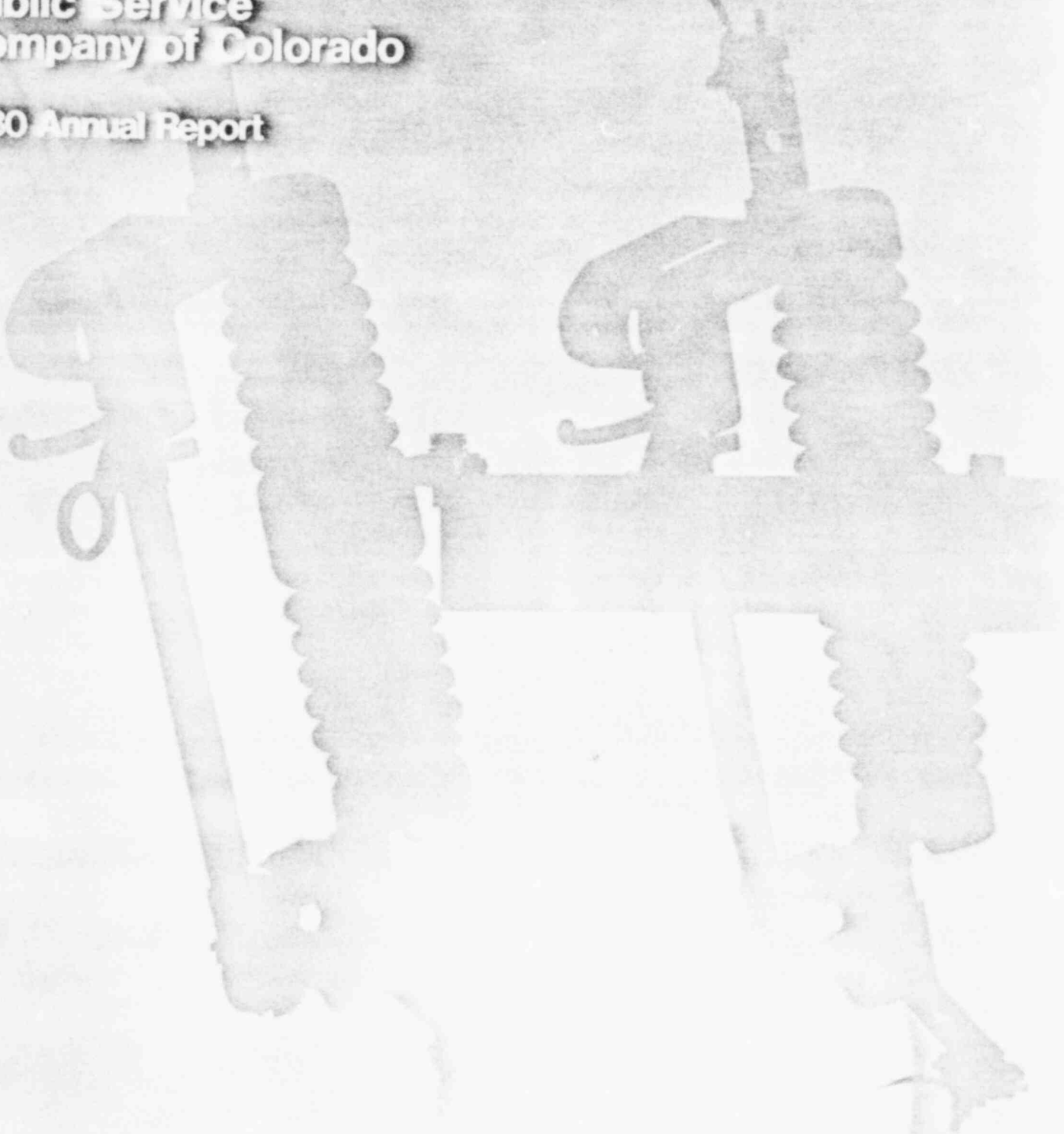
Public Service Company of Colorado

1980 Annual Report



Contents

The 1980 Annual Report is designed to inform you about the Company in an easy-to-find, easy-to-read manner. The Year in Review section on Page 2 highlights the important events and trends of 1980. Detailed information about those and other important developments are categorized by subheads in the appropriate sections. The Management Commentary on Page 4 presents a candid overview of the state of the Company. The Corporate Outlook on Page 20 briefly discusses how management views the current year and a few years beyond.

The Cover: The photo symbolizes the rising demand for energy placed on Public Service Company as Colorado embarks on the dawn of a dynamic new decade.

Design Unit 1

Annual Meeting
The Annual Meeting of Shareholders will be held April 15, 1981 at 2 p.m. (MST) in Phipps Auditorium, at the Denver Museum of Natural History, 2001 Colorado Blvd., Denver, Colorado. Notices of the Annual Meeting, proxy statements and forms are mailed approximately 30 days prior to the Annual Meeting. Management sincerely hopes that all shareholders who can do so will attend.

A copy of Public Service Company's 1980 annual report to the U.S. Securities and Exchange Commission on Form 10K and the 1970-1980 Financial and Statistical Review are available without charge upon request to Shareholder Services, Room 1048, P.O. Box 840, Denver, Colorado 80201.

Tribute to Employees
Management acknowledges the commendable performance throughout the year of the 6,000 men and women who are Public Service Company. Their cooperation as we imposed stringent cost-cutting policies and other economy measures was essential to the restoration of a strong financial position. We feel that shareholders should be aware of these efforts, and we express sincere appreciation.

Public Service Company: A Regulated Utility

Public Service Company of Colorado is an investor-owned electric, natural gas and steam utility. It is the largest energy utility in Colorado with a system electric generating capability of approximately 2,600 megawatts and daily natural gas availability of 1.425 billion cubic feet. The Company provides steam service to downtown Denver.

Public Service Company includes four operating subsidiaries. Cheyenne Light, Fuel and Power Co. provides electric and natural gas service to customers in the Cheyenne, Wyoming area. Home Light and Power Co. serves electricity to residential and business customers in the Greeley, Colorado area. Western Slope Gas Co., operating entirely in Colorado, is engaged in the transmission and wholesale supply of natural gas. Fuel Resources Development Co., which is not a utility and, therefore, not subject to regulation, is involved in the exploration, development and production of oil and natural gas primarily in the Rocky Mountain region.

In 1980, Public Service Company's service territory embraced 820,500 electric customers and 680,600 natural gas customers. Approximately 70 percent of these customers are concentrated in metropolitan Denver, and the rest are located in hundreds of incorporated and unincorporated communities throughout Colorado and southern Wyoming.

The Company operates as a regulated utility. It has the right to provide service in specified areas subject to the jurisdiction of state and federal regulating bodies. Public Service Company, Western Slope Gas and Home Light and Power are regulated by The Public Utilities Commission of the State of Colorado (CPUC). Cheyenne Light, Fuel and Power Company is regulated by the Public Service Commission of Wyoming. Public Service Company's wholesale electric operations are subject to regulation by the Federal Energy Regulatory Commission.

Year in Review

Earnings Rebound

Public Service Company's earnings per share, which fell 25 cents below the $1.60 annual dividend rate during 1979, rebounded to $1.92 per share in 1980. The impetus for this turnaround came from rate increases in November 1979 and in May 1980 and, to some extent, from regulatory revisions in fuel recovery and other revenue policies, cutbacks in capital spending and a stringent corporate cost-cutting effort.

Unprecedented Emergency Relief

Management took unprecedented action early in 1980 to deal with the Company's eroding financial condition by filing for emergency rate relief. An increase was essential if the Company was to continue construction of the Pawnee Electric Generating Station near Brush, Colorado. The CPUC granted $57.4 million of the $67 million requested.

(See Regulation, Page 16)

Additional Rate Increase

Late in the year, the Company was granted an additional $28.3 million rate increase effective January 4, 1981. The combined amounts allowed represent 48 percent of the total $177.5 million requested. The CPUC increased the return on common equity to 15.45 percent, allowed the Company to continue to include 40 percent of the construction costs for Pawnee in the rate base but denied the request to include the full cost. The CPUC also turned down a one percent rate-of-return attrition allowance. Significantly, the CPUC allowed the Company to base its request on cost data using the last six months of 1979 and the first six months of 1980.

(See Regulation, Page 16)

Financial	1980	1979	% Change
Earnings Per Average Share of Common Stock	**$1.92**	$1.35	42.2
Dividends Paid Per Common Share	**$1.60**	$1.60	—
Shares of Common Stock (000):			
Average	**36,412**	31,225	16.6
Year-End	**39,990**	32,326	23.7
Total Operating Revenues (000)	**$1,155,644**	$ 926,510	24.7
Total Operating Expenses (000)	**$1,033,316**	$ 836,766	23.5
Net Income (000)	**$ 85,027**	$ 55,809	52.4
Gross Utility Plant Investment (000)	**$2,516,433**	$2,270,283	10.8
Gross Plant Construction Expenditures (000)	**$ 262,604**	$ 320,806	(18.1)
Operations			
Electric Operating Revenues (000)	**$ 640,749**	$ 507,587	26.2
Electric Kilowatt-Hour Sales (millions)	**15,194**	14,659	3.6
Total Electric Customers	**820,512**	794,533	3.3
Gas Operating Revenues (000)	**$ 502,919**	$ 410,537	22.5
Gas MCF Sales (thousands)	**203,262**	213,274	(4.7)
Total Gas Customers	**680,615**	658,219	3.4

Financing Totals $211 Million
During 1980, Public Service Company sold two issues of common stock, one issue of preferred stock and two issues of debt securities. Financing totaled $211 million. Proceeds were used for construction programs and the reduction of short-term debt.

(See Financing, Page 18)

Adjustments Spur Revenue Flow
The Company received CPUC approval to implement in September an Electric Cost Adjustment (ECA) in place of the Fuel Cost Adjustment (FCA) and Firm Purchased Power Adjustment (FPPA). The ECA enables the Company to recover fuel costs and purchased power costs more efficiently, and include costs for transportation of fuel. Since the ECA became effective, it has added about $3.3 million of revenues in the last three months of 1980.

(See Regulation, Page 16)

Natural Gas Deregulation
Deregulation of natural gas prices charged by the producers has improved considerably the supply situation for Public Service Company customers. Customer rates reflect these higher production costs, but natural gas rates are now only beginning to reach the levels charged for other energy fuels.

(See Natural Gas Service, Page 11)

Purchased Power Hits A New High
The Company purchased record amounts of power from other utilities during 1980 to meet periods of peak customer demand and maintain reasonable margins of service reliability. The Company expects to continue to purchase power from neighboring utilities to offset the deficiency in its own system generating capacity caused by construction delays.

(See Electric Service, Page 7)

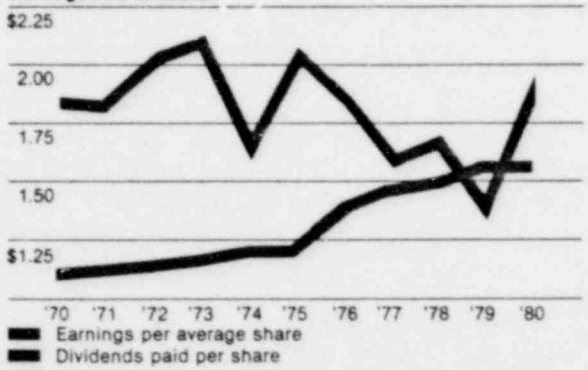
Construction Setbacks
The Company delayed the in-service date of Pawnee to late 1981 because of cutbacks in construction funds necessitated by its weakened financial position, labor difficulties and inclement weather early in 1980. At year end, the plant was approximately 85 percent complete.

(See Electric Service, Page 7)

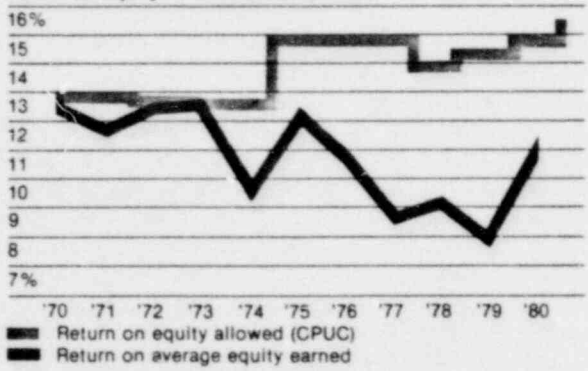
Labor Union Settlements
On July 14, 1980, an arbitration board awarded a 12 percent wage increase to Public Service Company employees belonging to the International Brotherhood of Electrical Workers (IBEW). The increase was retroactive to November 26, 1979, the date the contract expired.

The Company and the IBEW reached agreement on a new contract, effective November 26, 1980, providing members with a 10.5 percent wage increase.

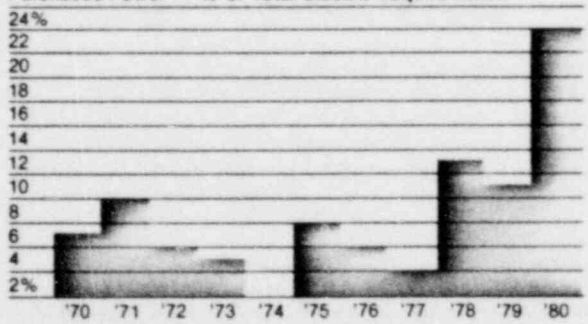
Earnings and Dividends



Return on Equity — Allowed vs. Earned

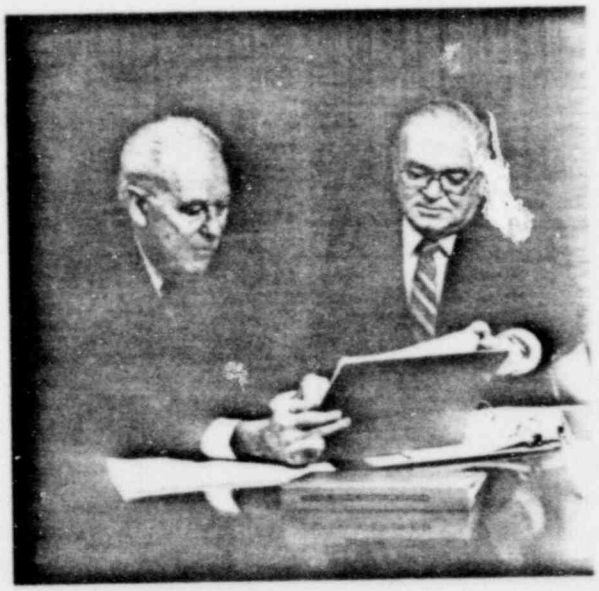


Purchased Power — % of Total Electric Requirements



R. T. Person, Chairman of the Board, left, and
R. F. Walker, President and Chief Executive Officer.

Management Commentary



Public Service Company is financially stronger than it was a year ago at this time. The downward slide in earnings, which bottomed out at $1.35 per share at the end of 1979 and remained at low ebb through the first quarter of 1980, has been reversed.

To be sure, the increase to $1.92 in earnings per share in 1980 is a welcome improvement. We have weathered a severe financial and economic storm. But, put in perspective, earnings are still short of being enough to provide shareholders with the return on their investment allowed by regulation. Furthermore, it is still unrealistic for us to implement the spending patterns necessary to build the new electric generating facilities this state must have in the 1980's and 1990's.

Rate Increases

Several accomplishments contributed to the earnings improvement. The most significant of these were the successful pursuit of a general rate increase put into effect in late 1979 and emergency rate relief in May 1980. Without the emergency relief, construction on Pawnee would have been stopped and the stage set for possible power shortages.

Management initiatives to cut spending were also instrumental in putting our financial condition on a positive track. Construction expenditures were pared by $40 million to $263 million. We reduced hiring and discontinued merchandising operations.

The improvement in the Company's financial condition was assisted by the belated arrival of the much-discussed recession. How ironic that the same forces that adversely affect other industries provide electric utilities with a breathing spell by reducing customer connections, construction requirements, financing, and, above all, interest rates.

This breathing spell was short-lived and the improvements in our financial condition, while substantial, are still insufficient to position us for the future. We must alter our growth plans and develop a strategy for continued corporate vitality within the limitations placed upon us: limitations imposed by inflation, by the scope of our capital requirements and by regulations that are not in harmony with the realities of the economy in which we operate.

Regulatory Changes

Our most recent rate case, filed in May and decided in December, is a case in point of these restraints. In addition to seeking higher rates, we specifically included in the filing three major regulatory principles that represent the best opportunity for us to make significant progress in the years ahead: an advanced test period, the inclusion of additional construction work in progress and an attrition allowance.

We requested total annual increases in revenues of $177.5 million. We received $85.7 million. The CPUC did permit us to base cost data on a historic test period more current than used in prior rate cases; that is we used the last six months of 1979 and the first six months of 1980. We feel this change toward basing rates on more current cost information is significant.

We asked that we be allowed to include 100 percent of Pawnee construction costs in current rates. The CPUC said we could continue to put 40 percent of those costs in the rate base. The request for a one percent attrition allowance, which serves as a hedge against increased inflation between the time of the request and the time the rates actually are put into effect, was denied.

The CPUC also ordered that we place in escrow earnings from the Fort St. Vrain Nuclear Generating Station, subject to the plant meeting prescribed performance standards. We object to this in principle.

The decision is shortsighted in scope. It temporarily appeases customers by limiting rate increases, but it sacrifices long-term energy availability and reliability. Management has appealed certain of the aforementioned portions of the decision in the Denver District Court.

Purchased Power
In 1980, Public Service Company had to purchase from neighboring utilities more electric power than ever before. We do not have the electric generating capability to meet peak demand periods nor to meet the demands our service territory will impose on us in the growth years ahead.

Make no mistake. Purchased power is a solution only as long as it is available. As the economy of Colorado grows, the availability of excess power will disappear. We cannot camouflage the fact that new generating capability is critical. For us, that translates into a billion and a half dollars just to undertake a new generating plant project. We will keep "on hold" any decision to begin construction on such a project until it makes good economic sense to do so.

Stated simply, our financial strength still does not measure up to the financing requirements of building new electric generating facilities. Adequate revenues and earnings are a key to that future. Revenues improve cash flow and increase our internal generation of funds. Earnings help us to come closer to reaching the allowable return on common equity. Then, we will be better able to attract the large sums of capital needed, at more reasonable costs, from potential investors. It is fundamental that we operate on the basis of what we can afford. We're no different than any other business. We cannot substantially increase the scope of operations without adequate revenue cash flow and higher earnings.

Shared Responsibility
But the issue runs deeper. Perhaps the single most important concept underlying the changing utility industry today is that the customer must pay the full costs of providing service on a long-term basis. In other words, customers must pay rates that will enable us to not only provide quality service today, but ample reliable service tomorrow. The burden of building our future must be a shared responsibility.

We are seeing this concept demonstrated in the natural gas industry. Deregulation has provided incentives to companies to find and develop untapped reserves in an effort to improve what was a precarious supply situation. Consumers are paying the higher rates, but natural gas rates today are just beginning to reach the levels consumers pay for other energy fuels. The higher rates consumers pay today are helping to assure us of an abundant supply for many years to come. And so it should be with the electric industry.

It becomes increasingly important for us to be persistent and clear in communicating our situation to customers. We must bring the issues into sharper focus because utility problems are not black and white. We must convince customers that they are best served by a healthy utility.

The CPUC has ordered a management audit of the Company. We will comply with this decision and cooperate fully with the selected auditing firm. We feel that these studies, conducted properly, could shed light on the difficulties utilities face today and will face in the future. They can be developed into a firm platform from which customers, regulators and the utility can jointly step into the future.

This 1980 Annual Report discusses in detail all of the important events and trends affecting our Company. We encourage you to read it.

For the Board of Directors,

R. T. Person
Chairman of the Board

R. F. Walker
President and Chief Executive Officer

February 6, 1981
Denver, Colorado

Downtown skyscrapers are symbolic of the development of Denver as an energy center.

Public Service Company's service territory is a contrast in urban and rural characteristics.

Service Territory

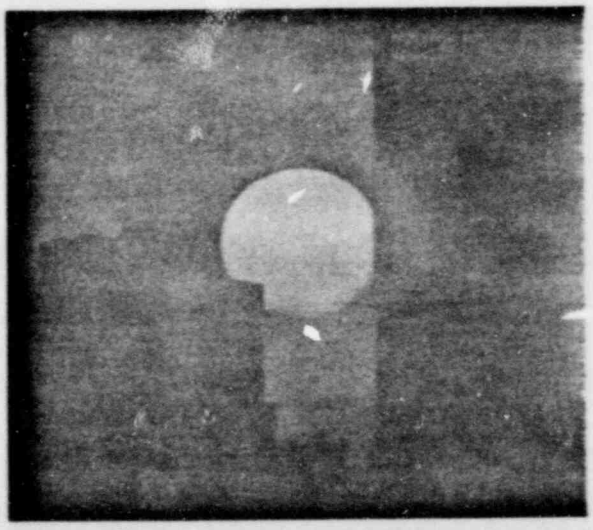
Colorado is a state hurrying toward the 21st century. The metamorphosis is evident everywhere as the remnants of a colorful and romantic past clash with the potential of an emerging energy megalopolis.

The signs of change are most profound in Denver, a bustling, youthful metropolis embracing all the signs of 20th century progress — new skyscrapers racing each other to the sky, a revitalized urban core, sprawling self-sufficient suburbs and new housing developments.

Downtown construction has claimed some of the landmarks that remind us of the bawdy, gold rush days that put Colorado on the map. In their place, condominiums and office buildings are springing up as symbols of the new era being ushered in by the development of Colorado as a vital energy corridor in the West.

A plume of white smoke rising into the blue Colorado sky is only a subtle hint of the vast and turbulent forces at work in the mountains west of Denver. The smoke is from an experimental facility where a substance called kerogen is being steamed out of a deposit called marlstone. Oil shale. An industry with a future as big as the state itself.

Oil shale is only a part of the story. There's a frenzied search for coal, oil, natural gas, uranium and other minerals, all part of surging efforts to make the nation energy independent. It's too early to call it a boom, although all the signs are there. The problems and circumstances surrounding these industries are volcanic in nature and the timing of the eruption has yet to be decided.



To be sure, the lure of a potential energy boom in Colorado is responsible, in part, for the state's faster-than-average growth. Federal government operations, manufacturing and tourism also add to rising employment levels and help spur growth in the service industries. All the economic indicators — unemployment rates, personal income, labor force and retail sales — point to more of the same. Add to this the state's geographical attributes, abundant skiing and other recreational facilities, and an enviable climate, and it is easy to see why Colorado seems destined to stay on a course of growth in the 1980's.

As a utility with a mandate to provide the energy needs of much of this growing population, Public Service Company is woven into this pattern of progress. Just as the state's government, business and the public grapple with Colorado's potential as an energy corridor, so must Public Service Company and the state government that regulates it encounter the problems of adequate utility service.

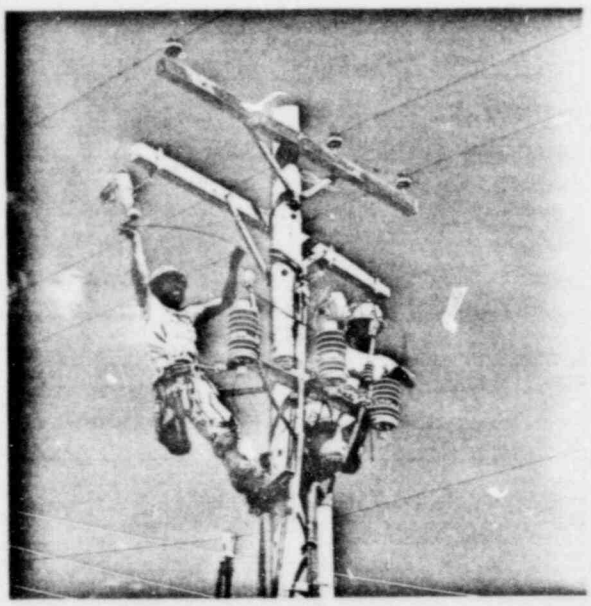
There is a distinct parallel between the future of Colorado and the role of Public Service Company in that scenario. The challenge of building adequate utility plant, like the challenge of building other energy-related facilities, is bathed in social, environmental and financial considerations. It seems that the solutions to these problems will have to go hand in hand.

Electric Service

As Public Service Company steers a course through the 1980's, it faces its greatest challenge in 100 years of electric service. The need for additional electric supply in Colorado is imperative. The Company's blueprint to meet that need for more electricity in the 1980's has been frustrated by inflation and regulation. Alternative strategies are constantly being planned, but they hinge on developments beyond the Company's control. Even if the road is paved for the Company to construct new generating facilities, the customer will have to help shoulder the heavy financial burden of building a future that has ample electric supply. The decade ahead is truly filled with some uncertainty and a great deal of challenge.

The Company met all of its 1980 demands for electric service although it faced a tight supply situation.

Electric Service



Never before has Public Service Company faced such a stern test of its ability to meet the mandate to deliver all the power its customers demanded. Essentially, three factors combined to create a tenuous supply situation throughout 1980. The number of customers grew 3.3 percent in 1980. Electric sales increased 3.6 percent, being somewhat tempered by conservation. Construction of Pawnee was delayed because of the Company's financial condition.

Purchased Power
Electric power purchased from neighboring utilities helped the Company to keep its demand-supply situation balanced throughout the year. Approximately 22 percent of the Company's total electric energy requirement of 16.4 billion kilowatt-hours was purchased from other utilities.

In addition to its own generating capability of 2,568 megawatts, the Company purchased 504 megawatts of capacity to bring the total to 3,072 megawatts available for a maximum demand on the system. On August 7, the Company registered a record-setting net firm system peak load of 2,772 megawatts. At the time of this peak, the Company had a reserve capacity of 300 megawatts, or 10.8 percent.

Purchased power will be available as long as neighboring utilities have excess capacities. As projections for growth become realities, the amount of excess power is likely to diminish.

The Company purchases power through both firm and non-firm arrangements. Firm purchased power means the Company contracts for a specific amount of power available upon demand. Through non-firm purchases, the Company buys available power as the need arises or when it may be most economical to do so.

Fort St. Vrain
The increased electric energy generated at the Fort St. Vrain Nuclear Generating Station northeast of Denver was another important development in the supply picture. Despite scheduled and nonscheduled shutdowns for testing, maintenance and repairs, the plant generated 667 million kilowatt-hours in 1980, compared to 203 million kilowatt-hours generated in 1979.

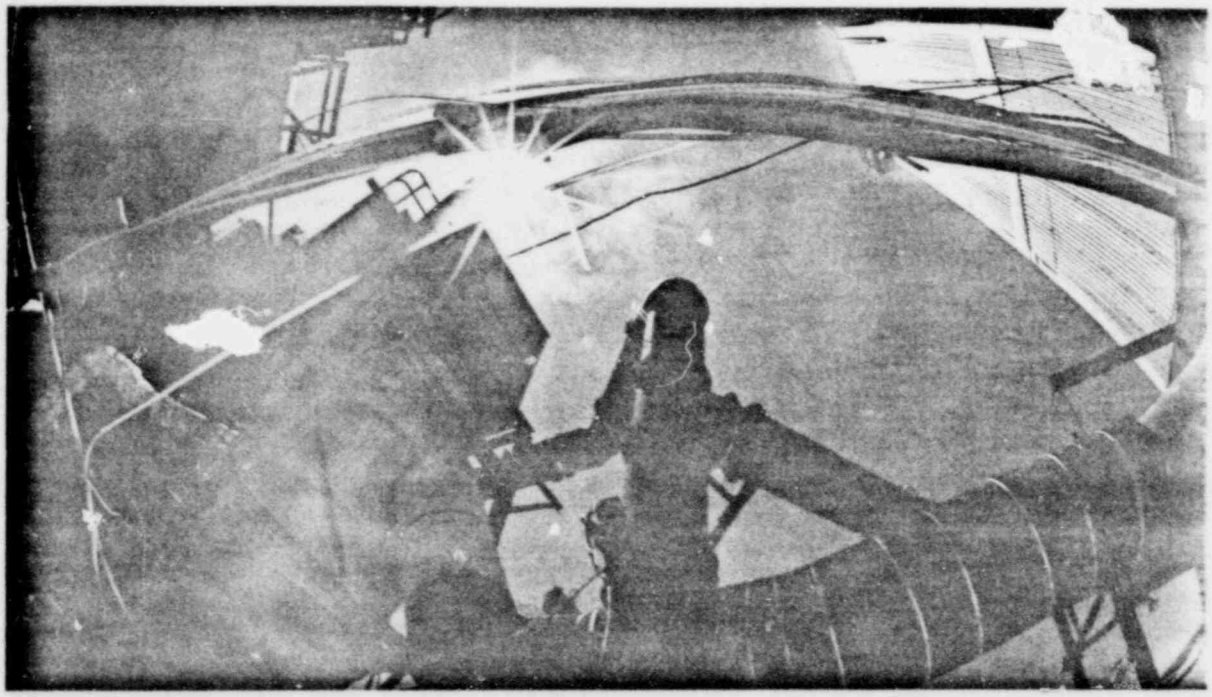
The Nuclear Regulatory Commission (NRC) has limited the output of Fort St. Vrain to 70 percent of its capacity because of temperature fluctuations in the reactor core and other problems. The Company believes the problems have been solved. Consequently, it has asked the NRC to lift the limit on the generating capacity so the plant can proceed with testing toward its full licensed capacity. Fort St. Vrain is designed to generate 330 megawatts, 130 megawatts above the current operating level.

Fort St. Vrain is scheduled for a second refueling in 1981. The first refueling was in 1979. The reactor is designed to operate under a fuel cycle that requires one-sixth of the core to be replaced at each refueling.

As part of the settlement agreement effective in January 1979 with General Atomic Company (GAC), the primary contractor, Public Service Company receives this fuel through 1984 at no cost and at GAC's cost of manufacture from 1985 through 1992.

Conservation Increases
Conservation, too, had a part to play in the demand-supply situation in 1980. Although there were 3.3 percent more customers, each residential customer, on the average, used approximately 5,900 kilowatt-hours during the year, about the same quantity used in 1979. General conservation trends, such as adding insulation, weatherizing existing buildings and making more efficient use of energy, played the key role in keeping residential usage stable.

Costs for pollution control equipment have become a sizeable portion of total plant investment.



Public Service Company initiated a number of conservation programs designed to offer customers information and assistance in implementing energy-saving measures. Through the Home Energy Audit program, Company representatives help customers check the energy efficiency of their homes. Home Energy workshops help consumers evaluate their homes for energy efficiency and then provide advice on how to implement needed improvements. The Company also has special programs for senior citizens and for helping customers budget for rising energy costs.

Construction Delays

Management took several other steps to deal with its tight supply situation. The Company's determination to maintain construction progress at Pawnee will have a significant impact on near-term supply. Although forced to cut back dollars and manpower because of its financial situation, construction work by year end 1980 was about 85 percent complete. Pawnee is scheduled to be brought into the system in late 1981 and will add 470 megawatts to the Company's total net capability.

Even projections that show minimum increases in electric demand reflect the importance of having Pawnee in operation by late 1981. Without Pawnee, or the availability of additional purchased power, the Company could not meet projected peak load requirements in the summer of 1982. The Company expects that up to 20 percent of its projected electric requirements during 1981 will be purchased.

Public Service Company spent $218 million of its total 1980 construction budget on Pawnee and other electric facilities. These expenditures were to streamline maintenance programs, introduce advanced computer technology to improve system monitoring, control and dispatching, and to construct transmission lines to increase its ability to import power from other systems. Without these new facilities, Public Service Company could have experienced difficulty in meeting its customers' demands in 1980.

Management decided to keep the Southeast Project "on the shelf" for the time being. The postponement of construction is necessary until the Company's earnings improve further and its financial condition is equal to the size of the commitment. The plant would consist of two 500 megawatt electric generating units.

The major portion of construction expenditures was spent on electric generating facilities.

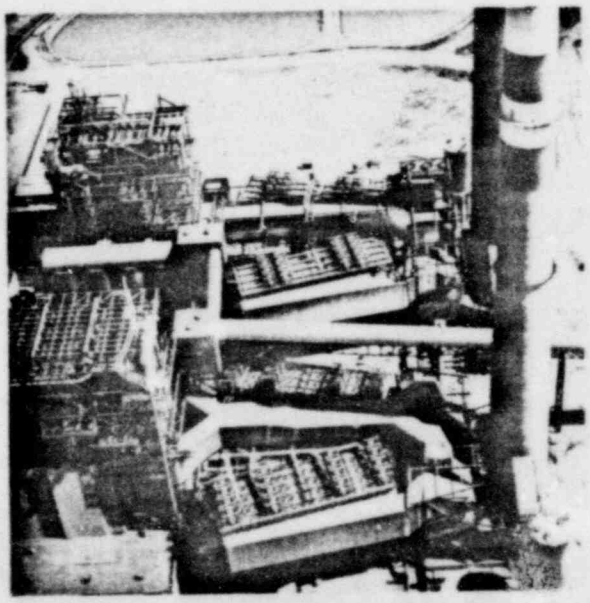
Although total usage was down in 1980, coal is still the primary fuel used in electric generation.

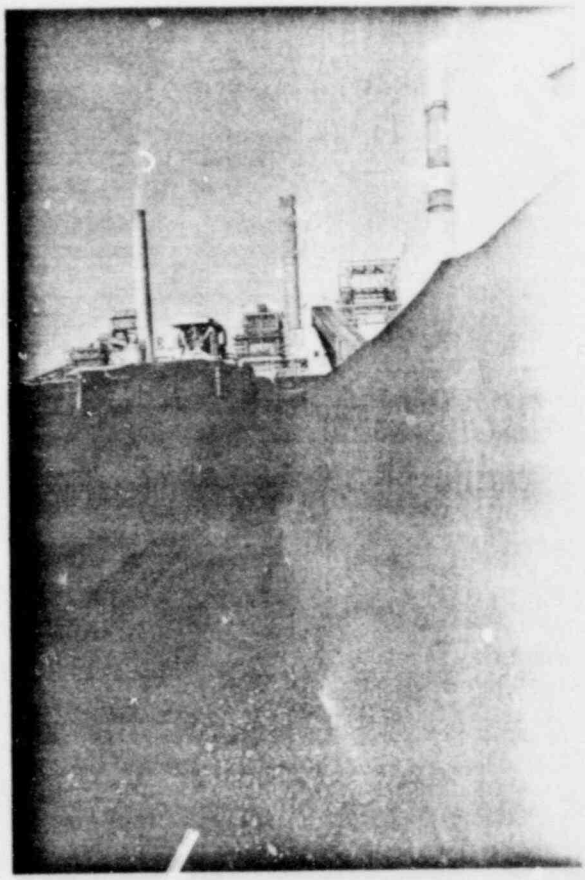
The Company will continue engineering design work but will not commit any funds to construction work until it is confident it can successfully finance this huge undertaking.

Pollution Control Costly
Pollution control equipment-spending in 1980 totaled $42 million. To date, the Company has invested $153 million in air pollution control devices and $34 million for water treatment equipment. Costs to meet environmental regulations represent about 12 percent of the Company's total investment in electric facilities.

The most significant projects started in 1980 were those to install a fabric filter particulate control device at several plant locations. Fabric filters, as they are commonly called, look like giant vacuum cleaner bags. They represent the new breed in technology to eliminate visible emissions from power plant stacks. The fiberglass bags, housed in a metal building, catch the solid particulates as they are emitted from the plant's boilers. The dust is then removed from the bags and buried in distant landfills.

Public Service Company tested the new technology at its Cameo Plant near Grand Junction and is in the process of installing fabric filters on units at Cameo, Arapahoe in South Denver, and Cherokee in North Denver, at a cost of $27 million. Although costly, the new system is gaining popularity among western utilities that use a low sulphur coal as a more efficient method to deal with air pollution control.

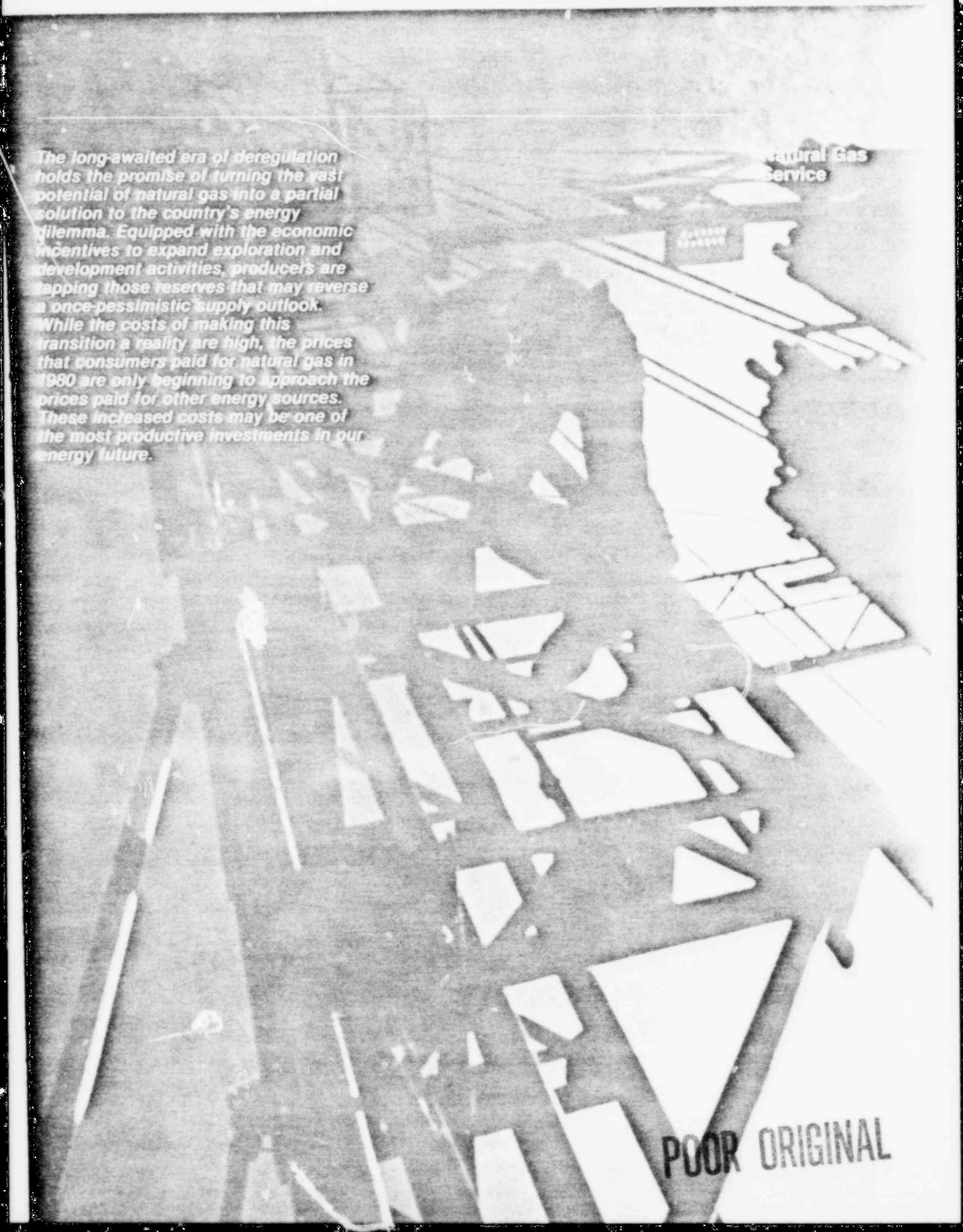




Coal Usage Decreases
Almost 5.4 million tons of coal were burned at the Company's fossil-fueled generating plants during 1980, 16 percent less than in 1979. The reduction resulted from a shift to purchased energy and the use of natural gas as the primary fuel during the time the Company was retrofitting plants with required pollution control equipment and while several large generating units were undergoing maintenance programs.

In an effort to minimize the impact of fuel cost increases on customer bills and to assure itself of adequate supplies of coal, which is the primary fuel source, the Company has long-term fuel supply contracts at favorable prices.

Continued delays in constructing new facilities in addition to Pawnee and the unpredictability of long-term availability of surplus power makes the Company's long-term supply situation uncertain. Customers fail to realize that they will have to bear a part of the burden of increased electric generating costs sooner or later. They can pay now or pay later, but later the costs will be much higher.



Natural Gas Service

The long-awaited era of deregulation holds the promise of turning the vast potential of natural gas into a partial solution to the country's energy dilemma. Equipped with the economic incentives to expand exploration and development activities, producers are tapping those reserves that may reverse a once-pessimistic supply outlook. While the costs of making this transition a reality are high, the prices that consumers paid for natural gas in 1980 are only beginning to approach the prices paid for other energy sources. These increased costs may be one of the most productive investments in our energy future.

The natural gas supply outlook has brightened considerably because of deregulation.

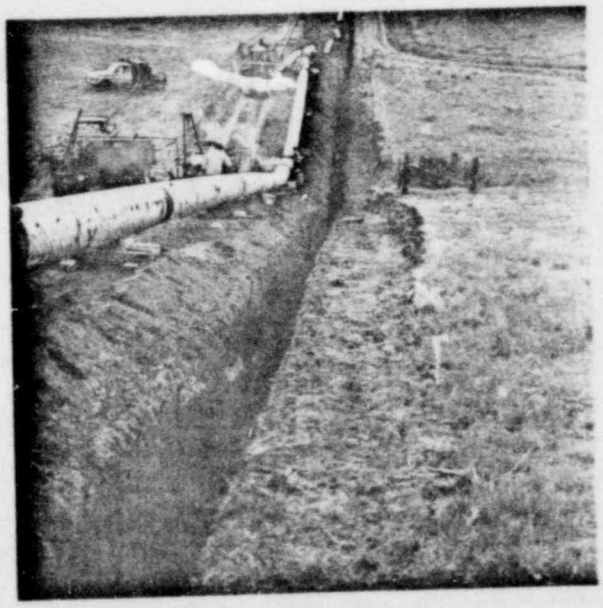
Natural Gas Service

Phased deregulation has swung the door open to a new era of increased supplies of natural gas. Passage of the Natural Gas Policy Act in 1978 lifted the lid on what were unrealistically low prices for natural gas. Economic incentives to explore for and develop natural gas reserves and, to some degree, conservation by existing customers has dramatically reversed the dwindling natural gas supply situation that characterized the 1970's.

Preliminary reports indicate that gas-well completions in 1980 reached the highest level in history. Long-range drilling plans indicate that the expanded interest in domestic oil and gas exploration is expected to continue over a long period.

Production Costs Escalate

The escalation in wellhead prices has dramatically affected consumer gas bills. Deregulation is setting in motion a process that will allow natural gas rates to reach a parity in the marketplace with rates charged for other energy sources. Distribution companies, such as Public Service Company and their suppliers, pass on these higher costs to customers. At year end, nearly 79 cents out of every dollar Public Service customers paid for natural gas service was attributed to gas purchase costs. The remaining 21 cents reflects the Company's distribution costs, franchise and other taxes, and related expenses.



In 1980, Public Service Company purchased 90 percent of its natural gas used for resale from Colorado Interstate Gas Co. (CIG). The balance is obtained from Western Slope Gas Company, a subsidiary of Public Service Company.

Unlike other geographical regions of the country where there is a strong trend to convert from other fuels to natural gas, the Company operates in a service territory where natural gas has been the primary energy source for residential space heating and water heating for many years. In spite of a housing construction slowdown, the Company added nearly 22,400 customers to the distribution system in 1980. The total number of natural gas customers now stands at well over 680,000.

Supply Outlook Bright

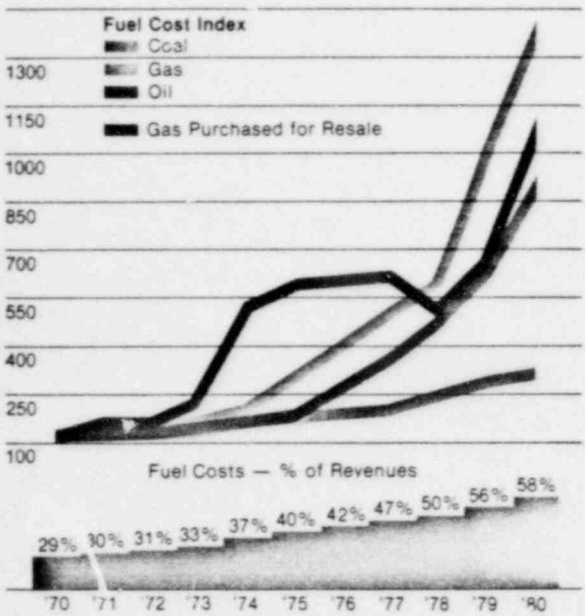
Public Service Company is confident that it will be able to provide natural gas to virtually all new residential and small commercial customers in the foreseeable future. The Company has operated under a Gas Attachment Schedule since 1973 whereby new firm customers are limited to a maximum hourly demand of 7,500 cubic feet. New customers applying for service were placed on a waiting list until there was a balance between supply and the additional demand. At year end, there was sufficient supply to enable the Company to connect customers as applications for service were received.

Some normal, weather-related curtailment of service to interruptible industrial customers may be necessary from time to time but the Company anticipates no problems in meeting firm customer requirements in the foreseeable future.

Total natural gas sendout during 1980 was 203 million MCF, a 5 percent increase over the previous year. The highest 24-hour sendout occurred on January 28, 1980 when the average temperature registered 4 degrees. This peak was 9 percent higher than the previous highest single day record in 1979 of 1.143 MCF set on January 1 when the temperature averaged -1 degree.

The rapid upswing in natural gas production and the emergence of Colorado as an energy center put more focus on Public Service Company's subsidiaries, Fuel Resources Development Co. (Fuelco) and Western Slope Gas Co.

Continued energy development in the West brightens the prospects for the Company's gas subsidiaries.



Fuelco

Fuelco was organized in 1970 as a wholly owned subsidiary principally to develop natural gas reserves for Public Service Company. Fuelco has evolved to where it is now engaged in the development and production of natural gas and crude oil reserves in Colorado, Montana, Texas, Utah and Wyoming. Net lease holdings on November 30, 1980 totaled 499,321 net acres, of which 407,465 net acres were undeveloped.

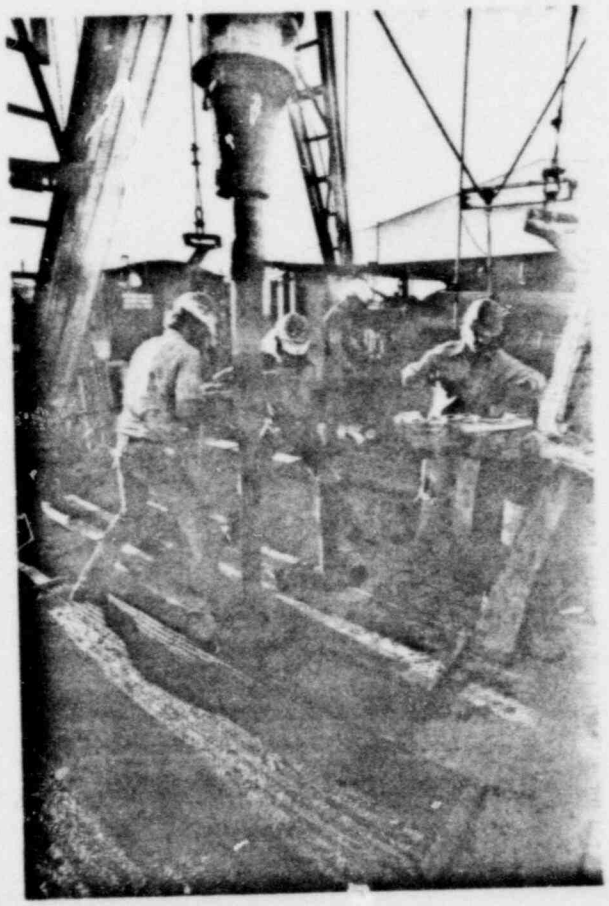
Fuelco gives right of first refusal on any natural gas discoveries in Colorado to Western Slope Gas, Public Service Company's gas transmission subsidiary. If Western Slope Gas does not exercise its option within a timely period, Fuelco sells this gas, as well as all of its other gas and crude oil, to the best available markets.

Fuelco's sales in 1980 to Western Slope Gas accounted for 19.6 percent of its revenues. Fuelco's operating revenues in 1980 increased to $9.2 million from $5.7 million in 1979. Natural gas sales totaled $4.4 million, crude oil sales reached $2.9 million and the balance came from other income.

Total gas sales volume increased more than 36 percent to 2.7 million MCF. The average unit price per MCF increased to $1.64 in 1980 from $1.48 in 1979. Crude oil sales volume increased 83.1 percent to 90,908 barrels. The average unit price per barrel, before Windfall Profits Tax, increased to $31.51 in 1980 from $17.10 in 1979.

In spite of increased revenues, Fuelco's net losses for 1980 were $892,326, compared with a $5.9 million loss in 1979. Operating expenses decreased nearly 50 percent because of non-recurring costs associated with dry hole charges, well and lease impairments, lease abandonments, and geological and geophysical expenses. Interest expenses increased because of higher prime rate interest levels.

Fuelco operations to develop and produce natural gas and crude oil will become increasingly significant.



The newly enacted Windfall Profits Tax on oil, which is an excise tax deducted before profits are computed, amounted to $287,366.

Capital expenditures for drilling and lease acquisition were $5.3 million in 1980, compared with $7.7 million in 1979. Fuelco budgeted $15.5 million in 1980, but in line with its objective to become self-sufficient by financing through cash flow and independent external funds, drilling activities were reduced to match the financing available.

Expenditures in 1981 are budgeted at $16.3 million. These monies are expected to be provided mostly from other companies by bringing them in as partners.

By year end, Fuelco had $34.3 million invested in natural gas and oil properties with proven developed net revenue interest reserves of 113.6 bcf of gas and 775,000 barrels of oil. Proven undeveloped net revenue interest reserves of gas and oil were 79.8 bcf and 130,000 barrels, respectively.

As Fuelco enters 1981 it has an interest in 266 wells: 175 wells that are producing, 30 under contract for imminent hookup and 61 shut in and waiting for future hookup.

Management is placing increased emphasis on maximizing Fuelco sales to all available markets. While Fuelco expects to improve its earnings in 1981 and operate profitably, its contribution to the consolidated earnings of Public Service Company are expected to be minimal.

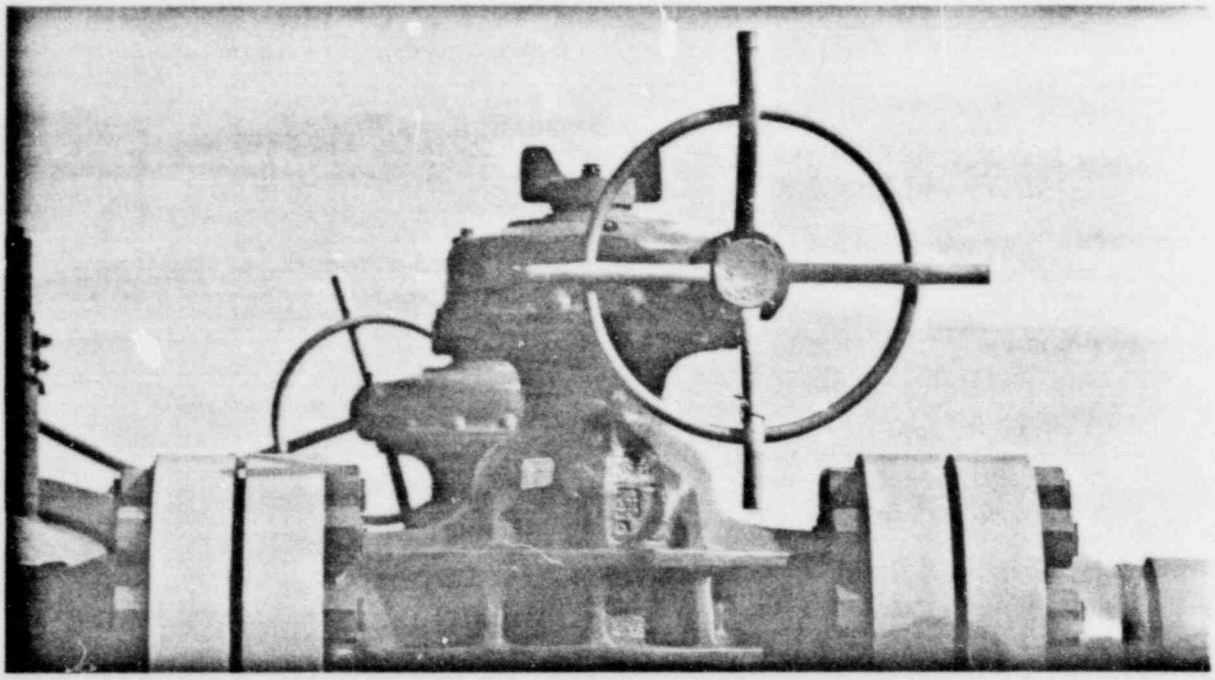
Western Slope Gas

Western Slope Gas is a wholly owned subsidiary operating entirely within Colorado. It is engaged in the purchase, transmission, storage and sale of natural gas. Western Slope provides wholesale service to six distribution companies, three municipally owned distribution systems and 33 industrial customers. Approximately 71 percent of its total 1980 sales were for resale, with 80 percent of the resales going to Public Service Company.

Gas sales in 1980 were affected by warmer-than-normal weather, consumer conservation, and reduced usage of natural gas in Public Service Company's electric generation. Sales for resale declined 14 percent from 1979 figures. Direct sales dropped nearly 16 percent.

Revenues increased 14 percent to $145 million in 1980. This increase stemmed in large part from a 15 percent increase in purchased-gas expense that the CPUC allowed Western Slope to pass on to customers under its Purchased Gas Adjustment tariffs. Net income amounted to $2.4 million, virtually the same as in 1979.

Roundup, Western Slope's underground gas storage unit, gears the Company for peak winter months.



Western Slope's wellhead reserves at year end totaled 293 billion cubic feet under contracts covering 364 wells connected to its systems. During the year, Western Slope acquired production rights to 78 new wells. At year end, 38 of these were connected and the other 40 awaiting connection. Western Slope purchased 64,000 million MCF of natural gas in 1980.

During 1980, Western Slope completed the conversion of a depleted natural gas reservoir into an underground gas-storage unit in northeastern Colorado. This unit, called Roundup, is capable of providing 50 million cubic feet per day during peak winter months. Cost of the project totaled $19.7 million. Other 1980 major capital expenditures, amounting to $3.7 million,were for reinforcements to supply growth in the Grand Junction market area and to connect a record number of new wells.

Prospects for higher sales are brightened by the oil shale development in northwestern Colorado. Western Slope currently serves, either on a direct or resale basis, all residential, commercial and industrial natural gas customers in the Piceance Basin area. Service in that area includes three oil shale projects that are harbingers of the potential growth in the energy-rich West.

Regulation

Management devoted extraordinary time and effort to the regulatory process in 1980. Rightly so, because these are no ordinary times for the utility industry and the regulatory changes needed to steer the Company through the 1980's and beyond are immeasurable in importance.

In the process of seeking constructive regulatory change, the Company, like most utilities, has to deal with serious public misconceptions about the draining effects of inflation, the utility profit concept in a regulated monopoly, the real value to customers of a financially healthy utility and the critical need for consumers to share in building our energy future by paying the full cost of providing service.

These misconceptions underlie and confuse the search for sensible regulation. Regulation must serve the public interest, but that interest must include the public's need and demand for energy. The Company can no longer operate with inadequate revenues and attract the large amounts of capital needed for new generating capacity. Sufficient revenues, improved financial markets and responsive regulation are the Company's passports to a vital place in Colorado's dynamic future.

Public Utilities Commission
Company operations within the state are regulated by The Public Utilities Commission of the State of Colorado (CPUC). The CPUC 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 chairperson is selected by the governor.

Dr. Edythe S. Miller, a Democrat, whose term expired in January 1981, has been reappointed by Governor Richard D. Lamm, and confirmed by the Colorado Senate to a new six-year term. Dr. Miller is currently chairwoman. The other CPUC members are Daniel Muse, Democrat, whose term expires in January 1985 and Duane Woodard, Republican, whose term expires in January 1983.

Focus on Rate Increases
Public attention in 1980 centered on the Company's requests for higher rates and the increasing frequency of these requests.

On March 26, the Company filed an unprecedented emergency rate increase request for $67 million. After abbreviated hearings, the Commission authorized a 5.6 percent increase in annual revenues, or $57.4 million. The major difference between the amount requested and the amount authorized represents the revenue requirements related to the cost of debt securities sold in February 1980. The emergency increase forestalled a complete halt in construction activity at Pawnee.

The Company filed for a general rate increase on May 7 for $177.5 million. The request included the $67 million emergency request. As a result, $57.4 million was deducted from the general filing, leaving a balance of about $120 million, which translates into a 12 percent increase in annual revenues. On December 12, the CPUC authorized a 2.2 percent increase, or $28.3 million.

Although public attention focused on the rate increases, management was pursuing, as part of the general filing, changes in regulatory principles and policies needed in these turbulent economic times.

Test-Year Period
In response to the CPUC's willingness to consider a more current test year in determining rates, the Company based the general rate increase filing on costs incurred during the last six months of 1979 and expected to occur during the first six months of 1980. While this approach continues to use the historic test-period concept, it makes Company cost data more current by six months by the time rates become effective. This is significant in a time of fast-changing inflation rates.

Construction Work in Progress
The regulatory treatment of the Company's investment in facilities under construction is a widely debated issue and one of the most important regulatory issues today. In the past, utilities were allowed to earn on the plant after it went into operation. The cost of capital for such construction was recovered through depreciation over the life of the plant.

In today's economic climate, the Company simply cannot afford to make the large investments it needs without assurance that it will have the cash to pay interest and dividends on the required capital. The CPUC previously allowed the Company to include 40 percent of the capital costs of

Regulatory treatment of electric facilities under construction is vital to the future of utilities.

Pawnee in its rates. In the general filing, the Company requested that it be allowed to be compensated fully for that investment. The request was denied, but the 40 percent principle was retained.

Return On Equity
An adequate rate of return on common equity is a fundamental requirement of responsible utility regulation. The CPUC has not allowed the Company the requested rates of return. In the recent filing, the Company requested an increase to 17 percent from 14.6 percent. The CPUC authorized 15.45 percent.

Attrition Allowance
The Company requested a one percent rate-of-return attrition allowance to help its effort to earn the rate of return granted by the CPUC. The allowance would partially compensate for rising costs between the time the rate request is filed and the time it actually goes into effect. The request was denied but the Company will continue to pursue this principle because of its significance in combating inflation.

Fort St. Vrain
In addition to the aforementioned decisions, the CPUC also ordered the Company to put in escrow earnings derived from the Company's investment in Fort St. Vrain. These earnings, estimated at $9.7 million annually, would be refunded to customers if the plant did not operate at an average of 50 percent of capacity, based on 200 megawatts, over a 12-month period before the end of 1982. The time used in calculating the capacity factor would not include out-of-service time required by the Nuclear Regulatory Commission or for scheduled maintenance and refueling. The Company opposes this part of the decision in principle.

Management has appealed the rate case to the Denver District Court. The Company feels the rate portion of the decision fails to come to grips with its cash flow difficulty. The appeal will place emphasis on the construction work in progress, attrition allowance and Fort St. Vrain issues.

Other Rate Cases
In 1980, the Company and its utility subsidiaries requested electric, natural gas and steam heat rate increases on six separate occasions. The Company received a wholesale electric rate increase of $9.2 million, subject to refund. In addition to the emergency and general rate increase requests, the Company's subsidiaries, Western Slope Gas Co. and Cheyenne Light, Fuel and Power Co., were granted a combined total of $2.7 million. A $2.1 million case was filed in December and is pending for the Home Light and Power Co.

Electric Cost Adjustment
The Company succeeded in receiving CPUC approval, effective in September, to include an Electric Cost Adjustment (ECA) in its electric tariffs. The ECA consolidates the Fuel Cost Adjustment and Firm Purchased Power Adjustment into a more precise cost tracking and recovery mechanism. ECA enables the Company to recover costs for transportation associated with generating fuels and non-firm electric power purchases when such costs are at levels higher than those included in base rates.

The Company also was given permission during the year to charge customers for electric appliance service calls and for non-emergency natural gas services for furnaces, water heaters and gas appliances. These services previously were gratuitous.

Public Service Company's future rests, in part, with the regulatory process. Improved ways of conducting and regulating the utility business are essential. The cost of energy is going up. The consumer must share part of the burden by paying the full costs of service. The utility must be diligent and persistent in streamlining its operation. Regulation must be responsive to the winds of economic change.

Financing

Public Service Company turned a downward earnings trend around in 1980 in the face of economic and regulatory adversities. But it is unrealistic to expect that the Company is now able to embark on the huge capital expenditure venture that is needed to build new electric generating facilities. To the contrary, the 1980 construction expenditures were trimmed to $263 million from the $304 million budgeted at the end of 1979. The Company turned to capital markets on five separate occasions during 1980 to obtain additional funds for current projects and meet borrowing commitments.

Financing Grosses $211 Million
In total, the Company attracted $211 million from the 1980 sales of common and preferred stock and debt securities. Two issues of common stock, one for 2.75 million shares in February and another for 4 million shares in September, netted $84 million. An additional $11 million was raised from the Dividend Reinvestment Plan and employee stock purchase plans. A sale of 250,000 shares of preferred stock in July netted $25 million.

The Company sold $50 million of seven-year, first mortgage bonds and $37 million of two-year Adams County, Colorado, Pollution Control Revenue Notes. The Company is paying a record 15 percent interest on the mortgage bonds and 9.5 percent on the notes.

Proceeds from these sales were used principally for Pawnee and the installation of pollution control equipment required to bring facilities at other generating plants into compliance with governmental standards. Short-term debt was reduced from $62.2 million at the beginning of 1980 to $9.1 million at year end.

The only other financing was by Fuelco, which drew down $4 million on a term loan.

Limited Expenditures
Until it is feasible to forge ahead with new electric generating plant construction, major capital expenditures will be limited to the completion of Pawnee, the continued installation of pollution control equipment, the maintenance of existing equipment and the addition of transmission and distribution facilities to connect new customers. Capital expenditures for Public Service Company and its subsidiaries in 1981 are estimated to be $262 million, about the same as in 1980.

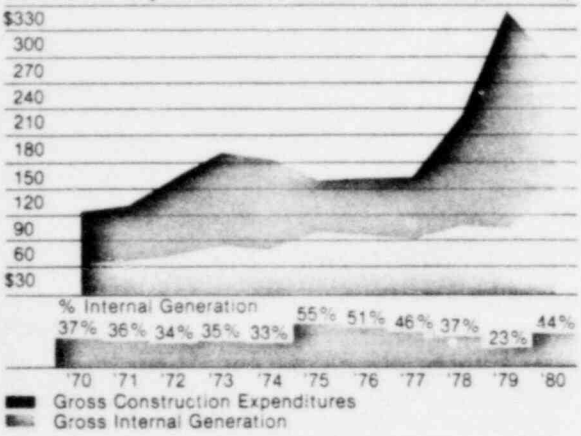
Bond Rating Downgraded
The Company's debt securities rating was lowered by two rating agencies in February 1980 because of the lackluster financial picture that prevailed at year end 1979.

Moody's Investors Service, Inc. lowered the bond rating from double A to single A and commercial paper from Prime-1 to Prime-2. Moody's maintained its single A rating of Public Service Company's preferred stock. Standard & Poor's Corp. reduced its rating of the Company's first mortgage bonds from double A-minus to single A and lowered the commercial paper rating from A-1 to A-2. Standard & Poor's also cut its rating of the Company's preferred stock from A-plus to A.

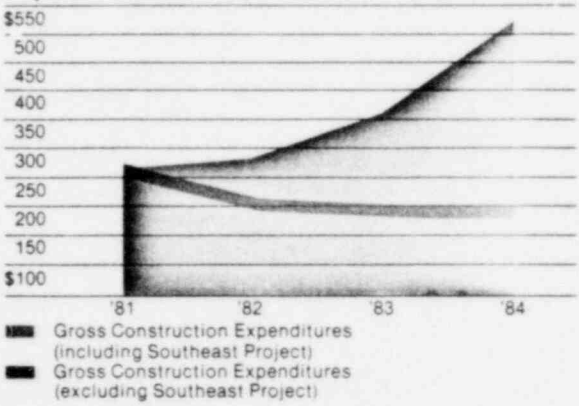
In explaining their decisions, both rating agencies cited inadequate earnings, declining measures of interest expense protection, low electric generation reserves, insufficient rate relief and a low percentage of internally generated funds. As a result of lower ratings, the Company is forced to pay higher interest rates to securities holders, as exemplified by the 15 percent interest rate incurred in the February bond sale.

For the Company to make a major increase in its construction expenditure program, it will have to generate approximately half of the total construction costs from internal sources, namely depreciation and retained earnings. The Company generated 44 percent of 1980 gross construction funds internally and expects to generate about 60 percent in 1981. Both percentages, however, are based on reduced capital expenditures programs.

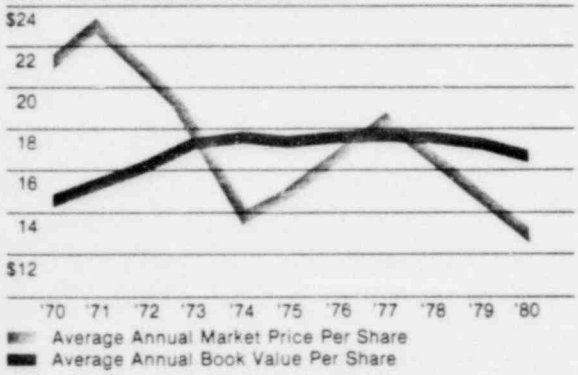
Construction Expenditures and Internal Generation ($ millions)



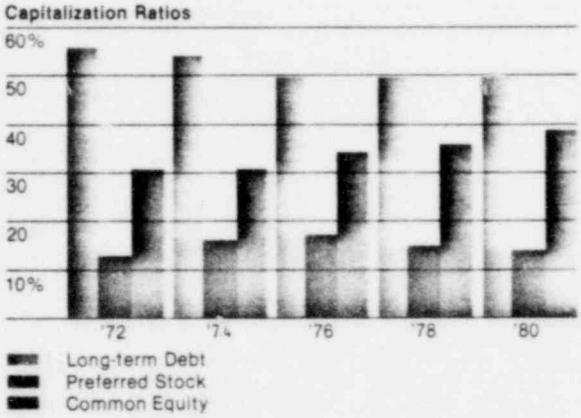
Projected Construction Expenditures ($ millions)



Book Value vs. Market Price Per Share



Capitalization Ratios



The remaining half of total construction costs would then come from outside sources, the capital markets. A long-standing objective of the Company's financial philosophy is to maintain a strong capital structure made up of debt not exceeding 45 percent, common equity of at least 40 percent and preferred stock of not more than 15 percent.

Dividend Policy

Management continues to recognize its responsibility to provide its equity investors a rate of return that will compensate them for the risk of their investment. As part of this responsibility, a sound, consistent dividend policy is essential. Meaningful dividend growth and regularity of increases are justifiably expected by the common shareholders for this willingness to invest funds for necessary plant and equipment. The Company is committed to such a policy, but, of course, such direction can be followed only if financial strength and stability can be accomplished.

While there was a surge of optimism by the Company's improved performance in 1980, the future must be kept in proper perspective. The Company's financial strength still does not measure up to the financial challenge in Colorado. Responsible regulation is sorely needed to lift the Company into a strong financial position where it can borrow at reasonable interest rates. But unless the country as a whole can remove the shackles of an unbridled inflation and the government policies that keep feeding it, capital may never be available in the amounts needed to keep pace with the demand for energy that will characterize the late 20th century.

Corporate Outlook

A turbulent economy and the forceful patterns of change prevalent throughout Colorado blur any forecasts relating to Public Service Company.

Company analysts continually chart trends in all operating categories and in those economic indices that weigh heavily on performance. Forecasts presented below are based on data compiled in late 1980 and must constantly be reevaluated and revised in response to changing economic conditions. These forecasts are intended to provide a sense of direction and to show how management currently views the years just ahead.

Inflation
The prices Denver area consumers paid for goods and services as measured by the Consumer Price Index (CPI) increased less than the national average in 1980. The Metro Denver CPI increased 11.5 percent in 1980 compared with a 15.3 percent increase in 1979. The CPI increase for the nation in 1980 was 13.5 percent. The steady flow of people moving to Colorado is projected to continue during the next three years, keeping the CPI at or below the national rate. The core inflation rate for the Metro Denver area is expected to average about 10.5 percent during that time.

Population
Colorado is one of the fastest-growing states in terms of population. Population growth in Public Service Company's service territory is projected at an annual rate of about 2.3 percent between 1980 and 1983, more than twice the expected national rate of growth.

Electric Sales and Customers
Electric sales will continue to be influenced by customer conservation and weather conditions in the service territory as well as by customer growth and consumption rates. Management projects that electric sales growth will be stimulated mostly by the influx of new customers.

Natural Gas Sales and Customers
Natural gas sales are expected to increase at a slower rate than the increase in new customers because of the sharp increases in gas prices charged by Company suppliers. Use per customer is trending downward, influenced by conservation efforts. Gas sales growth, therefore, will depend mostly on new customers.

Electric Reserve Margins
The addition of Pawnee in late 1981 will increase substantially the Company's generating capacity and thus alleviate the somewhat tenuous reserve margin levels expected to exist throughout 1981. The Company will continue to purchase power in the coming years to augment insufficient Company-owned generating capacity. Ideally, the Company should have sufficient generating capacity to have enough power to cover an outage equivalent to its single largest generating unit, about 500 megawatts, or approximately 15 percent.

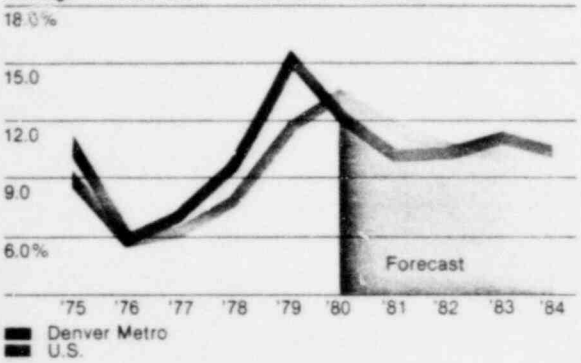
Capital Expenditures and Financing
The cost of building the facilities to provide ample service to its customers is immense. During the last three years, the Company spent nearly $800 million, a significant portion of which was used to build Pawnee.

The Company expects to maintain these spending levels during the next three years. Construction expenditures are currently projected at about $900 million. The Company has postponed building the two 500 megawatt coal-fired units of the Southeast Project.

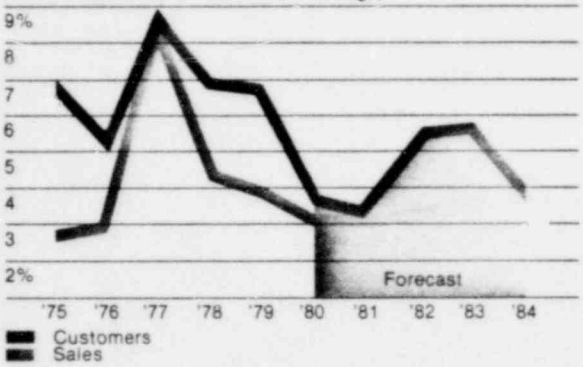
During the past three years, the Company had to finance some 60 percent of its capital needs. Moreover, the Company was required to finance at record interest rates and sell common stock below book value. This resulted in a weakened financial condition.

Because of improved cash flow and earnings, the Company anticipates having to finance at least a third of its projected capital expenditures. In anticipation of spending $262 million in 1981, the Company is planning for two sales of new long-term securities later this year. The offerings are likely to be the sale of common stock for at least $50 million and the sale of first mortgage bonds, also expected to be in the $50 million range.

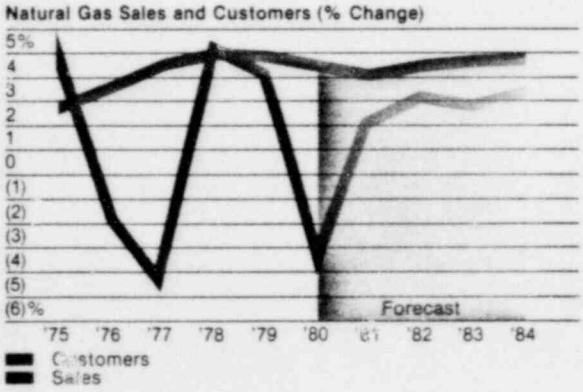
Average Inflation Rate — Consumer Price Index



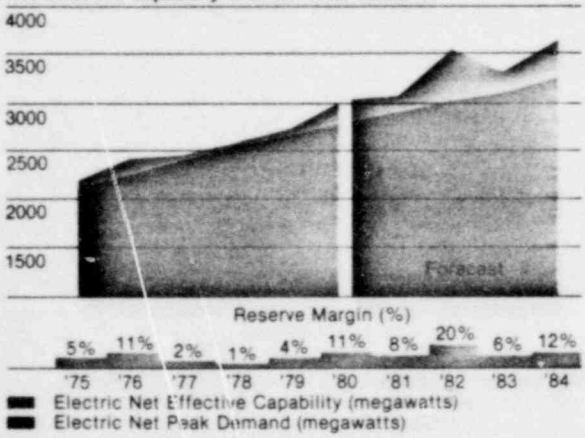
Electric Sales and Customers (% Change)



Natural Gas Sales and Customers (% Change)



Net Effective Capability and Net Peak Demand



Financial Objectives

Management remains firm in its commitment to maintain strong financial policies in the face of many economic and regulatory adversities. Among its principal long-term objectives is maintenance of a strong capital structure of at least 40 percent common equity, no more than 45 percent total debt and the balance in preferred stock. The Company expects at least half of its annual capital needs during periods of major construction to come from internally generated cash. The Company will continue its efforts to raise pre-tax coverage of interest expenses to a minimum of 3½ times, seek to increase its return on average common equity to the return allowed by the CPUC and, more appropriately, to the costs of equity in the marketplace.

Employees

The challenges in the next few years make it apparent that Public Service Company must intensify its efforts to attract and keep highly qualified individuals and develop a motivated work force that is prepared to deal with the changing demands on the Company. The 1980's will see more employees in managerial and executive positions reach retirement age than at any time in Company history. As a result, increased emphasis is being given to human resources planning and management development programs. Salary and benefits policies are constantly being reevaluated and updated to keep the Company competitive in the midst of the Rocky Mountain energy boom and its inherent demand for employees.

The rampant course of inflation and the uncertainty of regulation make the future difficult to predict. The Company will continue to alter its strategies and change direction as economic and government actions dictate. The light at the end of the tunnel that the Company continues to pursue is a financial position that will put it more in control of its own destiny.

Selected Financial Data

	Year Ended December 31,						
	1980	1979	1978	1977	1976	1975	1970
	(Thousands of Dollars)						
Operating Revenues:							
Electric	$ 640,749	$507,587	$421,732	$362,062	$322,102	$281,727	$135,117
Gas	502,919	410,537	303,300	246,059	197,549	174,612	83,807
Other	11,976	8,366	4,746	5,178	2,503	3,842	1,370
Total	1,155,[illegible]	926,510	729,778	613,299	522,154	460,181	220,294
Operating Expenses	1,033,316	836,766	636,515	525,146	434,508	378,309	174,504
Operating Income	122,328	89,744	93,263	88,153	87,646	81,872	45,790
Other Income and Deductions	21,832	13,162	6,196	2,902	7,634	10,152	2,575
Interest Charges	59,133	47,097	41,758	39,918	40,621	37,151	17,915
Net Income	85,027	55,809	57,701	51,137	54,659	54,873	30,450
Dividend Requirements on Preferred Stock	15,020	13,536	13,536	13,536	10,784	10,596	3,669
Earnings Available for Common Stock	$ 70,007	$ 42,273	$ 44,165	$ 37,601	$ 43,875	$ 44,277	$26,781
Common stock shares outstanding (000):							
Year-end	39,990	32,326	29,250	25,884	23,290	23,213	15,458
Average	36,412	31,225	26,572	23,976	23,240	21,409	14,700
Earnings per Average Share of Common Stock Outstanding	$1.92	$1.35	$1.66	$1.57	$1.89	$2.07	$1.82
Dividends per Share of Common Stock:							
Declared	$1.60	$1.60	$1.53	$1.46	$1.38	$1.22½	$1.10½
Paid	$1.60	$1.60	$1.49½	$1.46	$1.34	$1.20	$1.09
Total Assets (millions)	$2,216	2,011	1,746	1,576	1,465	1,378	763
Common Equity (millions)	$656	555	516	460	411	400	231
Preferred Stock (millions):							
Not subject to mandatory redemption	$140	140	140	140	140	105	80
Subject to mandatory redemption	$89	64	64	64	64	64	—
Long-term Debt (millions)	$840	767	711	647	602	640	356
Total Capitalization (millions)	$1,751	1,591	1,456	1,341	1,265	1,211	689
Capitalization Ratios — End of Year:							
Short-term Borrowings	0.5%	3.9	1.5	1.3	0.5	0.0	3.1
Long-term Debt (incl. debt due within 1 yr.)	48.9%	48.3	49.0	49.2	50.9	53.0	51.8
Preferred Stock	13.1%	12.9	14.1	15.2	16.1	14.0	11.6
Common Equity	37.5%	34.9	35.4	34.3	32.5	33.0	33.5
Rates of Return Earned:							
Total Capitalization (Oper. Income)	7.0%	5.6	6.4	6.6	6.9	6.8	6.6
Avg. Common Equity (Net to Common)	11.6%	7.9	9.1	8.6	10.8	12.1	12.4
Pre-Tax Coverage of Interest Expenses	2.86	2.50	2.74	2.54	2.87	2.97	3.51
Number of Employees (Average)	6,238	6284	6088	5931	5666	5592	4856
Payout Ratio — Common Stock Dividends Paid	83.3%	118.5	90.1	93.0	70.9	58.0	59.9
Book Value Per Share of Common Stock — End of Year	$16.40	17.18	17.63	17.77	17.63	17.21	4.96
Market Price Per Share—Year-End Close	$14¼	13⅜	16¾	18⅞	19	16	23¼
Ratio of Indicated Annual Common Dividend Rate to Market Price Per Share — End of Year	11.2%	12.0	9.6	7.7	7.7	8.	4.8

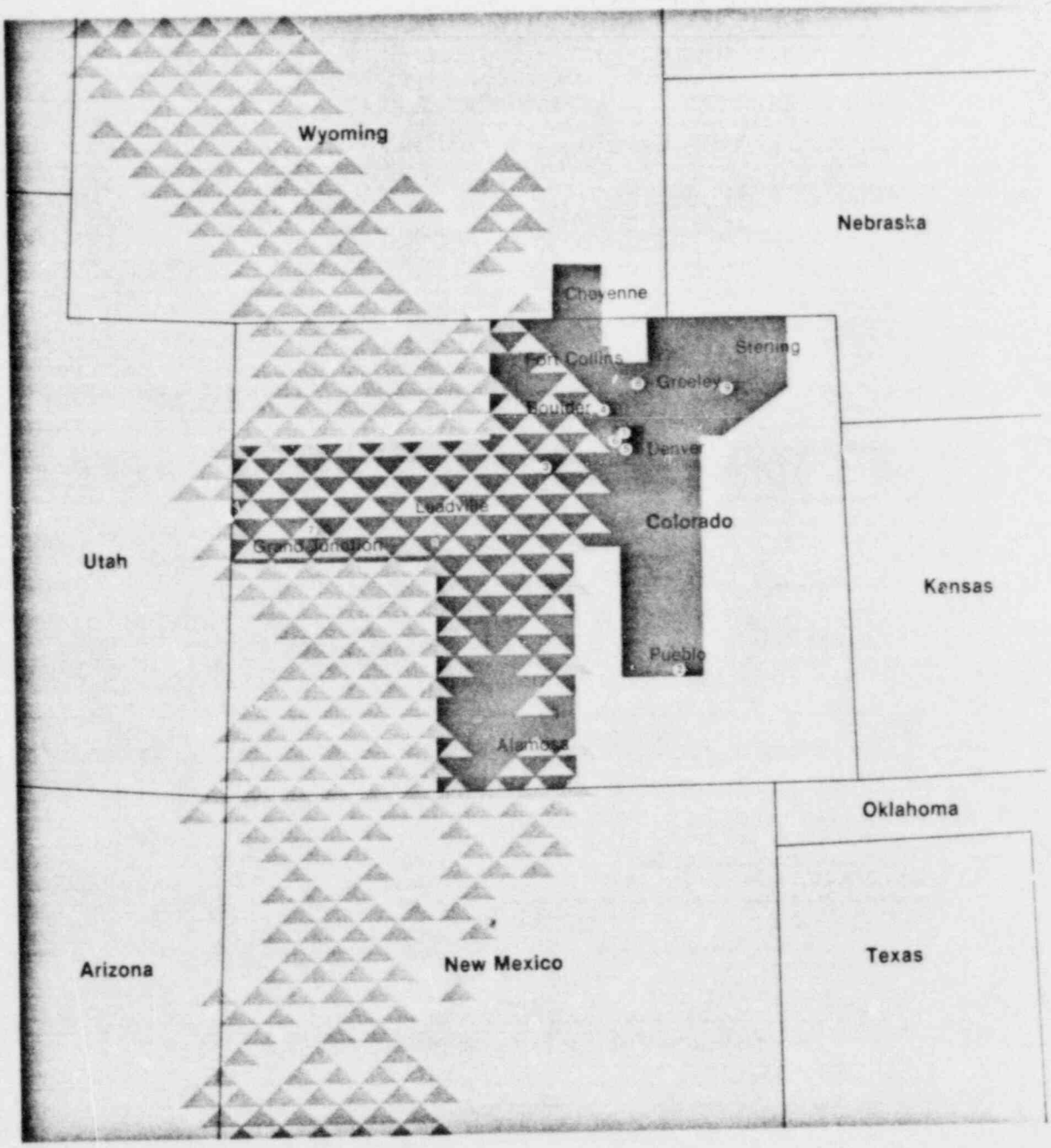
Electric Service Statistics

	1980	1979	1978	1977	1976	1975	1970
Total Kilowatt-Hour Sales (millions)	**15,194**	14,659	13,754	12,877	11,890	11,316	7,260
% Change	**3.6%**	6.6	6.8	8.3	5.1	6.7	8.4
Total Electric Customers (thousands)	**820.5**	794.5	764.8	733.0	676.1	657.4	500.1
% Change	**3.3%**	3.9	4.3	8.4	2.8	2.6	4.4
Average Annual Residential Consumption — KWH	**5,927**	5,913	5,724	5,520	5,480	5,387	4,826
Average Residential Revenue Per KWH (¢)	**5.12**	4.19	3.75	3.60	3.50	3.35	2.58
% Change	**22.2**	11.7	4.2	2.9	4.5	14.7	(2.6)
Average Annual Revenue Per Residential Customer	**$304**	248	215	199	192	181	124
% Change	**22.7%**	15.4	8.0	3.7	6.0	18.6	1.6
Percent of Electric Generation by Class of Fuel:							
Coal	**76.1%**	79.2	85.0	83.8	75.5	67.1	63.8
Oil	**0.8%**	1.8	2.9	2.7	2.9	4.6	1.2
Natural Gas	**17.8%**	17.6	12.1	13.5	21.6	28.3	35.0
Nuclear	**5.3%**	1.4	—	—	—	—	—
Net Effective Capability at Time of Peak — Kilowatts	**3,072**	2,743	2,594	2,492	2,484	2,203	1,883
Net Firm System Peak Load—Kilowatts	**2,772**	2,642	2,559	2,437	2,237	2,108	1,377
% Change	**4.9%**	3.2	5.0	9.0	6.1	9.6	7.3
Reserve Margin at Time of Peak (%)	**10.8%**	3.8	1.4	2.3	11.1	4.5	36.7
Annual System Load Factor (%)	**67.4%**	68.0	66.4	65.2	65.9	66.1	64.7
Fuel Used for Generation (millions)	**$184.1**	176.4	117.5	105.0	86.7	75.4	20.6
Average Cost Per Unit of Fuel (Dollars):							
Coal — Ton	**$18.81**	16.60	13.90	12.31	10.24	9.31	5.56
Natural Gas — MCF	**$ 2.68**	2.00	1.30	1.03	0.79	0.60	0.20
Oil — Barrel	**$26.37**	17.19	13.03	15.20	14.59	14.37	2.55

Natural Gas Service Statistics

Total Gas Sales (MMCF)	**203.3**	213.3	206.7	198.3	209.7	215.4	184.8
% Change	**(4.7)%**	3.2	4.3	(5.4)	(2.7)	4.9	4.5
Total Gas Customers (thousands)	**680.6**	658.2	633.6	609.5	589.6	575.0	459.1
% Change	**3.4%**	3.9	4.0	3.4	2.5	1.8	3.7
Average Annual Residential Consumption — MCF	**140.1**	157.3	151.2	146.3	160.3	172.3	185.9
Average Residential Revenue Per MCF	**$2.70**	2.08	1.64	1.43	1.11	0.97	0.60
% Change	**29.8%**	26.6	14.8	29.1	14.8	17.2	4.7
Average Annual Revenue Per Residential Customer	**$378**	327	249	209	178	166	111
% Change	**15.4%**	31.7	18.7	17.8	6.9	23.1	4.9
Daily Availability — (MMCF)	**1,425**	1,371	1,304	1,275	1,282	1,245	952
Maximum Peak-Day Sendout (MMCF)	**1,246**	1,143	1,160	1,129	1,161	1,067	864
% Change	**9.0%**	(1.5)	2.7	(2.8)	8.8	(0.1)	0.5

Service Territory Map



Plant Name	No. of Units	CAPABILITIES (kilowatts) Year-End Gross	Net Effective At Time of 1980 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	301,100	247,000
⑤ **Arapahoe**	4	256,500	236,000
⑥ **Zuni**	2	115,000	107,000
⑦ **Cameo**	2	77,000	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		286,000	246,800
TOTAL		3,069,600	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.

* One unit undergoing extensive repair

■ Public Service Company's service territory.

■ Approximately 70 percent of the Company's electric and natural gas customers are in the Denver area.

PSCo Shareholder Survey

Dear Reader:

We want to make our communications with you as effective as possible. You can provide valuable help by taking a few minutes to answer this brief questionnaire. No postage stamp is required to return it to us. You do not need to sign your name. Thank you.

R. F. Walker

Richard F. Walker
President

Shareholder Profile

1) Are you ☐ male ☐ female

2) Is your account
☐ Individual ☐ Broker
☐ Joint ☐ Bank or Nominee
☐ Custodial ☐ Other

3) What is your primary reason for holding **PSCo stock**?
☐ Current income ☐ Short term gain
☐ Total return ☐ Other _____
☐ Long term gain

4) Which of the following was most influential in your decision to purchase **PSCo stock**?
☐ Personal research ☐ Financial publication
☐ Broker advice ☐ Advice of a friend or relative
☐ Brokerage firm research ☐ Other

5) How long have you owned **PSCo stock**?
☐ 1 to 2 years ☐ 11 to 20 years
☐ 3 to 5 years ☐ Over 20 years
☐ 6 to 10 years

6) What is your age?
☐ Under 25 ☐ 45-64
☐ 26-44 ☐ 65 or over

7) About how many shares of **PSCo stock** do you own?
☐ 1-100 ☐ 501-1,000
☐ 101-500 ☐ More than 1,000

Shareholder Reports

8) *About how much of* **PSCo's 1980 Annual Report** did you read?
☐ All ☐ ¼ to ½
☐ ¾ or more ☐ less than ¼
☐ ½ to ¾ ☐ none

9) How would you describe the readability of **PSCo's Annual Report**?
☐ Very readable ☐ Somewhat difficult
☐ Somewhat readable ☐ Very difficult

10) Please rank by number (1,2,3, etc.) those sections of the **Annual Report** which were most important to you.
__ Year in Review __ Regulation
__ Management Commentary __ Financing
__ Electric Operations __ Financial Information
__ Natural Gas Operations __ Shareholder Information

11) How would you describe **PSCo's shareholder communications program**?
☐ Very good ☐ Adequate
☐ Good ☐ Inadequate

12) How much of **PSCo's Quarterly Shareholders Report** do you usually read?
☐ All ☐ Very little
☐ Most ☐ None
☐ Some

13) Do you feel the information included in the Annual Report and PSCo's quarterly reports is keeping you adequately informed about Company activities?
☐ Yes ☐ Mostly ☐ No ☐ Not entirely

Miscellanous

14) Would you attend a **regional shareholder meeting** in your area?
☐ Yes ☐ No

14) What is your Zip Code? _____

Supplemental & Duplicate Mailings

To supplement information contained in this Annual Report, shareholders can also receive a Statistical Review 1970-1980 and/or a copy of Annual Report Form 10-K filed with the U.S. Securities and Exchange Commission. For these and additional materials, please check the appropriate box, fill in name and address, and mail this postage-paid, self-addressed card.
☐ **Statistical Review 1970-1980**
☐ **Form 10-K**
☐ **Dividend Reinvestment Plan Information**
☐ **Do not want to receive more than one copy of Annual Report** (Please fill in name and account number below)

NAME _____

SHAREHOLDER ACCOUNT NUMBER _____
(See Annual Report Mailing Label)

STREET AND NUMBER _____

CITY _____ STATE _____ ZIP _____

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OF COLORADO

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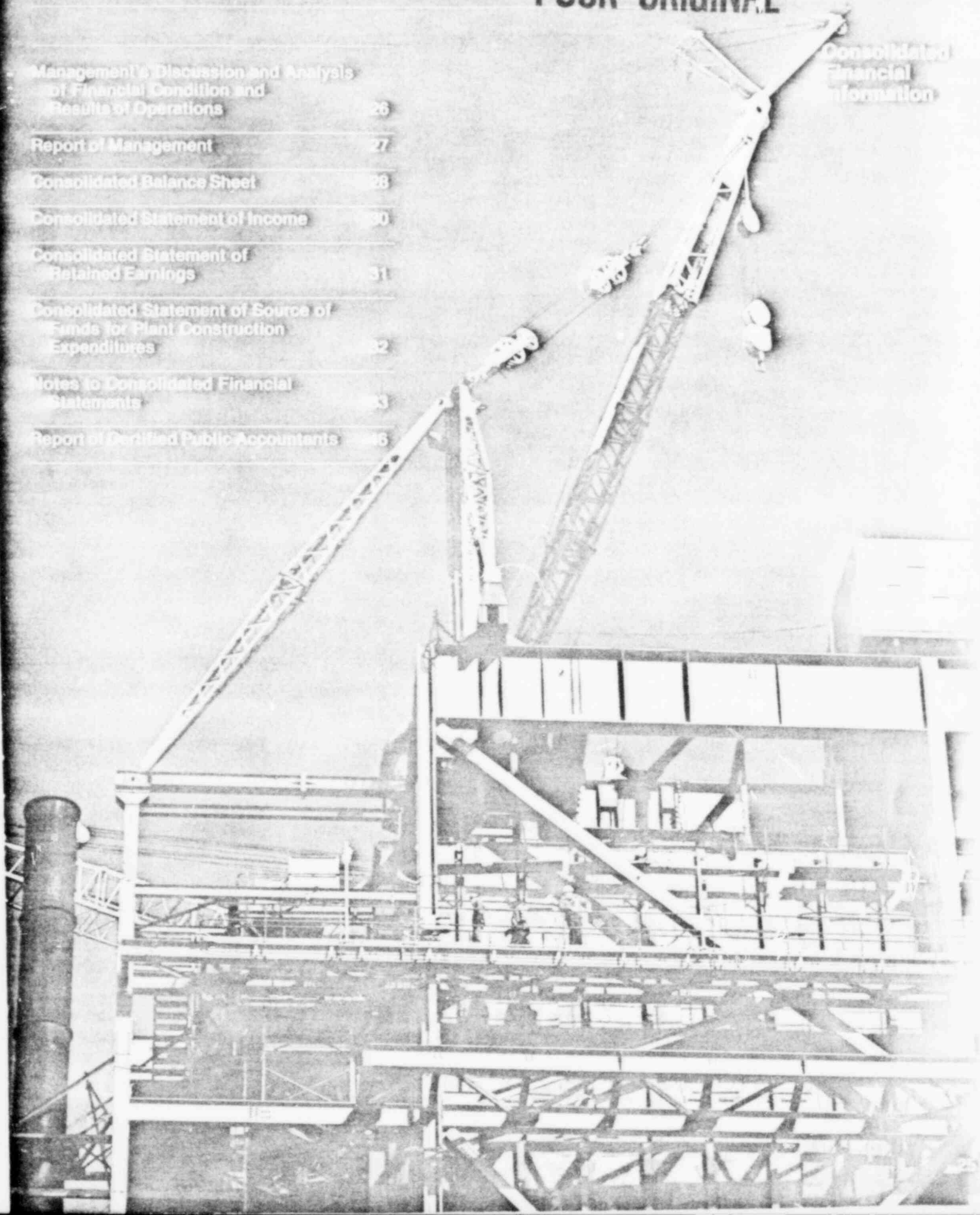
DENVER, COLORADO 80201

POOR ORIGINAL

Consolidated Financial Information



Management's Discussion and Analysis of Financial Condition and Results of Operations

The following factors, which may not be indicative of future operations or earnings, have had a significant effect upon the results of operations during 1980, 1979, and 1978.

Results of Operations

Operating revenues continued to increase significantly each year primarily as a result of increases in base rates, customers and the recovery of increased cost of fuel used in generation and gas purchased for resale through the adjustment clauses of both the electric and gas tariffs.

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

	1980	1979	1978
	(Millions of Dollars)		
Electric revenues			
Base rate increases	$ 52.4	$ 19.6	$29.3
Energy cost adjustment	59.8	39.1	9.1
Sales volume and other changes	21.0	27.2	21.3
Net increase	$133.2	$ 85.9	$59.7
Gas revenues			
Base rate increases	$ 10.8	$ 10.1	$ 9.7
Gas cost adjustment	99.7	84.7	42.1
Sales volume and other changes	(18.1)	12.4	5.4
Net increase	$ 92.4	$107.2	$57.2

The increases (decreases) in operating expenses were as follows:

	1980	1979	1978
	(Millions of Dollars)		
Fuel used in generation	$ 7.7	$ 58.9	$ 12.5
Gas purchased for resale	78.7	85.3	48.6
Purchased power	62.0	6.7	18.0
Other operating expenses	5.3	30.2	27.2
Maintenance	9.5	8.8	1.0
Depreciation	5.6	6.5	3.4
Taxes (other than income taxes)	2.4	2.6	(8.9)
Income taxes	25.4	1.2	9.5
Net increase	$196.6	$200.2	$111.3

The increase in operating expenses is primarily the result of significant and continuing increases in the cost of fuel used in generation, the quantity of power purchased, and the cost of gas purchased for resale. Other factors include annual wage increases, normal system expansion, a reduction in contractor reimbursements for the Fort St. Vrain Nuclear Generating Station in 1978, and acceptance of the plant for commercial operation, effective January 1, 1979.

The increase in net income in 1980 as compared to prior years primarily resulted from base rate increases granted in November 1979 and May 1980, and to some extent, a revision in the Electric Cost Adjustment clause which allows the Company to recover more efficiently fuel costs and purchased power costs. The increases in long-term debt, preferred and common stock and the corresponding increase in the number of average shares of common stock outstanding is the result of the need for continued financing to support the Company's construction program. The changes in earnings per average share of common stock outstanding are a result of the changes in net income and increases in the number of shares outstanding.

Liquidity and Capital Resources

The Company's construction program for 1981, 1982, and 1983, is estimated to be $262,000,000, $273,000,000, and $360,000,000 respectively. The Company's objectives for the financing of these expenditures include: internal generation of at least one half of the funds required; maintenance of a sound capitalization structure consisting of not less than 40 percent common stock, not more than 45 percent long-term debt and the balance in preferred stock; and, the maintenance of high credit ratings for its securities.

If these objectives cannot be attained without significant equity share dilution from the sale of common stock below book value, the estimated construction expenditures previously set forth may be reduced. Under such circumstances, construction will be limited to commitments previously made, such as the completion of the Pawnee Generating Station and minimum expenditures allocated to the Southeast Generating Station project, to the installation of pollution control equipment required to bring the Company's facilities into compliance with various governmental standards, regulations or variances, and to the maintenance of existing facilities.

The Company's Indenture permits the issuance of additional first mortgage bonds to the extent of 60 percent of the value of net additions to the Company's utility property, provided net earnings before depreciation, taxes on income and interest expense for a recent twelve month period are at least 2.5 times the annual interest requirements on all bonds to be outstanding. The amount of net additions at

December 31, 1980, would permit (and the net earnings test would not prohibit) the issuance of approximately $266,000,000 of additional bonds at an assumed annual interest rate of 15.0 percent.

The Company's Restated Articles of Incorporation prohibit the issuance of additional preferred stock without preferred shareholder approval, unless the gross income available for the payment of interest charges for a recent twelve month period is at least 1.5 times the total of (1) the annual interest requirements on all indebtedness to be outstanding for more than one year and (2) the annual dividend requirements on all preferred stock to be outstanding. At December 31, 1980, gross income available under this requirement would permit the Company to issue approximately $356,000,000 of additional preferred stock at an assumed annual dividend rate of 13.0 percent (assuming no additional long-term debt is issued).

Arrangements for bank lines of credit totaled $124,447,000 and arrangements for bankers' acceptance facilities amounted to $15,000,000 at December 31, 1980. The entire amount of these arrangements was available to the Company at December 31, 1980.

Impact of Inflation and Changing Prices
The financial statements are prepared in accordance with generally accepted accounting principles and are based on the results of business transactions as recorded in actual amounts of dollars at the time of each transaction. However, during periods of rapidly changing prices, these financial data based on actual historical costs tend to become distorted and fail to reflect real economic costs or value. For example, in capital intensive industries, such as the utility industry, the cost of maintaining productive capacity has been particularly affected by significant long-term inflation. Very simply, depreciation expense on utility property, plant and equipment which is charged against current earnings for assets acquired in the past does not reflect the inflated cost of acquiring similar assets at current prices. As a result, higher profits may be reported on a continuing basis with no accompanying gain in real purchasing power or economic value. (See Note 12 of *Notes to Consolidated Financial Statements*)

Report of Management

The accompanying financial statements of Public Service Company of Colorado and subsidiaries have been prepared by Company personnel in conformity with generally accepted accounting principles consistent with the Uniform System of Accounts of the Federal Energy Regulatory Commission. The integrity and objectivity of the data in these financial statements are the responsibility of management. Financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

The Company maintains and enforces a system of internal accounting controls, which is designed to provide reasonable assurance, on a cost effective basis, as to the integrity, objectivity and reliability of the financial records. 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.

The accounting and internal control procedures of the Company are reviewed by the Audit Committee of the Board of Directors. The Committee, which is composed of directors who are not employees of the Company, meets regularly with the Company's management, the internal audit staff and the independent accountants.

The accompanying financial statements have been examined by Arthur Young & Company, independent accountants, whose report is on page 46.

D. D. Hock
Vice President and
Chief Accounting Officer

R. F. Walker
President and
Chief Executive Officer

Consolidated Balance Sheet

December 31, 1980 and 1979

Public Service Company of Colorado and Subsidiaries

Assets

	1980	1979
	(Thousands of Dollars)	
Property, Plant and Equipment, at cost:		
Electric	$1,512,304	$1,416,386
Gas	441,747	409,539
Steam and other	9,696	9,688
Common to all departments	90,652	85,486
Construction in progress	451,788	339,794
	2,506,187	2,260,893
Less accumulated provision for depreciation	593,879	537,284
	1,912,308	1,723,609
Nuclear fuel, less accumulated provision for amortization (1980—$1,980; 1979—$516) (Notes 1 and 11)	8,266	8,874
	1,920,574	1,732,483
Investments, at cost	320	270
Current Assets:		
Cash	8,909	2,117
Temporary cash investments	3,951	12,923
Accounts receivable, less provision for uncollectible accounts (1980—$2,131; 1979—$1,656)	122,840	124,156
Notes receivable	317	2,556
Fuel inventory, at average cost	60,679	40,210
Materials and supplies, at average cost	39,833	45,499
Cost of gas delivered but not billed to customers	30,693	26,843
Gas in underground storage, at cost (LIFO)	8,528	1,944
Prepaid expenses	3,852	5,161
Total Current Assets	279,602	261,409
Deferred Charges:		
Debt expense (being amortized)	7,415	6,895
Other	8,459	10,207
	15,874	17,102
	$2,216,370	$2,011,264

See accompanying notes.

Capital and Liabilities

	1980	1979
	(Thousands of Dollars)	
Common Equity:		
Common stock (Note 2)	$ 514,566	$ 419,108
Retained earnings	141,248	136,314
Total	655,814	555,422
Preferred Stock (Note 2):		
Not subject to mandatory redemption	140,008	140,008
Subject to mandatory redemption at par	89,400	64,400
Long-term Debt (Note 3)	839,749	766,656
Total Capitalization	1,724,971	1,526,486
Current Liabilities:		
Notes payable (Note 4)	9,110	62,186
Long-term debt due within one year	17,226	2,250
Accounts payable	162,309	146,159
Dividends payable	20,164	16,319
Customers' deposits	12,837	24,169
Accrued taxes	39,426	41,347
Accrued interest	17,798	13,776
Customers' refund	—	10,817
Other	23,629	16,973
Total Current Liabilities	302,499	333,996
Deferred Credits:		
Customers' advances for construction	24,958	25,060
Investment credit (being amortized over the productive lives of the related property)	105,763	80,991
Accumulated deferred income taxes (Notes 1 and 8)	42,454	30,818
Other	15,725	13,913
	188,900	150,782
Commitments and Contingencies (Note 6)		
	$2,216,370	$2,011,264

Consolidated Statement of Income

Years ended December 31, 1980, 1979 and 1978

Public Service Company of Colorado and Subsidiaries

	1980	1979	1978
	(Thousands of Dollars)		
Operating Revenues:			
Electric	$ 640,749	$ 507,587	$ 421,732
Gas	502,919	410,537	303,300
Other	11,976	8,386	4,746
	1,155,644	926,510	729,778
Operating Expenses:			
Fuel used in generation	184,073	176,413	117,491
Gas purchased for resale	388,852	310,129	224,840
Purchased power	91,414	29,425	22,722
Other operating expenses	168,114	162,858	132,647
Maintenance	46,646	37,092	28,249
Depreciation (Note 1)	61,594	55,990	49,541
Taxes (other than income taxes) (Note 9)	40,433	38,033	35,424
Income taxes (Note 8)	52,190	26,826	25,601
	1,033,316	836,766	636,515
Operating Income	122,328	89,744	93,263
Other Income and Deductions:			
Allowance for equity funds used during construction (Note 1)	14,947	10,893	10,506
Miscellaneous income and deductions—net	6,885	2,269	(4,310)
	144,160	102,906	99,459
Interest Charges:			
Interest on long-term debt	65,108	50,717	44,811
Amortization of debt discount and expense less premium (Note 1)	528	239	224
Other interest	7,757	4,123	2,879
Allowance for borrowed funds used during construction (Note 1)	(14,260)	(7,982)	(6,156)
	59,133	47,097	41,758
Net Income	85,027	55,809	57,[illegible]01
Dividend Requirements on Preferred Stock	15,020	13,536	1[illegible],536
Earnings Available for Common Stock	$ 70,007	$ 42,273	$ 44,165
Shares of Common Stock Outstanding (thousands):			
Year-end	39,990	32,326	29,250
Average	36,412	31,225	26,572
Earnings Per Average Share of Common Stock Outstanding	$1.92	$1.35	$1.66
Dividends Per Share of Common Stock:			
Paid	$1.60	$1.60	$1.49½
Declared	$1.60	$1.60	$1.53

See accompanying notes.

Consolidated Statement of Retained Earnings

Years ended December 31, 1980, 1979 and 1978.

Public Service Company of Colorado and Subsidiaries

	1980	1979	1978
	(Thousands of Dollars)		
Retained Earnings at Beginning of Year	**$136,314**	$145,853	$144,828
Net Income	**85,027**	55,809	57,701
	221,341	201,662	202,529
Dividends:			
On cumulative preferred stock:			
$100 par value:			
4.20% series	**420**	420	420
4¼% series	**744**	744	744
4½% series	**293**	293	293
4.64% series	**742**	742	742
4.90% series	**735**	735	735
4.90% 2nd series	**735**	735	735
7.15% series	**1,787**	1,787	1,787
7.50% series	**2,250**	2,250	2,250
8.40% series	**2,890**	2,890	2,890
12.50% series	**2,005**	—	—
$25 par value:			
8.[illegible]0% series	**2,940**	2,940	2,940
	15,541	13,536	13,536
On common stock:			
$1.60 per share in 1980 and 1979, $1.53 per share in 1978	**60,217**	50,421	41,172
	75,758	63,957	54,708
Expense of Issuing Stock	**4,335**	1,391	1,968
	80,093	65,348	56,676
Retained Earnings at End of Year	**$141,248**	$136,314	$145,853

See accompanying notes.

Consolidated Statement of Source of Funds for Plant Construction Expenditures

Years ended December 31, 1980, 1979 and 1978

Public Service Company of Colorado and Subsidiaries

	1980	1979	1978
	(Thousands of Dollars)		
Source of Funds:			
Funds from Operations:			
Net Income	$ 85,027	$ 55,809	$ 57,701
Non-cash Charges (Credits) Against Income Not Involving Working Capital in the Current Period:			
Depreciation charged to operating expenses	61,594	55,990	49,541
Depreciation charged to clearing and other accounts	6,324	5,105	4,065
Allowance for funds used during construction	(29,207)	(18,875)	(16,662)
Investment credit—net of amortization	24,772	20,213	13,599
Deferred income taxes	13,387	2,018	8,178
Funds from Operations	161,897	120,260	116,422
Dividends:			
On preferred stock	(15,541)	(13,536)	(13,536)
On common stock	(60,217)	(50,421)	(41,172)
Funds Retained in the Business	86,139	56,303	61,714
Funds from Financing — Net Proceeds:			
Proceeds from sale of common stock	91,262	48,012	52,573
Proceeds from sale of preferred stock	24,861	—	—
Proceeds from sale of first mortgage bonds	49,448	—	49,369
Proceeds from sale of pollution control bonds and notes	37,073	40,380	1,390
Proceeds from issue of long-term notes	2,607	16,353	14,773
Funds from Financing	205,451	104,745	118,105
Funds from Settlement Agreement (Note 11)	2,357	60,000	—
Reduction in Long-term Debt	(17,200)	(2,246)	(2,240)
Other Sources — Net	6,340	18,327	12,771
Total Funds Available	283,087	237,129	190,350
Increase (Decrease) in Working Capital	49,690	(64,802)	(2,937)
Net Plant Construction Expenditures	233,397	301,931	193,287
Allowance for Funds Used During Construction	29,207	18,875	16,662
Gross Plant Construction Expenditures	$262,604	$320,806	$209,949
Increase (Decrease) in Components of Working Capital:			
Current Assets:			
Cash	$ 6,791	$ (13,190)	$ (7,751)
Temporary cash investments	(8,972)	9,918	(6,556)
Accounts and notes receivable	(3,554)	33,919	22,987
Fuel inventory	20,469	6,918	(1,667)
Materials and supplies	(5,666)	16,014	6,528
Other	9,125	9,167	7,375
	18,193	62,746	20,916
Current Liabilities:			
Notes payable	(53,076)	40,004	5,182
Long-term debt due within one year	14,976	18	(10,920)
Accounts payable	16,150	63,641	27,542
Accrued liabilities	2,102	7,048	3,016
Customers' refund	(10,817)	10,817	(12,834)
Other	(832)	6,020	11,867
	(31,497)	127,548	23,853
Increase (Decrease) in Working Capital	$ 49,690	$ (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, the prime contractor for the Fort St. Vrain Nuclear Generating Station, 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 accordance with the requirements of the Financial Accounting Standards Board, Fuelco provides for deferred income taxes applicable to exploration and development costs. 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 percent 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 non-operating 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%. For the first five months of 1980, the rate used was 9.53% and for the last seven months the rate used was 9.57%. 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

	1980		1979	
	Shares	Amount	Shares	Amount
		(Thousands of Dollars)		(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
12.50% series	250,000	25,000	—	—
Total	894,000	$ 89,400	644,000	$ 64,400

Capital Stock (continued)

	1980		1979	
	Shares	Amount	Shares	Amount
		(Thousands of Dollars)		(Thousands of Dollars)
Cumulative preferred stock ($25), $25 par value:				
Authorized	4,000,000		4,000,000	
Issued and outstanding:				
Not subject to mandatory redemption:				
8.40%	1,400,000	$ 35,000	1,400,000	$ 35,000
Common stock, $5 par value:				
Authorized	80,000,000		40,000,000	
Issued and outstanding	39,989,753	$ 199,949	32,326,418	$ 161,632
Premium on common stock		314,442		257,358
Installments received from employees on subscriptions aggregating $416,259 for 34,441 shares at December 31, 1980, and $247,922 for 15,375 shares at December 31, 1979		175		118
Total		$514,566		$419,108

Changes in common stock and premium on common stock for 1980, 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
2,532,289 shares sold to the public and employees	$16.13	12,661	28,172
Balance, December 31, 1979		161,632	257,358
781,497 shares sold under Dividend Reinvestment Plan	$11.04 to 14.75	3,907	9,711
46,726 shares sold under Employees Stock Ownership Plan	$12.44 to 14.19	234	366
11,080 shares sold to employees	$16.13	55	123
2,806,534 shares sold to the public and employees	$11.50	14,033	18,242
4,017,498 shares sold to the public and employees	$13.13	20,088	32,642
Balance, December 31, 1980		$199,949	$314,442

On July 10, 1980, the Company received $25,000,000 from the sale of 250,000 shares of 12.50% cumulative preferred stock, $100 par value. The shares were placed in a private transaction with a group of institutional investors. No other changes in preferred stock occurred in the three years ended December 31, 1980.

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, 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; 8.40% series: $112 on or prior to June 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; 12.50% series: $106.25 on or prior to July 1, 1985 (not callable under certain conditions prior to July 1, 1983), $105.21 on or prior to July 1, 1986, $104.17 on or prior to July 1, 1987, $103.13 on or prior to July 1, 1988, $102.09 on or prior to July 1, 1989, and $101.05 on or prior to July 1, 1990, 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; 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; starting in 1986 and in each year thereafter, the Company will set aside in a sinking fund an amount sufficient for the redemption of 50,000 shares of the 12.50% cumulative preferred stock at $100 per share, plus accrued dividends to the date set for repurchase. The corporation shall be entitled, at its option, on any one of the sinking fund redemption dates, to redeem up to 50,000 shares of the 12.50% cumulative preferred stock, in addition to the shares otherwise required to be redeemed on such sinking fund redemption date, at $100 per share plus an amount equal to the accrued and unpaid dividends thereon to such sinking fund redemption date, provided, however, that the option of the corporation to so redeem up to 50,000 additional shares of the 12.50% cumulative preferred stock may be exercised only once.

$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

	1980	1979
	(Thousands of Dollars)	
Public Service Company of Colorado:		
First mortgage bonds:		
3-1/4% series, due October 1, 1981	$ —	$ 15,000
3-1/8% series, due October 1, 1984	20,000	20,000
15% series, due March 1, 1987	50,000	—
4-3/8% series, due May 1, 1987	30,000	30,000
4-5/8% series, due May 1, 1989	20,000	20,000
4-1/2% series, due October 1, 1991	30,000	30,000
4-5/8% series, due March 1, 1992	8,800	8,800
4-1/2% series, due June 1, 1994	35,000	35,000
5-3/8% series, due May 1, 1996	35,000	35,000
5-7/8% series, due July 1, 1997	35,000	35,000
6-3/4% series, due July 1, 1998	25,000	25,000
8-3/4% series, due September 1, 2000	35,000	35,000
7-1/4% series, due February 1, 2001	40,000	40,000
7-1/2% series, due August 1, 2002	50,000	50,000
7-5/8% series, due June 1, 2003	50,000	50,000
9-3/8% series, due October 1, 2005	49,500	49,500
8-1/4% series, due November 1, 2007	50,000	50,000
9-1/4% series, due October 1, 2008	50,000	50,000
Pollution Control Series A, 5-7/8%, due March 1, 2004	24,000	24,000
Pollution Control Series B:		
6-5/8%, due December 1, 1985	10,500	10,500
7-1/8%, due December 1, 1990	2,000	2,000
7-5/8%, 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)
Pollution Control Series C:		
7-1/4%, due October 1, 2004	15,000	15,000
7-3/8%, due October 1, 2005	1,960	1,960
7-3/8%, due October 1, 2006	2,105	2,105
7-3/8%, due October 1, 2007	2,260	2,260
7-3/8%, due October 1, 2008	2,425	2,425
7-3/8%, due October 1, 2009	26,250	26,250
Less amounts held in construction fund	—	(10,199)
Unamortized premium	1,469	1,572
Unamortized discount	(631)	(656)
Unsecured Pollution Control Revenue Notes,		
9-1/2%, due March 1, 1982	37,000	—
Less amounts held in construction fund	(11,416)	—
	763,722	691,236
Cheyenne Light, Fuel and Power Company:		
First mortgage bonds:		
3-3/4% series, due May 1, 1985	915	938
5-1/2% series, due April 1, 1990	1,353	1,386
7-7/8% series, due April 1, 2003	4,000	4,000
Western Slope Gas Company:		
Unsecured promissory notes:		
10%, due September 25, 1986	5	—
7-3/4%, due December 1, 1997	20,000	20,000
10.35%, due December 1, 1999	10,000	10,000
1480 Welton, Inc.:		
4-3/4% secured notes, payable in equal quarterly installments of $168,388 to June 1, 1992 covering principal and interest	5,543	5,942
6%-7-3/4% mortgage notes payable, due in annual installments through 1987	73	112

	1980	1979
	(Thousands of Dollars)	
Fuel Resources Development Co.:		
Unsecured note payable (effective interest rate 7-1/4%), due in annual principal installments of $1,066,016 through 1983	2,132	3,198
7-1/2% unsecured note payable, due in annual principal installments of $500,000 through 1982	500	1,000
Unsecured notes payable, due in twelve equal quarterly principal installments beginning March 31, 1984, interest rate fluctuates with the prime rate (22.15% at December 31, 1980 and 15-1/4% at December 31, 1979)	23,900	21,100
Home Light and Power Company:		
First mortgage bonds:		
3-3/4% series, due August 1, 1982	313	320
4% series, due February 1, 1986	384	393
5-1/2% series, due September 1, 1989	343	350
6% series, due April 1, 1997	726	740
7-7/8% series, due December 1, 2002	2,200	2,237
10-3/8% series, due January 1, 2003	3,640	3,704
	$839,749	$766,656

The 4-3/4% 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 requirments during the five years subsequent to December 31, 1980 are: $20,638,000 (1981), $42,638,000 (1982), $5,638,000 (1983), $25,438,000 (1984), and $15,938,000 (1985) for the Company and $2,184,000 (1981), $2,513,000 (1982), $1,686,000 (1983), $8,977,000 (1984), and $10,488,000 (1985) 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, 1980 and 1979 is as follows:

	1980	1979
	(Thousands of Dollars)	
Notes payable to banks (weighted average interest rate 21.50% at December 31, 1980 and 15.35% at December 31, 1979)	$ 6,630	$ 7,236
Commercial paper (weighted average interest rate 20.63% at December 31, 1980 and 13.46% at December 31, 1979)	2,480	54,950
	$ 9,110	$62,186
Maximum amount outstanding at any month-end during the period	$126,078	$70,908
Weighted average amount (based on the daily outstanding balance) outstanding for the period (weighted average interest rate 13.64% for the year ended December 31, 1980 and 11.85% for the year ended December 31, 1979)	$ 44,566	$29,937

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

Arrangements for bank lines of credit totaled $124,447,000 at December 31, 1980 and $135,262,000 at December 31, 1979. These lines of credit consisted of $21,647,000 at December 31, 1980 and $51,762,000 at December 31, 1979, maintained by compensating balances and $102,800,000 at December 31, 1980 and $75,000,000 at December 31, 1979, 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 in bank lines of credit. These time deposits were withdrawn during 1980. The compensating bank balance arrangements provide that the Company maintain average compensating balances in the amount of $2,164,000 for the period ending December 31, 1980, and $5,176,200 for the period ending December 31, 1979, 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 $15,000,000 were available at December 31, 1980, and $20,000,000 at December 31, 1979. 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 $534,000,000 at December 31, 1980, and $158,000,000 at December 31, 1979.

The aggregate estimated annual commitments as of December 31, 1980 under long-term leases are as follows:

Year	Commitments
	(Thousands of Dollars)
1981	$1,488
1982	1,471
1983	1,367
1984	1,220
1985	1,090
1986-1990	5,022
1991-1995	3,908
1996-2000	158

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 Statement No. 13, *"Accounting for Leases"*. The Company has been advised by the CPUC 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, 1980 and 1979 would include in property, plant and equipment $10,694,000 and $470,000, respectively, representing capitalized leases with an accumulated amortization of $549,000 at December 31, 1980 and $157,000 at December 31, 1979. Long-term debt would include noncurrent obligations under capital leases of $9,563,000 at December 31, 1980 and $78,000 at December 31, 1979, and current liabilities would include current obligations under capital leases of $672,000 and $125,000, respectively. The charges to the income statement representing total lease payments recorded as rent expense were less by $57,000 at December 31, 1980, and 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, 1978, and 1979. 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

Total provision for pension expense under the Company's noncontributory defined benefit retirement plan covering all eligible employees was $11,263,000 in 1980, $11,762,000 in 1979, and $10,856,000 in 1978. The Company's policy is to fund pension cost accrued. A comparison of accumulated plan benefits and plan net assets as of the end of the plan's fiscal

year, June 30, 1980, is presented below (in thousands of dollars):

Actuarial present value of accumulated plan benefits:	
Vested	$ 75,000
Nonvested	7,000
Total	$ 82,000
Market value of net asets available for benefits	$119,980

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9½% for the fiscal year ended June 30, 1980. The actuarial present value of accumulated plan benefits is generally based on employees' history of pay and service and other appropriate factors as of the benefit valuation date and does not include anticipated future increases in employee compensation. An evaluation of accumulated plan benefits as of December 31, 1980, was not made. However, the market value of the net assets available for benefits at that date was approximately $122,049,000.

Effective December 1, 1978, the Company's Board of Directors began authorizing supplemental payments to retired employees and surviving beneficiaries for employees who retired prior to January 1, 1977. These payments were approximately $506,000 in 1980, $529,000 in 1979, and $46,000 in 1978. They do not constitute an employee pensi[illegible] benefit plan and are subject to appr[illegible]al annually. Payments 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:

	1980	1979	1978
	(Thousands of Dollars)		
Tax computed at statutory rate on pre-tax accounting income	**$63,119**	$38,012	$39,985
Increase (decrease) in tax from:			
Excess of tax over book depreciation	**2,368**	736	(4,696)
Allowance for funds used during construction	**(13,413)**	(8,682)	(7,998)
Amortization of investment credit	**(3,548)**	(2,714)	(2,046)
State income taxes, net of federal income tax benefit	**2,166**	1,209	1,136
Other — net	**1,498**	(1,735)	(780)
Total income tax expense	**$52,190**	$26,826	$25,601
Income tax expense consists of the following:			
Current income taxes:			
Federal	**$13,080**	$ 2,412	$ 1,639
State	**951**	2,183	2,185
	14,031	4,595	3,824
Deferred income taxes:			
Nuclear fuel and spare parts	**1,752**	(5,042)	—
Accelerated amortization	**(474)**	237	683
Accelerated depreciation	**10,011**	7,576	4,988
Intangible drilling costs	**1,227**	3,221	2,469
Gain on installment sale	**—**	(11)	38
Lease and well impairments — net	**850**	(3,963)	—
Capitalized interest	**21**	—	—
	13,387	2,018	8,178
Charge equivalent to reduction in income taxes due to deferred investment tax credit, net of amortization	**24,772**	20,213	13,599
Total income tax expense	**$52,190**	$26,826	$25,601

[illegible]pany has investment tax credit carryovers of $18,758,000, expiring in 1987, a[illegible] [illegible]o offset future income taxes.

9. Taxes (Other Than Income Taxes)

	1980	1979	1978
	(Thousands of Dollars)		
Real estate and personal property taxes	$27,850	$25,643	$24,410
Franchise taxes	1,443	1,204	1,719
Social security taxes	8,229	7,301	6,003
City and state use taxes	3,059	4,354	3,202
Miscellaneous taxes	1,955	1,641	1,754
	$42,536	$40,143	$37,088
Charged:			
Directly to Income:			
Operating expenses	$40,433	$38,033	$35,424
Other	193	118	63
To property, plant and equipment and various clearing accounts	1,910	1,992	1,601
	$42,536	$40,143	$37,088

10. Segments of Business

Segment information for the year ended December 31, 1980 is as follows:

	Electric	Gas	Other	Total
	(Thousands of Dollars)			
Operating revenues	$ 640,749	$502,919	$11,976	$1,155,644
Operating expenses, excluding depreciation	455,211	457,452	6,869	919,532
Depreciation	47,320	12,769	1,505	61,594
Total operating expenses	502,531	470,221	8,374	981,126
Operating income*	$ 138,218	$ 32,698	$ 3,602	$ 174,518
Plant construction expenditures**	$ 221,146	$ 35,823	$ 5,635	$ 262,604
Identifiable assets, December 31, 1980:				
Utility plant**	$1,585,703	$289,631	$45,240	$1,920,574
Materials and supplies, excluding $202 of merchandise for resale	$ 32,688	$ 6,026	$ 917	39,631
Fuel inventory	$ 60,503	$ —	$ 176	60,679
Gas in underground storage	$ —	$ 8,528	$ —	8,528
Other corporate assets				186,958
				$2,216,370

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

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

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

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 Compar 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 the plant cost for the reduction in the plant's capacity from 330 Mw at 80% capacity factor to 200 Mw at 60% capacit

factor; however, GAC made no warranty as to the capacity of the plant; (b) GAC will contribute to the Company, between 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 Financial Accounting Standards Board ("FASB") Statement No. 33, *"Financial Reporting and Changing Prices,"* in order to provide certain information about the effects of general inflation and changes in specific prices on the historical cost financial data of the Company. This supplementary information should be viewed as an estimate rather than a precise measure.

Two methods have been prescribed for measuring the effects of changing prices.

The *Constant Dollar* method restates historical financial data to units of equivalent purchasing power by applying the Consumer Price Index for All Urban Consumers (CPI-U) to the original historical cost of the Company's surviving property, plant and equipment. Constant Dollar adjusted information indicates how the Company has been affected by the decline in purchasing power of the dollar (general inflation).

The *Current Cost* method adjusts historical financial data to reflect changes in the specific prices of the Company's property, plant and equipment from the date these assets were acquired to the present. This estimated cost of replacing the productive capacity of existing plant assets is primarily determined by indexing surviving property, plant and equipment (including land, land rights, property held for future use, and construction work in progress) by the Handy-Whitman Index of Public Utility Construction Costs. *Current Cost* adjusted information indicates how the Company has been affected by the increased cost of maintaining its existing productive capacity. *Current Costs* differ from *Constant Dollar* amounts to the extent that specific prices have increased more or less than prices in general.

As shown in the following statement, income from continuing operations developed under both *Constant Dollar* and *Current Cost* methods is lower than that determined under the historical cost method used for the primary financial statements. Of the revenue and expense elements from which the income figure is derived, only depreciation expense has been restated by applying the Company's depreciation rates to the indexed amounts of *Constant Dollar* and *Current Cost* adjusted property, plant and equipment. All other income statement items are considered to have been effectively transacted at average price levels for the current year, and accordingly have not been restated.

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 and gas inventories are effectively monetary assets.

As prescribed in FASB Statement No. 33, income taxes were not adjusted to reflect the effects of changing prices. This requirement is appropriate, since current income tax policy ignores the effects of inflation in measuring taxable income and the higher depreciation expense experienced under *Constant Dollar* and *Current Cost* accounting is not tax deductible. The Company's effective income tax rate, when taxable income has been adjusted for inflation, is 69 percent under the *Constant Dollar* method and 146 percent under the *Current Cost* method for 1980, both of which exceed the reported effective tax rate of 38 percent and the statutory rate of 49 percent.

The Company and its consolidated subsidiaries have compiled with the requirements of FASB Statement No. 39, which applies the provisions of FASB Statement No. 33 for measuring *Current Costs* to the mineral resource assets of mining and oil and gas enterprises.

Statement of Income from Continuing Operations Adjusted for Changing Prices
For the year ended December 31, 1980
(Thousands of Dollars)

	As Reported Historical Cost	Constant Dollar Average 1980 Dollars	Current Cost Average 1980 Dollars
Operating revenues	$1,155,644	$1,155,644	$1,155,644
Fuel used in generation expense	184,073	184,073	184,073
Gas purchased for resale expense	388,852	388,852	388,852
Depreciation expense	61,594	123,030	163,001
Other operating and maintenance expense	346,607	346,607	346,607
Income tax expense	52,190	52,190	52,190
Interest expense	59,133	59,133	59,133
Other income and deductions — net	(21,832)	(21,832)	(21,832
	1,070,617	1,132,053	1,172,024
Income (loss) from continuing operations (excluding reduction to net recoverable amount)	$,85,027	$ 23,591*	$ (16,380
Increase in specific prices (current cost) of property, plant and equipment held during the year**			$ 490,818
Effect of increase in general price level			(414,899
Reduction to net recoverable amount (Note A)		$ (153,156)	(189,104
Excess of increase in general price level over increase in specific prices after reduction to net recoverable amount			(113,185
Gain from decline in purchasing power of net amounts owed (Note B)		133,157	133,157
Net		$ (19,999)	$ 19,972

* Including the reduction to net recoverable amount, the income (loss) from continuing operations on a constant dollar basis would have been $(129,565) for 1980.

** At December 31, 1980, current cost of property, plant and equipment, net of accumulated depreciation was $3,842,314, while historical cost (or net cost recoverable through depreciation) was $1,920,574.

Note A. Reduction to Net Recoverable Amount
Under the CPUC and FERC rate-making provisions to which the Company is subject, only the historical cost of plant is recoverable in revenues as an amount equal to depreciation. Therefore, the portion of the cost of plant stated in terms of Constant Dollars or Current Cost which exceeds the historical cost of plant and is not presently recoverable in rates as depreciation has been 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 o its net investment when replacement of facilities actually occurs.

Note B. Gain From Decline in Purchasing Power of Net Amounts Owed
This memorandum caption shows the net effect of inflationary value changes on those Company assets and liabilities carried on the balance sheet at fixed or determinable monetary settlement amounts. During a period of inflation, holders of monetary assets sustain a loss of general purchasing power while holders of monetary liabilities experience a gain. The Company's "Gain from Decline in Purchasing Power of Net Amounts Owed" is primarily attributable to the substantial amount of debt and preferred stock which has been used to finance property, plant and equipment. (In calculating this gain, preferred stock has been classified as a monetary item, which is consistent with its treatment for rate-making purposes.) Such amount does not represent funds available for distribution to shareholders.

To properly reflect the economics of rate regulation in the Statement of Income from Continuing Operations, the "Reduction to Net Recoverable Amount" should be offset by the "Gain from Decline in Purchasing Power of Net Amounts Owed."

Five-Year Comparison of Selected Financial Data Adjusted for Effects of Changing Prices
In Average 1980 Dollars (except "As Reported" amounts)

	(Thousands, Except Per Share Amounts)				
	Years Ended December 31,				
	1980	1979	1978	1977	1976
Operating Revenues:					
As reported	**$1,155,644**	$ 936,510	$729,778	$613,299	$522,154
Adjusted to constant dollars	**1,155,644**	1,051,323	921,746	833,951	755,822
Income (loss) from continuing operations (excluding reduction to net recoverable amount):					
As reported	**85,027**	55,809			
Adjusted to constant dollars	**23,591**	15,501			
Adjusted to current cost	**(16,380)**	(33,140)			
Income (loss) per common share (after dividend requirements on preferred stock):					
As reported	**1.92**	1.35			
Adjusted to constant dollars (excluding reduction to net recoverable amount)	**.24**	.01			
Adjusted to current cost	**(.86)**	(1.55)			
Excess of increase in general price level over increase in specific prices after reduction to net recoverable amount	**113,185**	138,320			
Gain from decline in purchasing power of net amounts owed	**133,157**	147,622			
Net assets at year-end at net recoverable amount	**624,922**	595,216			
Cash dividends declared per common share:					
As reported	**1.60**	1.60	1.53	1.46	1.38
Adjusted to constant dollars	**1.60**	1.82	1.93	1.99	2.00
Market price per common share at year-end:					
As reported	**14.25**	13.38	16.75	18.88	19.00
Adjusted to constant dollars	**13.58**	14.33	20.38	25.03	26.90
Average consumer price index*	**246.8**	217.5	195.4	181.5	170.5

* Base year 1967 = 100.0

Notes to Consolidated Financial Statements
(continued)

13. Quarterly Financial Data (Unaudited)

Summarized quarterly data (in thousands of dollars except for per share amounts) for 1980 and 1979 are as follows:

	1980			
	Three months ended			
	March 31	June 30	September 30	December 31
Operating revenues	$329,252	$271,315	$233,229	$321,848
Operating income	$ 34,194	$ 25,867	$ 29,242	$ 33,025
Net income	$ 22,930	$ 15,922	$ 20,661	$ 25,514
Earnings available for common stock	$ 19,546	$ 12,538	$ 16,574	$ 21,349
Average common shares outstanding (thousands)	33,377	35,417	36,962	39,890
Earnings per average common share*	$0.59	$0.35	$0.45	$0.54

	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.

Report of Certified Public Accountants
The Board of Directors and Shareholders
Public Service Company of Colorado

We have examined the accompanying consolidated balance sheet of Public Service Company of Colorado and subsidiaries at December 31, 1980 and 1979, and the related consolidated statements of income, retained earnings and source of funds for plant construction expenditures for each of the three years in the period ended December 31, 1980. 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, 1980 and 1979, and the consolidated results of operations and source of funds for plant construction expenditures for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Arthur Young & Company
Denver, Colorado
February 3, 1981

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 Exchange under the symbol "PSR." It is quoted as "PSvCol" in daily newspaper stock table listings. There were 13,034,200 common shares traded during 1980, an average daily volume of 51,519 shares. There were 9,587,300 shares traded in 1979, an average daily volume of 37,894 shares. At December 31, 1980 the Company had 71,409 common shareholders and 6,237 preferred shareholders compared to 63,094 common shareholders and 6,529 preferred shareholders at year-end 1979. The total number of common shares outstanding was 39,989,753 on December 31, 1980 compared with 32,326,418 at year-end 1979.

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.

Automatic Dividend Reinvestment Plan
The Company's Automatic Dividend Reinvestment and Common Stock Purchase Plan (DRP) 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 brokerage commissions or service charges.

During 1980 the DRP operated at 95% of the average price on each investment date with respect to reinvested dividends and at 100% of the average price on each investment date with respect to optional cash payments. At year-end 1980 there were 19,276 participants, an increase of 4,554 or 30.9% compared to year-end 1979. A total of $9,618,191 in reinvested dividends and optional cash payments was applied to purchase 781,497 new shares, at an average cost of $12.31 per share.

The price of the Common Stock purchased with reinvested cash dividends will be 95 percent of the average of the high and low sale prices of such stock as reported on the consolidated tape on each Investment Date. In addition, preferred and common shareholders whose shares are registered in names other than in their own may participate in the Plan for the reinvestment of dividends 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.

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.

The accompanying tables show the ranges of closing stock prices and dividends paid on the common and preferred stock issues by quarter for 1980 and 1979.

Cumulative Preferred Stock

Quarter	4th	3rd	2nd	1st
4¼% Series				
1980 High	**37½**	**39**	**39**	**36½**
Low	**26**	**34⅞**	**29½**	**28⅞**
1979 High	41¼	44½	43¾	47½
Low	34	40	40½	42½
7.15% Series				
1980 High	**59**	**69**	**68**	**61¼**
Low	**55**	**57**	**59**	**59**
1979 High	74	79½	78½	76¼
Low	63½	74	69	71
8.40 Series ($25)				
1980 High	**17**	**20**	**20½**	**18¾**
Low	**13⅞**	**15⅞**	**14¼**	**14¼**
1979 High	21⅜	22¾	22½	23½
Low	18	21⅜	20⅞	21⅜

Common Stock

Quarter	Year	4th	3rd	2nd	1st
1980					
High	**15¼**	**14⅞**	**14⅞**	**15¼**	**14¼**
Low	**11⅛**	**12**	**12⅜**	**11⅛**	**11⅛**
Last Trade	**14¼**	**14¼**	**13⅜**	**14¾**	**11⅛**
Dividends Declared	**1.60**	**.40**	**.40**	**.40**	**.40**
Dividends Paid	**1.60**	**.40**	**.40**	**.40**	**.40**
1979					
High	17⅜	15¼	16½	17⅛	17⅜
Low	12⅞	12⅞	15⅛	15¼	16⅛
Last Trade	13⅜	13⅜	15¼	16½	16¾
Dividends Declared	1.60	.40	.40	.40	.40
Dividends Paid	1.60	.40	.40	.40	.40

Directors and Officers

Board of Directors

Robert T. Person, Denver, Colorado (1957)
Chairman of the Board, Age 66

Richard F. Walker, Denver, Colorado (1976)
President and Chief Executive Officer
of the Company, Age 56

William T. Blackburn, Denver, Colorado (1965)
Resident Partner, Vaughey, Vaughey &
Blackburn (Independent Oil Producers)
Age 64

Doris M. Drury, PhD, Denver, Colorado (1975)
University of Denver
Professor of Economics and Director
Public Affairs Programs, Age 52

A. L. Feldman, Los Angeles, California (1977)
President and Chief Executive Officer
Continental Airlines, Age 53

Robert E. Kelly, Denver, Colorado (1978)
Vice President
Fuel Supply and Gas Operations, Age 62

George B. McKinley, Grand Junction,
Colorado (1976)
President and
Chief Operating Officer
Central Bancorporation, Inc., Age 53

John A. McKinney, Denver, Colorado (1979)
Chairman and Chief Executive Officer
Johns-Manville Corp., Age 57

C. Keith Millen, Denver, Colorado (1969)
Senior Vice President of the Company, Age 58

Bryant O'Donnell, Denver, Colorado (1972)
Executive Vice President and
General Counsel of the Company, Age 55

Nicholas R. Petry, Denver, Colorado (1961)
Chairman of the Board
Petry-Vappi Construction Co.
Managing Partner of
N. G. Petry Construction Co., Age 62

J. Michael Powers, Cheyenne, Wyoming (1978)
President, Powers Builders' Supply, Age 38

King D. Shwayder, Denver, Colorado (1967)
Former Chairman of the Board,
Samsonite Corp., subsidiary of
Beatrice Foods Company, Age 70

( ) Year elected to the Board of Directors

Board Retirements:
Frank S. Hoag, Jr. retired from the Board of Directors in June 1980.

John N. Kerr resigned from the Board of Directors in December 1980 and retired from the Company in February 1981.

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
King D. Shwayder
J. Michael Powers

Executive Officers

Robert T. Person (44), Age 66
Chairman of the Board

Richard F. Walker (31), Age 56
President and Chief Executive Officer

Bryant O'Donnell (30), Age 55
Executive Vice President and
General Counsel

John N. Kerr (44), Age 64
Senior Vice President,
General Administration

C. Keith Millen (34), Age 58
Senior Vice President, Operations

Harvey P. Blichmann (31), Age 53
Vice President, Strategic Planning and
Administrative Services

James N. Bumpus (16), Age 46
Vice President, Finance and Treasurer

Clark B. Ewald (21), Age 46
Vice President, Employee Relations

J. Kenneth Fuller (32), Age 57
Vice President, Electric Engineering and
Planning

Delwin D. Hock (18), Age 45
Vice President, Accounting
and Secretary

Robert E. Kelly (34), Age 62
Vice President, Fuel Supply and
Gas Operations

Oscar R. Lea (30), Age 54
Vice President, Electric Production

Robert T. Person, Jr. (9), Age 38
Vice President, Public Affairs

James H. Ranniger (22), Age 44
Vice President, Rates and Regulations

Jack W. Rouse (34), Age 60
Vice President, Division Administration

( ) Denotes years of service with the Company through December, 1980.

Other Officers
Dan McNellis (28), Age 52
Assistant Vice President,
Governmental Affairs
Richard R. Midwinter (31), Age 55
Controller and Assistant Secretary
Robert C. Bryan (12), Age 73
Assistant Secretary and
Assistant Treasurer
F. William Beier (40), Age 63
Assistant Secretary
Henry J. Johnson (40), Age 64
Assistant Secretary
Ira R. Adler (6), Age 30
Assistant Treasurer
Leo L. Beem (33), Age 59
Assistant Treasurer
Richard L. Hunt (13), Age 38
Assistant Treasurer
Douglas S. Robertson (2), Age 38
Assistant Treasurer

( ) Denotes years of service with the Company through December, 1980.

Managers, Geographic Divisions
Robert J. Cottle (32), Age 58
Northeast Metropolitan
Robert J. Fairchild (41), Age 59
Front Range
Ronald L. French (28), Age 53
Pueblo
Manager, Southern Region
Frank O. Hellwig (30), Age 55
Southeast Metropolitan
Ross C. King (15), Age 39
High Plains
Douglas C. Lockhart (16), Age 38
Mountain
Robert E. Moninger (33), Age 60
Northern
M. Gordon Parker (32), Age 58
Denver Metropolitan
Wallace K. Reed (34), Age 56
Boulder
Manager, Foothills Region
Harold L. Rust (25), Age 45
Platte Valley
Louis W. Supancic (29), Age 58
Southwest Metropolitan
N. James Temple, Jr. (34), Age 60
Western
Manager, Western Region
Robert J. Vidick (25), Age 53
Northwest Metropolitan
James R. Wexels (15), Age 41
San Luis Valley

Managers, Subsidiary Companies
Michael J. Geile (16), Age 38
Vice President and General Manager
Home Light & Power Company
John M. Hassoldt (30), Age 51
Vice President and General Manager
Western Slope Gas Company
James L. Higday (19), Age 58
President and General Manager
Cheyenne Light, Fuel and Power Company
Manager, Northern Region
Robert F. Jonas (33), Age 57
Vice President and General Manager
Fuel Resources Development Co.

( ) Denotes years of service with the Company through December 1980.

Legal Counsel
Kelly, Stansfield & O'Donnell
Denver, Colorado

Auditors
Arthur Young & Company
1670 Broadway, Suite 2500
Denver, Colorado

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

Public Service
Company of Colorado
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