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 Office of Nuclear Reactor Regulation, Director (Post 870411)

SUBJECT: Forwards suppl to 1987 annual rept, "Financial & Statistical Information."

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Northern States Power Company

414 Nicollet Mall
Minneapolis, Minnesota 55401
Telephone (612) 330-5500

March 18, 1988

Director
Office of Nuclear Reactor Regulation
U S Nuclear Regulatory Commission
Washington, D C 20555

Attention: Document Control Desk

Re: Monticello Nuclear Generating Plant
Docket No 50-263
Prairie Island Nuclear Generating Plant
Docket No 50-282 and 50-306

Pursuant to paragraph 50.71(b) of 10 CFR Part 50 and Item No 70 in Regulatory Guide 10.1, we are enclosing ten (10) copies of a brochure entitled "Financial and Statistical Information", which relates to this Company.

The report is supplemental to the 1987 Annual Report to Shareholders of Northern States Power Company, a Minnesota corporation, copies of which were mailed to you on March 1, 1988.

Very truly yours

Johanna Isdahl
Assistant Secretary

Enclosures

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Northern
States
Power
Company

Financial
and
Statistical
Information

A Supplement
to the 1987
Annual
Report

Northern States Power Company

1987 Annual Report



energy

company

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

**FINANCIAL AND STATISTICAL INFORMATION
A Supplement to the 1987 Annual Report to Shareholders**

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Reference to "NSP" means Northern States Power Company (Minnesota) and its subsidiary companies. Lake Superior District Power Company (LSDP) became a subsidiary of NSP in 1982. On January 1, 1987, LSDP was merged into Northern States Power Company (Wisconsin).

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 James 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 1988

FINANCIAL STATISTICS

December 31

	1987	1986	1985	1984	1983	1982	1977
Earnings per shr. on avg. shr. (1)	\$ 3.01	\$ 3.09	\$ 2.97	\$ 2.90	\$ 2.80	\$ 2.39	\$ 1.43
Five year growth rates on earnings per share:							
End points	4.7%	9.8%	12.9%	10.6%	10.6%	10.9%	.8%
Least squares.....	4.3%	9.0%	13.4%	13.3%	10.9%	8.7%	2.2%
Dividends declared per share (1) ...	\$ 1.99	\$ 1.865	\$ 1.725	\$ 1.585	\$ 1.453	\$ 1.348	\$ 1.015
Dividends in percent of earnings	66.1%	60.3%	58.2%	54.7%	52.0%	56.4%	71.0%
Book value per share of common stock (at year end) (1)	\$ 21.88	\$ 20.80	\$ 19.72	\$ 18.40	\$ 17.08	\$ 15.73	\$ 24.74
Shares of common stock (000s)							
Average for year (1).....	62 541	62 541	62 274	61 663	60 863	60 201	58 779
End of year (1)	62 541	62 541	62 541	61 949	61 288	60 475	59 066
Percent of construction expenditures financed by internally generated funds (excluding AFC)	70.7%	77.5%	60.5%	100.0%	100.0%	61.7%	100.0%
Capitalization*							
Common (including premium and retained earnings).....	45.2%	44.8%	44.5%	45.1%	43.5%	40.5%	38.7%
Preferred (including premium) ...	9.9	8.1	7.9	8.6	9.2	9.5	12.2
First mortgage bonds.....	37.8	40.6	41.9	42.6	42.3	40.9	46.8
Guaranty agreements — pollution control financing.....	1.3	1.4	1.5	1.6	1.6	1.7	2.1
Miscellaneous long-term debt....	2.2	2.6	1.9	1.1	1.2	.2	.2
Short-term debt	3.6	2.5	2.3	1.0	2.2	7.2	
Total Debt	44.9	47.1	47.6	46.3	47.3	50.0	49.1
Total Capitalization.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Interest coverage							
Before taxes (excluding AFC)	3.5	3.8	4.2	4.6	4.7	4.2	3.9
After taxes (excluding AFC)	2.4	2.5	2.6	2.8	2.8	2.5	2.3
Interest and preferred dividend coverage							
After taxes (including AFC)	2.5	2.6	2.7	2.8	2.6	2.4	2.0
Embedded cost of long-term debt ..	8.19%	8.03%	8.08%	7.98%	7.96%	8.06%	6.85%
Embedded cost of preferred stock ..	6.34%	5.81%	6.01%	6.01%	6.10%	6.12%	6.32%
Average plant investment per dollar of revenue	\$ 3.26	\$ 3.00	\$ 2.71	\$ 2.50	\$ 2.45	\$ 2.47	\$ 3.16
Depreciation reserve in percent of depreciable plant	31.5%	34.7%	33.9%	34.6%	34.1%	32.7%	24.3%
Depreciation provision in percent of average depreciable plant	3.37%	3.48%	3.63%	3.55%	3.47%	3.55%	3.43%
Benefit employees (at year end)	7 699	7 515	7 414	7 347	7 207	7 261	6 694

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)

	1987	1986	1985	1984	1983
Operating Revenues					
Electric.....	\$ 1 497.4	\$1 427.7	\$1 376.1	\$1 362.6	\$1 285.4
Gas.....	263.0	343.9	402.2	402.0	399.7
Telephone and Heating	9.9	10.0	10.4	11.0	10.7
Total	<u>1 770.3</u>	<u>1 781.6</u>	<u>1 788.7</u>	<u>1 775.6</u>	<u>1 695.8</u>
Operating Expenses					
Fuel for Electric Generation.....	291.7	235.6	257.0	246.0	249.6
Purchased and Interchange Power.....	88.5	113.0	94.1	140.5	79.6
Gas Purchased for Resale.....	165.6	236.0	300.4	304.0	313.3
Administrative and General	140.6	154.5	126.6	116.7	112.0
Maintenance.....	153.6	147.6	139.7	134.1	105.4
Other Operation.....	229.1	212.0	189.7	171.3	156.5
Depreciation and Amortization	170.5	157.8	155.7	142.0	136.6
Property and General Taxes.....	146.6	134.8	124.4	123.6	116.9
Income Taxes (current and deferred)	111.3	105.9	127.1	132.8	164.4
Investment Tax Credit Adjustments — Net	8.2	30.6	25.4	21.4	9.1
Total	<u>1 505.7</u>	<u>1 527.8</u>	<u>1 540.1</u>	<u>1 532.4</u>	<u>1 443.4</u>
Operating Income	<u>264.6</u>	<u>253.8</u>	<u>248.6</u>	<u>243.2</u>	<u>252.4</u>
Other Income and Expense					
Allowance for Funds Used During Construction — debt and equity	51.2	51.7	41.8	34.3	20.1
Other Income and Deductions — net.....	(2.3)	7.5	4.2	2.1	3.4
Total Other Income.....	<u>48.9</u>	<u>59.2</u>	<u>46.0</u>	<u>36.4</u>	<u>23.5</u>
Total Income	313.5	313.0	294.6	279.6	275.9
Interest — excluding credit for debt portion of AFC	<u>108.6</u>	<u>106.2</u>	<u>96.9</u>	<u>87.5</u>	<u>92.0</u>
Net Income	204.9	206.8	197.7	192.1	183.9
Preferred Stock Dividends	<u>16.6</u>	<u>13.5</u>	<u>13.0</u>	<u>13.3</u>	<u>13.6</u>
Earnings Available for Common Stock	188.3	193.3	184.7	178.8	170.3
Common Dividends	<u>124.5</u>	<u>116.6</u>	<u>107.5</u>	<u>97.8</u>	<u>88.5</u>
Earnings Retained	<u>\$ 63.8</u>	<u>\$ 76.7</u>	<u>\$ 77.2</u>	<u>\$ 81.0</u>	<u>\$ 81.8</u>
Earnings Per Share on Average Shares (1)	\$ 3.01	\$ 3.09	\$ 2.97	\$ 2.90	\$ 2.80

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

(1) See note on CONTENTS page.

		Annual Growth Rate*			Percent of Revenues*			
		1 Year 1987/1986	5 Year 1987/1982	10 Year 1987/1977	1987	1986	1982	1977
<u>1982</u>	<u>1977</u>							
\$1 178.2	\$732.3	4.9%	4.5%	7.9%	84.6%	80.1%	75.5%	83.1%
373.3	141.8	(23.5)	(6.1)	9.1	14.8	19.3	23.9	16.1
9.4	7.4	(1.4)	.0	1.9	.6	.6	.6	.8
<u>1 560.9</u>	<u>881.5</u>	<u>(.6)</u>	<u>2.3</u>	<u>8.2</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
218.0	155.5	23.8	3.9	5.7	16.5	13.2	14.0	17.6
73.0	10.6	(21.7)	4.7	26.8	5.0	6.3	4.7	1.2
280.8	94.5	(29.8)	(9.5)	9.2	9.4	13.2	18.0	10.7
107.5	48.0	(9.0)	7.1	12.3	7.9	8.7	6.9	5.5
108.4	62.7	4.1	8.3	10.2	8.7	8.3	7.0	7.1
155.1	83.9	8.1	8.8	11.2	12.9	11.9	9.9	9.5
133.3	85.5	8.0	5.2	7.1	9.6	8.9	8.5	9.7
107.7	80.7	8.8	5.8	6.2	8.3	7.6	6.9	9.2
128.9	81.5	5.0	(5.8)	3.3	6.3	6.0	8.2	9.2
19.3	23.0	(73.0)	(1.3)	.2	.5	1.7	1.2	2.6
<u>1 332.0</u>	<u>725.9</u>	<u>(1.5)</u>	<u>2.3</u>	<u>8.6</u>	<u>85.1</u>	<u>85.8</u>	<u>85.3</u>	<u>82.3</u>
228.9	155.6	4.3	2.2	6.0	15.0	14.2	14.7	17.7
19.7	7.0	(1.0)	25.0	22.8	2.9	2.9	1.2	.8
(.4)	2.1	(a)	(a)	(a)	(.1)	.4	.0	.2
<u>19.3</u>	<u>9.1</u>	<u>(17.6)</u>	<u>24.4</u>	<u>21.3</u>	<u>2.8</u>	<u>3.3</u>	<u>1.2</u>	<u>.10</u>
248.2	164.7	0.1	4.7	7.5	17.7	17.5	15.9	18.7
<u>90.5</u>	<u>66.1</u>	<u>2.2</u>	<u>4.2</u>	<u>5.7</u>	<u>6.1</u>	<u>6.0</u>	<u>5.8</u>	<u>7.5</u>
157.7	98.6	(1.0)	5.0	8.9	11.6	11.6	10.1	11.2
<u>13.7</u>	<u>14.5</u>	<u>23.0</u>	<u>2.8</u>	<u>.0</u>	<u>.9</u>	<u>.8</u>	<u>.9</u>	<u>1.7</u>
144.0	84.1	(2.6)	5.1	9.4	10.6	10.9	9.2	9.5
<u>81.2</u>	<u>59.7</u>	<u>6.7</u>	<u>9.1</u>	<u>7.8</u>	<u>7.0</u>	<u>6.5</u>	<u>5.2</u>	<u>6.7</u>
<u>\$ 62.8</u>	<u>\$ 24.4</u>	<u>(16.8)</u>	<u>(0.5)</u>	<u>12.4</u>	<u>3.6%</u>	<u>4.3%</u>	<u>4.0%</u>	<u>2.8%</u>
\$ 2.39	\$ 1.43	(2.6)	4.3	8.8				

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

BALANCE SHEET

December 31

	1987	1986	1985	1984	1983
	(Millions of dollars)				
ASSETS					
Utility plant	\$5 458.4	\$5 108.2	\$4 653.8	\$4 222.4	\$3 922.8
Less accumulated provision for depreciation	1 718.4	1 599.0	1 461.8	1 329.4	1 223.4
Nuclear fuel	511.3	486.1	439.2	390.9	334.0
Less accumulated provision for amortization	388.8	338.3	288.6	237.7	292.8
Net utility plant	3 862.5	3 657.0	3 342.6	3 046.2	2 740.6
Construction funds	36.6	94.5	133.8	149.3	104.8
Other property and invest. — net	111.2	102.7	118.0	118.2	127.3
Current assets					
Cash and temp. cash invest	8.4	12.5	12.3	9.0	15.3
Accounts receivable — net	176.0	162.3	210.7	168.6	164.3
Federal income tax refund receivable	7.6	7.9	7.0	17.0	11.0
Material and supplies (average cost)					
Fuel	49.7	75.3	78.3	88.5	89.9
Other	59.5	57.2	51.6	47.3	42.3
Prepayments and other	38.2	27.6	30.3	28.7	23.9
Total current assets	339.4	342.8	390.2	359.1	346.7
Deferred debits	51.5	50.0	63.0	68.9	76.0
Total	\$4 401.2	\$4 247.0	\$4 047.6	\$3 741.7	\$3 395.4
LIABILITIES					
Capitalization					
Common stock (incl. premium)	\$ 539.2	\$ 539.2	539.2	\$ 525.7	\$ 513.2
Retained earnings	853.0	788.7	713.0	633.6	552.6
ESOP shares purchased with debt	(4.4)	(8.0)			
Treasury stock (at cost)	(19.2)	(19.2)	(19.2)	(19.2)	(19.3)
Total common stock equity	1 368.6	1 300.7	1 233.0	1 140.1	1 046.5
Cumulative preferred stock (incl. premium)					
Without mandatory redemption	300.5	235.5	208.5	208.5	208.5
With mandatory redemption (net of treasury shares at cost)			9.3	9.3	14.1
First mortgage bonds	1 144.2	1 177.0	1 158.9	1 075.6	1 018.0
Guaranty agreements — pollution control financing	38.9	39.4	39.9	39.9	39.9
Miscellaneous long-term debt	66.4	76.7	54.8	27.7	29.0
Unamortized premium (discount) on long-term debt	(1.0)	(1.0)	(1.1)	(.7)	(.7)
Total long-term debt	1 248.5	1 292.1	1 252.5	1 142.5	1 086.2
Total capitalization	2 917.6	2 828.3	2 703.3	2 500.4	2 355.3
Current liabilities					
Notes payable	78.2	65.9	49.1	25.1	32.1
Long-term debt due within one year	30.5	7.9	15.7	.8	20.8
Accounts payable	140.6	159.7	177.0	145.0	130.8
Nuclear fuel disposal cost payable				94.6	
Salaries, wages and vacation pay accrued	25.6	21.7	20.6	18.3	16.3
Revenue refunds due customers	4.6	4.3	3.4	.3	.2
Taxes accrued	111.9	102.8	103.9	93.0	98.4
Interest accrued	22.9	22.7	21.9	20.7	20.8
Dividends declared	36.3	33.1	30.8	28.3	26.0
Other	5.3	3.3	1.4	.3	.5
Total current liabilities	455.9	421.4	423.8	426.4	345.9
Deferred credits					
Accumulated deferred income taxes	724.4	712.7	663.7	576.8	476.5
Accumulated deferred investment tax credits	270.3	266.8	241.4	222.4	203.6
Other	33.0	17.8	15.4	15.7	14.1
Total deferred credits	1 027.7	997.3	920.5	814.9	694.2
Total	\$4 401.2	\$4 247.0	\$4 047.6	\$3 741.7	\$3 395.4

STATEMENT OF CHANGES IN FINANCIAL POSITION

December 31

	<u>1987</u>	<u>1986</u>	<u>1985</u>	<u>1984</u>	<u>1983</u>
	(Millions of dollars)				
SOURCE OF FUNDS					
<i>Funds from operations</i>					
Net income	\$204.9	\$206.8	\$197.7	\$192.1	\$183.9
Depreciation and other amortization	193.6	178.2	173.4	155.8	142.5
Nuclear fuel amortization	50.5	49.6	50.9	39.4	48.2
Deferred income taxes (including tax benefit transfers)	14.1	87.8	91.9	107.0	156.9
Investment tax credit adj. — net	3.5	25.4	19.0	18.8	3.5
Allowance for funds used during construction	(51.2)	(51.7)	(41.8)	(34.3)	(20.1)
Total	<u>415.4</u>	<u>496.1</u>	<u>491.1</u>	<u>478.8</u>	<u>514.9</u>
<i>Issuance of notes and securities</i>					
Notes payable	12.4	16.8	24.0		
Long-term debt	19.9	84.0	143.5	61.4	200.1
Common stock			13.6	12.4	11.0
Preferred stock	65.0	30.0			
Total	<u>97.3</u>	<u>130.8</u>	<u>181.1</u>	<u>73.8</u>	<u>211.1</u>
<i>Construction fund withdrawals</i>	61.0	63.3	52.3	23.2	
<i>Sale of Sherco 3 to co-owner</i>				5.5	57.9
TOTAL SOURCE OF FUNDS	<u>\$573.7</u>	<u>\$690.2</u>	<u>\$724.5</u>	<u>\$581.3</u>	<u>\$783.9</u>
APPLICATION OF FUNDS					
Construction expenditures	\$451.7	\$555.6	\$513.7	\$401.0	\$347.3
Allowance for funds used during construction	(51.2)	(51.7)	(41.8)	(34.3)	(20.1)
Redemption of outstanding preferred stock		12.3			
Construction funds held by trustee	3.2	23.9	36.8	67.7	104.8
Repayment of notes payable				7.0	136.4
Retirement of long-term debt	63.5	44.6	33.2	5.1	22.7
Reclassification of nuclear fuel disposal cost				94.6	
Purchase of outstanding long-term debt					116.1
Acquisition of preferred stock with mandatory redemption				4.8	
Preferred dividends	16.6	13.5	13.0	13.3	13.6
Common dividends	124.5	116.6	107.5	97.8	88.5
Increase (decrease) in working capital (excluding notes payable)	(25.5)	(28.3)	57.7	(75.1)	(32.6)
Other — net	(9.1)	3.7	4.4	(6)	7.2
TOTAL APPLICATION OF FUNDS	<u>\$573.7</u>	<u>\$690.2</u>	<u>\$724.5</u>	<u>\$581.3</u>	<u>\$783.9</u>
INCREASE (DECREASE) IN WORKING CAPITAL (excluding notes payable)					
Cash and temporary cash investments	\$ (4.1)	\$.2	\$ 3.3	\$ (6.3)	\$ 12.0
Accounts receivable — net	13.7	(48.4)	42.1	4.3	24.8
Federal income tax refund receivable	(0.3)	.9	(10.0)	6.0	(21.0)
Materials and supplies	(23.3)	2.6	(5.9)	3.6	(11.6)
Long-term debt and preferred stock with mandatory redemption due within one year	(22.6)	7.8	(14.9)	20.0	(18.5)
Accounts payable, and salaries, wages, etc.	15.2	16.2	(34.3)	(16.2)	(14.2)
Revenue refunds due customers	(.3)	(.9)	(3.1)	(.1)	1.1
Income and other taxes accrued	(9.1)	1.1	(10.9)	5.4	(10.3)
Nuclear fuel disposal cost payable			94.6	(94.6)	
Other current assets and liabilities net	5.3	(7.8)	(3.2)	2.8	5.1
TOTAL	<u>\$ (25.5)</u>	<u>\$ (28.3)</u>	<u>\$ 57.7</u>	<u>\$ (75.1)</u>	<u>\$ (32.6)</u>

CONSTRUCTION EXPENDITURES

Construction expenditures during 1987 were \$451.7 million, including \$25.2 million for nuclear fuel.

Construction expenditures, including nuclear fuel, for the five-year period 1988-1992 are estimated at \$1.8 billion. By years, the expenditures are:

	1988	1989	1990	1991	1992	1988-1992 Total
	(Millions of dollars)					
Construction expenditures excluding nuclear fuel	\$330	\$340	\$300	\$300	\$290	\$1 560
Nuclear fuel expenditures	40	50	60	50	60	260
Total construction expenditures	\$370	\$390	\$360	\$350	\$350	\$1 820

GROSS ADDITIONS TO PROPERTY AND CONSTRUCTION EXPENDITURES

	1987	1986	1985	1984	1983
	(Millions of dollars)				
Gross additions to property					
Electric production	\$245.9	\$341.5	\$292.4	\$208.0	\$115.3
Other electric	129.1	121.2	129.9	97.4	86.1
Nuclear fuel	25.2	46.9	48.3	56.9	75.9
Gas	18.9	18.5	19.1	14.4	12.1
Other utilities	19.6	6.1	18.0	22.3	18.9
Total	438.7	534.2	507.7	399.0	308.3
Non-utility property	30.5	27.6	7.4	2.7	45.6
Less acquisition, salvage, etc.	17.5	6.2	1.4	.7	6.6
Construction expenditures	\$451.7	\$555.6	\$513.7	\$401.0	\$347.3

The additions to utility plant and the retirements for the years 1983-1987 are summarized below:

	1987	1986	1985	1984	1983	Total 1983-1987
	(Millions of dollars)					
Balance at beginning of period . . .	\$5 594.3	\$5 093.0	\$4 613.3	\$4 256.8	\$4 040.1	\$4 040.1
Gross additions	438.7	534.2	507.7	399.0	308.3	2 187.9
Retirements	(61.9)	(38.6)	(32.2)	(35.7)	(29.8)	(198.2)
Reimbursement from Sherco 3 co-owner				(5.5)	(57.9)	(63.4)
Adjustments	(1.4)	5.7	4.2	(1.3)	(3.9)	3.3
Balance at end of period	\$5 969.7	\$5 594.3	\$5 093.0	\$4 613.3	\$4 256.8	\$5 969.7

UTILITY PLANT AND DEPRECIATION RESERVES

	December 31				
	1987	1986	1985	1984	1983
	(Millions of dollars)				
UTILITY PLANT					
Electric					
Plant in service:					
Production	\$2 800.3	\$2 071.2	\$1 902.0	\$1 831.8	\$1 671.5
Transmission	605.3	583.6	558.7	545.0	538.4
Distribution	1 232.3	1 160.0	1 093.3	1 024.8	968.9
General	124.3	113.4	107.8	79.4	73.1
Plant held for future use	1.0	1.1	1.6	1.5	1.1
Plant acquisition adjustment1	.1
Plant purchased or sold				(.5)	
Plant leased to others	5.7	5.7	5.5	3.8	1.3
Plant under capital leases8	1.1			
Construction work in progress	191.7	698.7	528.2	306.0	271.1
Nuclear fuel (including in process)	511.3	486.1	439.2	390.9	334.0
Total Electric	<u>5 472.7</u>	<u>5 120.9</u>	<u>4 636.3</u>	<u>4 182.8</u>	<u>3 859.5</u>
Gas					
Plant in service:					
Production	10.9	10.7	11.2	11.1	11.2
Storage	25.1	24.8	24.3	24.2	24.0
Transmission	14.4	14.4	14.1	13.6	13.2
Distribution	276.6	261.6	246.3	229.6	219.9
General	10.4	10.1	8.9	8.5	8.1
Construction work in progress	4.1	3.4	3.8	4.5	2.7
Total Gas	<u>341.5</u>	<u>325.0</u>	<u>308.6</u>	<u>291.5</u>	<u>279.1</u>
Telephone	29.4	25.2	28.8	26.4	26.5
Common	126.1	123.2	119.3	112.6	91.7
Total	<u>\$5 969.7</u>	<u>\$5 594.3</u>	<u>\$5 093.0</u>	<u>\$4 613.3</u>	<u>\$4 256.8</u>
DEPRECIATION RESERVES					
Electric	\$1 529.7	\$1 425.1	\$1 308.5	\$1 186.7	\$1 096.9
Nuclear fuel	388.8	338.3	288.6	237.7	292.8
Total Electric	1 918.5	1 763.4	1 597.1	1 424.4	1 389.7
Gas	133.8	123.6	113.6	104.3	95.5
Telephone	13.3	11.3	14.0	13.0	10.8
Common	41.6	39.0	25.7	25.4	20.2
Total	<u>\$2 107.2</u>	<u>\$1 937.3</u>	<u>\$1 750.4</u>	<u>\$1 567.1</u>	<u>\$1 516.2</u>
NET UTILITY PLANT					
Electric	\$3 554.2	\$3 357.5	\$3 039.2	\$2 758.4	\$2 469.8
Gas	207.7	201.4	195.0	187.2	183.6
Telephone	16.1	13.9	14.8	13.4	15.7
Common	84.5	84.2	93.6	87.2	71.5
Net Utility Plant	<u>\$3 862.5</u>	<u>\$3 657.0</u>	<u>\$3 342.6</u>	<u>\$3 046.2</u>	<u>\$2 740.6</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 3.37% in 1987, 3.48% in 1986 and 3.63% in 1985. The provision for decommissioning costs for the nuclear plants has been calculated by using an internal sinking-fund method, which is designed to provide for full recovery of the costs. The Company estimates that as of December 31, 1987, future decommissioning costs will approximate \$498 million in current year dollars of which the Company has collected \$89 million for such decommissioning from ratepayers. This amount has been 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 substantially all book and tax timing differences. However, income tax expense is still currently affected by the reversal of amounts previously accounted for by the flow-through method. The provision for deferred income taxes was \$16.8 million for 1987 compared with \$93.0 million for 1986.

INVESTMENT TAX CREDIT

The investment tax credits allowed under ERTA and TEFRA reduced the federal income tax payable by \$21.8 million for 1987 and \$45.1 million for 1986. The investment tax credits on plant additions are deferred and amortized to income over the estimated lives of the related property. The 1987 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			
	1980-1987	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)	15.9*	(7.4)	12.9	15.1
Total United States	7.4	11.4	13.3	18.5

	Percent Increase (Decrease) in Population			
	1980-1987	1970-1980	1960-1970	1950-1960
Twin Cities Metropolitan Area				
City of Minneapolis	(3.8)	(17.4)	(10.0)	(7.5)
City of St. Paul	(2.0)	(13.4)	(1.1)	.7
Suburban	17.7	(4.9)	55.9	115.7
Total	9.6	(8.7)	22.4	28.8
Other communities over 5000 population	12.9	12.7	17.8	17.0
Other communities under 5000 population and rural areas in counties served by NSP	43.5*	(22.4)	1.9	4.0
Total	15.9	(7.4)	12.9	15.1

Of the approximately 3.1 million people served by NSP, 57.7% are in the Twin Cities Metropolitan Area.

	1987	
	Estimated Population Served	Percent of Total
Twin Cities Metropolitan Area		
City of Minneapolis	356 000	11.3%
City of St. Paul	265 000	8.5
Suburban	1 189 000	37.9
Total	1 810 000	57.7
Other communities over 5000 population	689 000	21.9
Other communities under 5000 population and rural	640 000	20.4
Total	<u>3 139 000</u>	<u>100.0%</u>

*Large increase mainly due to addition of LSDP in 1982.

ELECTRIC AND GAS REVENUES AND SALES

	1987	1986	1985	1984	1983
Electric Operating Revenues (millions)					
Residential					
With space heating.....	\$ 56.1	\$ 58.8	\$ 58.3	\$ 53.6	\$ 48.6
Without space heating.....	466.3	445.3	425.7	421.9	414.3
Small commercial and industrial.....	256.9	246.7	236.9	228.8	208.9
Large commercial and industrial.....	579.0	549.0	515.8	506.9	458.3
Street lighting and other.....	32.2	31.2	30.7	31.2	30.1
Total retail.....	<u>1 390.5</u>	<u>1 331.0</u>	<u>1 267.4</u>	<u>1 242.4</u>	<u>1 160.2</u>
Sales for resale.....	86.0	77.6	94.6	104.2	111.2
Miscellaneous.....	20.9	19.1	14.1	16.0	14.0
Total.....	<u>\$1 497.4</u>	<u>\$1 427.7</u>	<u>\$1 376.1</u>	<u>\$1 362.6</u>	<u>\$1 285.4</u>
Kilowatt-hour Sales (billions)					
Residential					
With space heating.....	1.0	1.1	1.1	1.0	.9
Without space heating.....	7.4	7.1	6.9	6.8	6.9
Small commercial and industrial.....	4.6	4.5	4.3	4.2	3.9
Large commercial and industrial.....	14.2	13.3	12.6	12.3	11.5
Street lighting and other.....	.5	.5	.5	.5	.5
Total retail.....	<u>27.7</u>	<u>26.5</u>	<u>25.4</u>	<u>24.8</u>	<u>23.7</u>
Sales for resale.....	3.9	3.1	4.2	3.9	4.6
Total.....	<u>31.6</u>	<u>29.6</u>	<u>29.6</u>	<u>28.7</u>	<u>28.3</u>
Gas Operating Revenues (millions)					
Residential					
With space heating.....	\$ 135.4	\$ 173.9	\$ 195.2	\$ 191.8	\$ 184.7
Without space heating.....	2.7	3.4	3.8	4.3	3.9
Commercial and industrial firm.....	78.4	103.3	118.8	120.1	116.1
Total firm.....	<u>216.5</u>	<u>280.6</u>	<u>317.8</u>	<u>316.2</u>	<u>304.7</u>
Commercial and industrial interruptible.....	42.3	61.0	81.5	82.8	92.1
Interdepartmental and miscellaneous**.....	4.2	2.3	2.9	3.0	2.9
Total.....	<u>\$ 263.0</u>	<u>\$ 343.9</u>	<u>\$ 402.2</u>	<u>\$ 402.0</u>	<u>\$ 399.7</u>
Mcf Sales (millions)					
Residential					
With space heating.....	27.8	31.5	32.9	31.3	29.8
Without space heating.....	.4	.4	.5	.5	.5
Commercial and industrial firm.....	18.8	21.2	22.0	21.3	20.2
Total firm.....	<u>47.0</u>	<u>53.1</u>	<u>55.4</u>	<u>53.1</u>	<u>50.5</u>
Commercial and industrial interruptible.....	16.6	17.9	20.0	19.3	21.2
Interdepartmental.....	.6	.2	.1	.1	.1
Total.....	<u>64.2</u>	<u>71.2</u>	<u>75.5</u>	<u>72.5</u>	<u>71.8</u>
Agency and transportation deliveries.....	<u>6.2</u>	<u>1.1</u>	<u>.1</u>	<u>1.0</u>	<u>0</u>

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

**Includes revenues for agency and transportation deliveries.

1982	1977	Annual Growth Rate*			Percent of Total*			
		1 Year 1987/1986	5 Year 1987/1982	10 Year 1987/1977	1987	1986	1982	1977
\$ 43.9	\$ 12.7	(4.6)%	5.5%	16.3%	3.7%	4.1%	3.7%	1.7%
376.1	234.0	4.7	3.8	7.8	31.1	31.2	31.9	32.0
196.6	112.4	4.1	5.5	9.3	17.2	17.3	16.7	15.4
423.4	234.5	5.5	6.3	9.8	38.7	38.4	36.0	32.0
33.3	18.6	3.3	(0.2)	6.3	2.2	2.2	2.8	2.5
1 073.3	612.2	4.5	5.1	9.1	92.9	93.2	91.1	83.6
94.2	118.0	10.8	(4.6)	(2.9)	5.7	5.4	8.0	16.1
10.7	2.1	9.2	12.6	23.8	1.4	1.4	.9	.3
<u>\$ 1 178.2</u>	<u>\$ 732.3</u>	4.9	4.5	7.9	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
.9	.4	(6.5)%	2.9%	7.9%	3.1%	3.6%	3.4%	1.7%
6.6	6.0	4.1	1.9	2.1	23.3	23.9	24.6	22.6
3.7	3.0	4.2	4.6	4.6	14.8	15.2	14.0	11.5
10.7	8.9	6.5	5.6	4.7	44.9	45.0	39.9	33.7
.7	.6	2.8	(4.6)	(1.1)	1.6	1.6	2.5	2.1
22.6	18.9	4.9	4.0	3.9	87.7	89.3	84.4	71.6
4.2	7.5	22.9	(4.0)	(6.2)	12.3	10.7	15.6	28.4
<u>26.8</u>	<u>26.4</u>	6.8	2.9	2.0	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
\$ 174.0	\$ 68.7	(22.2)%	(4.0)%	9.5%	51.5%	50.6%	46.6%	48.5%
3.7	2.9	(19.6)	(5.8)	1.3	1.0	1.0	1.0	2.0
111.5	35.1	(24.0)	(5.9)	11.2	29.8	30.0	29.9	24.8
289.2	106.7	(22.8)	(4.7)	10.0	82.3	81.6	77.5	75.3
80.9	32.5	(30.7)	(12.1)	6.3	16.1	17.7	21.7	22.9
3.2	2.6	82.0	1.9	1.6	1.6	.7	.8	1.8
<u>\$ 373.3</u>	<u>\$ 141.8</u>	(23.5)	(6.1)	9.1	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
32.6	30.0	(11.7)%	(1.6)%	(0.3)%	43.3%	44.2%	43.7%	44.1%
.5	.9	(13.5)	(6.1)	(8.0)	.6	.6	.7	1.3
21.8	16.5	(11.3)	(1.7)	2.2	29.3	29.8	29.3	24.3
54.9	47.4	(11.6)	(1.7)	0.5	73.2	74.6	73.7	69.7
19.6	20.6	(7.1)	(3.6)	(1.3)	25.9	25.1	26.2	30.2
.1	.1	209.8	41.7	20.4	.9	.3	.1	.1
<u>74.6</u>	<u>68.1</u>	(9.8)	(2.1)	.1	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<u>0</u>	<u>0</u>	569.0%	(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	1987		1986		1982	
	Amount (Millions)	Percent of Total*	Amount (Millions)	Percent of Total*	Amount (Millions)	Percent of Total*
MANUFACTURING						
Durable Goods						
Stone, Clay and Glass Products	\$ 5.6	1.0%	\$ 5.4	1.0%	\$ 5.2	1.2%
Primary Metal Industries	19.1	3.3	18.1	3.3	15.6	3.7
Fabricated Metal Products	18.9	3.3	18.0	3.3	17.0	4.0
Machinery (Non-electric)	35.6	6.1	33.3	6.1	21.0	4.9
Electrical Machinery and Scientific Instruments.	28.6	4.9	27.7	5.0	22.4	5.3
Miscellaneous	10.5	1.8	9.5	1.7	8.7	2.1
Total Durable Goods	<u>118.3</u>	<u>20.4</u>	<u>112.0</u>	<u>20.4</u>	<u>89.9</u>	<u>21.2</u>
Nondurable Goods						
Food and Kindred Products						
Meat Products	5.3	0.9	5.2	1.0	4.8	1.1
Dairy Products	11.1	1.9	10.2	1.9	8.3	2.0
Grain Mill Products	12.2	2.1	11.8	2.1	10.1	2.4
Beverage Industries	7.5	1.3	7.6	1.4	5.2	1.2
Other Food Products	11.5	2.0	10.7	1.9	9.9	2.3
Total Food and Kindred Products	<u>47.6</u>	<u>8.2</u>	<u>45.5</u>	<u>8.3</u>	<u>38.3</u>	<u>9.0</u>
Paper and Allied Products	41.7	7.2	39.9	7.3	31.4	7.4
Printing and Publishing	14.1	2.4	12.5	2.3	8.7	2.1
Chemical and Allied Products	6.7	1.2	6.3	1.2	4.5	1.1
Petroleum and Coal Products	23.6	4.1	23.8	4.3	17.1	4.0
Leather and Leather Products	1.0	0.2	1.0	.2	1.1	.3
Rubber and Plastic Products	18.4	3.1	17.8	3.2	11.7	2.8
Textile Mill and Apparel Products	2.1	0.4	1.8	.3	1.7	.4
Total Nondurable Goods	<u>155.2</u>	<u>26.8</u>	<u>148.6</u>	<u>27.1</u>	<u>114.5</u>	<u>27.1</u>
Total Manufacturing	<u>273.5</u>	<u>47.2</u>	<u>260.6</u>	<u>47.5</u>	<u>204.4</u>	<u>48.3</u>
NONMANUFACTURING						
Nonmetal Mineral	2.9	0.5	3.1	.6	3.5	.8
Transportation and Public Utilities	33.1	5.7	31.4	5.7	22.5	5.3
Wholesale and Retail Trade	70.6	12.2	66.5	12.1	58.4	13.8
Finance, Insurance and Real Estate	58.4	10.1	54.0	9.8	38.3	9.0
Services	108.5	18.7	102.5	18.7	77.5	18.3
Public Administration	12.4	2.2	11.9	2.1	14.3	3.4
Miscellaneous Nonmanufacturing	19.6	3.4	19.0	3.5	4.5	1.1
Total Nonmanufacturing	<u>305.5</u>	<u>52.8</u>	<u>288.4</u>	<u>52.5</u>	<u>219.0</u>	<u>51.7</u>
Total Large Commercial and Industrial	<u>\$579.0</u>	<u>100.0%</u>	<u>\$549.0</u>	<u>100.0%</u>	<u>\$423.4</u>	<u>100.0%</u>

*Calculated on unrounded numbers.

The diversification of business among the 6,565 customers in the large commercial and industrial revenue classification is further indicated by the fact that there were approximately only 427 customers whose billings exceeded \$250,000 in 1987. Of these, approximately 177 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

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

Brown Printing Company
Burlington Northern
Cargill Inc.
Cold Spring Granite Co.
Conagra Inc.

Minnesota Mining & Manufacturing Company
North Star Steel Company
Northwest Airlines, Inc.
Northwestern Bell Telephone Company
Onan Div. of Onan Corporation

Control Data Corporation
Country Club Market Inc.
Cray Research Inc.
The Dayton Hudson Corporation
Equitable Life Assurance Society

The Pillsbury Company
Pope & Talbot Inc.
Rahr Malting Company
Red Owl Stores, Inc.
Rosemount Inc.

FMC Corp., Northern Ordnance Division
Flambeau Paper Corporation
G. Heileman Brewing Company
General Mills, Inc.
Holiday Inn

Sears, Roebuck and Company
Simplot Financial Corporation
Super Valu Stores Inc.
Target Stores Inc.
The Trane Company

Honeymead Products Company
Honeywell, Inc.
J.C. Penney Co. Inc.
James River Dixie — Northern
John Morrell & Company

UniRoyal, Inc.
Unisys
United Properties
Waldorf Corporation
Williams Brothers Pipeline Company

ENERGY SOURCES AND PRODUCTION COSTS

Source	Requirements			
	1987		1986	
	Kwb (Millions)	Percent of Total*	Kwb (Millions)	Percent of Total*
Thermal generation				
Coal.....	15 617.2	46.6%	11 010.3	34.9%
Nuclear	11 553.6	34.4	11 055.0	35.0
Oil.....	23.2	.1	25.7	.1
Other	<u>324.0</u>	<u>.9</u>	<u>151.1</u>	<u>.5</u>
Total Thermal	27 518.0	82.0	22 242.1	70.5
Hydro generation				
Hydro generation	664.7	2.0	1 112.6	3.5
Manitoba Hydro-Electric Board.....	2 223.1	6.6	4 624.1	14.7
Purchased and interchange.....	<u>3 140.0</u>	<u>9.4</u>	<u>3 564.4</u>	<u>11.3</u>
Total	<u><u>33 545.8</u></u>	<u><u>100.0%</u></u>	<u><u>31 543.2</u></u>	<u><u>100.0%</u></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 1987.

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 Kwb Output			
		Coal	Nuclear	Natural Gas	All Fuels	Thermal			Total Output
						Fuel Only	Total	Hydro	
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
1977.....	10 787	71.1	26.6	135.4	54.5	.588	.837	.306	.823

*Calculated on unrounded numbers.

GENERATING STATION STATISTICS

	Date Installed	Summer Capability (Mw)	Output kwh (Millions)		Btu per kwh output	
			1987	1986	1987	1986
			STEAM THERMAL PLANTS			
Fossil Fuel						
Sherburne County — Becker						
Unit #1	5-1-76	702.0	4 367.8	3 546.0	10 354	10 498
Unit #2	4-1-77	700.0	4 202.4	3 142.3	10 401	10 590
Unit #3	11-1-87	496.0*	828.3		10 906	
Total		1 898.0	9 398.5	6 688.3	10 423	10 528
Allen S. King — Oak Park Heights	1-31-68	560.0	3 410.9	2 941.6	9 954	9 913
Black Dog — Burnsville	1952-60	440.0	760.2	403.5	12 373	13 072
High Bridge — St. Paul	1942-59	365.0	1 054.8	295.9	12 016	12 798
Riverside — Minneapolis	1931-64	337.0	1 050.3	654.5	10 955	10 702
Six Other Plants		253.0	272.7	184.6	17 767	17 176
Total fossil fuel		3 853.0	15 947.4	11 168.4	10 682	10 638
Nuclear Fuel						
Prairie Island — Red Wing						
Unit #1	12-16-73	512.0	3 590.3	3 819.6	10 879	10 933
Unit #2	12-21-74	511.0	4 430.0	3 860.1	10 885	10 896
Total		1 023.0	8 020.3	7 679.7	10 882	10 914
Monticello — Monticello	6-30-71	541.0	3 533.3	3 375.3	10 622	10 504
Total nuclear fuel		1 564.0	11 553.6	11 055.0	10 802	10 789
Total steam thermal — 13 plants		5 417.0	27 501.0	22 223.4	10 733	10 713
OTHER THERMAL PLANTS — 8 plants		1 124.0	16.7	18.7	(a)	(a)
HYDRO PLANTS — 23 plants.....		223.1	664.7	1 112.6		
OTHER PLANT — Holland Wind		—	.3			
Total 45 Plants		6 764.1	28 182.7	23 354.7		

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

*Represents NSP's share of projected summer peak capability of Sherco 3.

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 ³ / 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

*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

NSP's 1987 revenues, excluding inter-system non-firm sales to other utilities, were subject to regulatory jurisdiction as follows:

	<u>Percent of 1987 Revenues</u>
Retail:	
Minnesota Public Utilities Commission (MPUC).....	73.7%
Public Service Commission of Wisconsin (PSCW).....	14.2
Public Service Commission of North Dakota (PSCND)	5.9
Public Utilities Commission of South Dakota (PUCSD).....	2.9
Michigan Public Service Commission (MPSC)6
Sales for Resale — Wholesale:	
Federal Energy Regulatory Commission (FERC)	<u>2.7</u>
Total	<u><u>100.0%</u></u>

RATE INCREASES

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

<u>Year</u>	<u>Requested</u>	<u>Granted</u>
	(Millions of dollars)	
1982	\$ 12.6	\$12.0
1983	2.4	1.7
1984	0	0
1985	161.3	49.3
1986	20.7	14.8

The following table summarizes the status of the 1987 rate increase program.

	<u>Annual Increase</u>			<u>Effect on 1987 Revenues</u>	<u>Status</u>
	<u>Requested</u>	<u>Allowed</u>	<u>Pending</u>		
	(Millions of dollars)				
Electric — Retail*					
Minnesota	\$ 99.3		\$ 97.3	\$0	
Wisconsin.....	10.7	\$2.6		0	Order Issued — 12/22/87
North Dakota	6.1		4.0	0	
Electric — Wholesale					
Minnesota	3.1		3.1	0	
Wisconsin.....	2.4		2.4	0	
Gas — Retail					
Wisconsin.....	<u>0.4</u>	<u>0.3</u>		0	Order Issued — 12/22/87
Total 1987 Rate Program..	<u><u>\$122.0</u></u>	<u><u>\$2.9</u></u>	<u><u>\$106.8</u></u>	<u><u>\$0</u></u>	

*On February 8, 1988, the Company reduced its requested electric rate increase from \$99.3 million to \$97.3 million.

Effective August 15, 1987, the PSCW approved an increase in the Company's electric retail rates resulting from increased fuel costs as determined by fuel cost audits by the PSCW staff. The effect of the rate increase on 1987 revenues was approximately \$1.1 million, and based on the 1988 test year the increase on an annual basis is estimated to be about \$2.8 million.

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 net-of-tax basis is used. Application of the net-of-tax AFC rate to CWIP that qualifies for AFC approximates the rate that would be obtained if a gross rate were used and the income tax effect were recorded as deferred taxes.

The PSCW has changed its policy on rate base treatment of CWIP. A current return on CWIP (of up to 10% of the average rate base) is no longer allowed for all utilities. The PSCW now looks at each utility's cash position to determine an allowed return on CWIP.

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.

As of January 1, 1987, the Wisconsin Company and LSDP merged, with the Wisconsin Company being the surviving corporation. The directors of the companies decided on the merger when falling interest rates enabled the Wisconsin Company to issue new bonds to redeem LSDP's bonds and preferred stock and still realize an annual pre-tax savings of \$.3 million. The PSCW also authorized the final step to equalize electric and gas rates for the Company's Wisconsin customers.

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.