



**Northern
States
Power
Company**

**Financial
and
Statistical
Information**

**A Supplement
to the 1988
Annual
Report**

N O R T H E R N S T A T E S P O W E R C O M P A N Y

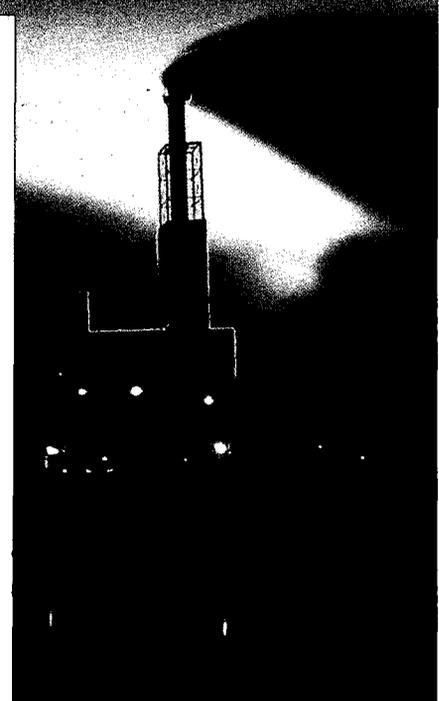
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*One of NSP's largest
customers, the Champion
International Corp. paper
mill in Sartell, Minn., is
running at full capacity,
day and night,
365 days a year.*

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**NORTHERN STATES POWER COMPANY (MINNESOTA)
AND SUBSIDIARY COMPANIES**

**FINANCIAL AND STATISTICAL INFORMATION
A Supplement to the 1988 Annual Report to Shareholders**

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Northern States Power Company (the Company) was incorporated in 1909 under the laws of Minnesota. Its executive offices are located at 414 Nicollet Mall, Minneapolis, Minnesota 55401 (Phone 612-330-5500). The Company has one significant subsidiary, Northern States Power Company, a Wisconsin Corporation (the Wisconsin Company). The Company and its subsidiaries collectively are known as NSP.

Note

On May 28, 1986, shareholders authorized a two-for-one stock split of NSP's common stock which became effective June 5, 1986. All dividends, earnings per share and common shares information are adjusted to reflect the stock split.

For further information relating to the contents of this report, please contact J. O. Cox, Vice President and Treasurer, Northern States Power Company, 414 Nicollet Mall, Minneapolis, MN 55401, or phone (612) 330-5902.

This report is for information purposes only, it is subject to correction and change without notice, and is not a representation, prospectus or circular in respect of any stock or security of any corporation and is not furnished in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued or with any preliminary negotiations for such sale.

MARCH 1989

FINANCIAL STATISTICS

December 31

	1988	1987	1986	1985	1984	1983	1978
Earnings per shr. on avg. shr. (1)	\$ 3.11	\$ 3.01	\$ 3.09	\$ 2.97	\$ 2.90	\$ 2.80	\$ 1.69
Five year growth rates on earnings per share:							
End points	2.1%	4.7%	9.8%	12.9%	10.6%	10.6%	5.4%
Least squares	2.0%	4.3%	9.0%	13.4%	13.3%	10.9%	5.4%
Dividends declared per share (1) ...	\$2.095	\$ 1.99	\$1.865	\$1.725	\$1.585	\$1.453	\$1.068
Dividends in percent of earnings	67.4%	66.1%	60.3%	58.2%	54.7%	52.0%	63.1%
Book value per share of common stock (at year end) (1)	\$22.81	\$21.88	\$20.80	\$19.72	\$18.40	\$17.08	\$12.99
Shares of common stock (000s)							
Average for year (1)	62 541	62 541	62 541	61 274	61 663	60 863	59 423
End of year (1)	62 541	62 541	62 541	62 541	61 949	61 288	59 940
Percent of construction expenditures financed by internally generated funds (excluding AFC)	100.0%	70.7%	77.5%	60.5%	100.0%	100.0%	97.0%
Capitalization*							
Common (including premium and retained earnings)	46.5%	45.2%	44.8%	44.5%	45.1%	43.5%	40.5%
Preferred (including premium) ...	11.4	9.9	8.1	7.9	8.6	9.2	12.0
First mortgage bonds	38.4	37.8	40.6	41.9	42.6	42.3	45.3
Guaranty agreements — pollution control financing	1.3	1.3	1.4	1.5	1.6	1.6	2.0
Miscellaneous long-term debt	2.0	2.2	2.6	1.9	1.1	1.2	.2
Short-term debt .....	.4	3.6	2.5	2.3	1.0	2.2	
Total Debt	42.1	44.9	47.1	47.6	46.3	47.3	47.5
Total Capitalization	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Interest coverage							
Before taxes (excluding AFC)	3.9	3.5	3.8	4.2	4.6	4.7	4.5
After taxes (excluding AFC)	2.8	2.4	2.5	2.6	2.8	2.8	2.6
Interest and preferred dividend coverage							
After taxes (including AFC)	2.5	2.5	2.6	2.7	2.8	2.6	2.2
Embedded cost of long-term debt ..	8.32%	8.19%	8.03%	8.08%	7.98%	7.96%	6.90%
Embedded cost of preferred stock ..	6.02%	6.34%	5.81%	6.01%	6.01%	6.10%	6.32%
Average plant investment per dollar of revenue	\$ 3.04	\$ 3.26	\$ 3.00	\$ 2.71	\$ 2.50	\$ 2.45	\$ 3.02
Depreciation reserve in percent of depreciable plant	33.4%	31.5%	34.7%	33.9%	34.6%	34.1%	26.4%
Depreciation provision in percent of average depreciable plant	3.58%	3.37%	3.48%	3.63%	3.55%	3.47%	3.41%
Benefit employees (at year end)	7 504	7 699	7 515	7 414	7 347	7 207	6 580

AFC — Allowance for Funds Used During Construction.

*Includes long- and short-term debt and preferred stock with mandatory redemption due within one year.

(1) See note on CONTENTS page.

SUMMARY INCOME STATEMENT

(Millions of dollars)

	1988	1987	1986	1985	1984
Operating Revenues					
Electric.....	\$1 681.9	\$1 497.4	\$1 427.7	\$1 376.1	\$1 362.6
Gas.....	314.8	263.0	343.9	402.2	402.0
Telephone and Heating	9.8	9.9	10.0	10.4	11.0
Total.....	<u>2 006.5</u>	<u>1 770.3</u>	<u>1 781.6</u>	<u>1 788.7</u>	<u>1 775.6</u>
Operating Expenses					
Fuel for Electric Generation.....	300.3	291.7	235.6	257.0	246.0
Purchased and Interchange Power.....	106.0	88.5	113.0	94.1	140.5
Gas Purchased for Resale.....	210.2	165.6	236.0	300.4	304.0
Administrative and General.....	171.8	140.6	154.5	126.6	116.7
Maintenance.....	172.3	153.6	147.6	139.7	134.1
Other Operation.....	253.6	229.1	212.0	189.7	171.3
Depreciation and Amortization.....	208.6	170.5	157.8	155.7	142.0
Property and General Taxes.....	163.4	146.6	134.8	124.4	123.6
Income Taxes (current and deferred).....	128.0	111.3	105.9	127.1	132.8
Investment Tax Credit Adjustments — Net	(10.9)	8.2	30.6	25.4	21.4
Total.....	<u>1 703.3</u>	<u>1 505.7</u>	<u>1 527.8</u>	<u>1 540.1</u>	<u>1 532.4</u>
Operating Income	<u>303.2</u>	<u>264.6</u>	<u>253.8</u>	<u>248.6</u>	<u>243.2</u>
Other Income and Expense					
Allowance for Funds Used During					
Construction — debt and equity.....	13.4	51.2	51.7	41.8	34.3
Other Income and Deductions — net.....	8.4	(2.3)	7.5	4.2	2.1
Total Other Income.....	<u>21.8</u>	<u>48.9</u>	<u>59.2</u>	<u>46.0</u>	<u>36.4</u>
Total Income	325.0	313.5	313.0	294.6	279.6
Interest — excluding credit for debt portion					
of AFC.....	<u>110.2</u>	<u>108.6</u>	<u>106.2</u>	<u>96.9</u>	<u>87.5</u>
Net Income	214.8	204.9	206.8	197.7	192.1
Preferred Stock Dividends	<u>20.3</u>	<u>16.6</u>	<u>13.5</u>	<u>13.0</u>	<u>13.3</u>
Earnings Available for Common Stock	194.5	188.3	193.3	184.7	178.8
Common Dividends	<u>131.0</u>	<u>124.5</u>	<u>116.6</u>	<u>107.5</u>	<u>97.8</u>
Earnings Retained	<u>\$ 63.5</u>	<u>\$ 63.8</u>	<u>\$ 76.7</u>	<u>\$ 77.2</u>	<u>\$ 81.0</u>
Earnings Per Share on Average Shares (I)	\$ 3.11	\$ 3.01	\$ 3.09	\$ 2.97	\$ 2.90

*Calculated on unrounded numbers. Growth rates calculated by least squares method.

(1) See note on CONTENTS page.

1983	1978	Annual Growth Rate*			Percent of Revenues*			
		1 Year 1988/1987	5 Year 1988/1983	10 Year 1988/1978	1988	1987	1983	1978
\$1 285.4	\$809.7	12.3%	4.9%	7.7%	83.8%	84.6%	75.8%	82.7%
399.7	160.5	19.7	(7.2)	6.0	15.7	14.8	23.6	16.4
10.7	9.1	(1.1)	(2.3)	.3	.5	.6	.6	.9
<u>1 695.8</u>	<u>979.3</u>	<u>13.3</u>	<u>2.4</u>	<u>7.3</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
249.6	168.6	3.0	3.9	5.4	15.0	16.5	14.7	17.2
79.6	16.3	19.7	.7	20.7	5.3	5.0	4.7	1.7
313.3	109.0	27.0	(11.0)	5.3	10.5	9.3	18.5	11.1
112.0	59.0	22.2	8.6	11.5	8.5	7.9	6.6	6.0
105.4	65.0	12.2	8.7	9.9	8.6	8.7	6.2	6.7
156.5	86.6	10.7	10.2	11.1	12.6	12.9	9.2	8.8
136.6	89.2	22.4	8.0	7.5	10.4	9.6	8.1	9.1
116.9	84.7	11.5	6.7	6.7	8.1	8.3	6.9	8.6
164.4	118.5	15.1	(5.5)	2.2	6.4	6.3	9.7	12.1
9.1	10.4	(a)	(a)	(a)	(.5)	.5	.5	1.1
<u>1 443.4</u>	<u>807.3</u>	<u>13.1</u>	<u>2.2</u>	<u>7.6</u>	<u>84.9</u>	<u>85.0</u>	<u>85.1</u>	<u>82.4</u>
252.4	172.0	14.6	3.5	6.0	15.1	15.0	14.9	17.6
20.1	9.3	(73.7)	(1.7)	13.8	.7	2.9	1.2	1.0
3.4	0.6	(a)	(a)	(a)	.4	(.1)	.2	.1
<u>23.5</u>	<u>9.9</u>	<u>(55.3)</u>	<u>2.2</u>	<u>15.7</u>	<u>1.1</u>	<u>2.8</u>	<u>1.4</u>	<u>1.1</u>
275.9	181.9	3.7	3.6	7.0	16.2	17.7	16.3	18.6
92.0	66.7	1.5	4.8	5.8	5.5	6.1	5.4	6.8
183.9	115.2	4.8	2.9	7.7	10.7	11.6	10.8	11.8
13.6	14.5	21.8	8.1	1.9	1.0	.9	.8	1.5
170.3	100.7	3.3	2.5	8.4	9.7	10.6	10.0	10.3
88.5	63.6	5.3	8.2	8.0	6.5	7.0	5.2	6.5
<u>\$ 81.8</u>	<u>\$ 37.1</u>	<u>(.5)</u>	<u>(5.5)</u>	<u>9.1</u>	<u>3.2%</u>	<u>3.6%</u>	<u>3.6%</u>	<u>3.8%</u>
\$ 2.80	\$ 1.69	3.3	2.0	7.7				

(a) Denotes growth rate with little or no meaning.

BALANCE SHEET

December 31

	1988	1987	1986	1985	1984
	(Millions of dollars)				
ASSETS					
Utility plant	\$5 675.3	\$5 458.4	\$5 108.2	\$4 653.8	\$4 222.4
Less accumulated provision for depreciation	1 911.4	1 718.4	1 599.0	1 461.8	1 329.4
Nuclear fuel	535.1	511.3	486.1	439.2	390.9
Less accumulated provision for amortization	440.2	388.8	338.3	288.6	237.7
Net utility plant	3 858.8	3 862.5	3 657.0	3 342.6	3 046.2
Construction funds	10.8	36.6	94.5	133.8	149.3
Other property and invest. — net	118.1	111.2	102.7	118.0	118.2
Current assets					
Cash and cash equivalents	33.6	7.6	5.5	4.2	5.2
Short-term investments	52.8	0.8	7.0	8.1	3.8
Accounts receivable — net	174.9	176.0	162.3	210.7	168.6
Federal income tax refund receivable	6.6	7.6	7.9	7.0	17.0
Material and supplies (average cost)					
Fuel	42.4	49.7	75.3	78.3	88.5
Other	63.5	59.5	57.2	51.6	47.3
Deferred tax asset	29.8				
Prepayments and other	31.8	38.2	27.6	30.3	28.7
Total current assets	435.4	339.4	342.8	390.2	359.1
Deferred debits	72.4	51.5	50.0	63.0	68.9
Total	\$4 495.5	\$4 401.2	\$4 247.0	\$4 047.6	\$3 741.7
LIABILITIES					
Capitalization					
Common stock (incl. premium)	\$ 539.2	\$ 539.2	\$ 539.2	\$ 539.2	\$ 525.7
Retained earnings	914.8	853.0	788.7	713.0	633.6
ESOP shares purchased with debt	(8.0)	(4.4)	(8.0)		
Treasury stock (at cost)	(19.2)	(19.2)	(19.2)	(19.2)	(19.2)
Total common stock equity	1 426.8	1 368.6	1 300.7	1 233.0	1 140.1
Cumulative preferred stock (incl. premium)					
Without mandatory redemption	350.5	300.5	235.5	208.5	208.5
With mandatory redemption (net of treasury shares at cost) ..				9.3	9.3
First mortgage bonds	1 176.3	1 144.2	1 177.0	1 158.9	1 075.6
Guaranty agreements — pollution control financing	38.1	38.9	39.4	39.9	39.9
Miscellaneous long-term debt	62.3	66.4	76.7	54.8	27.7
Unamortized premium (discount) on long-term debt	(1.0)	(1.0)	(1.0)	(1.1)	(7)
Total long-term debt	1 275.7	1 248.5	1 292.1	1 252.5	1 142.5
Total capitalization	3 053.0	2 917.6	2 828.3	2 703.3	2 500.4
Current liabilities					
Notes payable		78.2	65.9	49.1	25.1
Long-term debt due within one year	13.4	30.5	7.9	15.7	.8
Accounts payable	145.6	140.6	159.7	177.0	145.0
Nuclear fuel disposal cost payable					94.6
Salaries, wages and vacation pay accrued	24.9	25.6	21.7	20.6	18.3
Revenue refunds due customers		4.6	4.3	3.4	.3
Taxes accrued	125.0	111.9	102.8	103.9	93.0
Interest accrued	23.7	22.9	22.7	21.9	20.7
Dividends declared	37.8	36.3	33.1	30.8	28.3
Other	1.4	5.3	3.3	1.4	.3
Total current liabilities	371.8	455.9	421.4	423.8	426.4
Deferred credits					
Accumulated deferred income taxes	703.0	724.4	712.7	663.7	576.8
Accumulated deferred investment tax credits	255.5	270.3	266.8	241.4	222.4
Net deferred regulatory liability	44.4				
Other	67.8	33.0	17.8	15.4	15.7
Total deferred credits	1 070.7	1 027.7	997.3	920.5	814.9
Total	\$4 495.5	\$4 401.2	\$4 247.0	\$4 047.6	\$3 741.7

STATEMENT OF CASH FLOWS

	Year Ended December 31				
	1988	1987	1986	1985	1984
	(millions of dollars)				
Cash Flows from Operating Activities:					
Net Income	\$214.8	\$204.9	\$206.8	\$197.7	\$192.1
Adjustments to reconcile net income to cash from operating activities:					
Depreciation and amortization	230.5	193.6	178.2	173.4	155.8
Nuclear fuel amortization	51.4	50.5	49.6	50.9	39.4
Deferred income taxes	(4.1)	14.1	87.8	91.9	107.0
Investment tax credit adjustments	(14.8)	3.4	25.4	19.0	18.8
AFC — equity	(6.0)	(38.2)	(40.1)	(32.8)	(27.0)
Other	34.9	(.4)	(.4)		
Cash provided by (used for) changes in certain working capital items	34.1	15.0	53.5	(71.8)	86.6
Net Cash Provided by Operating Activities	<u>540.8</u>	<u>442.9</u>	<u>560.8</u>	<u>428.3</u>	<u>572.7</u>
Cash Flows from Financing Activities:					
Proceeds from issuance of long-term debt	54.1	19.9	84.0	143.5	61.4
Proceeds from issuance of preferred stock	50.0	65.0	30.0		
Proceeds from issuance of common stock				13.6	12.4
Proceeds from issuance of notes payable		12.4	16.7	24.0	
Construction funds withdrawals	27.0	61.0	63.3	52.2	23.2
Construction funds held by trustee	(1.2)	(3.2)	(23.9)	(36.8)	(67.7)
Repayment from ESOP	9.9	3.6			
Payment to ESOP to purchase shares	(13.5)		(8.0)		
Repayment of short-term debt	(78.2)				(7.0)
Redemption of long-term debt	(43.6)	(40.9)	(52.4)	(18.2)	(25.1)
Redemption of preferred stock			(12.3)		(4.9)
Dividends paid	(149.8)	(137.9)	(127.7)	(118.1)	(108.8)
Net Cash Used for Financing Activities	<u>(145.3)</u>	<u>(20.1)</u>	<u>(30.3)</u>	<u>60.2</u>	<u>(116.5)</u>
Cash Flows from Investing Activities:					
Construction expenditures capitalized	(300.7)	(451.7)	(555.6)	(513.7)	(401.0)
Increase (decrease) in construction payables	(12.5)	(19.4)	(19.6)		
AFC — equity	6.0	38.2	40.1	32.8	27.0
Sale (purchase) of short-term investments — net	(52.0)	6.2	1.0	(4.2)	6.1
Other	(10.3)	6.0	4.9	(4.4)	(88.4)
Net Cash Used for Investing Activities	<u>(369.5)</u>	<u>(420.7)</u>	<u>(529.2)</u>	<u>(489.5)</u>	<u>(456.3)</u>
Net Increase in Cash and Cash Equivalents	26.0	2.1	1.3	(1.0)	(.1)
Cash and Cash Equivalents at Beginning of Period	7.6	5.5	4.2	5.2	5.3
Cash and Cash Equivalents at End of Period	<u>\$ 33.6</u>	<u>\$ 7.6</u>	<u>\$ 5.5</u>	<u>\$ 4.2</u>	<u>\$ 5.2</u>
Cash Provided by (Used for) Changes in Certain Working Capital Items:					
Accounts receivable — net	\$ 1.1	\$ (13.8)	\$ 48.4	\$ (42.1)	\$ (4.3)
Federal income tax refund receivable	1.0	.3	(.9)	10.0	(6.0)
Materials and supplies	3.3	23.3	(2.7)	5.9	(3.6)
Accounts payable	12.3	4.5	4.4	(57.0)	110.9
Income and other taxes accrued	13.1	9.1	(1.1)	10.9	(5.4)
Other	3.3	(8.4)	5.4	.5	(5.0)
Net	<u>\$ 34.1</u>	<u>\$ 15.0</u>	<u>\$ 53.5</u>	<u>\$ (71.8)</u>	<u>\$ 86.6</u>

Note: In 1988 NSP adopted the Statement of Cash Flows retroactive to 1986. 1985 and 1984 amounts have been reformatted to comply with the new statement.

CONSTRUCTION EXPENDITURES

Construction expenditures during 1988 were \$300.7 million, including \$23.9 million for nuclear fuel.

Construction expenditures, including nuclear fuel, for the five-year period 1989-1993 are estimated at \$1.9 billion. By years, the expenditures are:

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1989-1993 Total</u>
	(Millions of dollars)					
Construction expenditures excluding nuclear fuel.....	\$300	\$290	\$330	\$290	\$380	\$1 590
Nuclear fuel expenditures	<u>50</u>	<u>40</u>	<u>60</u>	<u>60</u>	<u>60</u>	<u>270</u>
Total construction expenditures	<u>\$350</u>	<u>\$330</u>	<u>\$390</u>	<u>\$350</u>	<u>\$440</u>	<u>\$1 860</u>

GROSS ADDITIONS TO PROPERTY AND CONSTRUCTION EXPENDITURES

	<u>1988</u>	<u>1987</u>	<u>1986</u>	<u>1985</u>	<u>1984</u>
	(Millions of dollars)				
Gross additions to property					
Electric production.....	\$128.2	\$245.9	\$341.5	\$292.4	\$208.0
Other electric.....	99.2	129.1	121.2	129.9	97.4
Nuclear fuel.....	23.9	25.2	46.9	48.3	56.9
Gas	23.6	18.9	18.5	19.1	14.4
Other utilities	<u>10.3</u>	<u>19.6</u>	<u>6.1</u>	<u>18.0</u>	<u>22.3</u>
Total	285.2	438.7	534.2	507.7	399.0
Non-utility property.....	19.2	30.5	27.6	7.4	2.7
Less acquisition, salvage, etc.	<u>3.7</u>	<u>17.5</u>	<u>6.2</u>	<u>1.4</u>	<u>.7</u>
Construction expenditures	<u>\$300.7</u>	<u>\$451.7</u>	<u>\$555.6</u>	<u>\$513.7</u>	<u>\$401.0</u>

The additions to utility plant and the retirements for the years 1984-1988 are summarized below:

	<u>1988</u>	<u>1987</u>	<u>1986</u>	<u>1985</u>	<u>1984</u>	<u>Total 1984-1988</u>
	(Millions of dollars)					
Balance at beginning of period ...	\$5 969.7	\$5 594.3	\$5 093.0	\$4 613.3	\$4 256.8	\$4 256.8
Gross additions	274.3	438.7	534.2	507.7	399.0	2 153.9
Retirements	(31.4)	(61.9)	(38.6)	(32.2)	(35.7)	(199.8)
Reimbursement from Sherco 3 co-owner.....					(5.5)	(5.5)
Adjustments.....	<u>(2.2)</u>	<u>(1.4)</u>	<u>5.7</u>	<u>4.2</u>	<u>(1.3)</u>	<u>5.0</u>
Balance at end of period.....	<u>\$6 210.4</u>	<u>\$5 969.7</u>	<u>\$5 594.3</u>	<u>\$5 093.0</u>	<u>\$4 613.3</u>	<u>\$6 210.4</u>

UTILITY PLANT AND DEPRECIATION RESERVES

	December 31				
	1988	1987	1986	1985	1984
	(Millions of dollars)				
UTILITY PLANT					
Electric					
Plant in service:					
Production.....	\$2 951.4	\$2 800.3	\$2 071.2	\$1 902.0	\$1 831.8
Transmission.....	627.1	605.3	583.6	558.7	545.0
Distribution.....	1 294.5	1 232.3	1 160.0	1 093.3	1 024.8
General.....	152.9	124.3	113.4	107.8	79.4
Plant held for future use.....	1.2	1.0	1.1	1.6	1.5
Plant acquisition adjustment.....					.1
Plant purchased or sold.....					(.5)
Plant leased to others.....	5.3	5.7	5.7	5.5	3.8
Plant under capital leases.....	.5	.8	1.1		
Construction work in progress.....	123.8	191.7	698.7	528.2	306.0
Nuclear fuel (including in process).....	535.1	511.3	486.1	439.2	390.9
Total Electric.....	<u>5 691.8</u>	<u>5 472.7</u>	<u>5 120.9</u>	<u>4 636.3</u>	<u>4 182.8</u>
Gas					
Plant in service:					
Production.....	10.7	10.9	10.7	11.2	11.1
Storage.....	25.1	25.1	24.8	24.3	24.2
Transmission.....	14.5	14.4	14.4	14.1	13.6
Distribution.....	294.9	276.6	261.6	246.3	229.6
General.....	10.6	10.4	10.1	8.9	8.5
Construction work in progress.....	6.7	4.1	3.4	3.8	4.5
Total Gas.....	<u>362.5</u>	<u>341.5</u>	<u>325.0</u>	<u>308.6</u>	<u>291.5</u>
Telephone.....	24.8	29.4	25.2	28.8	26.4
Common.....	131.3	126.1	123.2	119.3	112.6
Total.....	<u>\$6 210.4</u>	<u>\$5 969.7</u>	<u>\$5 594.3</u>	<u>\$5 093.0</u>	<u>\$4 613.3</u>
DEPRECIATION RESERVES					
Electric.....	\$1 705.0	\$1 529.7	\$1 425.1	\$1 308.5	\$1 186.7
Nuclear fuel.....	440.2	388.8	338.3	288.6	237.7
Total Electric.....	<u>2 145.2</u>	<u>1 918.5</u>	<u>1 763.4</u>	<u>1 597.1</u>	<u>1 424.4</u>
Gas.....	144.0	133.8	123.6	113.6	104.3
Telephone.....	9.4	13.3	11.3	14.0	13.0
Common.....	53.0	41.6	39.0	25.7	25.4
Total.....	<u>\$2 351.6</u>	<u>\$2 107.2</u>	<u>\$1 937.3</u>	<u>\$1 750.4</u>	<u>\$1 567.1</u>
NET UTILITY PLANT					
Electric.....	\$3 546.6	\$3 554.2	\$3 357.5	\$3 039.2	\$2 758.4
Gas.....	218.5	207.7	201.4	195.0	187.2
Telephone.....	15.4	16.1	13.9	14.8	13.4
Common.....	78.3	84.5	84.2	93.6	87.2
Net Utility Plant.....	<u>\$3 858.8</u>	<u>\$3 862.5</u>	<u>\$3 657.0</u>	<u>\$3 342.6</u>	<u>\$3 046.2</u>

DEPRECIATION POLICIES

DEPRECIATION FOR FINANCIAL REPORTING PURPOSES

For financial reporting purposes, depreciation is computed by applying the straight-line method to the estimated useful lives of various classes of property. Depreciation provisions, as a percentage of the average balance of depreciable property in service, were 3.58% in 1988, 3.37% in 1987 and 3.48% in 1986. The provision for decommissioning costs for the Company's nuclear plants has been calculated by using an internal sinking-fund method, that is designed to provide for full recovery of the costs. Based on a 1986 study, the Company estimates that decommissioning costs will approximate \$498 million in 1986 dollars, for which the Company has collected \$116 million from ratepayers. This amount is recorded in accumulated provision for depreciation.

Depreciation rates for the Minnesota Company are reviewed periodically and are certified by the Minnesota Public Utilities Commission (MPUC). For the Wisconsin Company, the rates are periodically reviewed and certified by the Public Service Commission of Wisconsin (PSCW).

DEPRECIATION FOR INCOME TAX PURPOSES

For assets placed in service prior to 1981, accelerated amortization, liberalized depreciation, the Class Life System (including ADR lives) and ADR repair allowance were used for income tax purposes. For assets placed in service after December 31, 1980, the depreciation expense for income tax purposes is computed using the accelerated cost recovery system (ACRS) established by the Economic Recovery Tax Act of 1981 (ERTA) as modified by the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and the Tax Reform Act of 1986. On January 1, 1978, the Company began deferred accounting for the income tax effect of overhead costs capitalized but deducted currently for income tax purposes. This accounting was approved by the MPUC in a rate proceeding. As a result, income taxes are now deferred for all book and tax timing differences. The provision for deferred income taxes was \$(4.1) million for 1988 compared with \$16.8 million for 1987.

INVESTMENT TAX CREDIT

The investment tax credits allowed under ERTA and TEFRA reduced the federal income tax payable by \$3.6 million for 1988 and \$21.8 million for 1987. The investment tax credits on plant additions are deferred and amortized to income over the estimated lives of the related property. The 1988 investment tax credit claimed is the amount allowed under transition rules in the Tax Reform Act of 1986, which eliminated most tax credits.

POPULATION TRENDS

	Percent Increase (Decrease) in Population			
	1980-1988	1970-1980	1960-1970	1950-1960
States in which NSP has service				
Minnesota	4.2%	7.1%	11.5%	14.5%
Wisconsin	2.1	6.5	11.8	15.1
North Dakota	2.9	5.7	(2.3)	2.1
South Dakota	2.6	3.7	(2.2)	4.3
Michigan	(0.7)			
NSP Service Area				
(Counties in which NSP has service)	20.4	(7.4)	12.9	15.1
Total United States	7.7	11.4	13.3	18.5

	Percent Increase (Decrease) in Population			
	1980-1988	1970-1980	1960-1970	1950-1960
Twin Cities Metropolitan Area				
City of Minneapolis	(4.1)	(17.4)	(10.0)	(7.5)
City of St. Paul	(1.9)	(13.4)	(1.1)	.7
Suburban	22.1	(4.9)	55.9	115.7
Total	12.3	(8.7)	22.4	28.8
Other communities over 5000 population	14.0	12.7	17.8	17.0
Other communities under 5000 population and rural areas in counties served by NSP	58.9	(22.4)	1.9	4.0
Total	20.4	(7.4)	12.9	15.1

Of the approximately 3.3 million people served by NSP, 56.9% are in the Twin Cities Metropolitan Area.

	1988	
	Estimated Population Served	Percent of Total
Twin Cities Metropolitan Area		
City of Minneapolis	356 000	10.9%
City of St. Paul	265 000	8.1
Suburban	1 233 000	37.9
Total	1 854 000	56.9
Other communities over 5000 population	695 000	21.3
Other communities under 5000 population and rural	709 000	21.8
Total	3 258 000	100.0%

ELECTRIC AND GAS REVENUES AND SALES

	1988	1987	1986	1985	1984
Electric Operating Revenues (millions)					
Residential					
With space heating	\$ 64.5	\$ 56.1	\$ 58.8	\$ 58.3	\$ 53.6
Without space heating	527.8	466.3	445.3	425.7	421.9
Small commercial and industrial	285.1	256.9	246.7	236.9	228.8
Large commercial and industrial	634.1	579.0	549.0	515.8	506.9
Street lighting and other	34.5	32.2	31.2	30.7	31.2
Total retail	1 546.0	1 390.5	1 331.0	1 267.4	1 242.4
Sales for resale	115.3	86.0	77.6	94.6	104.2
Miscellaneous	20.6	20.9	19.1	14.1	16.0
Total	<u>\$1 681.9</u>	<u>\$1 497.4</u>	<u>\$1 427.7</u>	<u>\$1 376.1</u>	<u>\$1 362.6</u>
Kilowatt-hour Sales (billions)					
Residential					
With space heating	1.1	1.0	1.1	1.1	1.0
Without space heating	8.0	7.4	7.1	6.9	6.8
Small commercial and industrial	5.0	4.6	4.5	4.3	4.2
Large commercial and industrial	15.0	14.2	13.3	12.6	12.3
Street lighting and other .....	.5	.5	.5	.5	.5
Total retail	29.6	27.7	26.5	25.4	24.8
Sales for resale	5.2	3.9	3.1	4.2	3.9
Total	<u>34.8</u>	<u>31.6</u>	<u>29.6</u>	<u>29.6</u>	<u>28.7</u>
Gas Operating Revenues (millions)					
Residential					
With space heating	\$ 163.5	\$ 135.4	\$ 173.9	\$ 195.2	\$ 191.8
Without space heating	3.0	2.7	3.4	3.8	4.3
Commercial and industrial firm	96.6	78.4	103.3	118.8	120.1
Total firm	263.1	216.5	280.6	317.8	316.2
Commercial and industrial interruptible	44.5	42.3	61.0	81.5	82.8
Interdepartmental and miscellaneous**	7.2	4.2	2.3	2.9	3.0
Total	<u>\$ 314.8</u>	<u>\$ 263.0</u>	<u>\$ 343.9</u>	<u>\$ 402.2</u>	<u>\$ 402.0</u>
Mcf Sales (millions)					
Residential					
With space heating	33.7	27.8	31.5	32.9	31.3
Without space heating .....	.4	.4	.4	.5	.5
Commercial and industrial firm	22.7	18.8	21.2	22.0	21.3
Total firm	56.8	47.0	53.1	55.4	53.1
Commercial and industrial interruptible	16.2	16.6	17.9	20.0	19.3
Interdepartmental .....	.9	.6	.2	.1	.1
Total	<u>73.9</u>	<u>64.2</u>	<u>71.2</u>	<u>75.5</u>	<u>72.5</u>
Agency and transportation deliveries	6.5	6.2	1.1	.1	1.0

*Calculated on unrounded numbers. Growth rates calculated by least squares method.

**Includes revenues for agency and transportation deliveries.

1983	1978	Annual Growth Rate*			Percent of Total*			
		1 Year 1988/1987	5 Year 1988/1983	10 Year 1988/1978	1988	1987	1983	1978
\$ 48.6	\$ 17.9	15.0%	4.6%	13.0%	3.8%	3.7%	3.8%	2.2%
414.3	252.9	13.2	4.5	7.6	31.4	31.1	32.2	31.2
208.9	123.0	11.0	5.7	8.8	16.9	17.2	16.3	15.2
458.3	266.8	9.5	6.1	9.0	37.8	38.7	35.7	33.0
<u>30.1</u>	<u>19.2</u>	<u>7.0</u>	<u>2.3</u>	<u>5.8</u>	<u>2.1</u>	<u>2.2</u>	<u>2.3</u>	<u>2.4</u>
1 160.2	679.8	11.2	5.3	8.5	92.0	92.9	90.3	84.0
111.2	125.6	34.1	(1.7)	(1.2)	6.8	5.7	8.6	15.5
14.2	4.3	(1.3)	9.1	17.2	1.2	1.4	1.1	.5
<u>\$1 285.4</u>	<u>\$809.7</u>	12.3	4.9	7.7	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
.9	.6	13.3%	3.1%	6.0%	3.2%	3.1%	3.2%	2.3%
6.9	6.1	7.9	2.8	2.5	22.9	23.3	24.4	22.9
3.9	3.2	6.6	4.7	4.8	14.3	14.8	13.8	11.9
11.5	9.4	5.6	5.4	4.9	43.1	44.9	40.4	35.3
<u>.5</u>	<u>.5</u>	<u>4.0</u>	<u>(.1)</u>	<u>(1.1)</u>	<u>1.5</u>	<u>1.6</u>	<u>1.8</u>	<u>2.0</u>
23.7	19.8	6.6	4.4	4.0	85.0	87.7	83.6	74.4
4.6	6.8	33.9	.7	(3.2)	15.0	12.3	16.4	25.6
<u>28.3</u>	<u>26.6</u>	10.0	3.9	2.8	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
\$ 184.7	\$ 80.4	20.8%	(4.9)%	6.8%	51.9%	51.5%	46.2%	50.1%
3.9	3.0	8.7	(7.9)	(.2)	.9	1.0	1.0	1.8
116.1	41.7	23.1	(6.5)	7.7	30.7	29.8	29.0	26.0
<u>304.7</u>	<u>125.1</u>	<u>21.5</u>	<u>(5.5)</u>	<u>7.0</u>	<u>83.5</u>	<u>82.3</u>	<u>76.2</u>	<u>77.9</u>
92.1	32.7	5.4	(15.6)	1.8	14.2	16.1	23.0	20.4
2.9	2.7	72.3	16.3	5.2	2.3	1.6	.8	1.7
<u>\$ 399.7</u>	<u>\$160.5</u>	19.7	(7.2)	6.0	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
29.8	31.5	21.3%	.7%	(.1)%	45.7%	43.3%	41.5%	46.0%
.5	.8	8.3	(5.0)	(7.5)	.5	.6	.7	1.2
<u>20.2</u>	<u>17.5</u>	<u>20.6</u>	<u>.4</u>	<u>2.0</u>	<u>30.7</u>	<u>29.3</u>	<u>28.2</u>	<u>25.5</u>
50.5	49.8	20.9	.5	.6	76.9	73.2	70.4	72.7
21.2	18.7	(2.5)	(5.3)	(1.9)	21.9	25.9	29.5	27.2
.1		41.4	64.6	32.2	1.2	.9	.1	.1
<u>71.8</u>	<u>68.5</u>	15.0	(.8)	.1	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<u>0</u>	<u>0</u>	6.4%	(a)	(a)				

(a) Denotes growth rate with little or no meaning.

DIVERSIFICATION OF ELECTRIC REVENUES FROM LARGE COMMERCIAL AND INDUSTRIAL CUSTOMERS

There is a broad diversity of businesses represented by the customers in the large commercial and industrial classification. The following data show how the revenues are distributed among the various types and classes of business and that no one group predominates.

CLASSIFICATION	1988		1987		1983	
	Amount (Millions)	Percent of Total*	Amount (Millions)	Percent of Total*	Amount (Millions)	Percent of Total*
MANUFACTURING						
Durable Goods						
Stone, Clay and Glass Products	\$ 6.1	1.0%	\$ 5.6	1.0%	\$ 5.5	1.2%
Primary Metal Industries	20.1	3.2	19.1	3.3	15.5	3.4
Fabricated Metal Products	21.0	3.3	18.9	3.3	17.1	3.7
Machinery (Non-electric)	39.6	6.2	35.6	6.1	21.8	4.8
Electrical Machinery and Scientific Instruments.	31.0	4.9	28.6	4.9	23.6	5.1
Miscellaneous	12.4	1.9	10.5	1.8	9.6	2.1
Total Durable Goods	130.2	20.5	118.3	20.4	93.1	20.3
Nondurable Goods						
Food and Kindred Products						
Meat Products	5.6	0.9	5.3	0.9	5.4	1.2
Dairy Products	11.4	1.8	11.1	1.9	9.0	2.0
Grain Mill Products	12.9	2.0	12.2	2.1	11.1	2.4
Beverage Industries	7.5	1.2	7.5	1.3	5.7	1.2
Other Food Products	11.9	1.9	11.5	2.0	10.7	2.3
Total Food and Kindred Products	49.3	7.8	47.6	8.2	41.9	9.1
Paper and Allied Products	43.0	6.8	41.7	7.2	36.5	8.0
Printing and Publishing	15.7	2.5	14.1	2.4	9.4	2.0
Chemical and Allied Products	7.6	1.2	6.7	1.2	4.5	1.0
Petroleum and Coal Products	26.6	4.2	23.6	4.1	17.6	3.8
Leather and Leather Products	1.0	0.1	1.0	0.2	1.1	.3
Rubber and Plastic Products	19.3	3.0	18.4	3.1	13.2	2.9
Textile Mill and Apparel Products	2.5	0.4	2.1	0.4	1.8	.4
Total Nondurable Goods	165.0	26.0	155.2	26.8	126.0	27.5
Total Manufacturing	295.2	46.5	273.5	47.2	219.1	47.8
NONMANUFACTURING						
Nonmetal Mineral	3.0	0.5	2.9	0.5	3.0	.7
Transportation and Public Utilities	37.4	5.9	33.1	5.7	24.6	5.4
Wholesale and Retail Trade	77.1	12.2	70.6	12.2	60.0	13.1
Finance, Insurance and Real Estate	66.3	10.5	58.4	10.1	40.8	8.9
Services	120.0	18.9	108.5	18.7	82.6	18.0
Public Administration	13.5	2.1	12.4	2.2	20.7	4.5
Miscellaneous Nonmanufacturing	21.6	3.4	19.6	3.4	7.5	1.6
Total Nonmanufacturing	338.9	53.5	305.5	52.8	239.2	52.2
Total Large Commercial and Industrial	\$634.1	100.0%	\$579.0	100.0%	\$458.3	100.0%

*Calculated on unrounded numbers.

The diversification of business among the 6,808 customers in the large commercial and industrial revenue classification is further indicated by the fact that there were approximately only 479 customers whose billings exceeded \$250,000 in 1988. Of these, approximately 40 were over \$500,000.

The names of several large customers listed below suggest the wide variety of business in which they are engaged. Many nationally known firms that make their headquarters or that have operations in the NSP service territory are in this list.

Anchor Glass
Andersen Corporation
Archer Daniels Midland
Ashland Petroleum Company
BCE Development

John Morrell & Company
K-Mart, Div. of S.S. Kresge Inc.
Koch Refining Company
Lakehead Pipeline Co.
Land O'Lakes Inc.

Brown Printing Company
Burlington Northern
Cargill Inc.
Certain-Teed Products Corporation
Cold Spring Granite Co.

Magnetic Peripherals Inc.
Minnesota Mining & Manufacturing Company
North Star Steel Company
Northern Engraving Co.
Northwest Airlines, Inc.

Conagra Inc.
Control Data Corporation
Country Club Market Inc.
Cray Research Inc.
The Dayton Hudson Corporation

Onan Div. of Onan Corporation
The Pillsbury Company
Pope & Talbot Inc.
Rahr Malting Company
Sears, Roebuck and Company

Equitable Life Assurance Society
FMC Corp., Northern Ordnance Division
Flambeau Paper Corporation
Ford Motor Company
G. Heileman Brewing Company

Simplot Financial Corporation
Super Valu Stores Inc.
Target Stores Inc.
The Trane Company
UniRoyal, Inc.

General Mills, Inc.
Gerald D. Hines Interests
Holiday Inn
Honeymead Products Company
Honeywell, Inc.

Unisys
United Properties
US West
Waldorf Corporation
Williams Brothers Pipeline Company

ENERGY SOURCES AND PRODUCTION COSTS

Source	Requirements			
	1988		1987	
	Kwh (Millions)	Percent of Total*	Kwh (Millions)	Percent of Total*
Thermal generation				
Coal.....	17 809.7	48.2%	15 617.2	46.6%
Nuclear.....	12 288.2	33.2	11 553.6	34.4
Oil.....	44.6	.1	23.2	.1
Other.....	596.6	1.6	324.0	.9
Total Thermal.....	30 739.1	83.1	27 518.0	82.0
Hydro generation.....	565.5	1.5	664.7	2.0
Manitoba Hydro-Electric Board.....	605.2	1.7	2 223.1	6.6
Purchased and interchange.....	5 082.6	13.7	3 140.0	9.4
Total.....	<u>36 992.4</u>	<u>100.0%</u>	<u>33 545.8</u>	<u>100.0%</u>

The seven largest generating plants in the NSP system (Sherburne County, Prairie Island, Allen S. King, Monticello, Black Dog, Riverside, and High Bridge) produced approximately 97 percent of the total NSP generation in 1988.

The trends in Btu per kilowatt-hour output and in fuel and production costs are indicated in the following tabulation:

Year	Btu per Kwh Output	Cost of Fuel Cents per Million Btu			Production Costs Cents per Kwh Output			
		Coal	Nuclear	All Fuels	Thermal			Total Output
					Fuel Only	Total	Hydro	
1988.....	10 728	119.1	48.1	91.1	.977	1.727	1.598	1.725
1987.....	10 741	133.1	50.6	98.7	1.060	1.764	1.296	1.753
1986.....	10 726	146.9	49.6	98.7	1.059	1.832	.738	1.780
1985.....	10 681	145.1	50.4	99.8	1.067	1.728	.644	1.674
1984.....	10 871	147.5	53.2	109.7	1.192	1.875	.660	1.815
1983.....	10 803	145.8	49.4	98.0	1.059	1.556	.468	1.504
1982.....	10 872	133.4	44.5	90.9	.996	1.559	.494	1.506
1981.....	10 835	112.1	46.5	83.3	.903	1.334	.481	1.303
1980.....	10 895	103.8	43.5	79.0	.860	1.253	.448	1.226
1979.....	10 825	94.8	34.7	67.8	.734	1.032	.395	1.009
1978.....	10 833	76.2	30.6	60.2	.652	.903	.302	.882

*Calculated on unrounded numbers.

GENERATING STATION STATISTICS

	Date Installed	Summer Capability (Mw)	Output kwh (Millions)		Btu per kwh output	
			1988	1987	1988	1987
			STEAM THERMAL PLANTS			
Fossil Fuel						
Sherburne County — Becker						
Unit #1	5-1-76	702.0	4 543.4	4 367.8	10 292	10 354
Unit #2	4-1-77	700.0	4 069.6	4 202.4	10 370	10 401
Unit #3	11-1-87	496.0*	<u>3 318.6</u>	<u>828.3</u>	9 982	10 906
Total		1 898.0	11 931.6	9 398.5	10 206	10 423
Allen S. King — Oak Park Heights	1-31-68	550.0	2 429.3	3 410.9	9 801	9 954
Black Dog — Burnsville	1952-60	440.0	929.0	760.2	12 304	12 373
High Bridge — St. Paul	1942-59	370.0	943.4	1 054.8	12 318	12 016
Riverside — Minneapolis	1931-64	337.0	1 787.4	1 050.3	10 947	10 955
Six Other Plants		251.0	<u>386.1</u>	<u>272.7</u>	17 578	17 767
Total fossil fuel		<u>3 846.0</u>	<u>18 406.8</u>	<u>15 947.4</u>	10 593	10 682
Nuclear Fuel						
Prairie Island — Red Wing						
Unit #1	12-16-73	504.0	3 823.4	3 590.3	10 974	10 879
Unit #2	12-21-74	504.0	<u>3 891.2</u>	<u>4 430.0</u>	11 045	10 885
Total		1 008.0	7 714.6	8 020.3	11 010	10 882
Monticello — Monticello	6-30-71	541.0	<u>4 573.6</u>	<u>3 533.3</u>	10 637	10 622
Total nuclear fuel		<u>1 549.0</u>	<u>12 288.2</u>	<u>11 553.6</u>	10 871	10 802
Total steam thermal — 13 plants		<u>5 395.0</u>	<u>30 695.0</u>	<u>27 501.0</u>	10 705	10 733
OTHER THERMAL PLANTS — 8 plants		<u>1 127.0</u>	<u>43.9</u>	<u>16.7</u>	(a)	(a)
HYDRO PLANTS — 22 plants		<u>223.1</u>	<u>565.5</u>	<u>664.7</u>		
OTHER PLANT — Holland Wind		—	.2	.3		
Total 45 Plants		<u>6 745.1</u>	<u>31 304.6</u>	<u>28 182.7</u>		

(a) Denotes either negative kwh or that the Btu per kwh has little or no meaning.

*Represents NSP's share of 1988 summer peak capability of Sherco 3. Projected summer peak for Sherco 3 in 1989 is 504.0 Mw.

COMMON STOCK DATA

Year	Shareholders End of Year	Average Shares Outstanding (Thousands) (1)	Earnings Per Average Share (1)	Dividends Declared (1)	Market Prices* (1)		
					High	Low	Close
1948	34 856	19 011	\$.45	\$.35	4 ⁵ / ₈	3 ⁷ / ₈	4 ¹ / ₂
1949	49 959	22 157	.52	.35	5 ⁵ / ₈	4 ³ / ₈	5 ¹ / ₂
1950	53 557	22 167	.47	.35	6 ¹ / ₂	4 ³ / ₄	5 ¹ / ₈
1951	56 644	22 179	.42	.35	5 ¹ / ₂	4 ⁷ / ₈	5 ³ / ₈
1952	59 432	23 338	.53	.35	6 ⁵ / ₈	5 ³ / ₈	6 ¹ / ₂
1953	59 858	24 397	.55	.3625	7 ¹ / ₈	6	6 ⁷ / ₈
1954	63 651	26 837	.53	.40	8 ¹ / ₂	6 ⁷ / ₈	8 ¹ / ₄
1955	64 046	26 837	.58	.4125	9 ¹ / ₈	8	8 ⁷ / ₈
1956	67 467	27 897	.61	.45	9 ¹ / ₈	8 ¹ / ₄	8 ⁵ / ₈
1957	69 471	28 238	.62	.45	8 ⁷ / ₈	6 ³ / ₄	8 ¹ / ₂
1958	69 658	28 539	.65	.50	11 ¹ / ₄	8 ³ / ₈	11
1959	74 377	29 292	.73	.55	12 ⁷ / ₈	11 ¹ / ₈	12 ¹ / ₈
1960	75 323	30 798	.75	.56	14 ⁵ / ₈	11 ³ / ₈	14 ¹ / ₂
1961	74 938	30 844	.77	.59	19 ¹ / ₄	13 ³ / ₄	17
1962	74 383	30 844	.86	.6275	18 ⁷ / ₈	12 ⁵ / ₈	17 ³ / ₄
1963	73 829	30 844	.89	.67	19 ¹ / ₄	16 ³ / ₄	18 ¹ / ₈
1964	73 245	30 874	.95	.70	20 ⁵ / ₈	16 ³ / ₄	20 ¹ / ₄
1965	75 824	31 448	.97	.72	20 ¹ / ₈	17 ³ / ₈	17 ¹ / ₂
1966	76 477	32 418	1.03	.75	18	13 ⁷ / ₈	16 ³ / ₄
1967	76 050	32 424	1.06	.78	17 ³ / ₈	14 ¹ / ₄	14 ³ / ₈
1968	77 110	32 424	1.07	.80	16 ⁷ / ₈	13 ¹ / ₂	15
1969	81 565	34 316	1.12	.80	15 ¹ / ₂	11 ³ / ₈	11 ¹ / ₂
1970	88 937	35 088	1.20	.8375	13 ³ / ₄	10 ⁷ / ₈	13 ³ / ₈
1971	90 612	38 040	1.27	.85	14 ⁵ / ₈	12 ¹ / ₂	13 ⁵ / ₈
1972	93 166	39 501	1.38	.884	15 ⁵ / ₈	12 ¹ / ₄	15 ¹ / ₄
1973	96 138	42 578	1.30	.918	15 ³ / ₄	11 ¹ / ₄	12 ⁵ / ₈
1974	103 454	46 466	1.20	.918	13 ¹ / ₄	7 ⁵ / ₈	8
1975	101 839	51 928	1.47	.931	13 ⁵ / ₈	8	13 ¹ / ₄
1976	102 333	56 637	1.47	.97	15 ¹ / ₈	11 ³ / ₄	14 ³ / ₄
1977	100 253	58 779	1.43	1.015	15 ¹ / ₄	13 ¹ / ₄	14 ¹ / ₈
1978	101 389	59 423	1.69	1.0675	14 ¹ / ₈	11 ⁵ / ₈	11 ³ / ₄
1979	100 857	60 540	1.76	1.125	13	10 ³ / ₄	11 ¹ / ₄
1980	98 821	60 173	1.62	1.1925	12 ³ / ₄	9	10 ³ / ₄
1981	94 453	58 668	1.94	1.2625	13 ¹ / ₂	10	12 ¹ / ₈
1982	94 108	60 201	2.39	1.3475	16 ¹ / ₄	11 ³ / ₄	15
1983	90 642	60 863	2.80	1.4525	20 ³ / ₈	14 ⁷ / ₈	19
1984	85 784	61 663	2.90	1.585	22 ¹ / ₈	16 ⁷ / ₈	20 ⁷ / ₈
1985	82 234	62 274	2.97	1.725	27 ³ / ₈	20 ⁵ / ₈	26 ¹ / ₂
1986	79 921	62 541	3.09	1.865	40 ¹ / ₈	25	34 ¹ / ₂
1987	79 503	62 541	3.01	1.99	39 ³ / ₄	26 ¹ / ₄	29 ⁵ / ₈
1988	78 001	62 541	3.11	2.095	34 ¹ / ₄	29 ¹ / ₄	32 ³ / ₄

*The above table shows the reported price range, as published in the Wall Street Journal, of the Common Stock of the Company on the New York Stock Exchange through January 23, 1976, and for the New York Stock Exchange — Composite Transactions thereafter.

(1) See note on CONTENTS page.

REVENUES AND RATES

REVENUES

NSP's 1988 revenues, excluding inter-system non-firm sales to other utilities, were subject to regulatory jurisdiction as follows:

	<u>Percent of 1988 Revenues</u>
Retail:	
Minnesota Public Utilities Commission (MPUC).....	74.3%
Public Service Commission of Wisconsin (PSCW).....	13.8
Public Service Commission of North Dakota (PSCND)	5.9
Public Utilities Commission of South Dakota (PUCSD).....	2.8
Michigan Public Service Commission (MPSC) .....	.6
Sales for Resale — Wholesale:	
Federal Energy Regulatory Commission (FERC)	<u>2.6</u>
Total	<u>100.0%</u>

RATE PROGRAMS

Rate increases requested and granted in previous years were as follows:

<u>Year</u>	<u>Requested</u>	<u>Granted</u>
	(Millions of dollars)	
1983	\$ 2.4	\$1.7
1984	0	0
1985	161.3	49.3
1986	20.7	14.8
1987	122.0	83.9

The following table summarizes the status of the 1988 rate increase program.

	<u>Annual Increase</u>		<u>Effect on 1988</u>	<u>Status</u>
	<u>Requested</u>	<u>Allowed</u>	<u>Revenues</u>	
	(Millions of dollars)			
Electric — Retail				
South Dakota.....	\$3.6	\$2.3	\$0	Order Issued — 12/01/88
Michigan.....	<u>0.8</u>	<u>0.7</u>	<u>0</u>	Order Issued — 02/07/89
Total 1988 Rate Program..	<u>\$4.4</u>	<u>\$3.0</u>	<u>\$0</u>	

GENERAL

Wholesale rates for electric energy sold in interstate commerce and certain other activities of the Company and the Wisconsin Company are subject to the jurisdiction of the FERC. Retail rates, service and other aspects of the Company's operations are subject to the jurisdiction of the MPUC, the PUCSD and the PSCND, within their respective states. The MPUC also has jurisdiction over securities issuance by the Company. The Wisconsin Company is subject to regulation by the PSCW and the MPSC.

Since the MPUC assumed jurisdiction of Minnesota electric and gas rates in 1975, several significant regulatory precedents have evolved. The MPUC has accepted the use of a forecast test year that corresponds to the period when rates are put in effect, subject to refund. The use of a forecast test year and interim rates minimize regulatory lag.

The MPUC must order interim rates within 60 days of a rate case filing. Minnesota statutes allow interim rates to be set to adjust for updated expense and rate base items similar to those previously allowed and allow a return on equity equal to that granted in the last MPUC order for the utility. The MPUC must make a

determination of the application within 10 months after filing. If the final determination does not permit the full amount of the interim rates, the utility must refund the excess revenue with interest.

Minnesota law allows Construction Work in Progress (CWIP) in a utility's rate base without including an Allowance for Funds Used During Construction (AFC) offset in revenues. The MPUC has exercised this option to a limited extent so that cash earnings are allowed on small and short-term projects that do not qualify for AFC. Other CWIP is allowed in rate base with offsetting AFC. For the calculation of AFC, the FERC formula on a gross-of-tax basis is used starting in 1988. The gross of tax basis has no effect on earnings because taxes offset the difference between gross and net rates.

The PSCW now looks at each utility's cash position to determine if a return on CWIP will be allowed. The PSCW will allow a return on CWIP or capitalization of AFC at the adjusted overall cost of capital. The Wisconsin Company currently capitalizes AFC on production and transmission CWIP at the FERC formula rate and all other CWIP at the adjusted overall cost of capital.

The PSCW has established an annual filing requirement for processing rate cases and monitoring utilities' rates. By June 1 of each year, the Wisconsin Company must submit filings for calendar test years beginning the following January 1. The filing procedure and subsequent review allow the PSCW sufficient time to issue an order effective with the start of the test year.

FUEL AND PURCHASED GAS ADJUSTMENT CLAUSES

The Company's wholesale and retail electric rate schedules provide for adjustments to billings and revenues for changes in the cost of fossil fuel, nuclear fuel and purchased power. The lag in implementing the billing adjustment is approximately 60 days. On average, another 15 days pass before the adjustment is recorded as revenue.

The Company's retail gas rate schedules provide for adjustment to billings and revenues for changes in the cost of purchased gas. There is a lag in implementing the billing adjustment. On average, 15 days pass before the adjustment is recorded as revenue.

The 1983 Wisconsin Legislature eliminated the automatic retail electric fuel adjustment clause. The Wisconsin Company used the clause until a PSCW order was issued in March 1986. The clause was replaced by a limited-issue filing procedure.

Effective January 1, 1986, the Wisconsin Company's wholesale fuel adjustment clause was modified. With the new clause, the Wisconsin Company calculates the fuel adjustment factor for the current month based on estimated fuel costs for that month. The estimated fuel cost is trued-up to actual the following month.

The Wisconsin Company's gas schedules include a purchased gas adjustment clause that provides for the inclusion of the current unit cost of gas.

The Wisconsin Company's gas and retail electric rate schedules for Michigan customers include Gas Cost Recovery Factors and Power Supply Cost Recovery Factors, which are based on twelve-month projections.



**Northern
States
Power
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