital expenditures climbed to $321 million, up from $210 million the year before.

A major portion of the expenditures went toward construction of the 500 megawatt Pawnee Electric Generating Station. The plant was two-thirds complete by year end. The remainder was appropriated for gas and electric transmission and distribution facilities, pollution control equipment on existing facilities, replacement of obsolete equipment and subsidiary expansion.

Management Commentary

The results of the past year have been disappointing. But they have not discouraged us and we address the future with determination.

Few if any of us, have been able to escape the harsh effects of our inflation-infested economy. Utilities have been hit particularly hard. Our business is both capital-intensive and energy-intensive at a time when the cost of both has increased dramatically.

Utility Character Changing

The Public Service Company that stands at the threshold of the 1980's faces a whole new breed of challenges and priorities. The golden years of the 1950's and 1960's are gone. No longer can we talk about the character of our business in terms of predictability, low-cost fuel supplies, economies of scale and stable customer bills.

The delicate balance between our financial posture and service obligations has been tipped out of proper proportion by rampant inflation, high interest rates, above industry average growth in our service territory and impractical government regulation.

This was never more evident than in 1979. Our operating costs escalated 32 percent over 1978, primarily because of higher costs of fuel used for electric generation and the price of natural gas purchased for resale. Rate relief has been inadequate in compensating us for rising costs. The return on our shareholders' investment is below desirable and competitive levels. We are responding by reshaping our financial position to accommodate changing times.

Back to Basics

As we go into the 1980's, we must reexamine the basic utility concepts that have always been at the root of our business: our commitment as a regulated monopoly to provide reliable service in whatever quantities customers demand; the rates we will be permitted to charge to meet that commitment; and the public's willingness to pay the necessary price.

Let us put our situation into perspective. Our service territory is among the fastest growing in the country. Electric use by customers continues to grow, although the rate of growth has tapered off. We were able to meet peak load demands but our reserve margins were below desirable levels. We're buying more high-cost power from other utilities than ever before. We must have new generating facilities to meet these growing demands. Existing plants are being retrofitted with very expensive air quality control equipment. All of these items require an ever-increasing amount of capital at a time when we do not have the financial footing we've had in the past.

We took what we felt were positive steps in 1979 to buttress our financial position. While all of our actions have not been as productive as we would have liked, we will continue to do whatever is necessary in 1980 to ride out the current economic storm. We have confidence in the ability of our organization to reverse the situation.

Rate Increase Insufficient

Let us review a few of these major efforts. In June we requested a $64.4 million rate increase. Effective November 26, the Colorado Public Utilities Commission gave us $40.4 million. Because of the use of the outdated historic test year principle used by the Commission, the increase is based on costs we incurred during 1978. In times of quick-stepping inflation rates, higher operating and capital costs and strict environmental standards, increases based on past costs are insufficient. However, the Company was encouraged by the Commission to seek future rate increases based on a partially forecast test year. We expect to employ that approach when we ask for another increase in 1980.

Construction expenditures for 1980 are estimated at $304 million. The 1980 budget excludes $54 million that would have been spent on a new plant in Southeastern Colorado. Construction of this $1 billion plant near Las Animas was postponed because of its adverse effects on the Company and its customers in light of the present financial situation. We are moving forward with construction of the 500 megawatt Pawnee plant scheduled for completion in early 1981, new transmission and distribution facilities, and pollution control equipment on existing generating stations.

Richard F. Walker, President and Chief Executive Officer, seated, and Robert T. Person, Chairman of the Board.

"Few, if any of us, have been able to escape the harsh effects of our inflation-infested economy. Utilities have been hit particularly hard. Our business is both capital-intensive and energy-intensive at a time when the cost of both has increased dramatically."

Gas Storage Expanded

We took a big step in solving the problem of meeting peak day natural gas demands. A $24 million underground natural gas storage facility has been built northeast of Denver. The facility will be capable of delivering up to 50 million cubic feet of natural gas per day by the start of the 1980-81 winter heating season. This will enable the Company to add about 25,000 additional customers or the equivalent of a year's growth. The storage facility enables the Company to purchase gas during non-heating summer months and have gas available for high demand in the winter heating season.

As we step into a new decade, we feel more comfortable about the natural gas supply situation. Even as supplies increase, however, we expect the price of natural gas to rise faster than the rate of inflation. Now we must address ourselves, as an industry, to the counterproductivity of government regulation. We must pave the way for a smooth flow of those natural gas resources into the lifestyle of the 1980's.

Conservation Still Important

Conservation continues to play a key role in our resource strategy. The energy conservation program launched several years ago was continued in 1979. The program is designed to help customers identify and eliminate wasteful uses of gas and electricity. The program includes energy audits of homes and businesses, printed suggestions for conservation and person-to-person consultations. As important as conservation is, we recognize that it is not totally the answer to long-range power supply. We will still have to build power plants to serve our growing population.

Expanded Generation Needed For Future

Coal and nuclear power remain as a solution to this country's energy condition in the foreseeable future. Despite the increased attention on nuclear power brought about by the unfortunate incident at Three Mile Island, we owe it to ourselves and the next generation to analyze whatever errors were made and to engineer them out of the future. The lessons that have been learned must be relegated to signposts along the road to safe, reliable nuclear energy. The Company continues to contribute to the research and development that will help achieve that goal.

Service Obligations Must Be Weighed

During this period of inflation and crippling regulation, we have come to grips with the reality that electric service may have to be downgraded. We must weigh the customers' growing unhappiness over higher rates with their willingness to accept less reliable service. Should we be obligated to provide the highest quality service if our customers do not want to pay for it?

We are convinced that if the majority of people who will be affected by energy shortages become more concerned and involved, public understanding and support for constructive courses of action will increase. If we are to avoid electric shortages, this understanding and support is vital.

We have taken several initiatives during the year to expand customer assistance programs. In addition to helping customers evaluate their energy consumption, we instituted a budget billing program to help customers cope with higher energy bills by spreading their payments over the entire year. The Company will continue to expand efforts to help customers who, like the Company itself, are feeling the impact of inflation.

Investors will continue to be the backbone of our management strategy during these troubled times. The confidence you display in us provides the 'capital power' that is essential to weather the economic cold winds that have hit the utility industry.

Energy is one of the pillars on which the future will be built. If the projections for continued rapid growth in Colorado are at all accurate, they will materialize only with adequate and reliable utility service.

No commentary on the year can be complete without mention of the men and women who are at the heart of our operations. We've had to put a heavy burden on their shoulders in difficult times and they've responded in a commendable spirit of commitment and cooperation. We are confident that our employee organization is geared to the challenges of change to which we will address ourselves in the 1980's.

Public Service Company and the union which represents substantially all of the Company's bargaining unit employees are in the process of negotiating various amendments to the principal labor-management agreement which expired December 1, 1979. As specified by the agreement, the Company and the union will continue to negotiate until agreement is reached or until either party gives notice to the other that negotiations have ended. The unresolved matters will then be submitted to binding arbitration.

We encourage you to read the remainder of this Annual Report which elaborates further on the important issues facing our Company.

For the Board of Directors,

R. T. Person
Chairman of the Board

R. F. Walker
President and Chief Executive Officer

February 7, 1980
Denver, Colorado

Electricity today is taken for granted. It's assumed by our customers to be there when they want it, as much as they want, for as long as they want. The flick of a switch is deceptively simple but hardly a barometer in helping customers understand the nuances of the utility industry.

Frustrated by the pressures of the fast rising costs of just about everything, the customer viewed rising utility bills with alarm and anger in 1979. Electricity has always been a constant in their lives, something that was there for the asking, and inexpensive too. When the Company asks for a rate increase, the customer questions the character and motivation of the Company but does not grasp the scope of the demands for utility service that are being necessitated by changing economic, social and regulatory environments.

Growth in the state is inevitable. The need for an independent plan is paramount and the role of the utility must be assimilated into that plan. Within such a growth plan it would be simpler for a utility to evaluate the total investment it must make and then decide what rates are necessary to support expansion. Such a plan, though, is clearly impossible under regulation.

As long as inflation spirals upward, utilities have two bases to seek rate increases that cover the full costs of service, capital costs and return on services. If the Company is to continue under its mandate to provide adequate and reliable service, it must press on building facilities for tomorrow.

"While the delays at Pawnee and the limited service at Fort St. Vrain put a strain on the Company's ability to meet short-term demands, rising costs and insufficient rate increases put the Company's long-term construction program into a state of uncertainty."

Electric Operations

The 4 percent increase in the number of electric customers, which exceeds the utility industry average, contributed materially to a 6.6 percent increase in electric sales in 1979.

Despite construction delays on new generating facilities and the limited availability of its nuclear station, the Company was able to meet all normal requirements.

Firm Peak Load Reaches New High

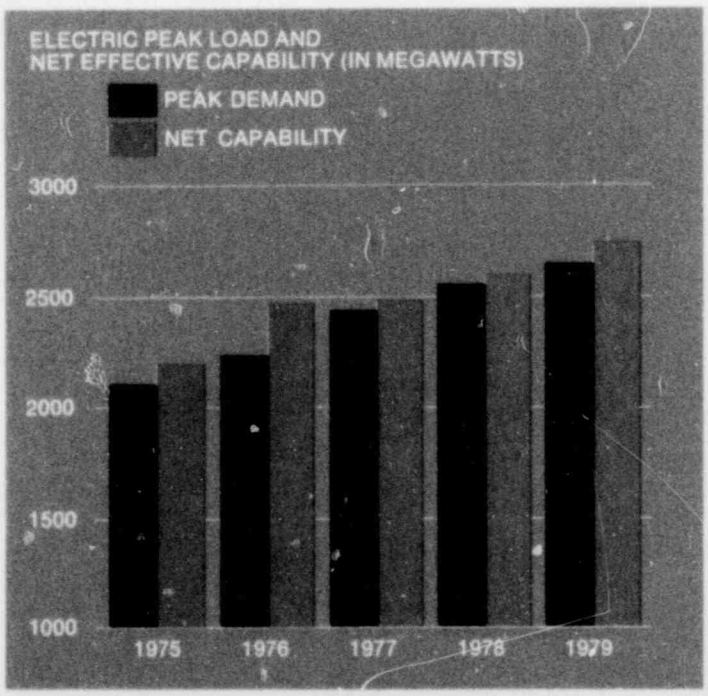
The Company reached a new net firm system peak load of 2,642 megawatts on August 6, 1979. The net effective capability at the time was 2,743 megawatts. The Company built up its reserve margin to 3.8 percent by contracting for the purchase of 175 megawatts of power from other utilities.

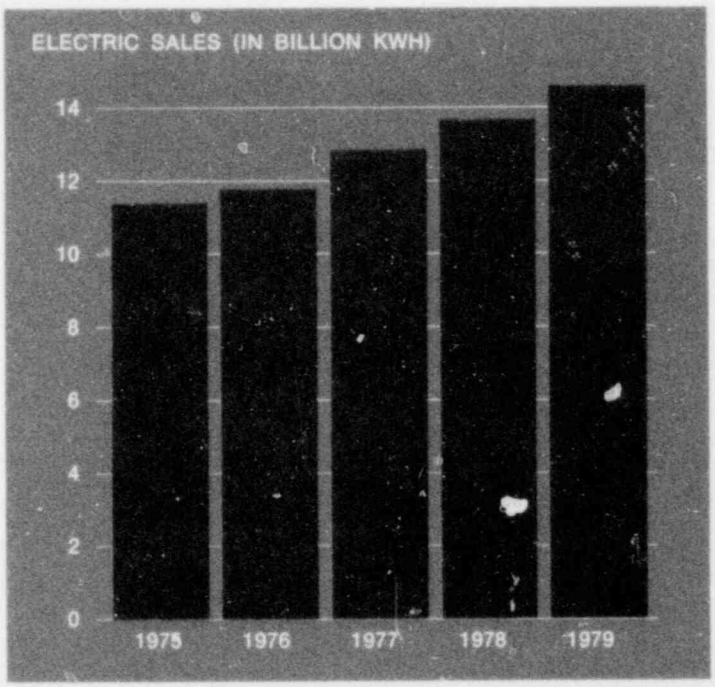
The population growth in Colorado translates into an expected 89,000 additional electric customers during the next three years. Even if conservation reduces the average use per customer, the Company expects electric demand to increase 6 percent in 1980, 5.5 percent in 1981 and 5 percent in 1982.

The following is a projection in megawatts of expected peaks, capability and reserve margins for the next five years:

	Net Effective Capability*	Net Peak Demand	% Reserve Margin
1979	2,743	2,642	3.8%
1980	3,148	2,800	12.4%
1981	3,450	2,954	16.8%
1982	3,639	3,107	17.1%
1983	3,497	3,258	7.3%
1984	3,456	3,415	1.2%

*including firm purchase power contracts





Pawnee Delayed Until Early 1981

The Company expected to bring the 500 megawatt Pawnee Steam Electric Generating Station into the system during 1979. Inclement weather and numerous other delays forced the Company to reschedule commercial operation of the plant until early 1981. At year end, the plant was about two-thirds complete.

The delays in completing the plant and rapid increases in construction costs will drive the estimated cost to about $420 million. Pawnee will be the largest single generating unit in Public Service Company's system.

Fort St. Vrain Output Limited

The Fort St. Vrain Nuclear Generating Station north of Denver experienced a number of scheduled shutdowns in 1979. As a result, the plant provided only 217 million kilowatt hours of electric generation, compared with 607 million kilowatt hours in 1978.

Beginning February 1, 1979, the plant was shut down for its first refueling after having generated over 1 billion kilowatt hours. While shut down, the plant underwent routine maintenance and inspection. These necessary procedures required nearly five months to be completed.

After bringing Fort St. Vrain back on line in late July, the Nuclear Regulatory Commission required that seismic tests be conducted at the plant site. The month-long testing was completed in September.

While the plant was shut down, the Company installed a series of restraining devices on the fuel elements as part of its ongoing efforts to resolve a temperature fluctuation problem in the reactor core. The Nuclear Regulatory Commission has

"The decision to postpone construction of a much-needed new generating plant was made because of the current state of the economy and the Company felt it was in no financial position to commit itself at present to the long-range financing of such a sizeable project."

limited reactor power to 70 percent of the plant's full licensed capacity until the fluctuation problem is resolved.

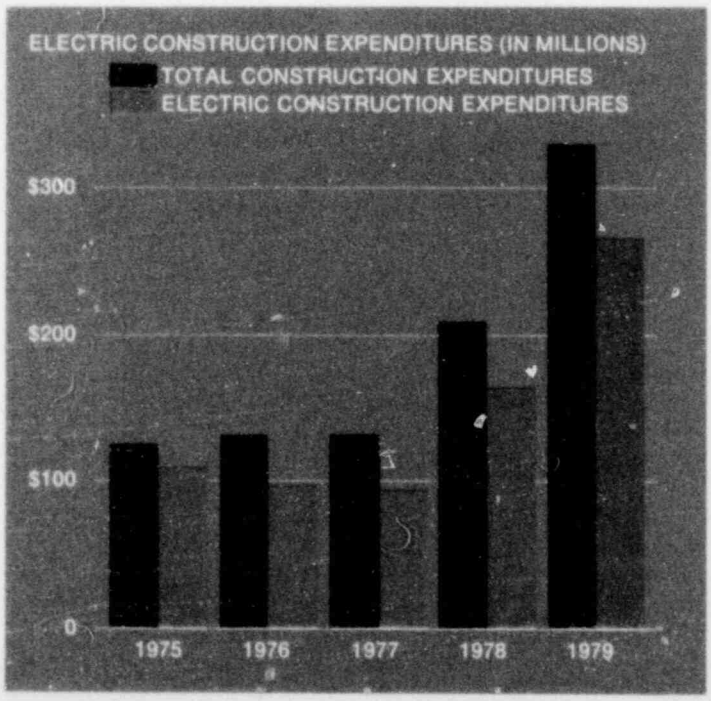
Although the plant is expected to be shut down until March, 1980, the Company expects the plant to operate at a 50 percent availability factor in 1980, providing about 650 million kilowatt hours.

Construction Budget Cut Back For 1980

While the delays at Pawnee and the limited service at Fort St. Vrain put a strain on the Company's ability to meet short-term demands, rising costs and insufficient rate increases put the Company's long-term construction program into a state of uncertainty. The Company has announced anticipated spending of $304 million in 1980 compared with 1979 expenditures of $321 million. The 1980 construction budget excludes $54 million that would have been spent on new plant construction.

A decision was made late in 1979 to temporarily shelve plans for the construction of two 500 megawatt coal-fired units near Las Animas, Colorado. The first generating unit was originally scheduled for commercial operation in 1984.

The decision to postpone construction of this much-needed new generating plant was made because of the current state of the economy and the Company felt it was in no financial position to commit itself at the present time to the long-range financing of such a sizable project. There is little doubt that an additional plant will have to be constructed in the future if the Company is to meet projected demand. The Company is completing basic preliminary engineering studies, soil sampling and other studies at the proposed plant site so that it will be ready to move ahead when economic and financial conditions improve. The Company still needs considerable financing for the completion of Pawnee and the installation of pollution control equipment on existing plants.



Pollution Equipment Costs Keep Rising

Public Service Company spent $53 million in 1979 for air and water pollution control equipment. Over the past 10 years, the Company has invested $145 million in air and water pollution control equipment. The Company expects to spend another $211 million during the next 5 years.

As society has become more complex and as our population has increased, pollution of all sorts has become a major concern. Public Service Company has been concerned about pollution control for many years, but as the air quality in the Denver metropolitan area has diminished in recent years, efforts to minimize pollution have been stepped up. Pollution control costs money and a lot of it. That cost is reflected in the rates that customers pay for utility services.

Not only does it take a lot of money to build pollution control facilities, but it costs a tremendous amount of money to operate them. Air quality control equipment in a modern generating plant will require nearly 10 percent of that plant's capacity and output just to operate it. Consequently, it becomes necessary to build bigger plants to serve the customers' basic needs. There are substantial fuel and other operating expenses involved in operating pollution control equipment.

This high price in the name of the environment is exacting a heavy toll on utility operations. In weighing alternatives to keep customer rates and operating costs in perspective, there should be a review of excessive environmental regulation in the 1980's.

Fuel Costs Drive Operating Costs Up

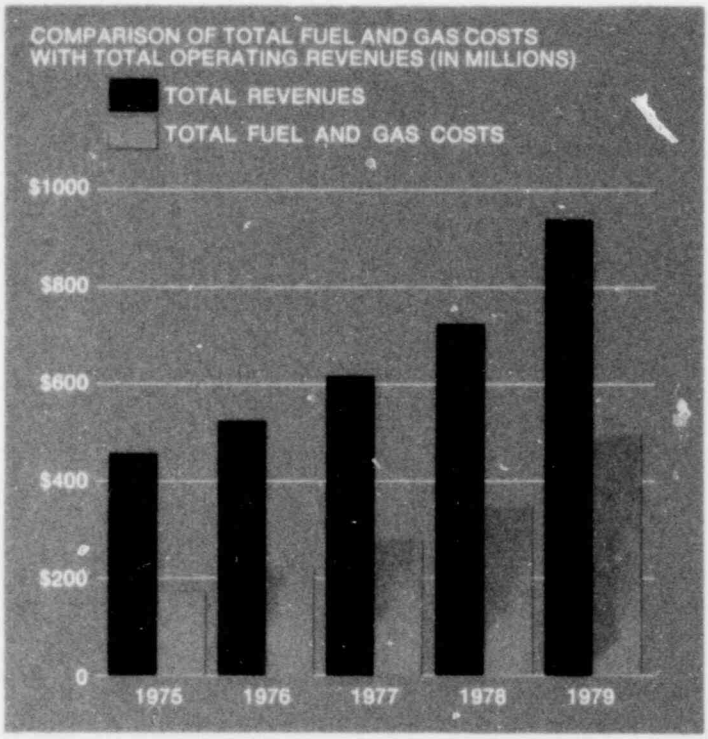
Fuel used for generation is the Company's largest expense for producing electricity. Coal is the major fuel used and accounted for 79 percent of 1979 system input. Costs for coal supplies soared to an all time high of $106.8 million during 1979. These costs are expected to escalate toward $115 million in 1980.

Costs for coal and other fuel supplies are passed on to the customer under the Company's Fuel Cost Adjustment clause. The typical electric customer's bill rose 15 percent in 1979. About 70 percent of this increase is attributable to fuel cost adjustments. The Company's base rate for electricity went up 6.7 percent, which is about half the 1979 inflation rate.

Public Service Company purchases low sulfur coal from suppliers in Colorado and Wyoming. The Company's two largest coal supplies are from the Amax Coal Company mine in Gillette, Wyoming and the Energy Fuels Corporation mine in Routt County, Colorado.

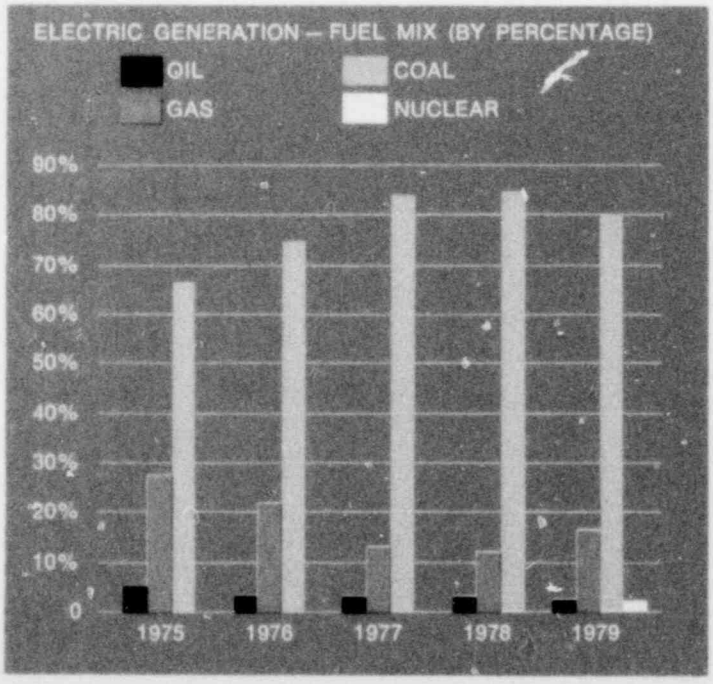
The Company used 6.4 million tons of coal during 1979 and projects similar usage in 1980. When the Pawnee plant is in

"This high price in the name of the environment is exacting a heavy toll on utility operations. In weighing alternatives to keep customer rates and operating costs in perspective, there should be a review of excessive environmental regulation in the 1980's."



full operation in 1981, the projected coal usage will increase to approximately 7.8 million tons annually.

The Company continues to use natural gas in its major generating plants for pilot lights, flame stabilizers and emergency situations. The Company has voluntarily complied with requests from the Federal Government not to burn natural gas as a primary fuel in installations with coal burning capability. In recognition of this compliance, the Company has been allowed to burn necessary quantities of natural gas while air quality control equipment undergoes replacement or modification. Installation of fabric filters at the Arapahoe, Cameo and Cherokee stations will enable the Company to burn a maximum amount of coal while staying within air quality guidelines. In 1979, the Company burned a higher than normal percentage of natural gas during the installation of fabric filters on two units at the Cherokee plant. This higher gas burn will continue until installation is complete in late 1980.



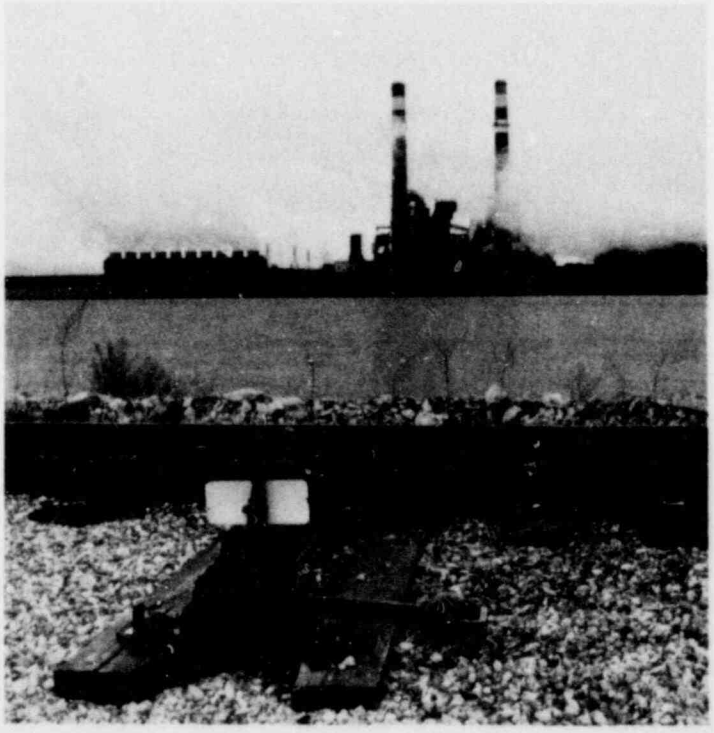
In 1979, approximately 18 percent of the fuel used for generation was natural gas. A smaller percentage of about 14 percent is projected for use in 1980. The Company's use of oil was minimal and considerably less than in 1978. Hydroelectric generation was at about the same level as in 1978.

Average Fuel Cost

(Per Million BTU)

	Coal	Natural Gas	Oil	Nuclear	Average
1973	$0.32	$0.36	$0.99	—	$0.35
1974	0.38	0.43	2.15	—	0.47
1975	0.48	0.60	2.39	—	0.63
1976	0.53	0.79	2.43	—	0.67
1977	0.63	1.03	2.54	—	0.75
1978	0.70	1.29	2.16	—	0.85
1979	0.85	1.95	2.91	0.19	1.10

The construction of new facilities and a leveling off of operating costs are the key factors that will enable Public Service Company to continue to provide total electric service when a customer goes to flick a switch 10 years from now.



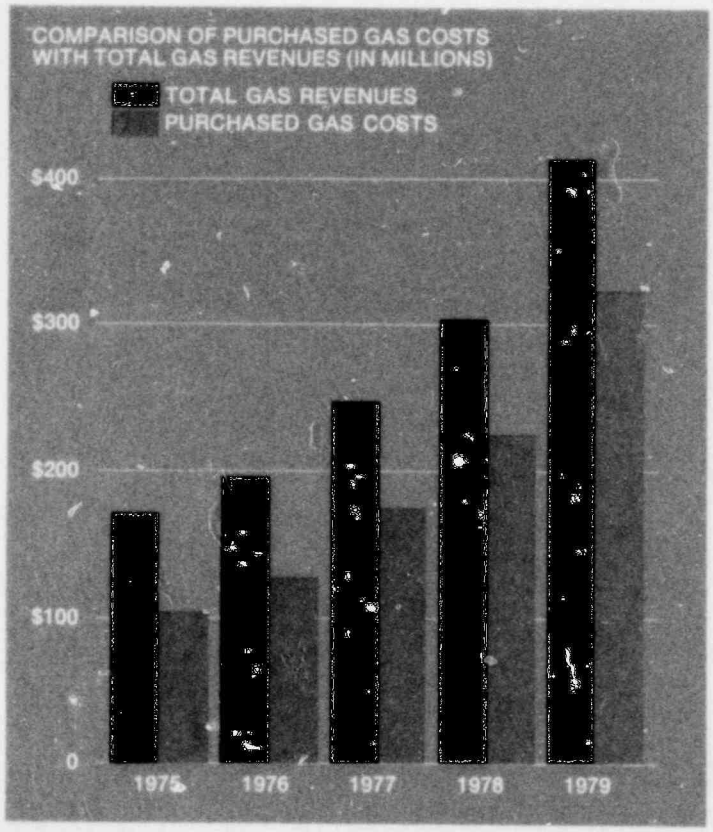
The national natural gas supply picture continued to show signs of improvement during 1979. Numerous utilities, which during the past decade had been faced with complete curtailment of new customer hookups, are now able to extend service to new customers without severe restrictions.

Several events during 1979 brightened prospects for the future of the industry. Incentives included in the Natural Gas Policy Act prompted an increase in drilling activity. Preliminary reports indicate that new gas well completions in the United States increased 15 percent over the previous year. The number of drilling rigs active in December 1979 reached a 22 year high — a trend that is expected to continue in 1980. Likewise, governmental support of the use of natural gas to displace imported oil, approval of various supply import projects, progress on legislation supporting the development of synthetic fuels, and progress on legislation leading toward repeal of the incremental pricing aspects of the Natural Gas Policy Act have all brightened the industry's supply and demand outlook.

Despite the positive gains made during the past year, continued improvement is needed in the areas of excessive governmental control — both in pricing and in general operations. Most difficult of all are the conflicting requirements of various governmental agencies for the same job.

Supply demand, regulation, deregulation, continued inflation, the national energy policy — these are issues that we must grapple with as we go into the 1980's. How they are resolved will be the basis for shaping the future of the industry.

"Despite the positive gains made during the past year, continued improvement is needed in the areas of excessive government control — both in pricing and in general operations."



Gas Operations

In 1979, Public Service Company, and its subsidiary Cheyenne Light, Fuel and Power Company, added 24,616 residential and commercial customers to its natural gas distribution systems in Colorado and Southern Wyoming. This represents a 2 percent increase over 1978 customer additions.

The Company added customers at a rate of about 4 percent during 1979. By year end, the total number of gas customers climbed to 658,219. To meet the requirements of these new customers, Public Service Company obtained an increase in the peak day delivery obligation from Colorado Interstate Gas Company of 23,351,000 cubic feet and from its own subsidiary, Western Slope Gas Company, an additional 28,038,000 cubic feet.

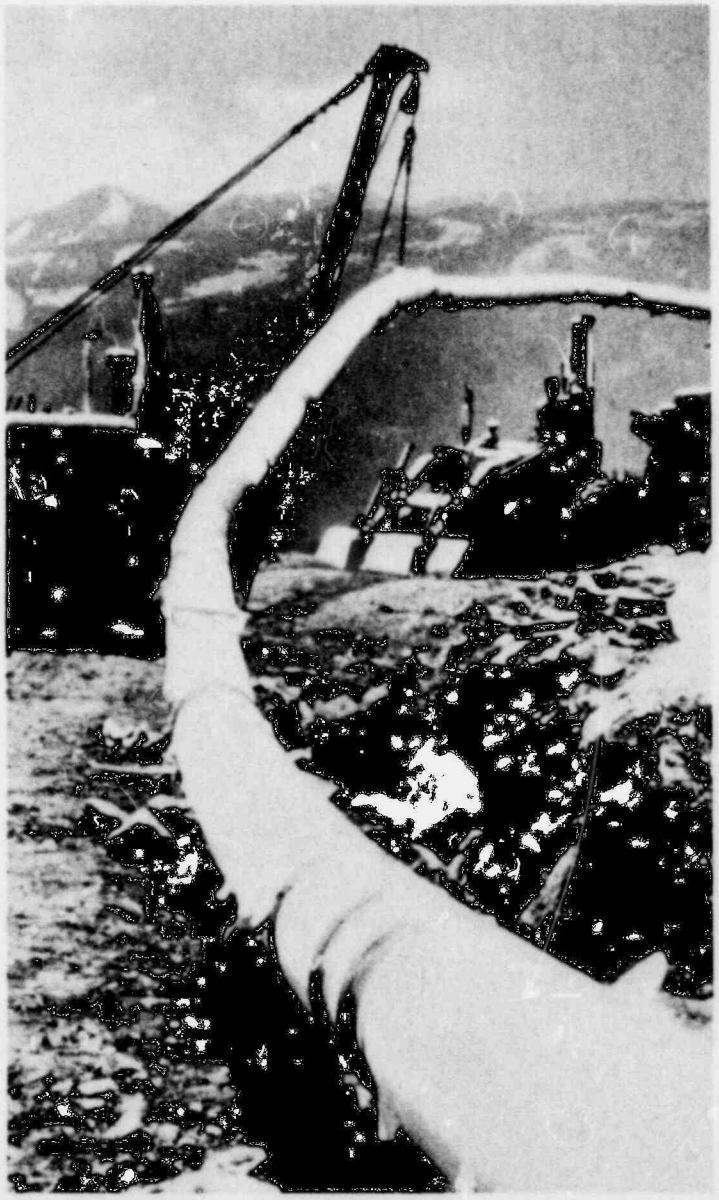
The number of gas customers is expected to increase by 67,000 over the next three years. Demand is projected to increase 3 percent during each of the next three years.

Gas Attachment Scheduling Continues

The Company continues to operate under the Gas Attachment Scheduling Program which went into effect in 1973. This program is designed to maintain a balance between new customer additions and available supplies.

No new firm customers having an hourly requirement in excess of 7,500 cubic feet or new interruptible industrial customers have been attached since 1974 because of supply limitations. Now that the Company's annual supply has improved, due in part to customer conservation efforts, it is in a position to offer interim natural gas service to interruptible industrial customers on a short-term basis. This required changes in the gas tariff which were approved by the Colorado Public Utilities Commission.

Following nationwide patterns, Public Service Company customers experienced significant increases in energy costs during 1979. A typical customer's natural gas bill increased 32 percent. The Company's base rates increased 6 percent. The remainder represented supplier gas cost adjustments approved by the Commission and passed on to the customer. Nevertheless, Public Service Company natural gas rates are still among the lowest in the United States.



Subsidiary Operations

Fuel Resources Development Co.
Fuelco is engaged in the exploration, development and production of natural gas and oil in Colorado, Wyoming, Montana, North Dakota, Utah and Texas. Fuelco was organized in late 1970 to develop natural gas reserves.

Western Slope Gas Company has first right of refusal on Fuelco's natural gas discoveries in Colorado. However, if Western does not exercise its option, Fuelco will market this gas as well as all of its other gas and oil to the best available markets. Fuelco has also made its natural gas available to Cheyenne Light, Fuel & Power Company and Colorado Interstate Gas Co.

Fuelco's sales in 1979 to Western Slope Gas accounted for 43 percent of its gas sales revenues, while the balance of its revenues came from other gas sales, crude oil sales and other types of income.

During 1978, a portion of Fuelco's revenue was derived from the resale of refined petroleum products to Public Service Company through the Energetics exploration program. Exclusive of this activity, Fuelco's revenue in 1979 jumped to $5.5 million from $1.9 million in 1978, an increase of 189 percent.

In spite of this significant increase in revenue, Fuelco's net losses for 1979 were $5.9 million. These losses resulted mostly from a charge to expense of $8.7 million for dry holes, lease abandonments, well impairments and lease impairments in 1979 and a change in Fuelco's accounting system to comply with changes required by the Financial Accounting Standards Board and the Securities Exchange Commission.

Since Fuelco was organized, geological and geophysical expenses had been capitalized as a part of the lease assets. Under the new accounting method, these capital charges for all prior years had to be expensed in 1979. Effective January 1975, as required by the Financial Accounting Standards Board, Fuelco began providing for deferred income taxes. However, it was not required to provide for deferred taxes for years prior to 1975. In 1979, it was necessary to increase the tax provisions by $1.2 million for these prior years. All of these changes resulted in a significant, but nonrecurring reduction to Fuelco's earnings.

Through sales of leases, farmouts, lease exploration and abandonments, gross acres have been reduced 30 percent to slightly under a million acres, and net acres have been reduced 33 percent to approximately 600,000.

Fuelco's net investment in wells for proven developed natural gas revenue interest reserves was $25.6 million. At year end, Fuelco's proven developed natural gas revenue interest reserves were 110 billion cubic feet and its crude oil revenue interest reserves were 783,000 barrels of oil. In addition, its proven undeveloped reserves were 84 billion cubic feet of natural gas and its proven undeveloped oil reserves were 216,000 barrels. Gas volume sales were up 41 percent and its oil sales volume was up 243 percent. Revenue increased by a larger percentage because of the new prices allowed under the Natural Gas Policy Act and the increase in authorized oil prices by the Department of Energy.

Several new sales contracts have been negotiated and several existing sales contracts have been renegotiated. Fuelco's contract for sales of gas to Montana Power Company has been renegotiated for a 25 cent per thousand cubic feet (MCF) increase in the wellhead purchase price and its gathering system transportation charge increased by 5 cents per MCF effective January 1, 1980.

At year end, Fuelco had contracts for natural gas sales from 35 additional wells which will begin production in 1980 when permits have been issued and gathering system construction has been completed. This will bring its total producing wells to 193 out of the 245 in which it has a working interest.

Fuelco projects an increase in sales volumes and prices and believes that all deficits have been eliminated paving the way for a positive income performance by 1981.

"Western Slope is optimistic that there will be future sales benefits from an improved gas supply situation and its ability to connect new industrial loads, particularly those involving the developing oil shale industry in the northwestern part of Colorado."

Western Slope Gas Company

Western Slope Gas Company, a wholly owned subsidiary operating entirely within the State of Colorado, is engaged in the processing, transmission, storage and sale of natural gas. Western Slope Gas provides wholesale service to 7 distribution companies, 3 municipally owned distribution systems, and 34 industrial consumers. Approximately 70 percent of its 1979 sales were for resale, and approximately 80 percent of these sales for resale were made to Public Service Company of Colorado.

Western Slope's revenues totaled nearly $126 million in 1979, which represented an increase of 44 percent over 1978. The revenue increase stemmed largely from a 41 percent increase in purchased gas expense, which the Colorado Public Utilities Commission allowed it to pass through to its customers. Net income for 1979 was approximately $2.3 million compared with $35,000 in 1978.

Western Slope's wellhead reserves at year end totaled 277.7 billion cubic feet under contracts covering 353 wells connected to its systems. During the year, Western Slope acquired rights to production from 49 new wells, 36 of which were connected and 13 of which were awaiting connection at year end. The company purchased a total of 69.7 billion cubic feet during 1979, 53 billion cubic feet of which was purchased from Colorado Interstate Gas Company. The balance of purchases were made from wellhead producers and gasoline plant outlets.

Western Slope began a significant expansion of its gas storage capability in 1979 with development of the Roundup facility near Wiggins, Colorado. Initial construction of the 6.8 billion cubic feet underground storage facility was completed by November 1, 1979, providing a 1979-80 winter heating season daily capacity of approximately 12 million cubic feet. This facility will be capable of providing up to 50 million cubic feet of natural gas per day during peak winter months, starting in the winter of 1980-81. This will enable the Company to add about 25,000 new customers or the equivalent of one year's growth. The project is estimated to cost a total of $24 million.

One of the largest problems Western Slope faced in 1979 was satisfying the provisions of the Natural Gas Policy Act of 1978. Higher wellhead prices allowed by this legislation caused Western Slope's purchased gas expense to rise very rapidly, and it was necessary to revise the procedure for passing through the increased costs to customers in order to more accurately reflect the cost of Western Slope's purchases. The Public Utilities Commission authorized this new procedure at mid-year.

The rising cost of gas over the last few years has caused the loss of significant industrial load because some customers have switched to coal as a primary fuel. Despite this loss, Western Slope is optimistic that there will be future sales benefits from an improved gas supply situation, and its ability to connect new industrial loads, particularly those involving the developing oil shale industry in Western Colorado.

Regulation

The regulatory perspective became increasingly distorted in 1979. As our energy ills intensified and the consumer movement gathered momentum, regulators seemingly reacted more to the mood of the public and less to the impact of a changing economy on the utility industry.

Political pressures today have become very influential on just about any type of business, particularly utilities. Those pressures largely come from special interest groups. It is difficult for a business or regulators to respond to the pressures of one group. Such a response would only create pressures from another group at whose expense the first group was satisfied. The challenge to utility and regulator, alike, is to strike a proper balance between conflicting interests.

New Rules Continue To Impact Industry

Government continued to impose on the industry new rules and procedures in the name of protecting the environment, reshaping rate structures, restricting land use and slowing the development of nuclear energy.

In many instances, regulation has become counterproductive. The overabundance of indirection and indecision by governmental agencies has become a major hindrance to efficient and economical utility operation.

Public Service Company may get more exposure to this regulation frustration because it is a combination utility and has natural gas exploration and transmission subsidiaries. Much, if not all, of the red tape could be avoided with some standardization of procedures between agencies and agreement on the meaning of terms and objectives. Regulation, to be successful, must not be contradictory. We need more consistency in the demands being made by the various levels of government and even within the same agencies.

More decision-making authority at the local level is needed in order to cut delays. Removing complicated and contradictory procedures, better coordination between agencies and more enlightened legislation could favorably impact the construction of electric generating facilities and the cost of gas projects. The consumer, the utility industry, and the economy would all benefit.

Regulation Adds to Customer's Bill

Individually, no one government action presented insurmountable obstacles. Collectively, regulatory measures added millions of dollars to the utility's cost of providing service, increased customer bills and narrowed the utility's choice in selecting alternatives to meet mounting demand for energy.

These steadily-rising costs coupled with the impact of inflation made it necessary for Public Service Company to take initiatives on several fronts during the year to keep its own financial position in some sort of balance.

Rate Increase Totals $40.4 Million

The Company requested a $64.4 million rate increase on June 20, 1979. The Colorado Public Utilities Commission issued its final order on January 22, 1980 authorizing Public Service Company to raise its electric, natural gas and steam rates an average of 5.3 percent. The new rates, based on the Company's operating expenses for a 12-month period ending December 31, 1978, will increase annual revenues $40.4 million. The rate hike represents 63 percent of the total $64.4 million requested.

The rates were effective with meter readings on November 26, 1979 based on the Commission's interim order of November 23, 1979, establishing revenue requirements. The Commission's order allowing the collection of higher rates was issued slightly more than five months after the Company filed for an increase on June 20, 1979. The rate order granted the Company a 9.53 percent overall rate of return and a 14.6 percent return on common equity. The Company had asked that the return on equity be raised to 16 percent from the 14.2 percent previously authorized by the Commission in August, 1978.

Since the new rates are based on the historic test year principle—the Company's operating costs experienced during 1978—and because inflation has accelerated so drastically through 1979 and into 1980, the new rates are already inadequate for the Company to earn the authorized rates of return. As long as rates are based on past operating periods in an inflationary environment, the Company will be forced to seek additional rate relief. The Company is planning to file for another increase during the second quarter and to seek measures to reduce the impact of inflation.

The Company certainly recognizes the need for regulation, but it feels strongly that the historic test year principle is outdated and is not cost effective. Rates must reflect present and future costs rather than relying entirely on past costs of providing service. The Company has worked aggressively to achieve acceptance of a more realistic principle by regulators and customers and was pleased when the Commission encouraged the Company to seek future increases based on a partially forecast test year.

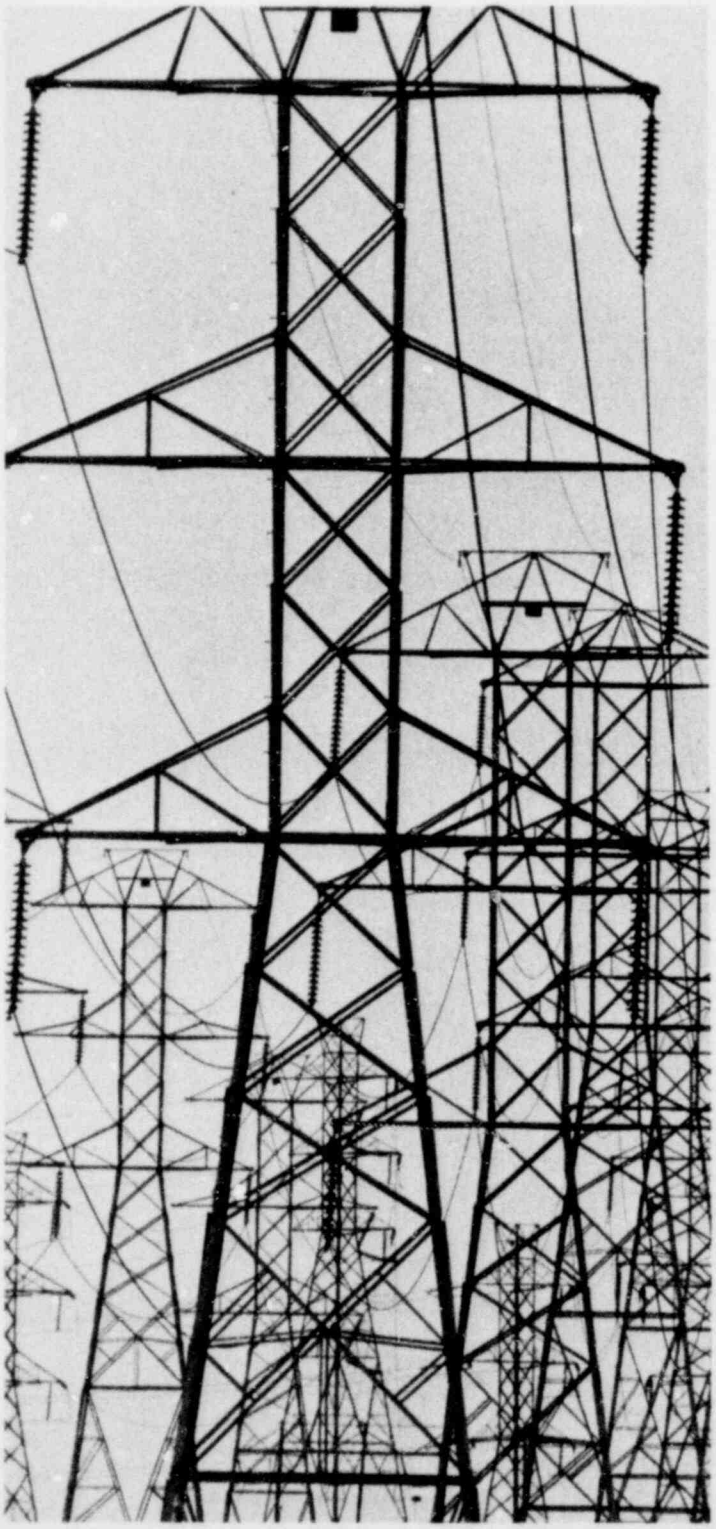
The Company continued to participate in a generic electric rate case, which is an open-ended examination of the way in which rates are established. The Company firmly maintains that the proper way to charge for service is to base those charges on the cost of service and not the ability to pay.

Public Service Company's subsidiary, Home Light and Power Company, was granted a $1.2 million increase in electric rates on August 9, 1979. The increase represented 86 percent of the $1.4 million requested. Home Light and Power Company serves Greeley, Colorado and its surrounding area.

Resigning Commissioner Cites Utility Frustration

The tidal wave of government regulation and the resulting mounds of paperwork that have drastically affected both electric and natural gas operations came into sharper focus

"In muny instances, regulation has become counter productive. The over abundance of indirection and indecision by governmental agencies has become a major hindrance to efficient and economical utility operations."



when Sanders G. Arnold announced his resignation from the Colorado Public Utilities Commission on January 3, 1980.

Arnold, in listing his reasons for resigning, said, "My frustration steadily grows as the Commission has less and less influence on matters that are at the very heart of regulation — utility rates and system reliability."

"Too often," he said, "frivolous regulations cause expensive project delays, driving up utilities' costs which consumers must eventually incur. Eight years ago, a company needed only six government certifications to construct an electric generating plant in Colorado. Today, 60 certificates are needed for such a project."

Arnold said he was particularly frustrated by natural gas regulations and the prices consumers are forced to pay. He cited the Public Service Company situation in particular.

Public Service purchases 96 percent of the natural gas it distributes from Colorado Interstate Gas Company, which receives the majority of its supplies from out-of-state sources. "Consequently," Arnold said, "federal regulations mandate prices on that gas, not the PUC (Public Utilities Commission)."

Successor Named By Governor

Republican State Senator Duane Woodard of Fort Collins has been appointed by Governor Richard D. Lamm to succeed Arnold. Woodard's appointment must be confirmed by the Colorado Senate. Arnold will remain on the Commission until his successor is confirmed by the Colorado Senate.

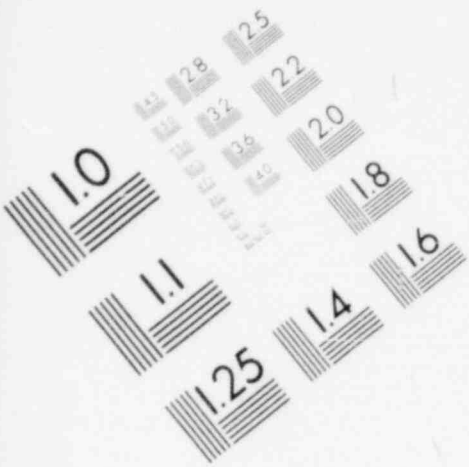
The Colorado Public Utilities Commission consists of three full-time members appointed on a staggered basis to six year terms and approved by the Colorado Senate. Only two members may be from the same political party. The Chairman is selected by the Governor.

The other members now sitting on the Commission are: Dr. Edythe S. Miller, a Democrat, who was appointed February, 1975 and whose term expires in 1981; and Daniel Muse, Democrat, who was appointed May 17, 1979 and will serve a term expiring in 1985.

Prior to Muse's appointment, Public Service Company opposed the nominee selected to succeed Edwin R. Lundborg whose term expired in January, 1979. The opposing action was unprecedented, but the Company felt the nominee's regulatory philosophy would be detrimental to the best interests of its shareholders, customers, and the utility industry in Colorado. The Colorado Senate turned down the nomination.

The regulatory environment is changing. It has to if it is to maintain that delicate balance between fair and reasonable rates and reliable service. Regulation will have to be looked at in a new framework, discarding some of the concepts that served us well in the past and rearranging priorities as the industry experiences a drastic transition.

It is no longer adequate to look back and applaud the utility regulation that once worked so well. A new wave of challenges has thundered onto the utility scene. Only a new set of creative solutions, boldly conceived in a spirit of compromise and cooperation, will restore the balance between utility and customer.



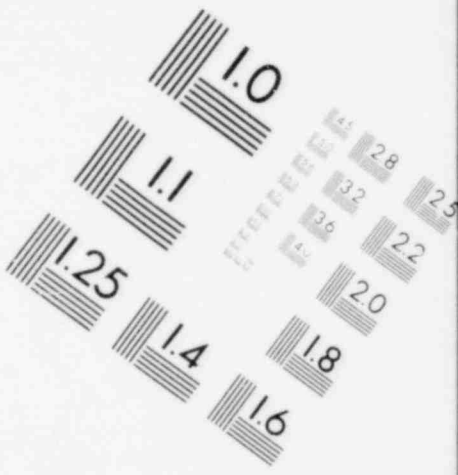
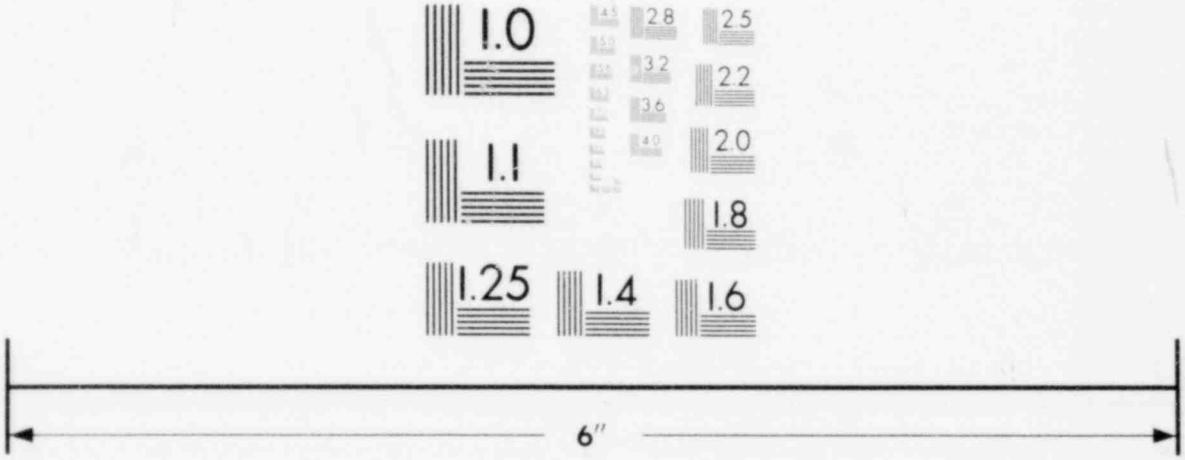
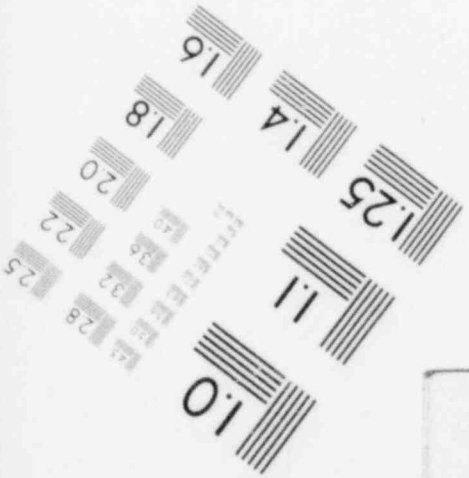
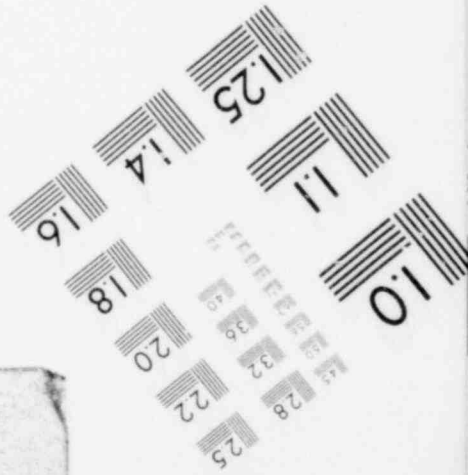


IMAGE EVALUATION
TEST TARGET (MT-3)



MICROCOPY RESOLUTION TEST CHART





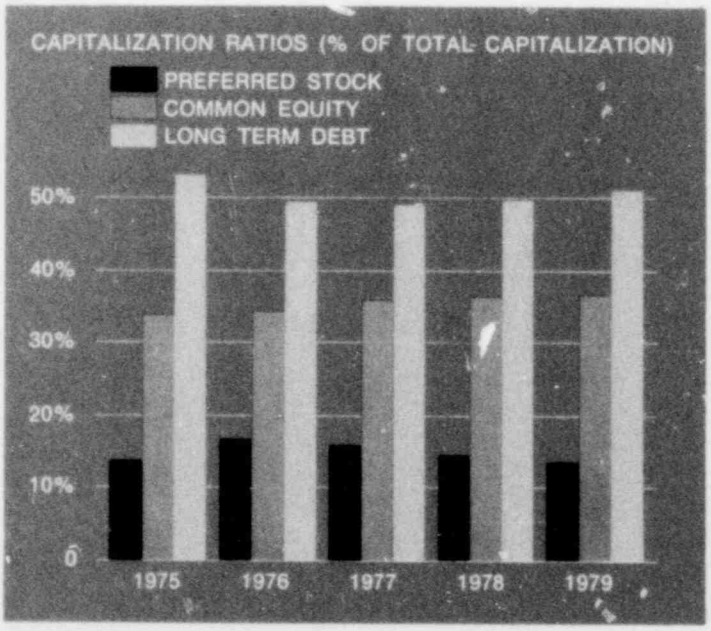
Financing

Public Service Company's financial position is like a two-headed coin. On one side, the need for new electric generating and natural gas distribution facilities has become irreversible. The number of customers keeps rising. So does energy consumption. Plant capacity totters much too close to peak load demand with no reserve margin if a major unit should go out of service. While electric power is available from other utilities, it is expensive, limited and of short-term duration.

On the other side of the coin, it has become more difficult to finance new facilities. The utility industry is capital intensive; capital intensive both in terms of existing facilities and new facilities which must be constructed if the Company is to continue providing utility service in the customary manner.

Construction costs have reached staggering proportions. Rising inflation rates have driven the cost of a 500 megawatt coal-fired plant from $100 million in 1969 to more than $400 million in 1979. Ten years from now that same plant is expected to cost $900 million.

It is equally difficult to build and complete the plant after initial financing. Environmental impact studies, lengthy and complicated government-imposed procedures, and delays attributed to weather, labor and equipment delivery make the Company vulnerable to longer construction times and future inflation.



Company Faces Service Dilemma

Public Service Company has two fundamental choices on how it approaches the future in light of this dilemma. It must continue to operate from a position of financial strength and stability, covering all costs of operation and of building new facilities, or, it must lower its operating expenses by cutting back on the quality of service. The Company opts for the former approach, but continuing inflation and inadequate regulatory responses make such a course most difficult. Early in 1980, two major national credit rating agencies reduced their ratings of the Company's fixed income securities. Borrowing will thus become more expensive.

Why does it cost so much to run a utility business? There are several basic reasons. Public Service Company operates in a service territory that is the fifth fastest growing in the country. It is adding new customers all the time. Existing customers are using more electricity, old facilities become materially and technologically obsolete and must be replaced. Pollution control equipment has become a significant addition to construction costs.

There is only one principal source of dollars — the investing public — that will enable the Company to take the growth alternative. Competition for these investment dollars is keen and the utility must be in a position to provide a competitive return on those investments.

As part of its rate request, Public Service Company asked the Public Utilities Commission to increase the return on investment it is allowed to make from 14.2 percent to 16 percent. In its rate order, the Commission allowed a 14.6 percent return.

Social Obligations to Investors

The Company feels that there are social implications in providing an adequate return on investment in addition to being competitive in financial markets. The Company essentially attracts two types of investors — individual and institutional.

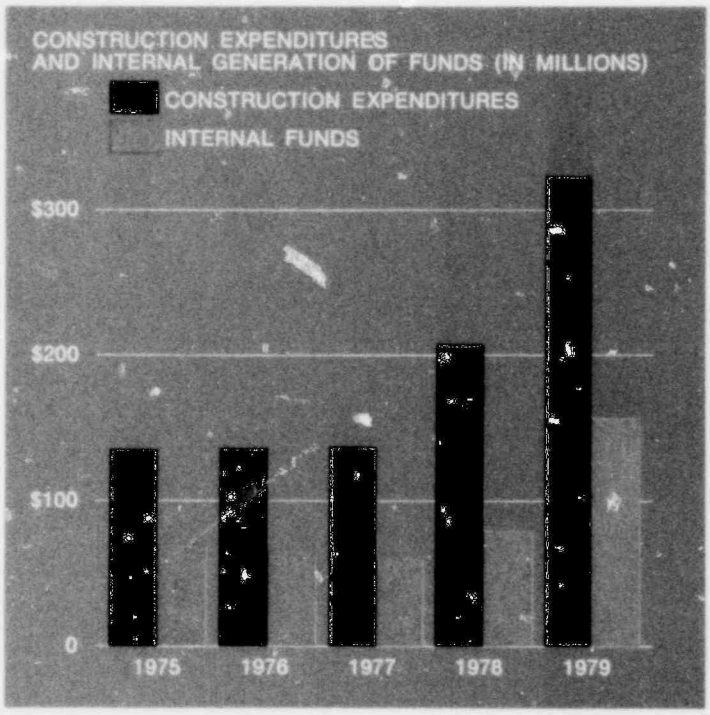
Individual investors purchase Public Service Company common stock for the express purpose of supplementing retirement incomes or for helping them to meet inflated expenses. The institutions, likewise, manage money for individuals, whether for future pension income or for investment objectives. The concern for the return on investment, consequently, becomes as important as the price the people must pay for utility service.

It is against this backdrop that Public Service Company competes in capital markets. While the character of utility financing may be changing, the Company is committed to the policies that will help it keep a firm financial footing. In the type of economic and regulatory environment under which the Company must operate, this financial strength and stability must be maintained if the Company is to be successful in competing for new capital and building utility facilities for the future.

Financial Objectives

A principal objective of the Company's financial policy continues to be a strong capital structure made up of debt not exceeding 50 percent, common equity not less than 35 percent, and closer to 40 percent when possible, and preferred stock of not over 15 percent.

"The Company feels there are social implications in providing an adequate return on investment in addition to being competitive in financial markets."



The Company remains committed to the aggressive pursuit of a fair return on its invested capital to properly compensate shareholders for the use of their money. This fair and reasonable return, coupled with an attractive dividend policy, is essential in achieving a market price for the Company's common stock at a reasonable premium more than its book value.

Company Sells New Securities

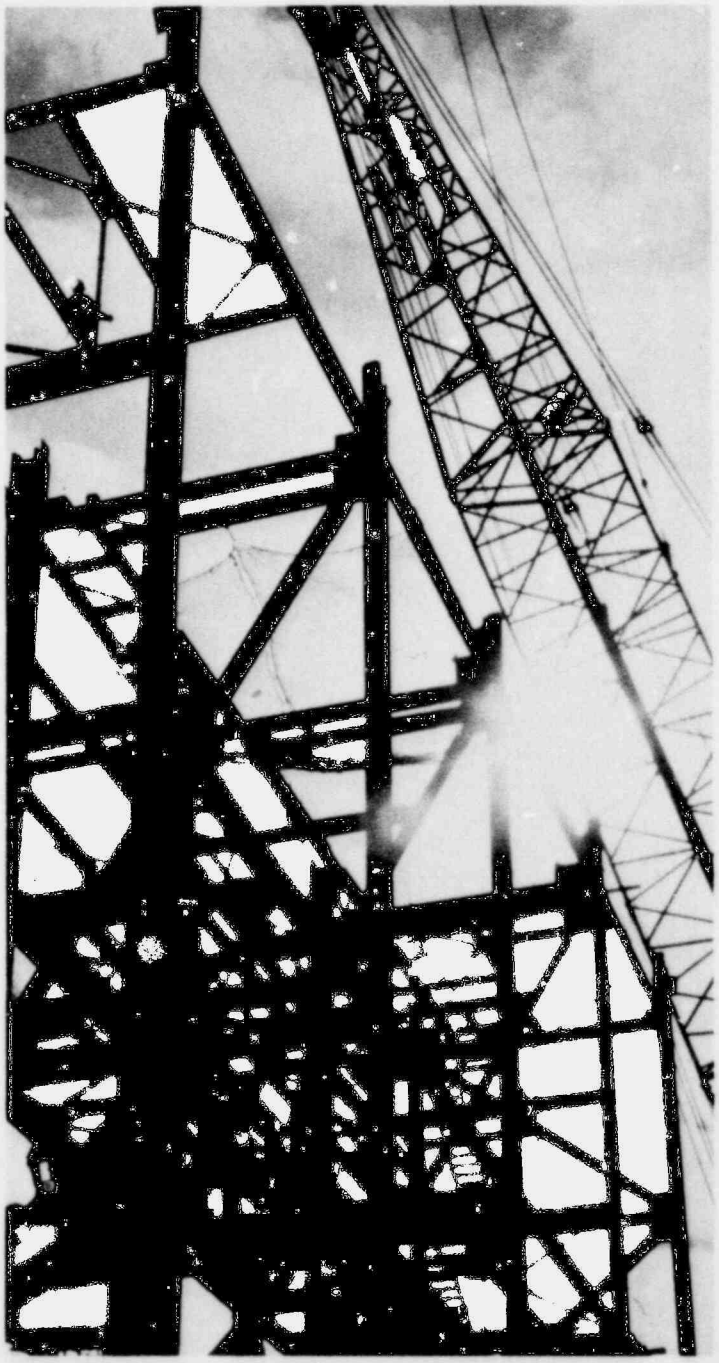
The Company took several steps in 1979 and early 1980 to raise the capital necessary to build facilities that will help it meet service requirements during the next few years.

On April 24, 1979, Public Service Company sold 2.5 million shares of common stock. The price per share to the general public was $16⅛, netting proceeds of $39 million after underwriting expenses. In addition, the Company raised $4.9 million through the Automatic Dividend Reinvestment Plan compared with $3.4 million in 1978. Moreover, by selling common shares to employees through its employee investment programs, about $542,000 also was raised in 1979.

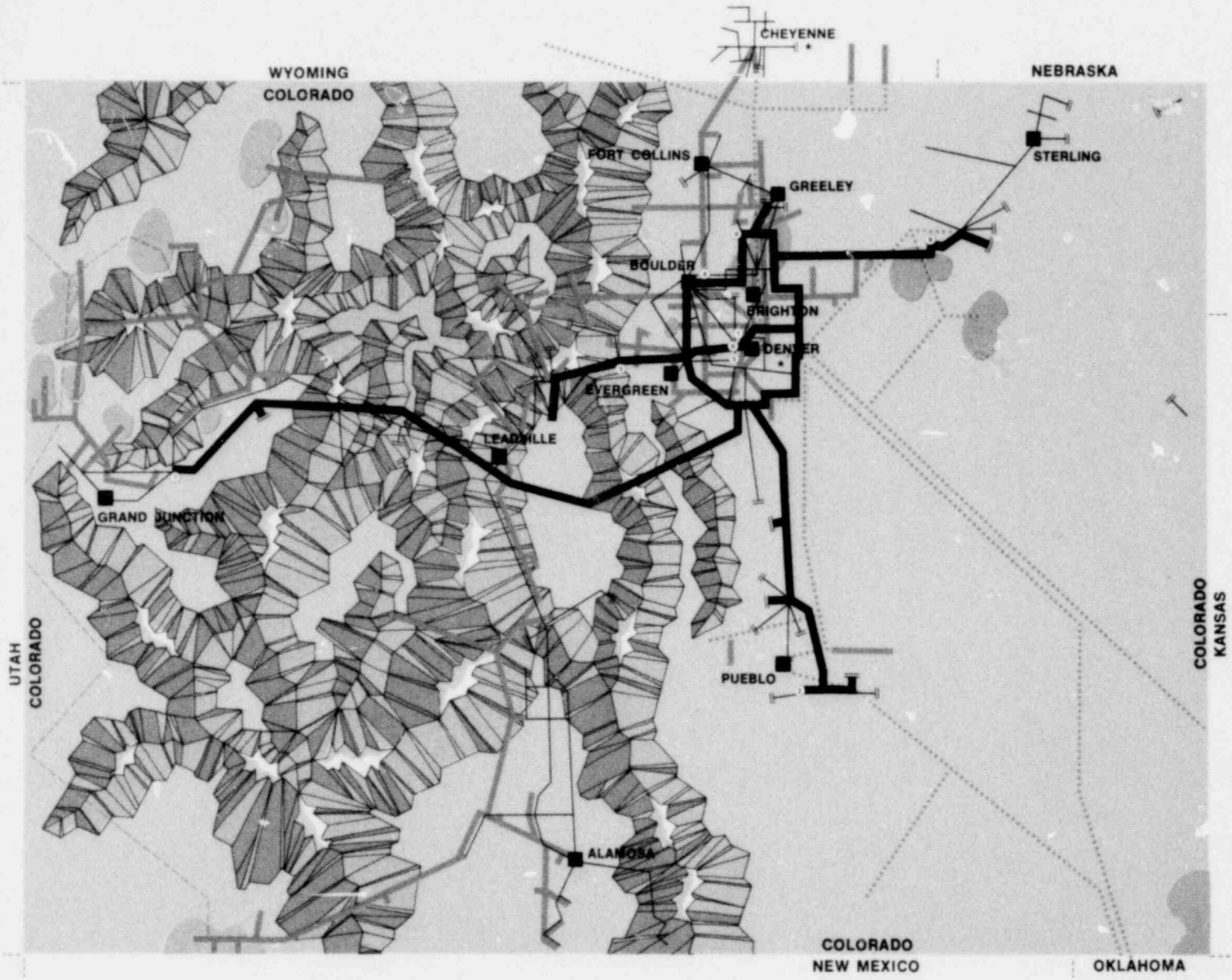
In October 1979, $50 million of Morgan County Pollution Control revenue bonds were sold to defray the costs of air and water pollution equipment and a solid waste disposal system at Pawnee. Approximately $35 million worth of these bonds, were sold at a 7⅜ percent interest rate. The remaining bonds were placed at 7¼ percent.

The Company sold 2.75 million shares of common stock and $50 million of first mortgage bonds on February 26, 1980 to finance part of its construction program and to reduce short-term borrowings. Proceeds from these sales after underwriting expenses were $79.5 million. In addition, $37 million of Adams County Pollution Control notes were sold to finance retrofit air quality work at the Cherokee, Cameo and Arapahoe Plants.

Inadequate rate relief in 1979 and uncertainty about its ability to successfully finance long-term construction programs forced the Company to postpone its plans to build a much-needed new generating plant in Southeastern Colorado. The Company will not move ahead with those plans until it feels reasonably certain that it can adequately finance that facility.



System Map



MAJOR POWER PLANTS

PLANT NAME	NO. OF UNITS	CAPABILITIES (kilowatts) YEAR-END GROSS	NET EFFECTIVE AT TIME OF 1979 PEAK
(1) CHEROKEE	4	775,000	706,000
(2) COMANCHE	2	725,000	660,000
(3) CABIN CREEK	2	324,000	90,000*
(4) VALMONT	5	311,100	247,000
(5) ARAPAHOE	4	256,500	236,000
(6) ZUNI	2	115,000	107,000
(7) CAMEO	2	79,000	75,200
(8) FORT ST. VRAIN	1	210,000	200,000
Additional capability from 4 steam, 10 hydro, 6 combustion turbine and 7 diesel units owned or leased by PSCo		299,000	246,800
TOTAL		3,094,600	2,568,000

(9) PAWNEE — coal-fired unit under construction for service in 1981 — 500,000 kilowatts.

NOTE: Net effective capability recognizes seasonal capability reductions due to weather, stream flow, fuel availability, and station housepower requirements for air and water quality control equipment.

LEGEND

ELECTRIC SYSTEM

- ELECTRIC LINES – 230,000 VOLTS
- ELECTRIC LINES – UNDER 230,000 VOLTS
- STEAM HEATING SERVICE
- POINTS OF INTERCONNECTION WITH OTHER SYSTEMS

GAS SYSTEM

- PUBLIC SERVICE COMPANY OF COLORADO
- WESTERN SLOPE GAS COMPANY
- CHEYENNE LIGHT, FUEL & POWER COMPANY
- GAS OR GAS AND OIL FIELDS
- COLORADO INTERSTATE GAS COMPANY
- EL PASO NATURAL GAS COMPANY
- POINTS OF INTERCONNECTION WITH OTHER SYSTEMS

- DIVISION HEADQUARTERS

*One unit undergoing extensive repair

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Summary of Operations

	Year Ended December 31,						
	1979	**1978**	**1977**	**1976**	**1975**	**1974**	**1969**
	(Thousands of Dollars)						
Operating Revenues:							
Electric	**$507,587**	$421,732	$362,062	$322,102	$281,727	$224,177	$127,124
Gas	**410,537**	303,300	246,059	197,549	174,612	134,867	76,387
Other	**8,386**	4,746	5,178	2,503	3,842	3,200	1,248
	926,510	729,778	613,299	522,154	460,181	362,244	204,759
Operating Expenses:							
Fuel used in generation	**176,413**	117,491	104,982	86,711	75,400	54,928	17,851
Gas purchased for resale	**310,129**	224,840	176,193	127,788	103,469	78,243	37,306
Purchased power	**29,425**	22,722	4,738	4,361	7,634	2,100	2,477
Other operating expenses	**162,858**	132,647	105,434	87,931	77,824	69,834	38,703
Maintenance	**37,092**	28,249	27,220	23,241	19,471	16,943	8,903
Depreciation	**55,990**	49,541	46,133	43,196	39,618	36,426	21,173
Taxes (other than income taxes)	**38,033**	35,424	44,346	40,048	36,404	32,786	19,136
Income taxes	**26,826**	25,601	16,100	21,232	18,489	5,423	16,189
	836,766	636,515	525,146	434,508	378,309	296,683	161,738
Operating Income	**89,744**	93,263	88,153	87,646	81,872	65,561	43,021
Other Income and Deductions:							
Allowance for funds used during construction:							
All funds (through December 31, 1976)	**—**	—	—	8,249	11,276	8,173	926
Equity funds (from January 1, 1977)	**10,893**	10,506	7,318	—	—	—	—
Miscellaneous income and deductions—net	**2,269**	(4,310)	(4,416)	(615)	(1,124)	764	(4)
	102,906	99,459	91,055	95,280	92,024	74,498	43,943
Interest Charges:							
Interest on long-term debt	**50,717**	44,811	40,453	39,631	35,300	31,149	14,559
Amortization of debt discount and expense less premium	**239**	224	180	152	134	60	6
Other interest	**4,123**	2,879	2,959	838	1,717	4,890	785
Allowance for funds used during construction:							
Borrowed funds (from January 1, 1977)	**(7,982)**	(6,156)	(3,674)	—	—	—	—
	47,097	41,758	39,918	40,621	37,151	36,099	15,350
Net Income	**55,809**	57,701	51,137	54,659	54,873	38,399	28,593
Dividend Requirements on Preferred Stock	**13,536**	13,536	13,536	10,784	10,596	9,560	3,669
Earnings Available for Common Stock	**$ 42,273**	$ 44,165	$ 37,601	$ 43,875	$ 44,277	$ 28,839	$ 24,924
Shares of common stock outstanding (thousands):							
Year-end	**32,326**	29,250	25,884	23,290	23,213	19,607	14,448
Average	**31,225**	26,572	23,976	23,240	21,409	17,657	14,448
Earnings per Average Share of Common Stock Outstanding	**$1.35**	$1.66	$1.57	$1.89	$2.07	$1.63	$1.73
Dividends per Share of Common Stock:							
Declared	**$1.60**	$1.53	$1.46	$1.38	$1.22½	$1.20	$1.06
Paid	**$1.60**	$1.49½	$1.46	$1.34	$1.20	$1.20	$1.06
Summary by Lines of Business							
Operating Revenues							
Electric	**54.8%**	57.8%	59.0%	61.7%	61.2%	61.9%	62.1%
Gas	**44.3**	41.6	40.1	37.8	38.0	37.2	37.3
Other	**.9**	0.6	0.9	0.5	0.8	0.9	0.6
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Income (1)							
Electric	**84.4%**	94.0%	99.1%	91.9%	85.5%	87.7%	79.2%
Gas	**21.4**	10.4	6.2	12.3	19.4	15.9	21.5
Other	**(5.8)**	(4.4)	(5.3)	(4.2)	(4.9)	(3.6)	(0.7)
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Before taxes on income and the charge equivalent to the reduction in income tax due to the investment credit, net of amortization.

Financial and Operating Data

Financial Data

	1979	1978	1977	1976	1975	1974	1969
Capitalization Ratios — End of Year:							
Long-Term Debt	**50%**	50	49	49	53	53	53
Preferred Stock	**14**	14	16	17	14	16	13
Common Stock, Premium and Retained Earnings	**36**	36	35	34	33	31	34
Total	**100%**	100	100	100	100	100	100
Rates of Return Earned On:							
Total Capitalization (Operating Income)	**5.9%**	6.5	6.7	7.2	6.8	6.1	7.2
Total Net Plant (Operating Income)	**5.2%**	6.1	6.3	6.8	6.8	5.8	6.7
Total Common Equity (Net to Common)	**7.6%**	8.6	8.2	10.7	11.1	8.7	12.4
Average Annual Interest Rate on Bonds Outstanding — End of Year	**6.9%**	6.8	6.6	6.2	6.2	5.9	4.5
Times Fixed Charges Earned:							
Before Federal and State Income Taxes	**2.5**	2.7	2.5	2.9	3.0	2.2	3.9
After Federal and State Income Taxes	**2.0**	2.2	2.2	2.3	2.5	2.1	2.8
Common Stock Dividend Payout Ratio	**119.3%**	93.2	94.2	73.1	60.0	73.5	61.4
Book Value Per Share of Common Stock — End of Year	**$17.18**	17.63	17.77	17.63	17.21	16.94	13.93

Electric Operations

Total Kilowatt-Hour Sales (Millions)	**14,659**	13,754	12,877	11,890	11,316	10,602	6,699
Total Electric Customers	**794,533**	764,779	733,033	676,070	657,438	640,816	479,131
Average Annual Residential Consumption — KWH	**5,913**	5,724	5,520	5,480	5,387	5,225	4,621
Average Residential Revenue per Kilowatt-Hour (Cents)	**4.19**	3.75	3.60	3.50	3.35	2.92	2.65
Percent of Electric Generation by Class of Fuel:							
Coal	**79.2**	85.0	83.8	75.5	67.1	61.2	61.0
Oil	**1.8**	2.9	2.7	2.9	4.6	2.7	1.5
Gas	**17.6**	12.1	13.5	21.6	28.3	36.1	37.5
Nuclear	**1.4**	—	—	—	—	—	—
	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net Effective Capability at Time of Peak — Kilowatts (000)	**2,743**	2,594	2,492	2,484	2,203	2,444	1,892
Net Firm System Peak Load — Kilowatts (000)	**2,642**	2,559	2,437	2,237	2,108	1,924	1,283
Annual System Load Factor (%)	**68.0**	66.4	65.2	65.9	66.1	67.8	64.3

Natural Gas Operations

Total Gas Sales (MMCF)	**213,274**	206,700	198,257	209,672	215,448	205,444	176,828
Gas Department Customers	**658,219**	633,607	609,465	589,604	574,986	564,607	442,608
Average Annual Residential Consumption — MCF	**157.3**	151.2	146.3	160.3	172.3	164.1	185.6
Daily Availability — MMCF	**1,371**	1,304	1,275	1,282	1,245	1,221	914
Maximum Peak-Day Sendout — MMCF	**1,143**	1,160	1,129	1,161	1,067	1,068	860

Management's Discussion and Analysis of the Consolidated Statement of Income

The following factors, which may not be indicative of future operations or earnings, have had a significant effect upon the results of operations during 1977, 1978, and 1979.

Operating Revenues:

Operating revenues have increased significantly in each period primarily as a result of (1) base rate increases; (2) recovery of increased fuel costs through the FCA provision of the Company's electric tariff; (3) recovery of increased gas for resale costs through the GCA provision of the Company's gas tariff; and (4) increases in customers. Sales continued to increase in each year except 1977, when gas sales decreased due to warmer than normal weather and voluntary customer energy conservation.

The following table sets forth the amounts by which electric and gas revenues during each of the last three years exceeded the revenues for the preceding year, together with the estimated increases attributable to the major factors.

	1977	1978	1979
	(Millions of Dollars)		
Electric Revenues			
Base Rate Increases	$ 1.4	$29.3	**$ 19.6**
Fuel Cost Adjustment	9.7	9.1	**39.1**
Sales Volume and Other Changes	28.9	21.3	**27.2**
Net Increase	$40.0	$59.7	**$ 85.9**
Gas Revenues			
Base Rate Increases	$ 1.0	$ 9.7	**$ 10.1**
Gas Cost Adjustment (including pass-on)	47.3	42.1	**84.7**
Sales Volume and Other Changes	0.2	5.4	**12.4**
Net Increase	$48.5	$57.2	**$107.2**

Operating Expenses:

The increases (decreases) in operating expenses during the years set forth below were as follows:

	1977	1978	1979
	(Millions of Dollars)		
Fuel used in generation	$18.3	$ 12.5	**$ 58.9**
Gas purchased for resale	48.4	48.6	**85.3**
Purchased power	0.4	18.0	**6.7**
Other operating expenses	17.5	27.2	**30.2**
Maintenance	4.0	1.0	**8.8**
Depreciation	2.9	3.4	**6.5**
Taxes (other than income taxes)	4.3	(8.9)	**2.6**
Income taxes	(5.1)	9.5	**1.2**
	$90.7	$111.3	**$200.2**

The expense of fuel used in generation increased in each period as a result of the continuing higher prices the Company must pay for fuel along with increased generation in 1977 and 1979.

The increases in the cost of gas purchased for resale are primarily the result of wholesale rate increases granted by the Federal Energy Regulatory Commission to Colorado Interstate Gas Company. Colorado Interstate Gas Company is the major supplier of natural gas sold by the Company and its utility subsidiaries.

The increase in purchased power in 1978 reflects the power produced at Fort St. Vrain being accounted for as purchased power rather than system generated power pending acceptance of that unit by the Company and substantial increases in firm purchases of capacity and energy. The increase in 1979 is due to an increase in both the quantity and unit cost of the energy purchased.

Increases in other operating expenses and maintenance in 1977 was largely due to wage increases and normal system expansion. For the years 1978 and 1979, the major factors contributing to the increases, in addition to wage increases and normal system expansion, included: (1) a reduction in the reimbursement from the prime contractor for loss of power production at Fort St. Vrain in 1978, and (2) the inclusion of nuclear power operation and maintenance expenses in 1979. (See Note 11 of *Notes To Consolidated Financial Statements.)*

Depreciation expense has increased primarily as a result of property additions. There have also been minor changes in the rates used to calculate depreciation. (See Note 1 of *Notes To Consolidated Financial Statements.)*

In 1977, taxes (other than income taxes) increased due to higher property taxes resulting from the additions of new plant and in some instances increased tax rates, and higher franchise taxes on increased revenues. The decrease for the year 1978 is primarily the result of an order from The Public Utilities Commission of the State of Colorado, effective January 1, 1978, which required that franchise taxes be surcharged on customers' bills and recorded as a tax collection rather than as a component of revenue and expense. The increase in 1979 is due primarily to higher property taxes and increases in Social Security taxes. (See Note 9 of *Notes To Consolidated Financial Statements.)*

The decrease in income taxes in 1977 reflects a decrease in income, while the increase in income taxes in the year 1978 is a result of increased income and the change in accounting, effective December 1, 1977, when the Company began providing for certain deferred income taxes on accelerated depreciation. (See Notes 1 and 8 of *Notes To Consolidated Financial Statements.)*

Other Income, Deductions and Interest Charges:
The significant increases (decreases) in other income and deductions and interest charges during the years set forth below were as follows:

	1977	1978	1979
	(Millions of Dollars)		
Allowance for funds used during construction:			
All funds (through December 31, 1976)	$(8.2)	$ —	**$ —**
Equity funds (from January 1, 1977)	7.3	3.2	**0.4**
Miscellaneous income and deductions — net	(3.8)	0.1	**6.6**
Interest on long-term debt	0.8	4.4	**5.9**
Other interest	2.1	(0.1)	**1.2**
Allowance for funds used during construction:			
Borrowed funds (from January 1, 1977)	(3.7)	(2.5)	**(1.8)**

The increase in total allowance for funds used during construction in 1977, $2.8 million, reflects the construction expenditures made for major plant facilities in that year. The increases in 1978 and 1979, $5.7 million and $2.4 million, respectively, are the result of both increased construction expenditures and the use of a higher rate to calculate allowance for funds used during construction. (See Note 1 of *Notes To Consolidated Financial Statements.)*

The change in miscellaneous income and deductions — net in 1977 is due primarily to exploration charges associated with purchases of fuel oil from a subsidiary. The change in 1979 resulted from the discontinuance of these purchases.

Increases in interest on long-term debt reflect the issuance of additional bonds and the continued high cost of permanent financing. The decrease in other interest in 1978 and the increases in 1977 and 1979 indicate the varying need for temporary financing experienced in those periods.

Responsibility for Financial Statements

Management has prepared and is responsible for the integrity of the financial data included in the accompanying consolidated financial statements. These statements have been prepared in conformity with generally accepted accounting principles consistent with the requirements of the Uniform System of Accounts of the Federal Energy Regulatory Commission as prescribed by the Public Utilities Commission of the State of Colorado. Financial information presented elsewhere in this annual report is consistent with that in the financial statements.

The Company maintains an accounting system and related controls to provide reasonable assurance that financial records are reliable for preparing financial statements. This system includes a program of internal audits to assure management that proper procedures and methods of operation are used to implement the plans, policies, and directives of management.

Arthur Young & Company, certified public accountants, are engaged to examine and to render an opinion as to whether management's financial statements present fairly the Company's financial position, results of operations, and source of funds for plant construction expenditures. Their examination is conducted in accordance with generally accepted auditing standards and their report is included herein.

The accounting and internal control procedures of the Company are subject to review by the Audit Committee of the Board of Directors. The Committee, which is composed of three outside directors, meets regularly with both the independent auditors and the internal auditors to review the activities relating to auditing and financial reporting matters.

Report of Certified Public Accountants

The Board of Directors and Shareholders
Public Service Company of Colorado

We have examined the accompanying consolidated balance sheets of Public Service Company of Colorado and subsidiaries at December 31, 1979 and 1978, and the related consolidated statements of income, retained earnings and source of funds for plant construction expenditures for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Public Service Company of Colorado and subsidiaries at December 31, 1979 and 1978, and the consolidated results of operations and source of funds for plant construction expenditures for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company
Denver, Colorado
February 4, 1980

Consolidated Balance Sheet December 31, 1979 and 1978

PUBLIC SERVICE COMPANY OF COLORADO AND SUBSIDIARIES

Assets

	1979	1978
	(Thousands of Dollars)	
Property, Plant and Equipment, at cost:		
Electric	**$1,416,386**	$1,244,653
Gas	**409,539**	373,096
Steam and other	**9,688**	14,878
Common to all departments	**85,486**	81,696
Construction in progress	**339,794**	305,952
	2,260,893	2,020,275
Less accumulated provision for depreciation	**537,284**	482,925
	1,723,609	1,537,350
Nuclear fuel, less accumulated provision for amortization of $516 at December 31, 1979 (Notes 1 and 11)	**8,874**	—
	1,732,483	1,537,350
Investments, at cost	**270**	152
Current Assets:		
Cash	**2,117**	15,307
Temporary cash investments	**12,923**	3,005
Accounts receivable, less provision for uncollectible accounts (1979 — $1,656; 1978 — $1,412)	**124,156**	92,533
Notes receivable	**2,556**	260
Fuel inventory, at average cost	**40,210**	33,292
Materials and supplies, at average cost	**45,499**	29,485
Cost of gas delivered but not billed to customers	**26,843**	20,031
Gas in underground storage, at cost (LIFO)	**1,944**	1,885
Prepaid expenses	**5,161**	2,865
	261,409	198,663
Deferred Charges:		
Debt expense (being amortized)	**6,895**	6,085
Other	**10,207**	3,427
	17,102	9,512
	$2,011,264	$1,745,677

See accompanying notes.

Capital and Liabilities

	1979	1978
	(Thousands of Dollars)	
Common Stock (Note 2)	**$ 419,108**	$ 369,704
Retained Earnings	**136,314**	145,853
Total Common Equity	**555,422**	515,557
Preferred Stock (Note 2):		
Not subject to mandatory redemption	**140,008**	140,008
Subject to mandatory redemption at par	**64,400**	64,400
Long-term Debt (Note 3)	**766,656**	711,140
Total Capitalization:	**1,526,486**	1,431,105
Current Liabilities:		
Notes payable (Note 4)	**62,186**	22,182
Long-term debt due within one year	**2,250**	2,232
Accounts payable	**146,159**	82,518
Dividends payable	**16,319**	15,085
Customers' deposits	**24,169**	23,993
Accrued taxes	**41,347**	35,326
Accrued interest	**13,776**	12,749
Customers' refund	**10,817**	—
Other	**16,973**	12,363
	333,996	206,448
Deferred Credits:		
Customers' advances for construction	**25,060**	23,199
Investment credit (being amortized over the productive lives of the related property)	**80,991**	60,777
Accumulated deferred income taxes (Notes 1 and 8)	**30,818**	23,981
Other	**13,913**	167
	150,782	108,124
Commitments and Contingencies (Note 6)		
	$2,011,264	$1,745,677

Consolidated Statement of Income Years ended December 31, 1979 and 1978

PUBLIC SERVICE COMPANY OF COLORADO AND SUBSIDIARIES

	1979	1978
	(Thousands of Dollars)	
Operating Revenues:		
Electric	**$507,587**	$421,732
Gas	**410,537**	303,300
Other	**8,386**	4,746
	926,510	729,778
Operating Expenses:		
Fuel used in generation	**176,413**	117,491
Gas purchased for resale	**310,129**	224,840
Purchased power	**29,425**	22,722
Other operating expenses	**162,858**	132,647
Maintenance	**37,092**	28,249
Depreciation (Note 1)	**55,990**	49,541
Taxes (other than income taxes) (Note 9)	**38,033**	35,424
Income taxes (Note 8)	**26,626**	25,601
	836,766	636,515
Operating Income	**89,744**	93,263
Other Income and Deductions:		
Allowance for equity funds used during construction (Note 1)	**10,893**	10,506
Miscellaneous income and deductions — net	**2,269**	(4,310)
	102,906	99,459
Interest Charges:		
Interest on long-term debt	**50,717**	44,811
Amortization of debt discount and expense less premium (Note 1)	**239**	224
Other interest	**4,123**	2,879
Allowance for borrowed funds used during construction (Note 1)	**(7,982)**	(6,156)
	47,097	41,758
Net Income	**55,809**	57,701
Dividend Requirements on Preferred Stock	**13,536**	13,536
Earnings Available for Common Stock	**$ 42,273**	$ 44,165
Shares of Common Stock Outstanding (thousands):		
Year-end	**32,326**	29,250
Average	**31,225**	26,572
Earnings Per Average Share of Common Stock Outstanding	**$1.35**	$1.66
Dividends Per Share of Common Stock		
Paid	**$1.60**	$1.49½
Declared	**$1.60**	$1.53

See accompanying notes.

Consolidated Statement of Retained Earnings Years ended December 31, 1979 and 1978

PUBLIC SERVICE COMPANY OF COLORADO AND SUBSIDIARIES

	1979	1978
	(Thousands of Dollars)	
Retained Earnings at Beginning of Year	**$145,853**	$144,828
Net Income	**55,809**	57,701
	201,662	202,529
Dividends:		
On cumulative preferred stock:		
$100 par value:		
4.20% series	**420**	420
4¼% series	**744**	744
4½% series	**293**	293
4.64% series	**742**	742
4.90% series	**735**	735
4.90% 2nd series	**735**	735
7.15% series	**1,787**	1,787
7.50% series	**2,250**	2,250
8.40% series	**2,890**	2,890
$25 par value:		
8.40% series	**2,940**	2,940
	13,536	13,536
On common stock:		
$1.60 per share in 1979; $1.53 per share in 1978	**50,421**	41,172
	63,957	54,708
Expense of Issuing Stock	**1,391**	1,968
	65,348	56,676
Retained Earnings at End of Year	**$136,314**	$145,853

See accompanying notes.

Consolidated Statement of Source of Funds for Plant Construction Expenditures

Years ended December 31, 1979 and 1978

PUBLIC SERVICE COMPANY OF COLORADO AND SUBSIDIARIES

	1979	1978
	(Thousands of Dollars)	
Source of Funds:		
Funds from Operations:		
Net Income	**$ 55,809**	$ 57,701
Non-cash Charges (Credits) Against Income Not Involving Working Capital in the Current Period:		
Depreciation charged to operating expenses	**55,990**	49,541
Depreciation charged to clearing and other accounts	**5,105**	4,065
Allowance for funds used during construction	**(18,875)**	(16,662)
Investment credit — net of amortization	**20,213**	13,599
Deferred income taxes	**2,018**	8,178
Funds from Operations	**120,260**	116,422
Dividends:		
On preferred stock	**(13,536)**	(13,536)
On common stock	**(50,421)**	(41,172)
Funds Retained in the Business	**56,303**	61,714
Funds from Financing — Net Proceeds:		
Proceeds from sale of common stock	**48,012**	52,573
Proceeds from sale of first mortgage bonds	**—**	49,369
Proceeds from sale of pollution control bonds	**40,380**	1,390
Proceeds from issue of long-term notes	**16,353**	14,773
Funds from Financing	**104,745**	118,105
Funds from Settlement Agreement (Note 11)	**60,000**	—
Reduction in Long-Term Debt	**(2,246)**	(2,240)
Other Sources — Net	**18,327**	12,771
Total Funds Available	**237,129**	190,350
Decrease in Working Capital	**(64,802)**	(2,937)
Net Plant Construction Expenditures	**301,931**	193,287
Allowance for Funds Used During Construction	**18,875**	16,662
Gross Plant Construction Expenditures	**$320,806**	$209,949
Increase (Decrease) in Components of Working Capital:		
Current Assets:		
Cash	**$ (13,190)**	$ (7,751)
Temporary cash investments	**9,918**	(6,556)
Accounts and notes receivable	**33,919**	22,987
Fuel inventory	**6,918**	(1,667)
Materials and supplies	**16,014**	6,528
Other	**9,167**	7,375
	62,746	20,916
Current Liabilities:		
Notes payable	**40,004**	5,182
Long-term debt due within one year	**18**	(10,920)
Accounts payable	**63,641**	27,542
Accrued liabilities	**7,048**	3,016
Customers' refund	**10,817**	(12,834)
Other	**6,020**	11,867
	127,548	23,853
Decrease in Working Capital	**$ (64,802)**	$ (2,937)

See accompanying notes.

1. Summary of Significant Accounting Policies

Consolidation:
The Company follows the practice of consolidating the accounts of its significant subsidiaries.

Depreciation policy:
The Company and its subsidiaries, except Fuel Resources Development Co. (Fuelco) use straight-line depreciation for accounting purposes. Composite rates are used for the various classes of depreciable assets. Depreciation rates include provisions for disposal and removal costs of property, plant and equipment, including the nuclear plant. Total depreciation expense approximates an annual rate of 3.4% on the average cost of depreciable properties. Fuelco uses the unit-of-production depreciation method for accounting purposes. For income tax purposes, the Company and its subsidiaries use accelerated depreciation and other elections provided by the tax laws.

Replacements and betterments representing units of property are capitalized. Items that represent less than units of property are charged to operations as maintenance. The cost of units of property retired, together with cost of removal, less salvage, is charged in full against the accumulated provision for depreciation.

Amortization of nuclear fuel:
Under the Settlement Agreement with General Atomic Company (see Note 11), the Company received ownership of the reactor core and all fuel elements at the Fort St. Vrain Nuclear Generating Station as of January 1, 1979, and the General Atomic Company agreed to make available to the Company, at no charge (except certain possible incremental costs), nuclear fuel elements sufficient to operate the plant at 200 Mw at 60% capacity through December 31, 1984, or until 16,166,400 Mwh thermal are produced, or could have been produced, whichever is earlier. The nuclear fuel has been assigned a fair value and recorded on the balance sheet as property, plant and equipment, with a corresponding credit to miscellaneous deferred income. For income tax purposes, the nuclear fuel and spare parts have been treated as income. The assigned cost of nuclear fuel is amortized to fuel expense based on the quantity of heat produced for the generation of electric energy with a like amount credited to miscellaneous income. The Company's policy is to include in the cost of nuclear fuel a provision for spent fuel disposal costs. The Company expects that the reimbursement from the supplier of the nuclear fuel (see Note 11) is adequate to provide for the disposal costs of the fuel presently in use.

Deferred income taxes:
In an order dated November 1, 1977, The Public Utilities Commission of the State of Colorado (CPUC) allowed as an operating expense a provision for certain deferred income taxes resulting from the use of accelerated depreciation on property additions made on or after December 1, 1975. Effective December 1, 1977, the Company began providing for these deferred income taxes. Deferred taxes are not provided on other book-tax differences, except for differences in amortization relating to certain pollution control facilities, the nuclear fuel, and spare parts.

In an order dated November 14, 1978, the CPUC allowed Western Slope Gas Company to include as an operating expense the provision for deferred income taxes resulting from the use of accelerated depreciation on property additions made on or after April 1, 1977. Deferred taxes are not provided on other book-tax differences.

In accordance with an order dated June 13, 1969, from the Public Service Commission of Wyoming, Cheyenne Light, Fuel and Power Company provides for deferred federal income taxes on the difference between depreciation as computed for accounting purposes and tax purposes.

In December 1977, the Financial Accounting Standards Board issued Standard No. 19 which requires certain accounting changes, which are to be applied retroactively, including comprehensive income tax allocation by the deferred method for all exploration and development costs. Fuelco has generally followed the other provisions of the statement, which are effective for all financial statements for fiscal years ending after December 25, 1979. The consolidated financial statements for prior periods have not been restated because the effect of this accounting change is not material. Fuelco also provides for deferred income taxes on certain other book-tax differences.

Investment credit:
The investment credit provided by the Tax Reform Act of 1976, as well as investment credits provided by previous tax laws, is being deferred and amortized to income over the productive lives of the related property.

The Employee Stock Ownership Plan was established, effective January 1, 1976, to enable the Company to claim under the Tax Reduction Act of 1975 and the Tax Reform Act of 1976 an additional one percent investment credit on its consolidated federal tax return for contributions to a trustee for eligible employees. Contributions are made in cash or the Company's Common Stock and, if cash, are invested in the Company's Common Stock. The Plan also enables the Company to claim an additional one-half per-

cent investment credit to the extent of employee contributions which are to be matched by the Company. The Plan also permits limited additional contributions by employees.

Amortization of debt premium, discount and expense:
Debt premium, discount and expense is being amortized by charges to income over the respective original lives of the applicable issues.

Allowance for funds used during construction (AFDC):
AFDC, which does not represent current cash earnings, is defined in the system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the CPUC as the net cost during the period of construction of borrowed funds used for construction purposes, and a reasonable rate on funds derived from other sources. In accordance with such system of accounts, the Company capitalizes AFDC as a part of the cost of utility plant, with a credit to nonoperating income for the portion of AFDC attributable to equity funds and a reduction of interest charges for the portion of AFDC attributable to borrowed funds. The capitalization of AFDC results in the inclusion of AFDC in rate base and the recovery thereof through future billings to customers. In its November 1977 order, the CPUC directed that in the future, the Company is to capitalize AFDC at its authorized rate of return, but not to exceed the amount allowed by the formula prescribed by the FERC. Accordingly, the rates used by the Company in 1978 were 8.77% for the first eight months and 9.14% for the last four months. For the first eleven months of 1979, the rate used was 9.14% and for December 1979, the rate used was 9.53%. These rates represented the Company's authorized rates of return at that time and did not exceed the amount allowed by the formula prescribed by the FERC.

Revenues:
The Company reads customers' meters on a cycle basis, and renders bills each month. Revenues are recorded when the customers are billed.

2. Capital Stock

	1979		1978	
	SHARES	AMOUNT (Thousands of Dollars)	SHARES	AMOUNT (Thousands of Dollars)
Cumulative preferred stock, $100 par value:				
Authorized	**3,000,000**		3,000,000	
Issued and outstanding:				
Not subject to mandatory redemption:				
4.20% series	**100,000**	**$ 10,000**	100,000	$ 10,000
4¼ % series (includes $7,500 premium)	**175,000**	**17,508**	175,000	17,508
4½ % series	**65,000**	**6,500**	65,000	6,500
4.64% series	**160,000**	**16,000**	160,000	16,000
4.90% series	**150,000**	**15,000**	150,000	15,000
4.90% 2nd series	**150,000**	**15,000**	150,000	15,000
7.15% series	**250,000**	**25,000**	250,000	25,000
Total	**1,050,000**	**$105,008**	1,050,000	$105,008
Subject to mandatory redemption:				
7.50% series	**300,000**	**$ 30,000**	300,000	$ 30,000
8.40% series	**344,000**	**34,400**	344,000	34,400
Total	**644,000**	**$ 64,400**	644,000	$ 64,400
Cumulative preferred stock ($25), $25 par value:				
Authorized	**4,000,000**		4,000,000	
Issued and outstanding:				
Not subject to mandatory redemption:				
8.40% series	**1,400,000**	**$ 35,000**	1,400,000	$ 35,000
Common stock, $5 par value:				
Authorized	**40,000,000**		40,000,000	
Issued and outstanding	**32,326,418**	**$161,632**	29,250,344	$146,252
Premium on common stock		**257,358**		223,444
Installments received from employees on subscriptions aggregating $247,922 for 15,375 shares at December 31, 1979, and $814,832 for 50,382 shares at December 31, 1978		**118**		8
Total		**$419,108**		$369,704

Changes in common stock and premium on common stock for 1979 and 1978 are as follows:

	Price range per share	Common stock	Premium on common stock
		(Thousands of Dollars)	
Balance, January 1, 1978		$129,420	$185,744
206,345 shares sold under Dividend Reinvestment Plan	$16.13 to 18.25	1,032	2,443
105,845 shares sold under Employees Stock Ownership Plan	$16.66 to 17.61	529	1,252
13,901 shares sold to employees	$18.13	70	182
3,040,255 shares sold to the public and employees	$16.13	15,201	33,823
Balance, December 31, 1978		146,252	223,444
322,627 shares sold under Dividend Reinvestment Plan	$13.44 to 16.81	1,613	3,326
219,981 shares sold under Employees Stock Ownership Plan	$13.31 to 16.71	1,100	2,401
1,177 shares sold to employees	$18.13	6	15
32,289 shares sold to employees	$16.13	161	359
2,500,000 shares sold to the public	$16.13	12,500	27,813
Balance, December 31, 1979		$161,632	$257,358

The preferred stock may be redeemed at the option of the Company upon at least 30, but not more than 60 days' notice, in accordance with the following schedule of prices plus an amount equal to the accrued dividends to the date fixed for redemption:

$100 par value:
Not subject to mandatory redemption:
4.20% series: $101; 4¼% series: $101; 4½% series: $101; 4.64% series: $101; 4.90% series: $101; 4.90% 2nd series: $102 prior to March 1, 1981, and $101 on and after that date; 7.15% series: $105 prior to March 1, 1982, $102.50 thereafter but prior to March 1, 1987, and $101 on and after that date.

Subject to mandatory redemption:
7.50% series: $112 on or prior to August 31, 1983 (not callable under certain conditions prior to September 1, 1980), and $105 on or prior to August 31, 1984, and reducing each year thereafter by $.25 per share until August 31, 2003, after which the redemption price is $100; and 8.40% series: $112 on or prior to July 31, 1984 (not callable under certain conditions prior to July 31, 1981), and $105 on or prior to July 31, 1985, and reducing each year thereafter by $.25 per share until July 31, 2004, after which the redemption price is $100 (starting in 1984 and in each year thereafter, the Company will offer to repurchase up to 12,000 shares of the 7.50% Cumulative Preferred Stock at $100 per share, plus accrued dividends to the date set for repurchase; and starting in 1985 and in each year thereafter, the Company will offer to repurchase up to 13,760 shares of the 8.40% Cumulative Preferred Stock at $100 per share, plus accrued dividends to the date set for repurchase).

$25 par value:
Not subject to mandatory redemption:
8.40% series: $27.10 prior to December 1, 1981 (not callable under certain conditions prior to December 1, 1981), $26.50 thereafter but prior to December 1, 1986, $25.75 thereafter but prior to December 1, 1991, and $25.25 on or after that date.

3. Long-Term Debt

	1979	1978
	(Thousands of Dollars)	
Public Service Company of Colorado:		
First mortgage bonds:		
3¼% series, due October 1, 1981	**$ 15,000**	$ 15,000
3⅛% series, due October 1, 1984	**20,000**	20,000
4⅜% series, due May 1, 1987	**30,000**	30,000
4⅝% series, due May 1, 1989	**20,000**	20,000
4½% series, due October 1, 1991	**30,000**	30,000
4⅝% series, due March 1, 1992	**8,800**	8,800
4½% series, due June 1, 1994	**35,000**	35,000
5⅜% series, due May 1, 1996	**35,000**	35,000
5⅞% series, due July 1, 1997	**35,000**	35,000
6¾% series, due July 1, 1998	**25,000**	25,000
8¾% series, due September 1, 2000	**35,000**	35,000
7¼% series, due February 1, 2001	**40,000**	40,000
7½% series, due August 1, 2002	**50,000**	50,000
7⅝% series, due June 1, 2003	**50,000**	50,000
9⅜% series, due October 1, 2005	**49,500**	49,500
8¼% series, due November 1, 2007	**50,000**	50,000
9¼% series, due October 1, 2008	**50,000**	50,000
Pollution Control Series A:		
5⅞%, due March 1, 2004	**24,000**	24,000
Pollution Control Series B:		
6⅝%, due December 1, 1985	**10,500**	10,500
7⅛%, due December 1, 1990	**2,000**	2,000
7⅝%, due December 1, 1995	**2,500**	2,500
8%, due December 1, 2004	**35,000**	35,000
Less amounts held in construction fund	**(1,781)**	(3,419)
Pollution Control Series C:		
7¼%, due October 1, 2004	**15,000**	—
7⅜%, due October 1, 2005	**1,960**	—
7⅜%, due October 1, 2006	**2,105**	—
7⅜%, due October 1, 2007	**2,260**	—
7⅜%, due October 1, 2008	**2,425**	—
7⅜%, due October 1, 2009	**26,250**	—
Less amounts held in construction fund	**(10,199)**	—
Unamortized premium	**1,572**	1,675
Unamortized discount	**(656)**	(681)
	691,236	649,875
Cheyenne Light, Fuel and Power Company:		
First mortgage bonds:		
3¾% series, due May 1, 1985	**938**	960
5½% series, due April 1, 1990	**1,386**	1,402
7⅞% series, due April 1, 2003	**4,000**	4,000
Western Slope Gas Company:		
First mortgage pipeline bonds:		
5⅞% series, due May 1, 1980	**—**	57
Unsecured promissory notes:		
7¾%, due December 1, 1997	**20,000**	20,000
10.35%, due December 1, 1999	**10,000**	—
1480 Welton, Inc.:		
4¾% secured notes, payable in equal quarterly installments of $168,388 to June 1, 1992 covering principal and interest	**5,942**	6,322
6%-8% mortgage notes payable, due in annual installments through 1987	**112**	184

Long-Term Debt (continued)	1979	1978
	(Thousands of Dollars)	
Fuel Resources Development Co.:		
Unsecured note payable (effective interest rate 7¼%), due in annual principal installments of $1,066,016 through 1983	**3,198**	4,264
7½% unsecured note payable, due in annual principal installments of $500,000 through 1982	**1,000**	1,500
Unsecured notes payable, due in twelve equal quarterly principal installments beginning March 31, 1984, interest rate fluctuates with the prime rate (15¼% at December 31, 1979 and 11¾% at December 31, 1978)	**21,100**	14,700
Home Light and Power Company:		
First mortgage bonds:		
3¾% series, due August 1, 1982	**320**	328
4% series, due February 1, 1986	**393**	402
5½% series, due September 1, 1989	**350**	358
6% series, due April 1, 1997	**740**	751
7⅞% series, due December 1, 2002	**2,237**	2,275
10⅜% series, due January 1, 2003	**3,704**	3,762
	$766,656	$711,140

The 4¾% notes of 1480 Welton, Inc. are secured by a mortgage on land in downtown Denver and an assignment of the lease between 1480 Welton, Inc. and the Company under which the latter is the lessee of the office building located thereon.

The aggregate annual maturities and sinking fund requirements during the five years subsequent to December 31, 1979 are: $5,788,000 (1980), $20,638,000 (1981), $5,638,000 (1982), $5,638,000 (1983), and $25,438,000 (1984) for the Company; and $2,317,502 (1980), $2,245,776 (1981), $2,566,040 (1982), $1,746,067 (1983), and $9,035,003 (1984) for its subsidiaries. The Company may satisfy its sinking fund obligations through the application of property additions, and Cheyenne Light, Fuel and Power Company is satisfying $60,000 annually through the application of property additions.

4. Notes Payable

Information regarding notes payable for the years ended December 31, 1979 and 1978 is as follows:

	1979	1978
	(Thousands of Dollars)	
Notes payable to banks (weighted average interest rate 15.35% at December 31, 1979 and 11.11% at December 31, 1978)	**$ 7,236**	$ 7,182
Commercial paper (weighted average interest rate 13.46% at December 31, 1979 and 10.38% at December 31, 1978)	**54,950**	15,000
	$62,186	$22,182
Maximum amount outstanding at any month-end during the period	**$70,908**	$64,022
Weighted average amount (based on the daily outstanding balance) outstanding for the period (weighted average interest rate 11.85% for the year ended December 31, 1979 and 8.72% for the year ended December 31, 1978)	**$29,937**	$23,707

5. Bank Lines of Credit, Compensating Bank Balances and Bankers' Acceptance Facilities

Arrangements for bank lines of credit totaled $135,262,000 at December 31, 1979 and $135,143,250 at December 31, 1978. These lines consisted of $51,762,000 at December

31, 1979 and $64,643,250 at December 31, 1978, maintained by compensating balances and $75,000,000 at December 31, 1979 and $70,500,000 at December 31, 1978, maintained by fee payments in lieu of balances. At December 31, 1979, noninterest bearing certificates of deposit in the amount of $715,000 were maintained in support of $8,500,000 of bank lines of credit. They may be withdrawn each year at the time that the lines of credit which they support are eligible for renewal. The compensating bank balance arrangements provide that the Company maintain average compensating balances in the amount of $5,176,200 for the period ending December 31, 1979 and $6,464,325 for the period ending December 31, 1978, and do not legally restrict the right of the Company to withdraw these compensating cash balances. These bank lines of credit are also used to support the Company's issuance of commercial paper. Arrangements for Bankers' Acceptance facilities amounting to $20,000,000 were available at December 31, 1979 and December 31, 1978. These arrangements are not supported by either fees or compensating balances.

6. Commitments and Contingencies

Commitments made by the Company for the purchase of various items of plant and equipment aggregated approximately $168,000,000 at December 31, 1979 and $245,000,000 at December 31, 1978.

The aggregate estimated annual commitments as of December 31, 1979 under long-term leases are as follows:

Year	Commitments (Thousands of Dollars)
1980	$1,636
1981	1,422
1982	1,318
1983	1,197
1984	1,063
1985-1989	5,170
1990-1994	4,579
1995-1999	259

The Company has entered into various leases for transportation equipment and miscellaneous office equipment which would be classified as capital leases as defined by the Securities and Exchange Commission and the Financial Accounting Standards Board in Standard No. 13, Accounting for Leases. The Company has been advised by The Public Utilities Commission of the State of Colorado that it has not adopted Financial Accounting Standard No. 13 and it has instructed the Company to continue to adhere to the existing Uniform System of Accounts. Had these leases been capitalized, the balance sheet at December 31, 1979 and 1978 would include in property, plant and equipment $470,000 and $1,291,000, respectively, representing capitalized leases with an accumulated amortization of $157,000 at December 31, 1979 and $928,000 at December 31, 1978. Long-term debt would include noncurrent obligations under capital leases of $78,000 at December 31, 1979 and $106,000 at December 31, 1978, and current liabilities would include current obligations under capital leases of $125,000 and $141,000, respectively. The charges to the income statement representing total lease payments recorded as rent expense exceeded by $77,000 at December 31, 1979 and $93,000 at December 31, 1978, the amount that would have been charged as amortization and interest expense had these leases been capitalized.

The Internal Revenue Service has under examination the Federal income tax returns of the Company and certain of its subsidiaries for 1973, 1974, 1975, 1976, 1977 and 1978. The examiners have proposed to include in income Fort St. Vrain Nuclear Generating Station contract refunds applied to plant costs. The Company is resisting the proposal and believes that the final outcome of these matters will not have a material effect on the reported financial position or results of operations of the Company.

7. Retirement Plan

Contributions to a trusteed fund under the noncontributory retirement plan covering all eligible employees were $11,762,000 in 1979 and $10,856,000 in 1978. The Company's policy is to fund pension cost accrued. The total market value of the pension fund at the end of its fiscal year, June 30, 1979, was $97,874,000. The actuarially computed value of the vested benefits at June 30, 1979 under the plan was $87,392,000. An evaluation of the vested benefits as of December 31, 1979 was not made. However, the market value of the pension fund at that date was approximately $105,142,000.

Effective December 1, 1978, the Company's Board of Directors authorized a supplemental payment to retired employees and surviving beneficiaries for employees who retired prior to January 1, 1977. These payments, approximately $529,000 in 1979 and $46,000 in 1978, which do not constitute an employee pension benefit plan, are subject to approval annually, and are made from the general assets of the Company.

8. Income Tax Expense

Total income tax expense was less than the amount computed by applying the federal statutory rate to pre-tax accounting income. The reasons for this difference are as follows:

	1979	1978
	(Thousands of Dollars)	
Tax computed at statutory rate on pre-tax accounting income	**$38,012**	$39,985
Increase (decrease) in tax from:		
Excess of tax over book depreciation	**736**	(4,696)
Allowance for funds used during construction	**(6,682)**	(7,998)
Amortization of investment credit	**(2,714)**	(2,046)
State income taxes, net of federal income tax benefit	**1,209**	1,136
Other – net	**(1,735)**	(780)
Total income tax expense	**$26,826**	$25,601
Income tax expense consists of the following:		
Current income taxes:		
Federal	**$ 2,412**	$ 1,639
State	**2,183**	2,185
	4,595	3,824
Deferred income taxes:		
Nuclear fuel and spare parts	**(5,042)**	–
Accelerated amortization	**237**	683
Accelerated depreciation	**7,576**	4,988
Intangible drilling costs	**3,221**	2,469
Gain on installment sale	**(11)**	38
Lease and well impairments	**(3,963)**	–
	2,018	8,178
Charge equivalent to reduction in income taxes due to deferred investment tax credit, net of amortization	**20,213**	13,599
Total income tax expense	**$26,826**	$25,601

9. Taxes (Other Than Income Taxes)

	1979	1978
	(Thousands of Dollars)	
Real estate and personal property taxes	**$25,643**	$24,410
Franchise taxes	**1,204**	1,719
Social security taxes	**7,301**	6,003
City and state use taxes	**4,354**	3,202
Miscellaneous taxes	**1,641**	1,754
	$40,143	$37,088
Charged:		
Directly to income:		
Operating expenses	**$38,033**	$35,424
Other	**118**	63
To property, plant and equipment and various clearing accounts	**1,992**	1,601
	$40,143	$37,088

10. Segments of Business

Segment information for the year ended December 31, 1979 is as follows:

	Electric	Gas	Other	Total
		(Thousands of Dollars)		
Operating revenues	$ 507,587	$410,537	$ 8,386	$ 926,510
Operating expenses, excluding depreciation	366,330	373,726	13,894	753,950
Depreciation	42,906	11,835	1,249	55,990
Total operating expenses	409,236	385,561	15,143	809,940
Operating income (loss)*	$ 98,351	$ 24,976	$ (6,757)	$ 116,570
Plant construction expenditures**	$ 279,037	$ 35,334	$ 6,435	$ 320,806
Identifiable assets, December 31, 1979:				
Utility plant**	$1,419,396	$268,707	$44,380	$1,732,483
Materials and supplies, excluding $375 of merchandise for resale	$ 37,595	$ 7,050	$ 479	45,124
Fuel inventory	$ 39,993	$ —	$ 217	40,210
Gas in underground storage	$ —	$ 1,944	$ —	1,944
Other corporate assets				191,503
				$2,011,264

Segment information for the year ended December 31, 1978 is as follows:

	Electric	Gas	Other	Total
		(Thousands of Dollars)		
Operating revenues	$ 421,732	$303,300	$ 4,746	$ 729,778
Operating expenses, excluding depreciation	272,246	280,035	9,092	561,373
Depreciation	37,708	10,894	939	49,541
Total operating expenses	309,954	290,929	10,031	610,914
Operating income (loss)*	$ 111,778	$ 12,371	$ (5,285)	$ 118,864
Plant construction expenditures**	$ 170,792	$ 26,970	$12,187	$ 209,949
Identifiable assets, December 31, 1978:				
Utility plant**	$1,239,659	$245,175	$52,516	$1,537,350
Materials and supplies, excluding $433 of merchandise for resale	$ 22,394	$ 4,779	$ 1,879	29,052
Fuel inventory	$ 33,232	$ —	$ 60	33,292
Gas in underground storage	$ —	$ 1,885	$ —	1,885
Other corporate assets				144,098
				$1,745,677

*Before income taxes and interest expense
**Includes allocation of common utility property

11. Fort St. Vrain Settlement

On June 27, 1979, the Company and the prime contractor for the Fort St. Vrain Nuclear Generating Station, General Atomic Company (GAC), which is an equal partnership of Scallop Nuclear Inc. (a company of the Royal Dutch Shell Group) and Gulf Oil Corporation entered into a Settlement Agreement, a Services Agreement and a Fuel and Fabrication Agreement satisfying and settling all contracts and claims between the Company and GAC relative to Fort St. Vrain. The terms of these Agreements include the following: (a) GAC paid to the Company, upon execution of the Settlement Agreement, $60,000,000 as an adjustment of the plant cost for the reduction in the plant's capacity from 330 Mw at 80% capacity factor to 200 Mw at 60% capacity factor; however, GAC made no warranty as to the capacity of the plant; (b) GAC will contribute to the Company, be-

tween 1980 and 1984, $97,050,427 for the cost of replacing the 130 Mw reduction in capacity at Fort St. Vrain with future electric generating facilities and $8,068,791 reimbursement for shipment, storage, handling and disposal of spent nuclear fuel for which the Company will bear the responsibility and the cost; (c) ownership of the reactor core and all fuel elements at the plant was transferred to the Company by GAC as of January 1, 1979, and GAC will make available to the Company, at no charge (except certain possible incremental costs), nuclear fuel elements sufficient to operate the plant at 200 Mw at 60% capacity through December 31, 1984, or until 16,166,400 Mwh thermal are produced, or could have been produced, whichever is earlier; (d) through 1992, GAC will provide or arrange to provide fuel fabrication services to the Company, and the Company will reimburse GAC for GAC's cost, for the manufacture of additional fuel elements for use at Fort St. Vrain as the Company, at its own discretion, may schedule; (e) GAC transferred ownership of spare parts and equipment for the plant, effective January 1, 1979; (f) GAC will fund, up to $5,000,000, the study and resolution of certain plant performance problems; (g) GAC will fund, up to $10,000,000, work related to certain open work items, documentation and seismic studies; (h) upon execution of the Settlement Agreement but effective as of January 1, 1979, the Company received title to the Fort Lupton Gas Turbine Units; and (i) upon execution of the Settlement Agreement but effective as of January 1, 1979, the Company accepted Fort St. Vrain for commercial operation.

12. Effects of Changing Prices (Unaudited)

The following supplementary information is supplied in accordance with the requirements of the Statement of Financial Accounting Standards No. 33 for the purpose of providing certain information about the effects of general inflation and changes in specific prices on the Company. It should be viewed as an estimate rather than as a precise measure.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers. Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less than prices in general.

The current cost of property, plant, and equipment, which includes land, land rights, intangible plant, property held for future use, and construction work in progress, represents the estimated cost of replacing existing plant assets and was primarily determined by indexing surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. The current year's provision for depreciation on the constant dollar and current cost amounts of property, plant, and equipment was determined by applying the Company's depreciation rates to the indexed amounts.

Fuel inventories, the cost of fuel used in generation, and gas purchased for resale have not been restated from their historical cost in nominal dollars. Regulation limits the recovery of fuel and purchased gas costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason fuel inventories are effectively monetary assets.

As prescribed in Financial Accounting Standard No. 33, income taxes were not adjusted.

Under the rate-making prescribed by the regulatory commissions to which the Company is subject, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the portion of the cost of plant stated in terms of constant dollars or current cost that exceeds the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as the reduction to net recoverable amount. While the rate-making process gives no recognition to the current cost of replacing property, plant, and equipment, based on past practices the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Statement of Income from Continuing Operations, the reduction of net property, plant, and equipment should be offset by the gain from the decline in purchasing power of net amounts owed. In calculating this gain, preferred stock has been classified as a monetary item, which is consistent with its treatment for rate-making purposes. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily atttributable to the substantial amount of debt and preferred stock which has been used to finance property, plant, and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain and is limited to recovery of only the embedded cost of long-term debt and preferred stock.

Statement of Income from Continuing Operations Adjusted for Changing Prices for the Year Ended December 31, 1979

	(Thousands of Dollars)		
	Conventional historical cost	Constant dollar average 1979 dollars	Current cost average 1979 dollars
Operating revenues	$926,510	$ 926,510	$ 926,510
Fuel used in generation expense	176,413	176,413	176,413
Gas purchased for resale expense	310,129	310,129	310,129
Depreciation expense	55,990	98,138	145,779
Other operating and maintenance expense	267,408	267,408	267,408
Income tax expense	26,826	26,826	26,826
Interest expense	47,097	47,097	47,097
Other income and deductions — net	(13,162)	(13,162)	(13,162)
	870,701	912,849	960,490
Income (loss) from continuing operations (excluding reduction to net recoverable amount)	$ 55,809	$ 13,661*	$ (33,980)
Increase in specific prices (current cost) of property, plant and equipment held during the year**			$549,910
Reduction to net recoverable amount		$(164,766)	(265,529)
Effect of increase in general price level			(401,506)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable amount			(117,125)
Gain from decline in purchasing power of net amounts owed		130,096	130,096
Net		$ (34,670)	$ 12,971

*Including the reduction to net recoverable amount, the income (loss) from continuing operations on a constant dollar basis would have been $(151,105) for 1979.

**At December 31, 1979, current cost of property, plant and equipment, net of accumulated depreciation was $3,517,862, while historical cost or net cost recoverable through depreciation was $1,732,483.

Five Year Comparison of Selected Financial Data Adjusted for Effects of Changing Prices (In Average 1979 Dollars)

	(Thousands, Except Per Share Amounts)				
	Years ended December 31,				
	1979	**1978**	**1977**	**1976**	**1975**
Operating revenues	**$926,510**	$812,317	$734,945	$666,091	$620,902
Historical cost information adjusted for general inflation					
Income from continuing operations (excluding reduction to net recoverable amount)	**13,661**				
Income per common share (after dividend requirements on preferred stock and excluding reduction to net recoverable amount)	**.01**				
Net assets at year-end at net recoverable amount	**524,552**				
Current cost information					
Income (loss) from continuing operations (excluding reduction to net recoverable amount)	**(33,980)**				
Income (loss) per common share (after dividend requirements on preferred stock)	**(1.52)**				
Excess of increase in general price level over increase in specific prices after reduction to net recoverable amount	**117,125**				
Net assets at year-end at net recoverable amount	**524,552**				
General information (Average 1979 Dollars)					
Gain from decline in purchasing power of net amounts owed	**130,096**				
Cash dividends declared per common share	**1.60**	1.70	1.75	1.76	1.65
Market price per common share at year-end	**12.63**	17.96	22.06	23.71	20.93
Average consumer price index	**217.5**	195.4	181.5	170.5	161.2

13. Quarterly Financial Data (Unaudited)

Summarized quarterly data (in thousands of dollars except for per share amounts) for 1979 and 1978 is as follows:

	1979			
	Three months ended			
	March 31,	June 30,	September 30,	December 31,
Operating revenues	$274,782	$209,470	$181,709	$260,549
Operating income	$ 30,656	$ 22,023	$ 13,319	$ 23,746
Net income	$ 21,501	$ 12,463	$ 6,428	$ 15,417
Earnings available for common stock	$ 18,117	$ 9,079	$ 3,044	$ 12,033
Average common shares outstanding (thousands)	29,298	31,188	32,138	32,276
Earnings per average common share*	$0.62	$0.29	$0.09	$0.37

*Due to rounding, quarterly figures do not add to annual total.

	1978			
	Three months ended			
	March 31,	June 30,	September 30,	December 31,
Operating revenues	$217,036	$162,195	$146,549	$203,998
Operating income	$ 28,231	$ 20,400	$ 20,121	$ 24,511
Net income	$ 19,189	$ 11,892	$ 11,095	$ 15,525
Earnings available for common stock	$ 15,805	$ 8,508	$ 7,711	$ 12,141
Average common shares outstanding (thousands)	25,917	26,054	26,116	28,200
Earnings per average common share	$0.61	$0.33	$0.29	$0.43

Shareholder Information

Stock Information

Public Service Company of Colorado Common stock ($5 par value) is listed for trading on the New York and Midwest Stock Exchanges under the symbol "PSR". It is quoted as "PSvCol" in daily newspaper stock table listings. There were 9,587,300 common shares traded during 1979, an average daily volume of 37,894 shares. In 1978, 5,683,600 common shares were traded, an average daily volume of 22,554 shares. On December 31, 1979, the Company had 63,094 common shareholders and 6,529 preferred stockholders. This compares with 54,867 common shareholders and 6,802 preferred stockholders on December 31, 1978. The total number of common shares outstanding was 32,326,418 on December 31, 1979 compared with 29,250,344 at year end 1978.

Three series of Cumulative preferred stock are actively traded. The 4¼% series ($100 par value) is traded under unlisted trading privileges on the American Stock Exchange. The 7.15% series ($100 par value) and 8.40% series ($25 par value) are listed on the New York Stock Exchange. All other series of cumulative preferred stock are not actively traded, and market prices are not published.

The accompanying tables show the ranges of closing stock prices and dividends paid on the common and preferred issues by quarter for 1979 and 1978.

Common Stock

	QUARTER	4th	3rd	2nd	1st
1979	**High**	**$15¼**	**$16½**	**$17⅛**	**$17⅜**
	Low	**12⅞**	**15⅛**	**15¼**	**16⅛**
	Dividends Paid	**.40**	**.40**	**.40**	**.40**
1978	High	$18½	$18⅜	$17½	$18⅞
	Low	16	16⅜	15⅞	16⅛
	Dividends Paid	.40	.36½	.36½	.36½

Cumulative Preferred Stock

	QUARTER	4th	3rd	2nd	1st
4¼% Series					
1979	**High**	**$41¼**	**$44½**	**$43¾**	**$47½**
	Low	**34**	**40**	**40½**	**42½**
1978	High	$48	$47	$48	$49½
	Low	44⅛	44¾	45	46¾
7.15% Series					
1979	**High**	**$74**	**$79½**	**$78½**	**$76¼**
	Low	**63½**	**74**	**69**	**71**
1978	High	$82⅞	$83½	$82½	$84⅝
	Low	74½	75¾	76	80½
8.40% Series					
1979	**High**	**$21⅜**	**$22¾**	**$22½**	**$23½**
	Low	**18**	**21⅜**	**20⅞**	**21⅝**
1978	High	$24⅜	$24⅝	$24¾	$25
	Low	21⅞	22⅞	22⅝	23⅝

Automatic Dividend Reinvestment Plan

The Company's Automatic Dividend Reinvestment and Common Stock Purchase Plan provides preferred and common shareholders with an economical and convenient method for purchasing additional shares of the Common Stock of the Company without the payment of a brokerage commission or service charge. Two new features were added to the Plan beginning with the February 1, 1980 Investment Date.

The price of the Common Stock purchased with reinvested cash dividends will be 95 percent of the average of the high and the low sale prices of such stock as reported on the consolidated tape on each Investment Date. In addition, a second new feature allows preferred and common shareholders whose shares are registered in names other than in their own to participate in the Plan provided the broker or fiduciary who holds such stock in nominee name is willing to participate in the Plan.

Participants in the Plan can also make stock purchases for cash in amounts of not less than $10 nor more than $5,000 per month. The price to be paid for each share of such stock purchased with optional cash payments will be 100 percent of the purchase price on each Investment Date.

An additional 2,807 shareholders joined the Plan during 1979, increasing participation to 14,722 or 23% of all our common shareholders. A total of $4,938,769 in reinvested dividends and optional cash payments were applied to purchase 322,627 new shares, at an average cost of $15.31 per share.

A prospectus describing the Plan and enrollment information is available from the Shareholder Services Department by writing or by calling Area Code 303/571-7514.

Transfer Agents and Registrars for All Issues of Capital Stock

Principal Transfer Agent, Registrar, Dividend Paying Agent
Morgan Guaranty Trust Company of New York
New York, New York

Co-Transfer Agents
United Bank of Denver National Association
Denver, Colorado
Bank of America National Trust and Savings Association
San Francisco, California

Co-Registrars
United Bank of Denver National Association
Denver, Colorado
Wells Fargo Bank, National Association
San Francisco, California

Dividend Reinvestment Plan Agent
Morgan Guaranty Trust Company of New York
New York, New York

Officers and Directors

BOARD OF DIRECTORS

ROBERT T. PERSON, Denver, Colorado (1957)
Chairman of the Board

RICHARD F. WALKER, Denver, Colorado (1976)
President and
Chief Executive Officer of the Company

WILLIAM T. BLACKBURN, Denver, Colorado (1965)
Resident Partner, Vaughey, Vaughey
& Blackburn (Independent Oil Producers)

DORIS M. DRURY, PhD, Denver, Colorado (1975)
University of Denver
Professor of Economics and Director,
Public Affairs Programs

A. L. FELDMAN, Los Angeles, California (1977)
President and Chief Executive Officer
Continental Airlines

FRANK S. HOAG, JR., Pueblo, Colorado (1972)
President, Star-Journal Publishing Corp.
(Publisher of the Pueblo Star-Journal and
Pueblo Chieftain newspapers)

ROBERT E. KELLY, Denver, Colorado (1978)
Vice President
Fuel Supply and Gas Operations

JOHN N. KERR, Denver, Colorado (1971)
Senior Vice President of the Company

GEORGE B. McKINLEY, Grand Junction, Colo. (1976)
Chairman of the Board and
Chief Executive Officer
First National Banks in Aspen, Craig,
Glenwood Springs, Grand Junction and
Grand Junction-North

JOHN A. McKINNEY, Denver, Colorado (1979)
Chairman and Chief Executive Officer
Johns-Manville Corp.

C. KEITH MILLEN, Denver, Colorado (1969)
Senior Vice President of the Company

BRYANT O'DONNELL, Denver, Colorado (1972)
Executive Vice President and
General Counsel of the Company

NICHOLAS R. PETRY, Denver, Colorado (1961)
President, Petry-Vappi Construction Co.
Managing Partner of
N. G. Petry Construction Co.

J. MICHAEL POWERS, Cheyenne, Wyoming (1978)
President, Powers Builders' Supply

KING D. SHWAYDER, Denver, Colorado (1967)
Chairman of the Board, Samsonite Corp.,
subsidiary of Beatrice Foods Company

( ) Year elected to the Board of Directors

EXECUTIVE COMMITTEE

Robert T. Person
Richard F. Walker
William T. Blackburn
George B. McKinley
Nicholas R. Petry
King D. Shwayder

AUDIT COMMITTEE

Doris M. Drury
Frank S. Hoag, Jr.
King D. Shwayder

EXECUTIVE OFFICERS

ROBERT T. PERSON (44)
Chairman of the Board

RICHARD F. WALKER (31)
President and Chief Executive Officer

BRYANT O'DONNELL (30)
Executive Vice President
and General Counsel

JOHN N. KERR (44)
Senior Vice President
General Administration

C. KEITH MILLEN (34)
Senior Vice President
Operations

HARVEY P. BLICHMANN (30)
Vice President
Strategic Planning and
Administrative Services

JAMES N. BUMPUS (16)
Vice President
Finance and Treasurer

CLARK B. EWALD (20)
Vice President
Employee Relations

J. KENNETH FULLER (32)
Vice President
Electric Engineering
and Planning

DELWIN D. HOCK (17)
Vice President
Accounting and Secretary

ROBERT E. KELLY (33)
Vice President
Fuel Supply and Gas Operations

OSCAR R. LEE (29)
Vice President
Electric Production

ROBERT T. PERSON, JR. (8)
Vice President
Public Affairs

JAMES H. RANNIGER (21)
Vice President
Rates and Regulations

JACK W. ROUSE (34)
Vice President
Division Administration

( ) Denotes years of service with the Company

OTHER OFFICERS

DAN McNELLIS (27)
Assistant Vice President
Governmental Affairs

RICHARD R. MIDWINTER (30)
Controller and Assistant Secretary

ROBERT C. BRYAN (11)
Assistant Secretary and Assistant Treasurer

F. WILLIAM BEIER (40)
Assistant Secretary

WILLIAM R. GARDINER (40)
Assistant Secretary

HENRY J. JOHNSON (40)
Assistant Secretary

IRA R. ADLER (6)
Assistant Treasurer

LEO L. BEEM (32)
Assistant Treasurer

WANDA GRUDE (6)
Assistant Treasurer

RICHARD L. HUNT (13)
Assistant Treasurer

DOUGLAS S. ROBERTSON (1)
Assistant Treasurer

( ) Denotes years of service with the Company.

MANAGERS, GEOGRAPHIC DIVISIONS

ROBERT J. COTTLE (31)
Northeast Metropolitan

ROBERT J. FAIRCHILD (40)
Front Range

RONALD L. FRENCH (27)
Pueblo
Manager, Southern Region

FRANK O. HELLWIG (29)
Southeast Metropolitan

ROSS C. KING (14)
High Plains

DOUGLAS C. LOCKHART (15)
Mountain

ROBERT E. MONINGER (32)
Northern

M. GORDON PARKER (31)
Denver Metropolitan

WALLACE K. REED (33)
Boulder
Manager, Foothills Region

HAROLD L. RUST (24)
Platte Valley

LOUIS W. SUPANCIC (28)
Southwest Metropolitan

N. JAMES TEMPLE, JR. (33)
Western
Manager, Western Region

ROBERT J. VIDICK (24)
Northwest Metropolitan

JAMES R. WEXELS (14)
San Luis Valley

MANAGERS, SUBSIDIARY COMPANIES

MICHAEL J. GEILE (15)
Vice President and General Manager
Home Light & Power Company

JOHN M. HASSOLDT (29)
Vice President and General Manager
Western Slope Gas Company

JAMES L. HIGDAY (18)
President and General Manager
Cheyenne Light, Fuel and Power Company
Manager, Northern Region

ROBERT F. JONAS (32)
Vice President and General Manager
Fuel Resources Development Co.

( ) Denotes years of service with the Company.

LEGAL COUNSEL

Kelly, Stansfield & O'Donnell
Denver, Colorado

AUDITORS

Arthur Young & Company
Security Life Building
Denver, Colorado

EXECUTIVE APPOINTMENTS

The following executive appointments were made during 1979. Elected Vice Presidents were: Clark B. Ewald, Employee Relations; Oscar R. Lee, Electric Production; Robert T. Person, Jr., Public Affairs; and James H. Ranniger, Rates and Regulations. Named Assistant Vice President was Dan R. McNellis, Governmental Affairs. Robert T. Person retired as an employee of the Company but continues as Chairman of the Board.

PUBLIC SERVICE
COMPANY OF COLORADO
P.O. Box 840
Denver, Colorado 80201
(303) 571-7511

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