

1979 Annual Report

NSP'S WORLD AT 70

Northern States Power Company

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NSP's History: Growing with America

The year 1979 was historically significant for NSP: we marked both the 100th anniversary of the invention of the light bulb and NSP's 70th year of operation.

NSP's early success was fashioned by Henry Marison Byllesby, a colleague of Thomas Edison.

In 1902, he formed H.M. Byllesby and Company of Chicago, which joined many small Minnesota generating firms to form the Consumers Power Company. In 1909, Byllesby organized



Henry Marison Byllesby
(1859-1924)

Northern States Power Company (Delaware) as a holding company for the Consumers Power operation.

Company headquarters moved in 1915 from Chicago to Minneapolis, where Robert F. Pack became general manager. A year later, Consumers Power became Northern States Power Company of Minnesota.

World War I boosted electric demand as American factories geared up for the war effort. After the war, businesses were encouraged to consolidate. A man of his time, Byllesby bought and merged 42 companies in seven years.



As Byllesby's network expanded, draft horses helped clear the way.

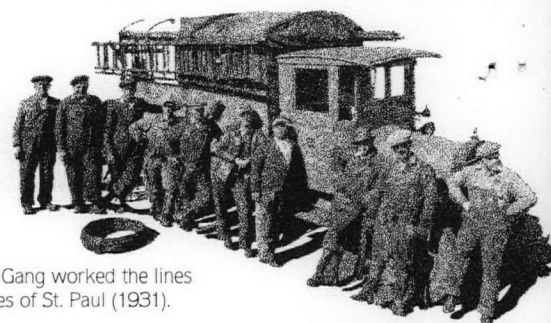
Electricity's popularity increased as its price dropped in the 1920s. A kilowatt-hour that cost 24 cents in 1882 cost only six cents by the late 1920s. The Wisconsin Company, with its hydroelectric power, joined NSP-Minnesota in 1923.

During the Great Depression, NSP's earnings dropped, employees took pay cuts and some workers were laid off. Despite the hard times, it was clear electricity was no longer a luxury.

By World War II, utilities had tripled their World War I generating capacities. Hundreds of NSP employees left to fight.

The war effort and the demand for post-war goods helped NSP double its electric sales between 1941 and 1951. Gas sales also tripled as prices fell.

Amid the bounty of the fifties, America took a giant step into the nuclear age. NSP first experimented with the Pathfinder plant near Sioux Falls before



Francis' Gang worked the lines and poles of St. Paul (1931).

Headlines:

Tyrone Energy Park cancelled. (pages 2, 13)
Earnings per share increase 12 cents. (page 2)
Three Mile Island changes nuclear outlook. (pages 2, 13)
NSP executive team set. (pages 2, 10)
Financing needs minimal in 1980 and 1981. (pages 2, 17)
Sherco 3 in-service date certified. (page 15)
Electricity becomes less costly than oil in region. (page 9)
Dividend Reinvestment plan changed. (pages 2, 18, 36)

Highlights:

	1979	1978	Percent Increase (Decrease)
Dividend rate at year end	\$2.28	\$2.16	5.6%
Earnings per share	3.51	3.39	3.5
Return on average common equity	13.2%	13.3%	
Earnings available for common (millions)	\$106.3	\$100.7	5.6
Revenues (millions)	1 048.2	979.3	7.0
Total assets (millions)	2 619.9	2 451.5	6.9
Generating capability—summer (thousands of kilowatts)	6 108	6 137	(0.5)
Peak electric demand (thousands of kilowatts) ...	4 247	4 625	(8.2)*
Electric retail usage (millions of kilowatt-hours)	20 575	19 766	4.1
Gas heating usage (millions of cubic feet)	48 845	45 446	7.5
Customers	1 344 237	1 311 061	2.5
Benefit employees	6 700	6 580	1.8

*2.5 percent weather normalized

beginning the Monticello plant in 1967 under the leadership of Allen S. King.

The 1960s and the 1970s brought social rather than technological change. Once praised for building Pathfinder, NSP faced bitter opposition to its Monticello and Prairie Island nuclear plants. The company also experienced consumer discontent as environmental concerns and customer rates began rising.

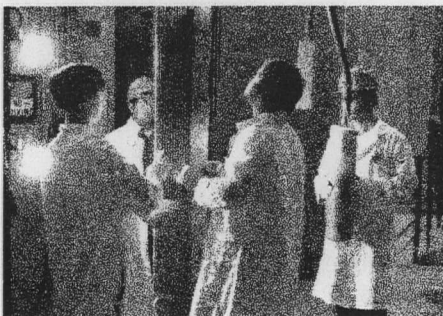


NSP's cooking schools helped sell appliances in the 1950s (Virginia Donahoe).

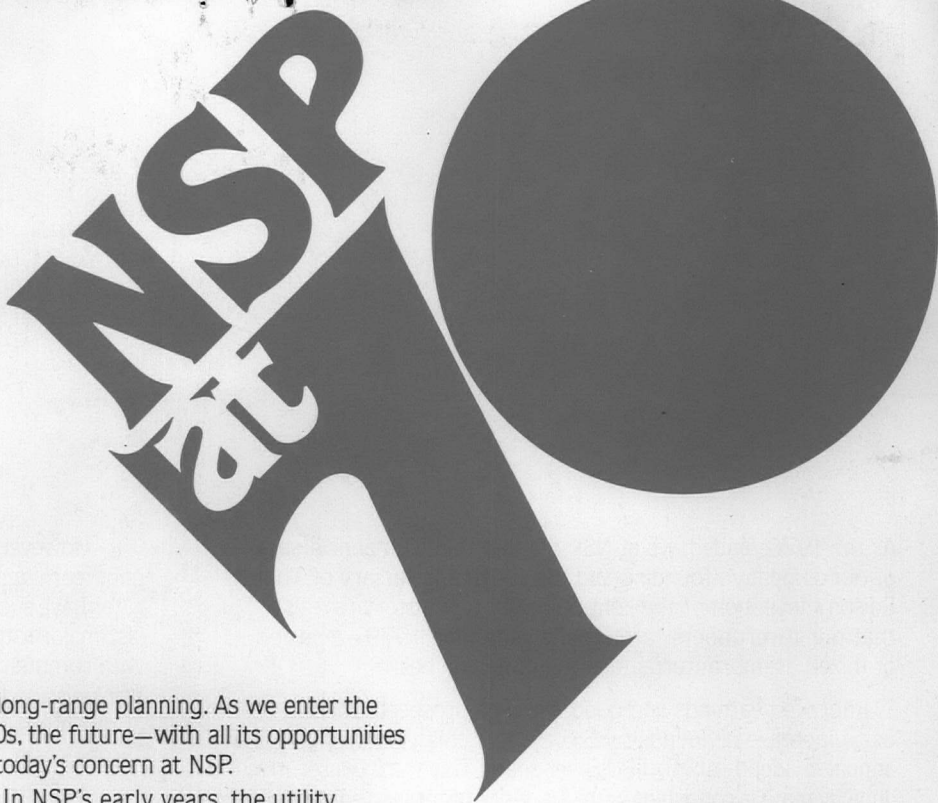
Against a backdrop of inflation and increased regulation, energy awareness became an essential theme for the 1970s. NSP expanded its efforts in conservation, energy research, energy forecasting

and long-range planning. As we enter the 1980s, the future—with all its opportunities—is today's concern at NSP.

In NSP's early years, the utility business was a rough-and-tumble affair.



Nuclear fuel assemblies are carefully inspected before being installed in the reactor core.



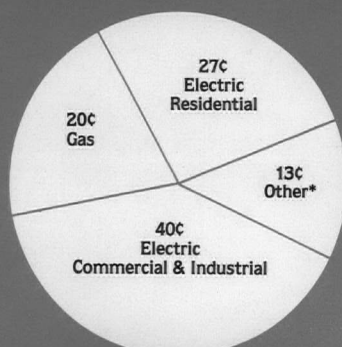
The 1980s hold their own challenges and opportunities. Much has changed in 70 years, but NSP's employees and investors are still the keys to NSP's success.

On its 70th birthday, NSP published a history of the company. A free copy is available from:

Northern States Power Company
Communications Department
414 Nicollet Mall
Minneapolis, Minnesota 55401.

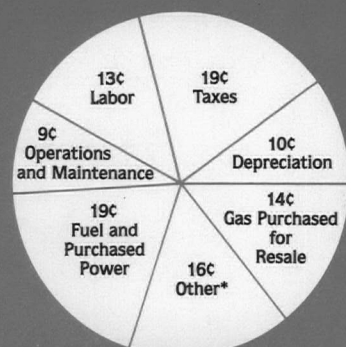
The Revenue Dollar

Where it comes from...



*Includes electric sales for resale, telephone and heating

Where it goes...

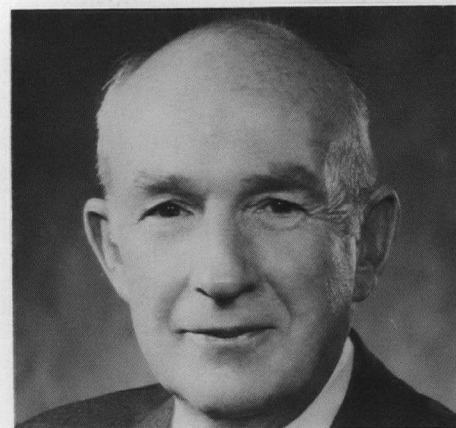


*Includes net income, AFDC, dividends and interest charges

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To Our Shareholders



As the 1970s ended, we at NSP marked the 70th anniversary of our company's founding and the 100th anniversary of Thomas Edison's invention of the light bulb. Our rich history reveals that our forerunners faced many years like 1979—a period of mixed events, uncertainties and opportunities.

Improved earnings and good earnings prospects enabled us to increase dividends by 5.6 percent this year, bringing our annual dividend rate to \$2.28 per share. This third consecutive June increase is consistent with our desire of having regular dividend increases. Our 1979 payout of dividends as a percentage of earnings was 64 percent.

Our 1979 earnings per share were \$3.51, up 3.5 percent over 1978's \$3.39 performance. I am pleased with the increase, but it was less than forecast due to higher than anticipated plant operating and maintenance expenditures and warmer than expected weather in the fourth quarter. Nevertheless, our five-year earnings growth rate averaged 6.8 percent per year, which is within our long-range growth objective.

Our 1979 earnings gain was largely due to increased retail electric and gas usage. An increase in allowance for funds used during construction and the two-percent reduction in the corporate federal income tax rate, which became effective January 1, 1979, also contributed to the earnings rise.

However, the earnings increase was partially offset by the 10-month amortization of the Tyrone Energy Park nuclear plant costs. The write-off lowered 1979 net income by \$6.9 million, or 23 cents per share. Earnings were also affected by less sales to other utilities and a material increase in plant operating and maintenance expenses.

I believe NSP's financial outlook for the next five years is positive, and this will benefit both customers and investors. NSP will have adequate energy and its cost will be reasonable. No new generating plants will begin service before 1985. Consequently, we believe the cost of our electricity will increase at a rate no higher than the Consumer Price Index, on average. Moreover, we expect to maintain the favorable gap between NSP's price per kilowatt-hour and that of other good quality, double-A bond rated electric utilities. These factors point to reasonable financial performance over the next five years.

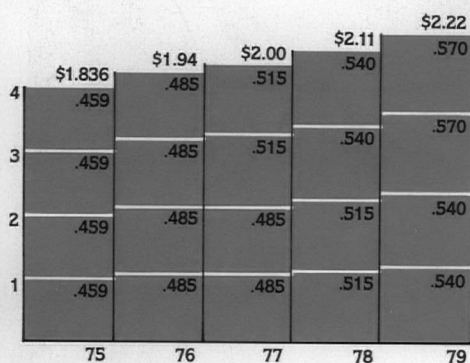
However, without rate increases it will be difficult to maintain good earnings performance in 1980. Inflation and high interest rates have substantially increased costs in the three years since our last major rate increase. We will face higher costs associated with commencing operation of the Twin City—Winnipeg transmission line; additional operating and maintenance costs at our nuclear plants and the first full-year amortization of the Tyrone costs.

As we file for increased rates, we will seek to recover the Tyrone costs from customers. We are optimistic about this recovery, which should be decided by regulators in 1981 or 1982. However, to the extent that we are unable to recover any part of those costs through electric rates, this could reduce earnings in the affected year. The impact on our earnings per share growth would be about one percent per year through 1984.

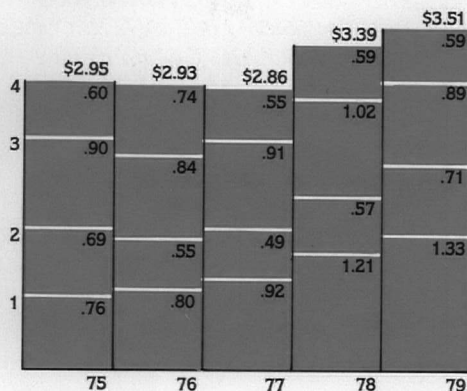
As a result of the cancellation of the Tyrone nuclear plant and the delay of the Sherco 3 plant from 1984 to 1985, NSP's financing requirements for the next several years will be less than we anticipated. Consequently, the common equity ratio in our capital structure could rise well above our objective level of 40 to 42 percent. Due to this and the Minnesota Public Service Commission's recent gas rate decision setting return levels based on a common equity ratio of only 40 percent, we have changed our Dividend Reinvestment and Stock Purchase Plan and Employee Stock Ownership Plan. Market stock, rather than new stock, will be used for these plans. The five percent discount on common stock shares purchased with reinvested dividends will be eliminated.

As did our predecessors, we at NSP face many difficulties and opportunities. We share these with many corporations and most investor-owned utilities. Overall, I feel NSP is well prepared. Our financial position is sound and I am confident we have the human resources to fulfill our goals.

Dividends Paid on Common Stock (by quarter)



Earnings Per Share (by quarter)



In 1979, we realigned our organization into five major areas: power supply; retail division operations; finance; corporate services; and corporate affairs. In addition, the directors of the Wisconsin Company have elected Edwin M. Theisen, the Minnesota Company's former vice president and treasurer, as president of the Wisconsin Company. This anticipates John L. Carroll's retirement in 1980 as chairman of our Wisconsin subsidiary.

I am confident that all of these changes will improve our cost effectiveness and our ability to cope with change.

Change is perhaps the only certainty for the post-Three Mile Island nuclear industry. The industry and its regulators are now correcting problems detailed in the Kemeny Commission's report on that accident. However, the solution to nuclear power's technical problems—and the future of nuclear energy itself—clearly must await a political rather than purely technical resolution.

But the demand for energy will not wait. In his response to the Kemeny Commission report, President Carter said, "Every domestic energy source, including nuclear power, is critical if we are to free our country from its overdependence on unstable sources of high-priced foreign oil. We do not have the luxury of abandoning nuclear power or imposing a lengthy moratorium on its future use."

NSP faces its own challenges with nuclear power. In 1979 we cancelled the Tyrone project, experienced a steam generator tube rupture at our Prairie Island Unit 1 plant and encountered strong opposition to our Prairie Island spent fuel storage adjustment plans. These developments will continue to affect us.

I believe America must now face nuclear power's risks and benefits squarely. No energy form is absolutely safe—there are no absolutes in life. And despite the seriousness of the Three Mile Island accident, the industry's overall safety record is outstanding. This must be weighed against the very real consequences of electric shortfalls.

I remain convinced that nuclear power's benefits are many and its risks to society are reasonable and acceptable. Further, I believe America will recognize that we cannot abandon it. I welcome this evaluation and hope it will not be squandered on emotionalism or political expediency: America can no longer afford to be short-changed on energy policy.

Our region needs a comprehensive policy regarding the increasing number of people who can no longer afford essential

goods and services, including energy. We are continuing to control costs, increase productivity and maintain a responsible balance between rates and earnings.

However, these efforts are insufficient. Only government can address this problem effectively and equitably. We at NSP stand ready to cooperate with any comprehensive and equitable state solution to this crucial problem.

This report details the efforts, problems and achievements of our employees and board members. These people are NSP, and their talents and dedication contribute heavily to the company's performance. I am honored to work with them.

We will miss this year the leadership of two key figures in NSP's recent past—former Senior Vice President Edward C. Spethmann and Director Henry T. Rutledge. Ed has retired after a 34-year career with NSP. Henry, an outstanding board member for 11 years, will not stand for re-election at our 1980 annual meeting.

Ed and Henry have seen NSP move from a period of relative peace and prosperity to a world of conflicting demands and uncertainty. They helped bring NSP into the nuclear age and saw us through a major building program and the initiation of rate regulation. I am grateful for their guidance over the years.

I look forward to working with Margaret Preska, who was elected to the board in January, 1980. As president of the Mankato (Minnesota) State University, Dr. Preska brings many valuable insights and talents to our board.

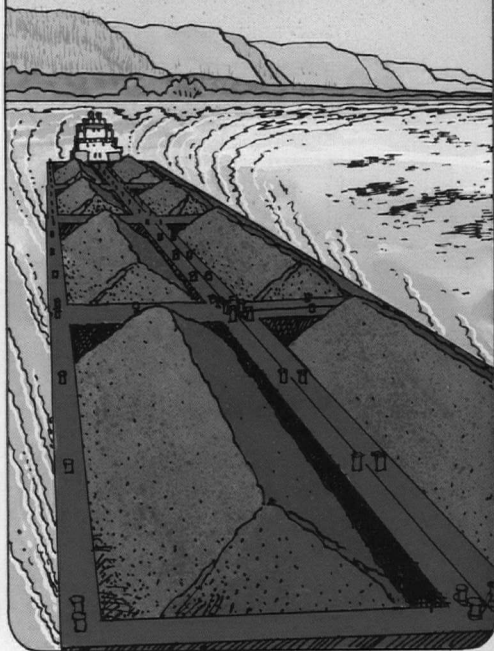
I deeply appreciate your continued support and participation in NSP. I will do all I can to confirm your confidence in us in 1980.

Sincerely,

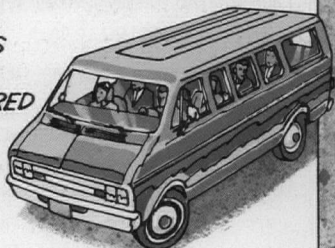
Don McCarthy
President

February 28, 1980

COAL IS BARGED UP THE
MISSISSIPPI TO SOME OF NSP'S
POWER PLANTS



NSP EMPLOYEES
COMMUTE IN
COMPANY-SPONSORED
VAN POOLS



THE WORLD OF ELECTRIC OPERATIONS

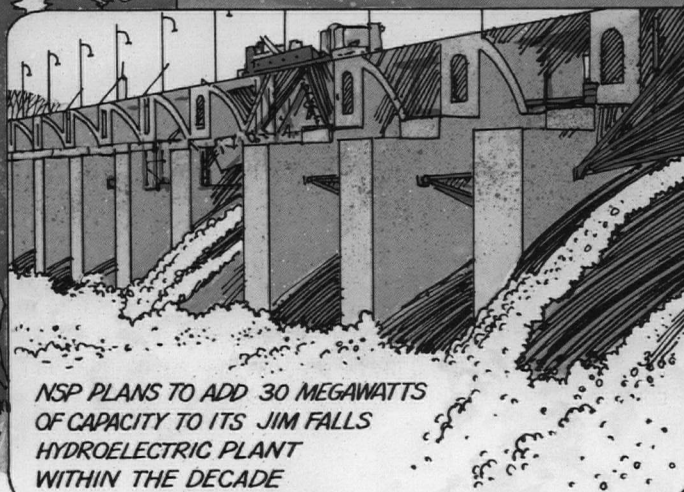
THE TWIN CITIES-WINNEPEG
TRANSMISSION LINE INTERCONNECTION
NEARS ITS 1980 COMPLETION



NSP PLANS TO BURN MORE
WASTE WOOD AT ITS RED WING
AND FRENCH ISLAND PLANTS



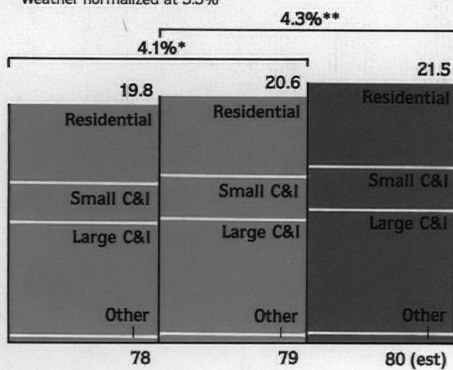
NSP PLANS TO ADD 30 MEGAWATTS
OF CAPACITY TO ITS JIM FALLS
HYDROELECTRIC PLANT
WITHIN THE DECADE



Retail Electric Usage

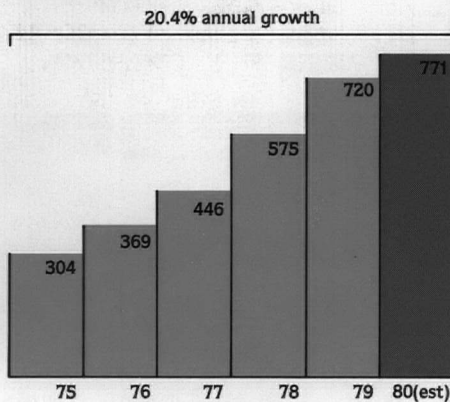
(Billions of KWH)

*Weather normalized at 4.8%
**Weather normalized at 5.3%



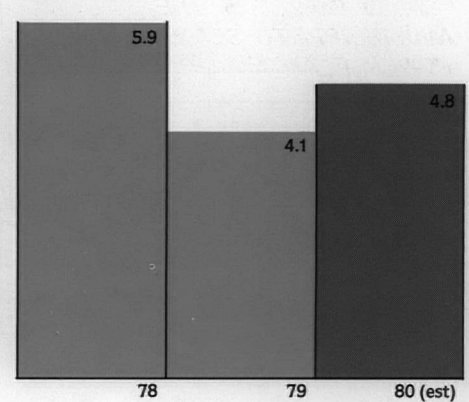
Electric Heating Usage

(Millions of KWH)



Sales to Other Utilities

(Millions of MWH)



Electric Demand

Nationwide, summer electric demand grew by three percent. The Edison Electric Institute forecasts an annual demand growth of 2.5 percent for 1980. The relatively low rate of demand growth anticipates suppressed electric usage in the face of recession and increased customer conservation in reaction to higher electric prices.

Total retail electric usage on the NSP system increased by 4.1 percent over 1978. This was due to the addition of new customers throughout the year as well as cold weather and increased economic activity in the first two quarters.

Usage by residential customers without electric space heating increased one percent, while sales to residential electric space heating customers rose 25.3 percent. Growth in electric space heating was due mainly to the addition of 6,547 new customers, a 20-percent increase. Twenty-seven percent of all new NSP residential customers chose electric heat in 1979. Large commercial and industrial usage rose 5.1 percent during the year.

The company provided 4.1 million megawatt-hours (mwh) for sale to other utilities in 1979, a decline of 30.6 percent from 1978. While 1979 sales were substantial, sales to other utilities in 1978 were unusually high because other utilities purchased power during the national coal strike in the first quarter of 1978.

The 1979 summer electric peak demand on the NSP system was 4,247 megawatts (mw) compared to 1978's 4,625-mw peak. This was the first drop in peak demand, reflecting a lack of hot, humid weather. However, the weather adjusted summer peak was 4,646 mw, a 2.5-percent increase over 1978's weather-adjusted peak. Current NSP forecasts anticipate a demand of 4900 mw in 1980.

Fuel Supplies, Prices and Generation

NSP consumed more than 7½ million tons of coal during 1979. Ninety percent of NSP's supply is low-sulfur coal from Montana; six percent from Illinois; two percent was coke from refineries; and two percent was coal from mines in central Oklahoma and North Dakota. NSP's coal contracts will provide adequate supplies through 1985.

Coal prices rose significantly in 1979, up 25 percent to 95 cents per million Btus. Although NSP will continue to pay somewhat less than the national average for coal, prices are expected to increase slightly faster than the rate of inflation in coming years.

Coal transportation costs are increasing rapidly. Of the company's total \$137 million 1979 coal bill, 56 percent was attributable to transportation costs. The Burlington Northern Railroad, which carries most of NSP's coal from the western states, imposed a 33 percent rate increase in 1978. This resulted in a net increase of \$17.8 million to NSP's customers in 1979. NSP is reviewing various alternatives for securing future coal supplies.

Coal provided 50 percent of NSP's 1979 electric generation. The importance of this fuel in the NSP system is expected to increase through the decade due to the company's proposed reliance on more coal-fired generation.

A small portion of the increased coal capacity will come from improvements to existing plants in 1980. Two of NSP's older plants—Wilmarth in Mankato, Minnesota, and Riverside in Minneapolis—were derated several years ago to meet state pollution control standards. The company will install new pollution control equipment at the Wilmarth facility to restore its capacity to 28 mw. Similarly, particulate recovery baghouse and dry scrubber equipment will be added at Riverside. This will raise Riverside's capacity 50 mw, to a total of 350 mw.

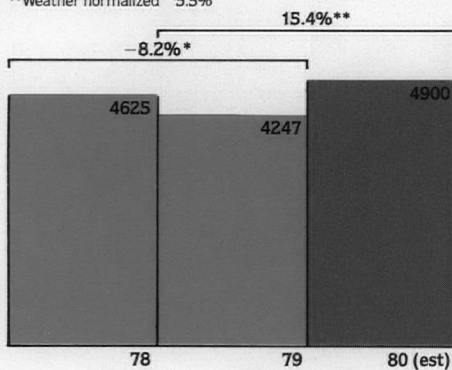
Fuel Costs (dollars per million BTUs)

	Industry 1979 (est)	NSP			Annual Growth 1984/1979
		1979	1980 (est)	1984 (est)	
Coal	\$1.24	\$.95	\$1.02	\$1.42	8.4%
Nuclear	.36	.35	.42	.71	15.2%
Oil	3.76	2.79	4.84	8.95	26.2%
All Fuels	\$1.72	\$.68	\$.79	\$1.24	12.89%

Increased national reliance on coal, America's primary generating fuel, is anticipated as part of the Carter Administration's energy policy. The Administration is expected to submit legislation to Congress this year ordering the phased conversion of approximately 175 oil-burning plants to coal. The Department of Energy (DOE) has announced plans to issue oil prohibitions

Peak Demand Growth (Megawatts) Actual

*Weather normalized 2.5%
**Weather normalized 5.5%

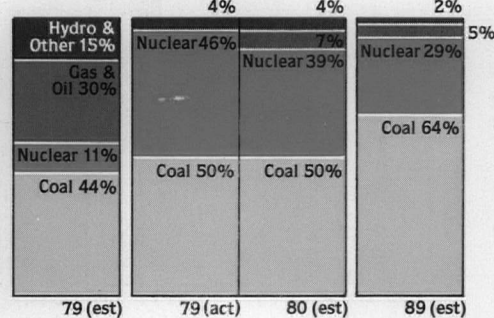


Energy Sources For Electric Generation

Utility
Industry

NSP

Other includes owned hydroelectric & oil
Long term commitment from
Manitoba Hydro



to nearly two dozen utilities in 1980. None of NSP's oil-fired peaking facilities will be affected by the order. Coal now provides about 44 percent of the nation's electricity.

Most of NSP's nuclear fuel comes from mines in Wyoming. Nuclear fuel prices rose during the year, up 13 percent to 35 cents per million Btus. The relatively low cost of nuclear fuel helped the company's overall 1979 fuel bill. NSP's nuclear fuel costs are expected to rise faster than the rate of inflation over the next five years. After that, the company's nuclear fuel costs are projected to increase with the inflation rate.

NSP's nuclear fuel supply was adequate during the year and will remain so through 1981. The company is currently negotiating for fuel after 1981. NSP anticipates no difficulties in securing these fuel supplies.

Nuclear fuel provided 46 percent of NSP's 1979 electric generation. Nuclear power's relative contribution to electrical supplies in the NSP system is expected to decrease within the decade as more coal-fired generation is installed. (The future of nuclear power nationally and within the NSP system is discussed in THE WORLD OF REGULATION, p. 12.) Nuclear power provided 11 percent of America's electricity in 1979.

NSP's generation of electricity from oil was less than one percent of total generation in 1979, and the company has sufficient oil supplies for the near term. However, because much of NSP's oil is from Canadian sources, the company anticipates increased supply and price uncertainties beginning in 1981.

The Canadian National Energy Board has announced its intention to curtail sharply oil exports to the United States in 1980. Oil and gas provided 30 percent of America's electricity in 1979.

Oil prices for NSP increased 14 percent during 1979, up 35 cents to \$2.79 per million Btus. Oil prices are expected to climb significantly within the next five years. The company intends to maximize its use of other fuels to limit oil consumption. NSP is also monitoring the progress of several proposed pipelines designed to bring additional supplies of oil and natural gas to the region. These supplies will be vitally needed after the Canadian oil cut-off.

Hydroelectric generation totaled three percent of NSP's 1979 generation. Nationally, hydroelectric power provided slightly less than 15 percent of America's electricity in 1979.

In the future, the proportion of NSP's electricity supplied by hydroelectric sources will increase. In 1980, NSP will begin operating the transmission interconnection with the system of the Manitoba Hydroelectric Board of Winnipeg, Canada. The interconnection will provide NSP with about two million kilowatt-hours of hydroelectric power yearly through 1992. This interconnection will account for seven percent of NSP's energy sources in 1980.

NSP will also construct a 30-mw addition to its Jim Falls, Wisconsin, hydroelectric plant by 1988. A feasibility study is also being conducted on adding two mw of capacity at the Winter Dam plant on the Chippewa Reservoir by 1990.

The company burned about 5,000 tons of sawmill waste wood in 1979 at its 25-mw Red Wing plant. The wood was burned in a 30/70-percent mix with coal. NSP's use of waste wood will increase in 1980 as the company installs \$11-million worth of new wood burning and pollution control equipment at its Red Wing (Minnesota) and French Island (Wisconsin) plants. These changes will convert one of the oil-burning French Island and both Red Wing units to wood. The French Island construction features a fluidized-bed boiler capable of burning 20 tons of waste wood per hour—the equivalent of 1150 gallons of oil per hour. Both plants will be able to burn wood alone or in a mixture with other fuels.

Once retrofitting is complete, NSP will use these facilities as intermediate rather than peaking plants. The company will secure waste wood from sawmills, industries, commercial tree trimmers, municipal diseased tree programs and NSP's own tree trimming efforts.

Operating Performance

Despite several unscheduled outages at NSP's major coal and nuclear facilities, the company's major plants recorded 1979 operating availabilities far above the national averages for comparable facilities.

The Monticello plant's availability was 98 percent for the year, while Prairie Island Unit 2 recorded a 99-percent

Plant Availability 1979*

*Plant availability is the number of hours in a year a plant is available for service divided by the total hours in the year.

**Edison Electric Institute 1978 data for comparable plants.

†Nuclear Regulatory Commission 1979 data

A. S. King	77%
Sherco 1 and 2	84%
National Average Fossil Fuel**	74%
Monticello	98%
Prairie Island 1	73%
Prairie Island 2	99%
National Avg. Nuclear†	68%

availability. However, Prairie Island Unit 1 was out of service for 21 days following the October 2 plant emergency.

(See THE WORLD OF REGULATION, p. 12.)

Its 1979 availability was 73 percent. Sherburne County (Sherco) Units 1 and 2 had a combined 1979 availability of 84 percent.

NSP's crews were busy in mid-June repairing extensive damages caused by two major storms. The second storm, which was more severe, hit NSP's service area on June 19. It left approximately 90,000 Twin Cities customers without service. Outages were also widespread in the Sioux Falls, St. Cloud, Eau Claire and Fargo areas. All available crews and some private contractors were mobilized in the Twin Cities, where damage was worst. Working around the clock, the crews restored most customers' service within 24 hours.

Energy Management

During the year, NSP completed the first phase of a comprehensive load management study. This preliminary study concluded that load management is feasible; has social and environmental benefits; could help reduce NSP's load growth; and would cost about the same as new coal-fired generation. Further analysis will continue in 1980 to determine the optimum mix of peak control, rate and incentive strategies. Generation and load management planning will be coordinated further in 1980. The company's present forecast assumes NSP will be able to reduce expected 1990 peak electric demand by 300 to 500 mw through load management.

NSP is also working toward compliance with the National Energy Act, which requires utilities to offer personalized, in-home energy audits to customers in 1981. The Minnesota Energy Agency (MEA) is the lead agency in developing and coordinating a state audit plan, while the Minnesota Public Service Commission (MPSC) is determining who will pay for the audits.

NSP's Attic Reinsulation and "ASK NSP" programs continue their popularity among customers. Since 1974, the company's program has helped reinsulate more than 285,000 homes. Estimated energy savings through this period are equivalent to nearly four million barrels of oil or more than 20 million mcf (thousand cubic feet) of natural gas.

The "ASK NSP" telephone information service received more than 23,000 calls in 1979, an increase of 475 percent over 1978. The company has added a pre-recorded tape library in 1980 to help satisfy increased demand for information on a wider range of energy topics.

NSP is cutting its office energy use by observing federal building temperature regulations (65 degrees in winter, 80 degrees in summer). Employees are also joining company-sponsored commuter van pools and increasing bus ridership. NSP employees now operate 29 vans serving 350 people. The company hopes to double participation in the program during 1980. An arrangement between NSP and the Metropolitan Transit Commission enables employees to ride regular metropolitan buses at reduced fares. More than 430 NSP employees are participating in the program.

Energy Research

NSP has been studying and testing a variety of energy techniques and equipment for several years. The company's 1979 research program totaled \$2.8 million. Among these efforts, the company:

- completed a cooperative study with the City of St. Paul and its consultants on a proposal to develop a 200-mw hot water district heating system for the downtown area. Further studies and arrangements are required before the system can be built.
- will cooperate with Hennepin County on a feasibility study of burning municipal refuse-derived fuel at NSP's Black Dog and Riverside plants and providing hot water or steam to downtown Minneapolis. The study will be completed in 1980.
- began the second phase of a study on the feasibility of providing hot water district heating for downtown Red Wing, Minnesota. The company expects to complete this study in 1981.
- received the first of several solar water heating units to be installed at NSP's 19 service centers. When installed later this year, the units could provide up to 70 percent of each center's hot water.
- continued its load management testing program. Commercially available load management communications equipment was installed last summer and is being

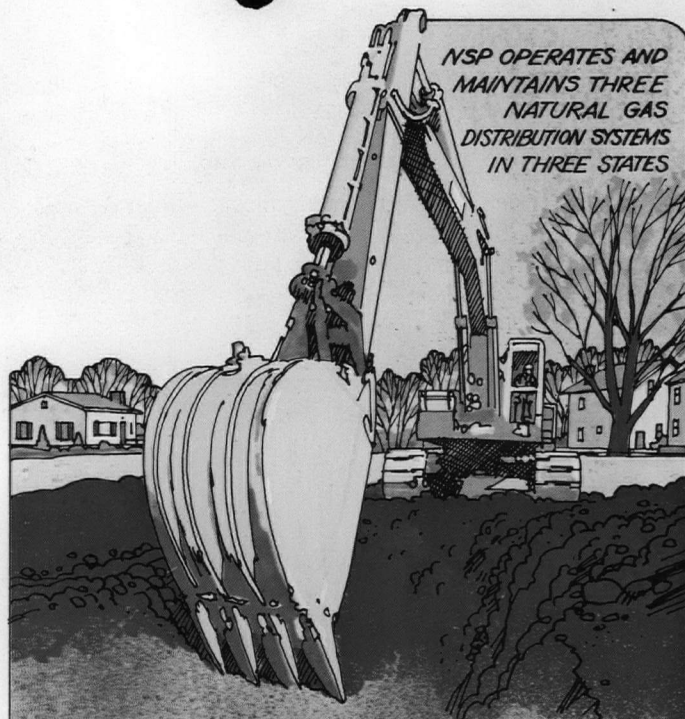
tested for its reliability. Air conditioning load control tests also began last summer and will continue in 1980.

- purchased a small photovoltaic array for experimental installation at the company's Roseville House, a demonstration home NSP built to test various energy efficiency techniques. The array is designed to provide one-half kilowatt of electricity from the sun's energy.
- received a University of Minnesota study detailing the feasibility of raising fish (aquaculture) using the waste warm water from the company's Sherco plant. A pilot aquaculture facility is expected to be built this year as an addition to the Sherco warm water greenhouse complex.
- joined the Electric Power Research Institute (EPRI), an organization supported by U.S. utilities that develops a broad spectrum of large-scale research and demonstration programs. Eleven NSP energy experts will serve on various EPRI advisory groups in 1980.

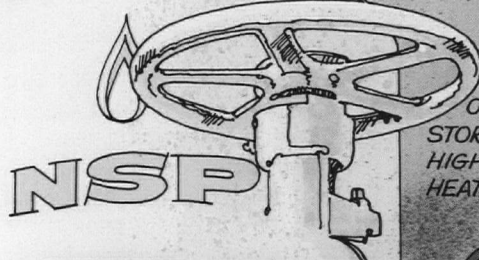
Electric Operating Objectives: 1980-1984

- NSP will continue developing a comprehensive load management program. NSP will also maintain its conservation and consumer information programs while expanding home energy audit services.
- The company will pursue a program of maximizing available generating capacity by recommissioning retired facilities, converting older units, installing pollution control equipment and retrofitting for the combustion of alternate fuels. These changes will be made when feasible and economical.
- NSP will increase its use of hydroelectric generation, purchased hydro power and alternate fuels.

*NSP OPERATES AND
MAINTAINS THREE
NATURAL GAS
DISTRIBUTION SYSTEMS
IN THREE STATES*

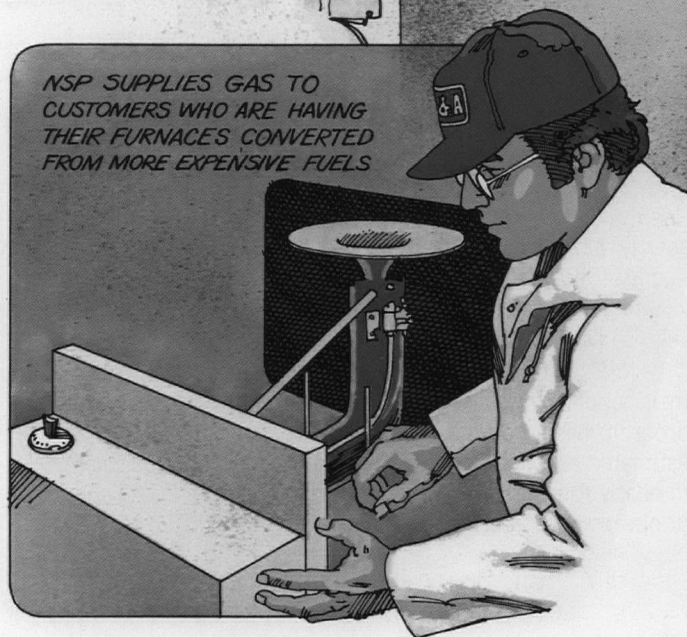


THE WORLD OF GAS OPERATIONS



*PEAK SHAVING
OPERATIONS SUPPLY
STORED GAS DURING
HIGH-DEMAND
HEATING PERIODS*

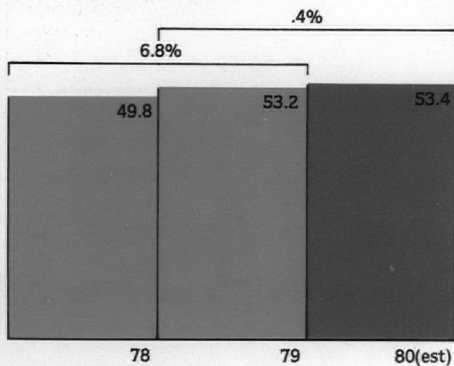
*NSP SUPPLIES GAS TO
CUSTOMERS WHO ARE HAVING
THEIR FURNACES CONVERTED
FROM MORE EXPENSIVE FUELS*



Gas Firm Usage

(Millions of MCF)

(percentages indicate annual growth)



Natural Gas Demand

NSP serves more than 260,000 Minnesota, Wisconsin and North Dakota customers with natural gas. The company has two gas systems supplied by Northern Natural Gas Company of Omaha, Nebraska, and one system supplied by the Midwestern Gas Transmission Company of Houston, Texas. Northern Natural provides gas to NSP for service to 85 percent of NSP's customers. Midwestern supplies gas for the remaining 15 percent of NSP's customers.

Combined firm retail gas usage on the Northern Natural systems increased 6.8 percent, or 2.9 million mcf, for a total of 45.7 million mcf. Firm usage of these systems is expected to increase 7.5 to 10.0 percent through 1984.

Firm retail gas usage on the Midwestern system rose 7.1 percent, or .5 million mcf, for a 1979 total of 7.2 million mcf. Usage on this system is expected to increase slightly through the next five years.

Total company interruptible gas usage increased 7.0 percent, or 1.3 million mcf, in 1979.

Natural Gas Supplies, Prices and Peak Shaving Capacity

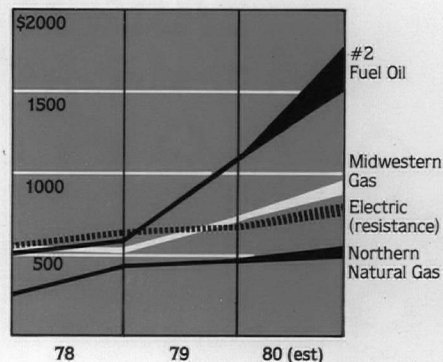
Sufficient supplies of natural gas are available to NSP's firm customers. Expanded supplies reflected Northern Natural's increased acquisition of gas resources and customer conservation. Supplies are expected to remain adequate on the Northern Natural systems for the foreseeable future. Supplies on the Midwestern system are also assured through 1985, as the Canadian National Energy Board has recently renewed natural gas exports to the United States.

The Wisconsin Company is now seeking regulatory approval to end its moratorium on gas service extensions on its Northern Natural system. The moratorium was imposed in 1977 because of limited gas supplies.

Relative Cost for Home Heating

Based on typical home energy consumption

Efficiency ratios: 60% for natural gas and fuel oil; 100% for electric



NSP's 1979 experience with energy prices clearly demonstrated the close relationships among all energy forms. The cost of No. 2 fuel oil within the service area rose 78 percent during the year, making it advantageous for customers to convert to cheaper fuels for home heating. By the end of 1979, NSP had received 6,074 requests to supply gas to converted furnaces. Where gas conversion was unavailable, many customers installed primary or supplementary electric space heating.

Firm gas prices for NSP's Northern Natural heating customers rose 23.7 percent in 1979. Gas remained cheaper than oil or electricity throughout the year on these systems.

On the Midwestern system, where natural gas prices are set in relation to Canada's oil export prices, firm gas costs for heating rose above the price of NSP's electricity in 1979. Midwestern gas prices increased 74 percent during the year. Another increase by Canada in 1980 has positioned Midwestern gas prices closer to oil prices. Both gas and oil are more costly than NSP's electricity on this system. NSP anticipates changes in the demand for gas and electric space heating as a result of these new price relationships.

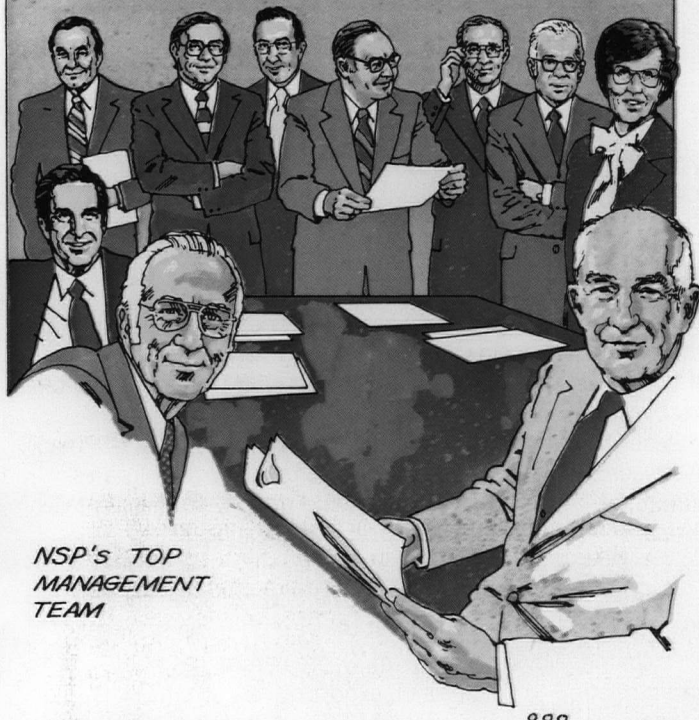
NSP's current gas peak shaving capacity totals 265 million mcf per day. Sufficient reserve capacity exists to permit the addition of new firm customers.

Oil prices are expected to continue rising sharply in the U.S. for many years. Moreover, the American Gas Association estimates that gas prices will increase 12 percent per year, or four percent over the general inflation rate, through 1985.

Gas Operating Objectives: 1980-1984

- Where appropriate and feasible, NSP will expand its gas service to new residential units and customers wishing to convert from other fuels.
- NSP will expand consumer information efforts regarding natural gas in preparation for its 1981 home energy audit program.
- The company will operate its gas facilities to maximize productivity and efficiency.

THE WORLD OF MANAGEMENT



NSP's TOP
MANAGEMENT
TEAM

Management Efforts

NSP is affected by many social, political and economic forces. Most are beyond the company's direct control. NSP must maximize its opportunities and respond to the challenges facing it in this unsettled environment. To that end, the company has restructured management responsibilities and expanded planning efforts in recent years.

The Board of Directors is responsible for the overall policy and direction of the company. Chairman Don McCarthy, the only director who is an NSP employee, also serves as president and chief executive officer of the company. The company's activities are divided among five senior officers, each of whom coordinates the work of a group of officers responsible for specific operating departments. These five coordinating areas are power supply, retail division operations, finance, corporate services and corporate affairs.

The planning efforts of these areas are coordinated by NSP's Corporate Strategy and Planning Department. It analyzes emerging trends, develops the company's corporate planning assumptions and identifies threats and opportunities. In addition, the planning staff conducts individual studies on specific topics at management's request. These efforts provide the background

and information base for corporate direction-setting and long-range planning. The department completed NSP's first ten-year corporate plan in 1979.

Some of the trends monitored by the department include government regulation; resource availability and cost; state-federal rights controversies; large-small power plant conflicts; public concern for environmental and health impacts; social movements; impact of an aging population; population movements; quality of life issues; impact of alternative energy use; and the impact of new technologies.

Corporate Social Responsibility

NSP affects society in many ways. Consequently, its management and operation must be socially responsible. The company considers reliable service and efficient operation as its two most important obligations. But NSP is also committed to minimizing the environmental impacts of its operations, providing meaningful and challenging employment opportunities and responding to customer's concerns.

In 1978, NSP established a Consumer Advisory Panel in Minnesota and an Advisory Board in North Dakota. Both groups were active in 1979, advising NSP management and assisting policy development on consumer issues. In addition, the Minnesota group prepared a detailed study of weatherization and fuel aid fund availability in NSP's service area. This study revealed that fuel fund assistance from social and welfare agencies is not as readily available as is commonly thought.

During the year, NSP participated in two voluntary fuel assistance funds. NSP provided a \$100,000 line of credit to match private contributions to the Metropolitan Fuel Fund. The Fund is a Minneapolis Urban League program providing no-interest loans to those ineligible for public assistance. NSP also provided \$15,000 to the St. Paul Energy Savers Winterization Program, a private effort of the Red Cross and other community groups.

In addition, the company arranged for various consumer representatives to speak at NSP's monthly management update meetings. The company's Consumer Affairs Department also conducted a series of informal breakfast meetings at which management and consumers shared insights and discussed problems.

NSP's 1979 community contributions (Minnesota Company) totaled \$975,519, an 11-percent increase over 1978's donations. Contributions were allocated to: United Way, 39 percent; civic, seven percent; cultural, four percent; health, four percent; education, 24 percent; community service, 17 percent; and miscellaneous, five percent.

The company also donated to the Minneapolis Public Library a two-year subscription to *Energyscope*, a national collection of current articles, reports and papers on energy.

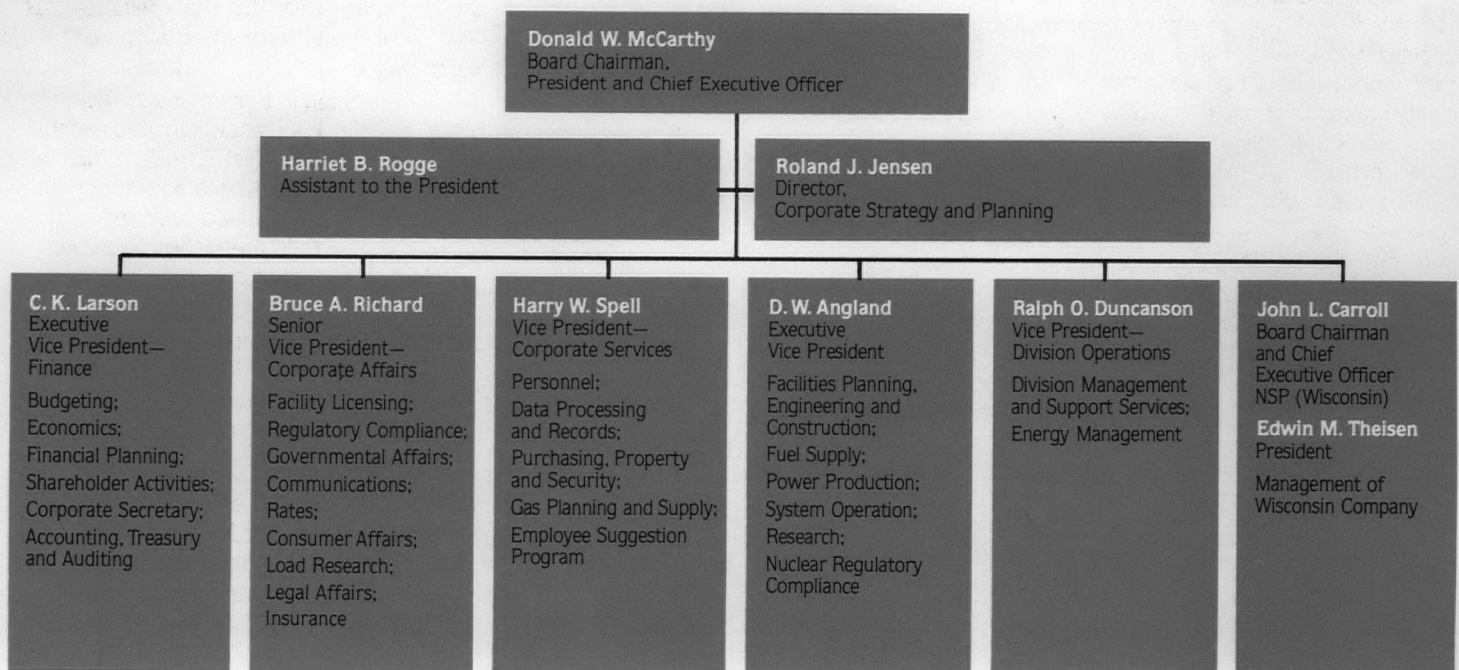
Public opinion research conducted in 1979 indicated that residential customers consider adequate energy supplies the first priority of the company. Maintaining the reliability of present service, developing alternative energy sources and encouraging energy conservation are the next priorities, respectively.

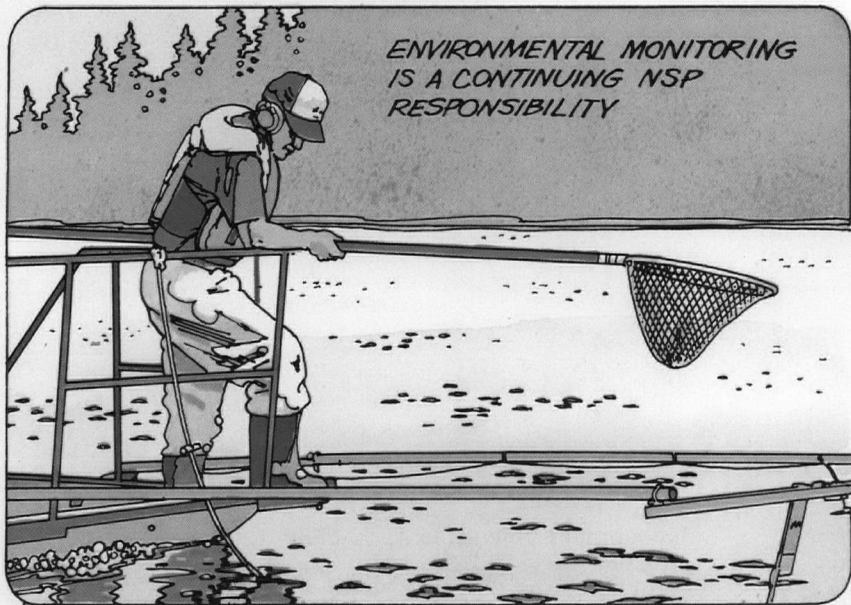
Other major findings of the metro-area studies:

- NSP continues to receive very favorable ratings for customer service.
- Overall, the company enjoys a high level of credibility among opinion leaders and the public. Expertness and trustworthiness are considered the key components of corporate credibility.
- The October Prairie Island emergency had no measurable impact on the public's perception of NSP's credibility. The company received high marks both for getting the plant back in operation and for its communication with the public.

Management Objectives: 1980-1984

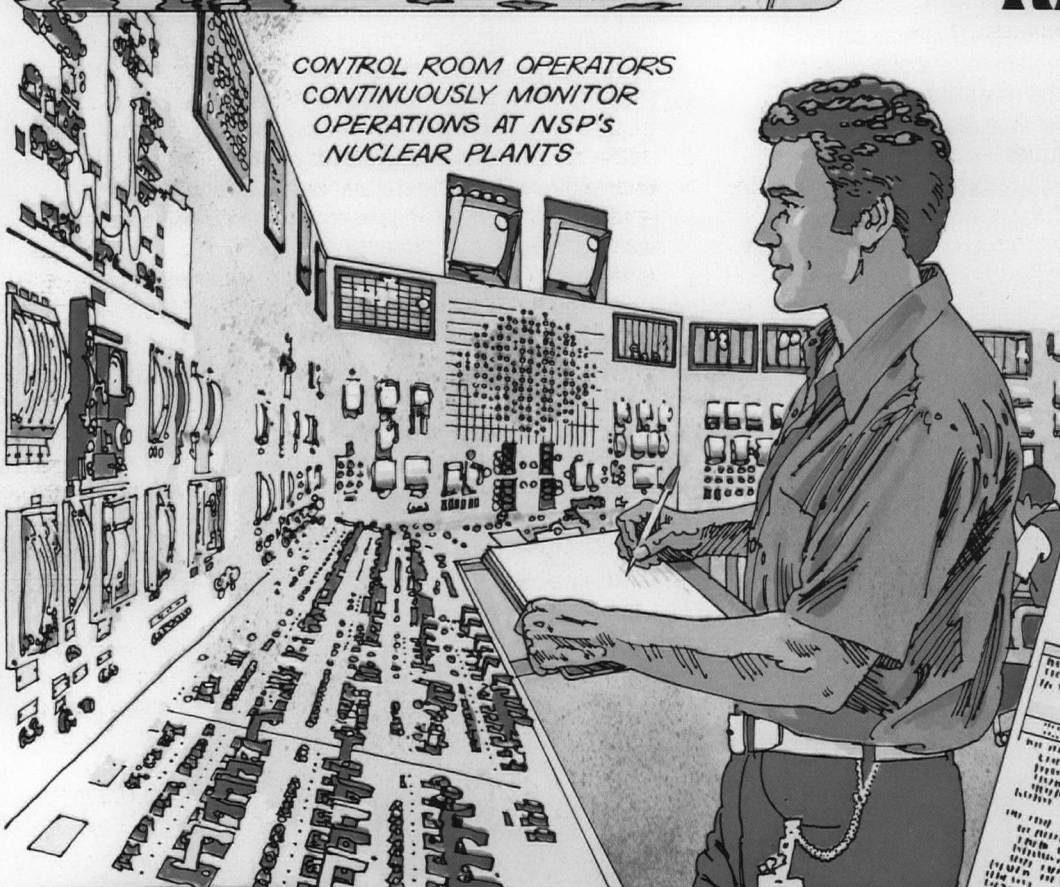
- NSP will provide reliable, economical service to meet customers' present and future energy requirements in a socially and environmentally acceptable manner.
- The company will maintain sound fiscal performance with a fair return to shareholders.
- NSP will cooperate with other suppliers of energy to meet the total energy needs of the region.
- The company will operate and modify nuclear plants in a responsible manner, keeping constantly informed of all pertinent industry developments.
- Based on fairness to all, NSP will provide employees with challenging opportunities, and compensate them for their performance and responsibilities.
- The company will continue to anticipate and prepare for change.





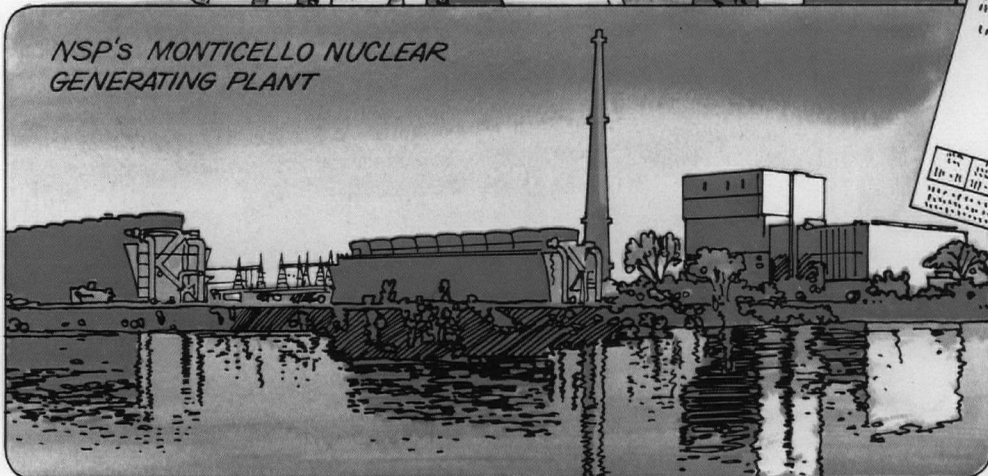
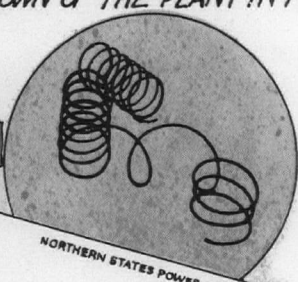
ENVIRONMENTAL MONITORING
IS A CONTINUING NSP
RESPONSIBILITY

THE WORLD OF REGULATION



CONTROL ROOM OPERATORS
CONTINUOUSLY MONITOR
OPERATIONS AT NSP'S
NUCLEAR PLANTS

AN EIGHT-INCH SPRING
LODGED IN THE PRAIRIE ISLAND
PLANT'S STEAM GENERATOR
RESULTED IN A 21-DAY
SHUTDOWN OF THE PLANT IN 1979



NSP'S MONTICELLO NUCLEAR
GENERATING PLANT

NORTHERN STATES POWER COMPANY

DOE JOHN
5816 ARMYGATE SO
ST PAUL, MN 55101

NSP

ALL FORMS OF REGULATION
AFFECT CUSTOMER BILLS-
NSP RATES ARE REGULATED
IN ALL FOUR STATES THE
COMPANY SERVES

America's utilities today find themselves embroiled in perhaps the largest and most serious public debate in memory. The debate concerns the continued viability of our society as we have experienced it in this century. Utilities are a focus of the controversy because they represent centralized resources and management, capital accumulation, advanced technology and the distribution of energy—the force that powers our economy and provides our quality of life.

Control of the energy supply is being correctly perceived by an increasing number of Americans as an important way to alter society's values and growth patterns. Nowhere is this more evident than in the debate over continued development of nuclear power.

Nuclear Power

In 1979, two new nuclear units began commercial operation. There were no nuclear reactors ordered during the year by U.S. power suppliers.

Nuclear energy now provides 11 percent of America's electricity. Seventy commercial plants are now licensed to operate in this country, while another 90 are in various stages of completion.

While national nuclear plant operations were good in 1979, public support for the technology fell following the Three Mile Island accident on March 28. That five-day national ordeal was triggered by an equipment malfunction. A combination of human and mechanical errors plagued plant operators as they attempted to bring the unit to a cold shutdown. Radioactive gases were released into the atmosphere during this process.

What were the results? The Kemeny Commission assigned to study the accident reported, "In spite of serious damage to the plant, most of the radiation was contained and the actual release (of radioactivity) will have a negligible effect on the physical health of individuals."

The Kemeny Commission concluded that fundamental changes were needed in the organization, procedures and

attitudes of the Nuclear Regulatory Commission (NRC) and the industry. The commission advocated neither an outright moratorium nor aggressive development of new nuclear plants.

It is clear from this experience that the perceived risk of nuclear power—both among investors and the general public—is greater than ever before. It is also clear that the resolution of specific problems demonstrated at Three Mile Island—as well as the problems of nuclear waste handling and the appropriateness of certain nuclear-related costs in customer rate bases—will be made in the political arena rather than on technical or economic grounds.

The industry has responded by instituting operating and administrative changes ordered by the NRC. It has also formed voluntary organizations to enhance nuclear plant operations. The Institute of Nuclear Plant Operations (INPO) is studying plant operating issues and establishing standards for operation and operator training. The Nuclear Safety Analysis Center (NSAC) provides technical analyses of the Three Mile Island accident and other abnormal operating occurrences to improve the industry's shared knowledge of operating experiences. Moreover, the industry has welcomed a thorough public examination of nuclear power as a means of making plants even safer.

The primary concern remains whether nuclear power will be available as a future source of energy for our nation. The NRC has temporarily halted licensing procedures pending a revision of its regulations and procedures. There are doubts that this public debate will permit construction in time to avoid serious electric shortages in some parts of the country.

Three characteristics of this national debate were keenly felt by NSP in 1979: the overwhelming role of regulation as a factor in future energy supply planning; the extent of the public's lack of understanding regarding the technology and its safeguards; and the prospect of meeting demand with seriously limited nuclear generating capacity.

On March 6, 1979, the Public Service Commission of Wisconsin (PSCW) denied a construction permit for the Tyrone Energy Park nuclear plant. The commission ruled that the need for Tyrone had not been sufficiently demonstrated. NSP was the primary co-owner of the project, which made its

regulatory debut in 1973 and received an NRC permit in 1977. The co-owners filed a challenge to the order April 5 in Eau Claire, Wisconsin, Circuit Court. (See Note 7, p. 30).

The co-owners then conducted a four-month examination of their options. Although convinced the plant was needed and was the best, most environmentally sound and most economical method of supplying future customer demand, they agreed that prospects for bringing the plant into service when needed by customers were remote. The Tyrone project was cancelled July 24. (See Note 7, p. 30.).

In recent years, the ability to license an energy facility has become as important as fuel supply reliability in the planning of future capacity requirements. In an area of shrinking options—oil and natural gas are prohibited as generating fuels—this has become a critical problem.

On October 2, a steam generator tube at NSP's Prairie Island Unit 1 plant ruptured, releasing a small amount of radioactive gas into the atmosphere. The plant's emergency director declared a site emergency, a procedure which requires the dismissal of non-essential employees and notification of various authorities.

The plant's automatic safety systems were activated and within 27 minutes the malfunction was stopped.

The Minnesota Health Department did not detect any levels of radioactivity above natural background radiation and employees received no substantially increased radiation dosages. There were no injuries and plant damage was limited, as was the financial impact of the emergency. The unit was returned to service October 23.

(The rupture was caused by the constant rubbing of a small metal spring against the tube. The spring was part of a clamp that had been used to fortify the end of a cleaning machine suction hose.)

While the plant's operators and all safety systems performed properly, public concern was widespread. The Minnesota Legislature conducted hearings on the emergency.

As a result of the emergency, NSP clarified procedures for notifying the plant's immediate neighbors in case of unusual

activities at the plant. Their notification was not considered in the state's emergency plan in cases where no safety danger existed. The company also expanded its program to provide customers with more information on nuclear power.

State regulation of nuclear plant operations increased in 1979 as the MEA scheduled hearings in 1980 on NSP's proposed expansion of storage capacity at its Prairie Island spent fuel pool. The federal government, through its nuclear regulations, has exclusive authority over high-level radioactive waste disposal. But because no federal facilities exist for away-from-reactor waste storage, NSP has had to readjust the spacing of spent fuel racks in its nuclear plant storage pools. NSP's first adjustment at Prairie Island occurred in 1977. Without another expansion or some other disposal alternative, NSP may be forced to shut down the Prairie Island facility in 1983.

An MEA decision on the need for this adjustment is expected in 1980. The company has also filed for NRC approval, which is expected in late 1980. The NRC found that NSP's earlier storage adjustment at Prairie Island did not pose any public health or safety dangers.

However, a coalition of environmental, ethnic and consumer groups has intervened in the state hearing process. The coalition maintains that increased spent fuel storage poses a threat to the public. They urge that NSP's request be denied and NSP be required to close the plant when current storage facilities become full.

Nuclear generation is a vital part of the NSP system, providing 46 percent of customers' electricity in 1979. The closing of Prairie Island would produce a deficit in regional electric supplies; increase consumer costs due to greater use of more expensive coal-fired generation; and ultimately increase NSP's use of oil generation.

Moreover, as licensing delays increase for new facilities, NSP could be forced to import significant amounts of power (if available) to meet demand. A shortage of electric supplies over several years would adversely affect the region's economy. Such a shortage would certainly bring social changes to NSP's service area.

Among them would be reduced growth, increased unemployment and a reduced standard of living. NSP is committed to nuclear power because the company is convinced nuclear power's risks are reasonable and responsible in relation to its benefits and the risks of other industrial processes.

Rate Increases—Annual Basis
(Millions of dollars)

	Requested		Granted	
	Amount	Percent	Amount	Percent
1975	\$76	16%	\$50	10%
1976	63	11	43	7
1977	92	15	56	9

The company is optimistic that regulatory agencies and the public will recognize the Prairie Island plant's contribution to regional electric supplies.

Plant Licensing

Today's permit and construction requirements have extended the time needed to build each new coal and nuclear plant to nine and ten years, respectively. Although NSP's current building program is small, the company is involved in studies and regulatory proceedings for facilities scheduled for the mid and late 1980s.

In October 1979, NSP received a certificate of need recertifying an in-service date of 1985 for NSP's proposed 800-mw Sherco Unit 3. (NSP's 1978 delay of Sherco 3 due to reduced peak electric demand growth resulted in a state review of the project's regulatory status.) The Minnesota Environmental Quality Board (MEQB) later reaffirmed the project's proposed site and ordered an update of the original environmental impact statement. As this update is prepared, the company will apply for the remaining permits needed to build the plant. The permit process is expected to take about one year.

During 1979, NSP began operating a portion of the new transmission line connecting the systems of NSP and the Manitoba Hydroelectric Board of Winnipeg, Canada. The company also obtained the remaining permits necessary to complete the line, including a Presidential permit to cross the Canadian border. Construction is on schedule and the line is expected to be finished in May of 1980.

NSP has also begun studying potential sites in western Wisconsin for a 670-megawatt coal-fired generating plant proposed to begin operating in 1987. NSP anticipates owning 620 mw of this facility. Through this study process, the company expects to select a proposed site in 1981 for consideration by Wisconsin regulatory agencies.

In 1979, NSP announced it was studying sites in the Minneapolis-St. Paul metropolitan area for a 200-mw coal-fired plant designed to provide electricity as well as district heating and co-generation potential in 1989. Eight sites are now under study and the company expects to submit

applications for need and site certifications to regulatory agencies in 1981.

The company also plans part ownership in a North or South Dakota coal plant in 1989.

Environmental Compliance

NSP maintained a good environmental compliance record at its major generating facilities in 1979. However, two of NSP's older, relatively smaller generating plants will require additional pollution control equipment or modifications to bring them into compliance with air quality regulations. NSP has reached agreement with the Minnesota Pollution Control Agency (MPCA) to meet these requirements at the Red Wing and Wilmarth coal-fired plants. NSP expects to spend approximately \$4 million at each plant over the next three years to bring them into compliance. All other NSP plants meet current air quality standards.

All of NSP's generating plants are in compliance with federal water discharge regulations. However, NSP's application for the Prairie Island nuclear facility's permit has been pending for several years. The company expects to reach agreement with various regulatory agencies in 1980 to secure this permit.

NSP is also in compliance with recent state and federal regulations covering solid, hazardous and toxic wastes and polychlorinated biphenyls (PCBs), a substance used to insulate utility transformers and capacitors. The MPCA has approved NSP's plans for PCB containment, and these plans will be implemented in 1980.

Since 1968, NSP has spent \$264 million on pollution control equipment. While these efforts have yielded many benefits, the trend is toward even greater pollution control expenditures in the years ahead. Pollution control expenditures for the next 10 years are estimated at about \$400 million, or six percent of NSP's total ten-year construction program.

Rate Regulation

Of Northern States Power Company's total 1979 revenues (excluding non-firm sales to other utilities), approximately 75.8 percent were within Minnesota's regulatory jurisdiction; 11.9 percent within Wisconsin's; 7.3 percent within North Dakota's; 2.6 percent within South Dakota's; and 2.4 percent with the Federal Energy Regulatory Commission (FERC). The table above summarizes NSP's major gas and electric increases requested and granted between 1975 and 1977.

Residential Electric Bills

(500 KWH*/Month for selected cities—December 1979)

*Includes fuel and purchased power adjustments

New York, NY	\$46.94
Boston, MA	\$30.91
Cleveland, OH	\$30.27
Detroit, MI	\$26.48
Chicago, IL	\$25.38
St. Louis, MO	\$23.86
New Orleans, LA	\$22.83
Mpls./St. Paul, MN	\$22.64
Houston, TX	\$21.46
Milwaukee, WI	\$20.75

Despite record inflation and rising costs in 1978 and 1979, NSP has not filed for a major electric rate increase during this period. This is consistent with NSP's objective of holding rates to the lowest level possible while providing an adequate return to investors.

The current bill for a typical NSP residential customer compares favorably with those of other utilities' customers using 500 kilowatt-hours (kwh) per month of electricity. In fact, a recent Edison Electric Institute survey of America's investor-owned utilities ranks NSP's Minnesota electric winter rates 171st lowest among 232 utilities. Because NSP will have no new generating facilities going into service before 1985, the company expects to maintain this favorable rate gap.

In 1979, the MPSC granted NSP \$4.8 million, or 65 percent, of the company's \$7.4 million requested increase in gas rates. The commission granted a 12.9 percent return on an imputed common equity ratio of 40 percent. The company's test year common equity ratio was actually 41.56 percent. The company believes this ruling is not in the best interest of customers or shareholders. NSP is working with the commission to resolve this issue.

In February 1979, FERC granted NSP a \$1.3 million increase in electric wholesale rates. The company had requested in 1978 an increase of \$1.9 million.

In late 1979 the Wisconsin Company requested a \$0.8 million increase in annual gas revenues from the PSCW. The commission has not acted on this request.

The PSCW did however deny an application for a certificate of need for the Tyrone Energy Park nuclear plant on March 6, 1979. The project was cancelled July 24 and the Companies have applied to the FERC and the PSCW to amortize the Tyrone costs over a five-year period starting in March 1979. (See Note 7, P. 30.)

As increased rates become necessary in 1980, NSP will seek to recover the Tyrone costs from customers. The company is optimistic that regulatory agencies will permit the costs to be recovered. Regulatory decisions will likely occur in 1981 or 1982. However, to the extent that NSP will be unable to recover any part of these costs through electric rates, this could reduce earnings in the affected year. The impact on NSP's earnings per share growth would be about one percent per year through 1984.

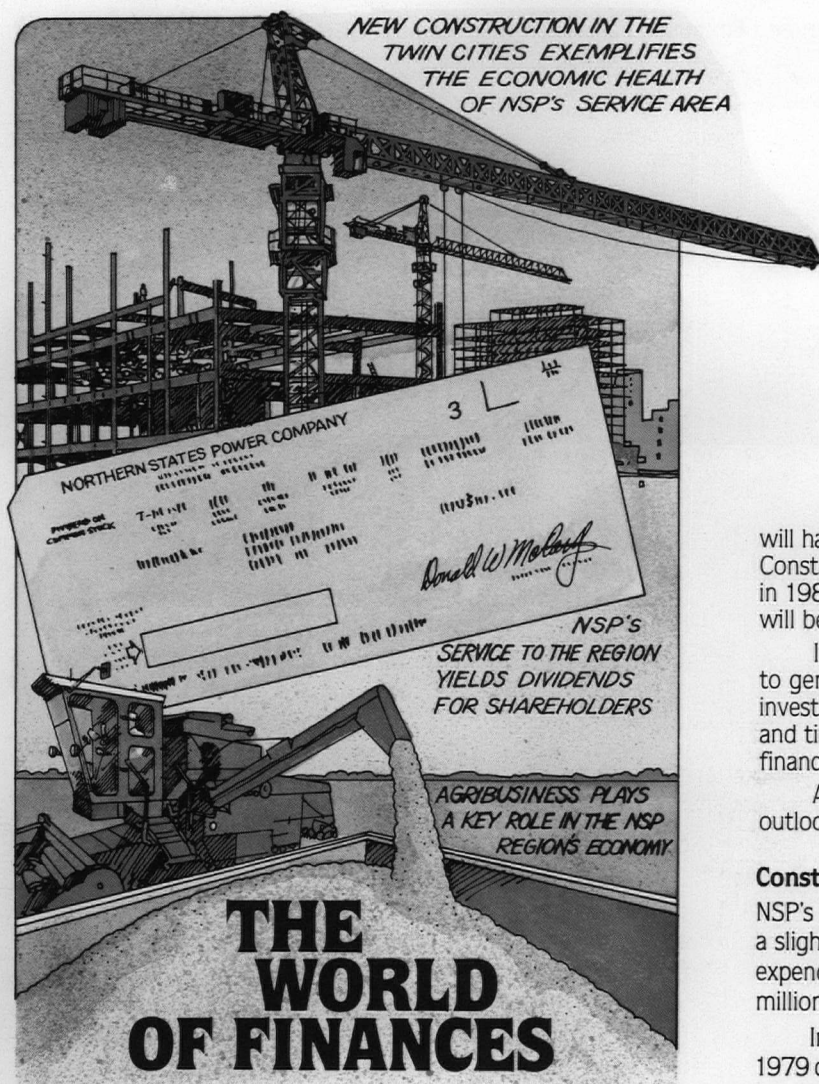
NSP participated in Minnesota and South Dakota regulatory hearings in 1979 to develop time-of-day and load management rates. These optional rates will enable NSP's customers to choose electric consumption patterns that result in lower costs.

The Minnesota commission approved NSP's load management and rate proposals in 1979 and is presently considering NSP's time-of-day proposals. In future rate increase requests, NSP expects to offer further optional rate proposals for regulatory review. In this way, the company believes all customers will have an opportunity to save energy and money by making cost-effective changes in the way they use electricity.

In 1979, the Wisconsin Company received PSCW approval to implement time-of-day, interruptible and curtailment electric rates for its largest commercial and industrial customers. The Wisconsin Company also filed in 1980 for optional time-of-day residential electric rates to promote off-peak energy storage and use of alternative energy sources. The Wisconsin Company must receive PSCW approval before implementing these residential rates.

Regulatory Objectives: 1980-1984

- NSP will work with regulators and voluntary nuclear industry groups to make its nuclear operations as safe as possible.
- NSP will continue to demonstrate the need for new facilities to serve growing electric demand.
- NSP will continue to maintain a good record of environmental compliance at all its facilities.
- The company will seek rate increases as needed consistent with its revenue requirements.
- The company will work toward implementing new kinds of rates to reduce demand.



NEW CONSTRUCTION IN THE
TWIN CITIES EXEMPLIFIES
THE ECONOMIC HEALTH
OF NSP'S SERVICE AREA

NORTHERN STATES POWER COMPANY

NSP'S
SERVICE TO THE REGION
YIELDS DIVIDENDS
FOR SHAREHOLDERS

AGRI-BUSINESS PLAYS
A KEY ROLE IN THE NSP
REGION'S ECONOMY

THE WORLD OF FINANCES

Utility Industry Performance

An unanticipated decline in electric demand and energy growth, increased capital and operating costs, higher regulatory costs and inadequate rate relief reduced annual earnings per share growth for U.S. utilities in the 1970s to about 2.5 percent per year, compared with the previous decade's per-year growth of 6.2 percent.

Utility industry financial measures for 1979 will show little or no improvement over 1978. Earnings per share for 1979 are estimated to be up only two or three percent, compared with 1978's flat earnings. Interest coverages are expected to decline somewhat due to higher interest costs.

Return on equity, a key measure, is estimated to be about 11½ percent for electric utilities—roughly the same as in 1978. All industry in America, on the other hand, probably will average about 16½ percent.

Moreover, virtually all electric utilities are selling below book value, with the average market price being about 75 percent of book value. This is a cause for concern as the industry faces a large building program in the 1980s.

The electric utility industry, with its large investment in expensive generating plants, is the most capital-intensive industry in America. Despite slower electric demand growth, utilities

will have to continue spending heavily for new generating facilities. Construction expenditures are expected to be about \$25 billion in 1980 alone. Only about 35 to 40 percent of these funds will be generated internally.

Improved financial performance would allow the industry to generate more of its construction funds internally and attract investment capital on more favorable terms. Obviously, fair and timely rate relief will be crucial to improving the industry's financial integrity and restoring investor confidence.

As the following discussion indicates, NSP believes its outlook is more favorable than the industry's.

Construction and Financing

NSP's 1979 construction expenditures were \$231 million. This is a slight increase over 1978 and about equal to anticipated 1980 expenditures of \$220 million. Additionally, NSP retired \$25 million of securities in 1979.

Internal funds contributed \$180 million to the company's 1979 cash requirements. The balance of NSP's requirements was met by a reduction in temporary cash investments (\$40 million), an increase in short-term debt (\$21 million) and \$15 million from the company's Employee Stock Ownership Plan (ESOP) and Dividend Reinvestment and Stock Purchase Plan (DRP).

Construction Schedule—Capacity Additions

Plant and Location	Size of Unit (Megawatts)	Type of Fuel	Estimated Cost (Millions)	Cost Per Kilowatt	Scheduled in-Service Date
NSP-Manitoba Hydro transmission line and capacity purchase	500*	Hydro	\$110	\$ 220	1980
Sherburne County No. 3**	780	Coal	\$750	\$ 960	1985
Wisconsin Unit †	620	Coal	\$750	\$1210	1987
Jim Falls	30	Hydro	\$ 80	\$2670	1988
Metro††	200	Coal	\$410	\$2050	1989
Dakotas‡	200	Coal	\$290	\$1450	1989

* Consists of a 200 MW purchase from Manitoba Hydro and a 300 MW seasonal exchange through 1992. The effective capacity purchase is 575 MW, which includes 75 MW reserve capacity.

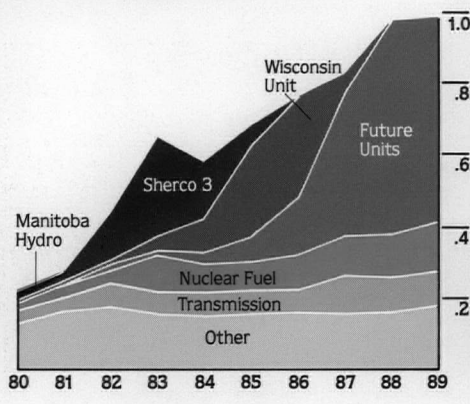
** Contemplates an 800 MW unit with 20 MW owned by Lake Superior District Power Company.

† Contemplates a 670 MW unit with 50 MW owned by Lake Superior District Power Company.

†† Contemplates a facility in the Minneapolis-St. Paul area designed to provide electricity and district heating.

‡ Proposed capacity addition for either North or South Dakota. NSP would own a share of a larger facility.

1980-1989 Construction Expenditures of \$6.3 Billion

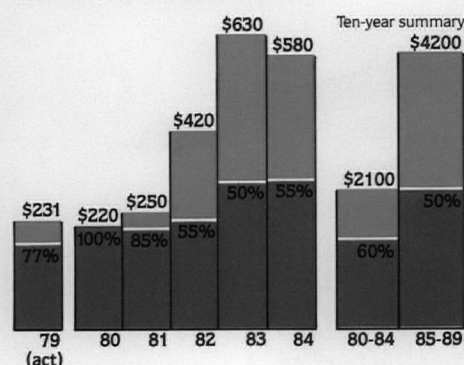


Construction and Financing Forecast

(Dollars in Millions)

Internal Funds New Financing

\$6.3 billion anticipated between 1980-1989



Capital Structure

Bond Interest Coverage

	1979	1980 (est)	Objective
Common Equity	42%	42%	40%-42%
Preferred Equity	12%	11%	10%-12%
Long and Short-Term Debt	46%	47%	48%-50%
Bond Interest Coverage (Pre-tax)	4.5	4.6	3.75-4.75

Cash requirements for 1980 include \$220 million for construction expenditures and a \$2.5 million retirement of preferred stock. These requirements will be provided from internally generated funds, a reduction in temporary cash investments (\$9 million), pollution control bonds (\$7 million) and proceeds from ESOP and DRP plans (\$4 million). NSP anticipates a decrease in short-term debt of about \$15 million in 1980.

NSP will need growing amounts of external financing beginning in 1982. At that time, construction expenditures are expected to exceed \$400 million and continue climbing, reflecting the construction of new generating units in 1985, 1987 and 1989.

NSP's construction expenditures through 1989 are estimated at \$6.3 billion. Of this amount, \$3.4 billion could be attributed to customer demand, \$2.5 billion to inflation and \$400 million to pollution control expenditures. As the construction and financing chart indicates, 60 percent of the 1980-1984 expenditures will be financed from internal funds and about \$750 million from new financing. The \$4.2 billion to be spent between 1985 and 1989 is expected to be provided equally by internal funds and new financing. For the 10-year period, NSP will finance about 55 percent of its \$6.3 billion construction expenditures with internal funds. This compares with an industry financing estimate of about 35 to 40 percent.

With a large financing program ahead, NSP's financial performance must be adequate so that securities may be marketed at any time and at a reasonable cost. Continued achievement of the company's financial objectives will provide the necessary performance.

Financial Objectives

NSP's financial objectives are based on the company's own studies and on communications with bond rating agencies, investment bankers, commercial bankers and rate of return experts.

Generally, the objectives are designed to provide a reasonable return to shareholders and keep the overall cost of money at the lowest level consistent with a flexible financing position. In the long term, meeting these objectives should keep customers' rates lower than would otherwise be possible.

NSP's financial objectives assume a general inflation rate of 10½ percent in 1980, gradually declining to seven percent by the

late 1980s. The estimated yearly escalation of construction costs is nine percent through 1983 and seven percent thereafter. Double-A utility bond rates are anticipated to be in the 11½ to 9½ percent range. As projections of economic, business and risk levels change, NSP will modify its objectives accordingly.

Capital structure and bond interest coverage are two of the most important measures of NSP's ability to retain the high quality double-A bond and preferred stock ratings it has held for more than 30 years.

Capital Structure

The capital structure is the total amount of money invested in the company through various securities. A large amount of total equity—particularly common equity—assures NSP greater flexibility and NSP's creditors more protection.

NSP achieved its capital structure objectives in 1978, and maintained them in 1979. NSP's capital structure, with 42 percent in common equity, is stronger than that for the utility industry, which has a common equity ratio of about 37 percent.

After the cancellation of the Tyrone nuclear plant and the delay of the Sherco 3 unit from 1984 to 1985, it appeared that the amount of common equity in NSP's capital structure would exceed objective levels by as much as four percentage points over the next few years.

Moreover, the MPSC, in a recent gas rate decision, set rate levels based on a common equity ratio of only 40 percent. As a result of this order and subsequent discussions with the commission, NSP has modified its ESOP and DRP plans. Market stock, rather than new stock, will now be used for ESOP and DRP investments. The five percent discount on common stock shares purchased with reinvested dividends will be eliminated. (See page 36.) The company is working with the MPSC to develop an understanding that the company's objective level is desirable and acceptable.

Bond Interest Coverage

To maintain a solid double-A rating and assure financial flexibility, the company's pre-tax bond interest coverage should be at least 3.75 to 4.75 times expected interest charges.

In 1966, NSP's bond interest coverage was 5.6 times. NSP's coverage dropped significantly during the 1967-1974 period of high inflation. This was an industry-wide problem and many utilities' ratings were lowered during this time.

	Monthly Average 1975*	December 1979
United States	8.5%	5.6%
Minnesota	7.0%	5.1%
Twin Cities	5.5%	3.9%

NSP has maintained its ratings and improved interest coverage substantially since 1974 by expanding the proportion of common equity in the capital structure. NSP's present coverage is 4.5 times while comparable utilities presently have an average coverage ratio of about 3.5 times.

NSP's interest coverage is expected to peak during 1981 and 1982 and then decrease as construction and financing programs begin to accelerate.

Earnings Per Share

From 1955 through 1972, NSP's earnings per share increased each year. From 1972 to 1977, however, the average growth rate was only 2.2 percent. The relatively slow growth rate during this period was due, in part, to the additions of large generating units in 1973, 1974, 1976 and 1977. In each of those years, earnings fell from the previous year despite rate increases.

Earnings performance recovered in 1978 and 1979, and NSP's current five-year growth rate is now 6.8 percent per year. The fact that no major generating units will be added before 1985 should improve NSP's ability to achieve favorable earnings growth.

The most important factor in earnings per share growth is the return on common equity. (Common equity is the sum of all proceeds from common stock sales and retained earnings. Return on common equity is the earnings available for common stock as a percentage of the average amount of common equity.)

The NSP returns on common equity of 13.3 and 13.2 percent earned in 1978 and 1979, respectively, compare well with the average 12-percent return earned in the previous five years. However, these returns were well below the 15 percent average return earned by American industry during the past five years.

NSP's earnings per share growth objective is a rate of six to seven percent per year, which would require a higher return than the 13.2 or 13.3-percent returns earned in the last two years.

Dividend Policy

Although other factors such as interest rate levels affect the marketability and market price of NSP's common stock, the two most important NSP-controlled factors are dividend policy and earnings per share growth. If NSP's earnings per share growth objective is achieved, the company's dividend policy will help insure fair treatment for shareholders and the availability of good markets for sales of new common stock.

NSP's current dividend policy is based on an earnings payout of 65 to 70 percent. While the payout percentage on a year-to-year basis may be more or less than the objective range, on average it should be within it. NSP's 1979 payout was 64.3 percent.

NSP's payout is somewhat less than that for the industry, which is about 75 percent. However, the company believes that its lower payout is desirable because it provides better potential for future dividend growth.

The company has a policy of increasing dividends on as regular a basis as possible. Dividend increases have been declared at the June Board of Directors meeting in each of the last three years.

Another measure NSP considers when declaring dividends is the ratio of dividends paid to the common stock's book value. The ratio of dividends (\$2.28) to common stock book value (year-end 1978) is 8.8 percent.

Reaching the Objectives

Inflation and regulation will continue to present the greatest challenges to adequate financial performance.

High interest rates and rising construction and operating costs exert an especially strong downward pressure on utility coverages and earnings because utilities are so capital intensive. For NSP, the returns on common equity granted by regulators in recent inflationary years have not been adequate. One of NSP's most important tasks in the years ahead will be to communicate more effectively the company's long-term financial needs to customers and regulators.

If these objectives are reached, NSP will be able to produce optimal results for shareholders, customers and employees.

The company's basic financial position is sound; the regional economy is relatively strong, with unemployment traditionally below that for the nation (see chart); NSP's energy supplies are adequate and costs reasonable; plant performance continues to be superior to industry averages; and NSP has no new generating facilities going into service before 1985. Although 1980 is potentially difficult, NSP's overall prospects are very positive.

Financial Review

How 1979 Compared with 1978

	1979 (millions of dollars)	Increase (Decrease) Over 1978	
		Amount	Percent
Operating Revenues			
Electric	\$ 832.7	\$23.0	2.8%
Gas	205.6	45.1	28.1
Telephone and heating	9.9	.8	8.7
Total	1 048.2	68.9	7.0
Operating Expenses			
Electric fuel and purchased power	201.1	16.1	8.7
Gas purchased for resale	142.6	33.6	30.8
Administrative and general	59.4	.4	.7
Other operation	95.6	9.0	10.5
Maintenance	73.8	8.9	13.7
Depreciation and amortization	107.2	18.0	20.1
Property and general taxes	87.5	2.8	3.3
Current and deferred income taxes	109.4	(19.5)	(15.1)
Total	876.6	69.3	8.6
Operating Income	171.6	(.4)	(.2)
Allowance for other funds used during construction—debt and equity	12.7	3.4	37.4
Other income and income deductions—net	1.8	1.2	187.3
Interest charges—excluding credit for debt portion of AFC	65.4	(1.3)	(1.8)
Net Income	120.7	5.5	4.7
Preferred stock dividends	14.4	(.1)	(.9)
Earnings Available for Common Stock	\$ 106.3	\$ 5.6	5.6
Average shares of common stock outstanding (000's)	30 270	29 712	1.9
Earnings per Share on Average Shares	\$ 3.51	\$.12	3.5
Dividends Paid per Share	\$ 2.22	\$.11	5.2

Management's Discussion and Analysis of Income

1979 Compared with 1978

Earnings available for common stock for the year 1979 were \$106.3 million, compared with \$100.7 million for 1978. Earnings per share for 1979 were \$3.51, compared with \$3.39 for 1978.

The earnings gain over 1978 was primarily due to increased retail electric and gas usage. Other factors which contributed to the earnings gain were an increase in allowance for funds used during construction and the two percent reduction in the corporate federal income tax rate, which became effective January 1, 1979. Partially offsetting these factors were the 10-month amortization of the Tyrone Energy Park nuclear plant costs, fewer sales to other utilities and a material increase in plant operating and maintenance expenses.

Operating revenues for 1979 were \$1,048.2 million, up \$68.9 million or 7.0 percent over 1978. The increase was due in large part to growth in retail energy usage. Electric retail Kwh sales increased by 4.1 percent over 1978, while total electric sales, including sales to other utilities, declined by 3.6 percent. Electric sales to other utilities in 1979 were 30.6 percent lower than in 1978. The 1978 sales were unusually high because other utilities purchased substantial amounts of power during the national coal strike in the first quarter of 1978. Electric revenues

also increased due to the operation of the fuel adjustment clause. Gas revenues increased due to a 7.5 percent rise in gas sales to heating customers and as a result of increased gas costs from the Company's wholesale suppliers. These wholesale gas costs were passed on to retail gas customers through the purchased gas adjustment clause. Higher Minnesota gas rates also contributed to the increase in gas revenues. In September, the Minnesota Public Service Commission granted a rate increase of \$4.8 million for the Northern Natural System, State of Minnesota. The Company originally filed for a \$7.4 million increase. (See also page 15 regarding rates.)

Electric fuel and purchased power increased by \$16.1 million or 8.7 percent over 1978. The increase was mainly due to increases in the cost of coal and nuclear fuel and higher customer energy requirements. The cost of coal rose substantially due to increased rail transportation charges from Burlington Northern. The Company's three nuclear generating units achieved a composite availability factor of 90.0 percent for 1979 in spite of the October incident at Prairie Island Unit No. 1, which forced a 21-day unscheduled outage. The six major coal units were available for generation 83.1 percent of 1979. The availability

of the Company's most efficient generation helped hold down costs to retail customers and enabled the Company to sell energy to other utilities.

Gas purchased for resale increased \$33.6 million or 30.8 percent due to increases in the cost of gas from the Company's wholesale suppliers (Northern Natural and Midwestern).

Other operation and maintenance expenses were up \$17.9 million. This increase was attributable to maintenance work at the Sherco, Riverside and Black Dog coal generating plants and the three nuclear generating units. These expenses were also up due to increased wage rates.

Depreciation and amortization expenses increased by \$18.0 million or 20.1 percent primarily due to the 10-month amortization of the Tyrone Energy Park nuclear plant costs. (See Note 7 to the Financial Statements.)

Current and deferred income taxes decreased as a result of lower pre-tax book income, the two percent reduction in the corporate federal income tax rate, which became effective January 1, 1979, and other minor adjustments. (See Note 5 to the Financial Statements.)

Allowance for funds used during construction increased as a result of the accumulated construction expenditures for the third Sherco unit and the Manitoba Hydro transmission line.

Other income and income deductions increased mainly due to the write-offs in 1978 associated with Cormorant Corporation and Pig's Eye coal transfer equipment.

1978 Compared with 1977

Earnings available for common stock for the year 1978 were \$100.7 million compared with \$84.1 million for 1977. Earnings per share for 1978 were \$3.39 compared with \$2.86 for 1977.

The earnings increase over 1977's unusually low earnings was due primarily to increased retail sales of electricity and gas. NSP's generating plants performed better than expected throughout the year. This helped hold down operating costs and increased the Company's ability to sell energy to other utilities during the national coal strike.

Operating revenues for 1978 were \$979.3 million, up \$97.8 million or 11.1 percent over 1977. The increase was primarily due to increased retail energy usage. While total electric sales, including sales to other utilities, increased by only 0.7 percent, electric retail Kwh sales increased by 4.8 percent over 1977. The increase in electric retail sales was due, in part, to the abnormally cold weather experienced during the heating months and the warmer than normal weather recorded during the summer of 1978. **Electric** revenues also increased due to the full year impact of rate increases initiated during 1977. **Gas** revenues increased primarily as a result of increased gas costs from the Company's wholesale suppliers. These wholesale gas costs were passed on to retail gas customers through the purchased gas adjustment.

Electric fuel and purchased power costs were up \$18.9 million, or 11.4 percent, over 1977. The increase was due to higher customer energy requirements and increases in the cost of coal and nuclear fuel. The increase was partially offset by more hydroelectric and nuclear output. The three nuclear generating units achieved a composite availability factor of 90.4 percent for 1978. The availability of the Company's most efficient generation helped hold down costs to retail customers and enabled the Company to sell to other utilities.

Gas purchased for resale increased due to increases in the cost of gas from the Company's wholesale suppliers (Northern Natural and Midwestern).

Administrative and general expenses increased by \$11.0 million due to higher wage rates as well as employee costs associated with the Company's reorganization program.

Current and deferred income taxes increased as a result of higher pre-tax book income and other minor adjustments.

Allowance for funds used during construction increased as a result of the accumulated construction expenditures for the third Sherco unit and the Manitoba Hydro transmission line.

Other income and income deductions decreased because of write-offs associated with Cormorant Corporation and Pig's Eye coal transfer equipment.

Business Segments (Thousands)

	Year Ended December 31, 1979			
	Electric	Gas	Other	Total
Operating revenues	\$ 832 663	\$ 205 623	\$ 9 890	\$ 1 048 176
Operating income before income taxes	257 897	20 640	2 415	280 952
Depreciation and amortization	98 281	7 233	1 647	107 161
Construction expenditures	213 577	16 202	1 557	231 336
Net utility plant	\$2 144 739	\$ 145 101	\$ 21 935	\$2 311 775
Other corporate assets				308 083
Total assets				\$2 619 858

	Year Ended December 31, 1978			
	Electric	Gas	Other	Total
Operating revenues	\$ 809 668	\$ 160 481	\$ 9 102	\$ 979 251
Operating income before income taxes	285 258	13 287	2 295	300 840
Depreciation and amortization	80 913	6 864	1 418	89 195
Construction expenditures	200 467	10 453	2 450	213 370
Net utility plant	\$2 091 794	\$ 136 315	\$ 22 064	\$2 250 173
Other corporate assets				201 359
Total assets				\$2 451 532

	Year Ended December 31, 1977			
	Electric	Gas	Other	Total
Operating revenues	\$ 732 260	\$ 141 866	\$ 7 384	\$ 881 510
Operating income before income taxes	246 633	12 382	1 142	260 157
Depreciation and amortization	77 598	6 610	1 348	85 556
Construction expenditures	144 226	10 587	4 442	159 255
Net utility plant	\$2 002 920	\$ 133 032	\$ 21 054	\$2 157 006
Other corporate assets				250 399
Total assets				\$2 407 405

Financial Review

Significant Ratios

	December 31						
	1979	1978	1977	1976	1975	1974	1969
Earnings per share on average shares	\$3.51	\$3.39	\$2.86	\$2.93	\$2.95	\$2.40	\$2.24
Dividends declared per share	\$2.25	\$2.135	\$2.03	\$1.94	\$1.862	\$1.836	\$1.60
Dividends in percent of earnings	64.3%	63.1%	71.0%	67.1%	63.7%	77.6%	72.1%
Dividends in percent of book value	8.8%	8.7%	8.6%	8.5%	8.9%	8.4%	9.7%
Five year growth rates in earnings per share ⁽¹⁾	6.8%	5.4%	2.2%	2.4%	2.3%	1.9%	3.3%
Percent of construction expenditures financed by internally generated funds (excluding AFC)	76.8%	98.0%	100.0%	75.7%	78.0%	42.8%	50.1%
Cash dividend coverage	4.6	4.1	4.1	4.2	3.7	3.2	2.5
AFC percent of earnings per share	12.0%	9.2%	8.4%	22.2%	30.2%	44.6%	20.1%
Effective tax rate	47.9%	53.3%	51.5%	47.6%	44.4%	36.1%	39.1%
Capitalization ⁽²⁾							
Common	42.2%	40.5%	38.7%	36.7%	33.7%	31.4%	30.7%
Preferred	11.6%	12.0%	12.2%	12.1%	12.5%	13.1%	14.5%
Debt	46.2%	47.5%	49.1%	51.2%	53.8%	55.5%	54.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Interest coverage							
Before taxes (including AFC)	4.47	4.64	3.95	3.68	3.44	2.69	3.98
Embedded cost of long-term debt	7.00%	6.90%	6.85%	6.79%	6.79%	6.16%	4.96%
Average plant investment per dollar of revenue	\$2.99	\$3.02	\$3.16	\$3.42	\$3.62	\$4.08	\$3.87
Depreciation reserve in percent of depreciable plant	27.9%	26.4%	24.3%	23.7%	24.0%	22.0%	24.7%
Depreciation provision in percent of average depreciable plant	3.44%	3.41%	3.43%	3.45%	3.48%	3.51%	2.90%
Benefit employees (at Dec. 31)	6 700	6 580	6 694	6 511	6 345	6 322	6 263

AFC—Allowance for Funds Used During Construction.

(1) Least squares method.

(2) Includes long and short-term debt and redeemable preferred stocks due within one year.

1979-1978 Revenues and Sales

	Revenues			Sales		
	1979 (millions of dollars)	Percent of Total	Percent Increase (Decrease) over 1978	1979 (billions of kwh)	Percent of Total	Percent Increase (Decrease) over 1978
Electric						
Residential with space heating	\$ 23.6	2.8%	31.7%	.7	2.8%	25.3%
Residential without space heating	260.6	31.3	3.0	6.2	24.1	1.0
Total residential	284.2	34.1	4.9	6.9	26.9	3.1
Small commercial and industrial	131.9	15.8	7.2	3.3	12.8	3.5
Large commercial and industrial	289.2	34.7	8.4	9.9	38.5	5.1
Street lighting and other	20.0	2.5	4.5	.5	2.1	2.5
Total retail	725.3	87.1	6.7	20.6	80.3	4.1
Sales to other utilities	79.3	9.5	(25.1)	4.1	16.1	(30.6)
Miscellaneous and other	28.1	3.4	17.1	.9	3.6	7.0
Total	\$832.7	100.0%	2.8	25.6	100.0%	(3.6)
Gas						
				(millions of mcf)		
Residential	\$104.2	50.7%	25.0%	34.4	47.0%	6.5%
Commercial and industrial	98.2	47.8	32.0	38.8	52.9	7.3
Miscellaneous	3.2	1.5	18.7	.1	.1	35.6
Total	\$205.6	100.0%	28.1	73.2	100.0%	6.9

Statement of Income

Northern States Power Company, Minnesota and Subsidiaries

	Year Ended December 31	
	1979	1978
	(Thousands of dollars)	
Operating Revenues		
Electric	\$ 832 663	\$809 668
Gas	205 623	160 481
Telephone and heating	9 890	9 102
Total	1 048 176	979 251
Operating Expenses		
Fuel for electric generation	178 972	168 663
Purchased and interchange power	22 096	16 284
Gas purchased for resale	142 606	109 021
Administrative and general	59 422	58 985
Other operation	95 628	86 576
Maintenance	73 842	64 965
Depreciation and amortization (Notes 1 and 7)	107 161	89 195
Property and general taxes	87 497	84 722
Income taxes (Notes 1 and 5)	109 362	128 881
Total	876 586	807 292
Operating Income	171 590	171 959
Other Income		
Allowance for funds used during construction—equity (Note 1)	9 944	7 237
Miscellaneous	3 270	7 179
Total	13 214	14 416
Total Income	184 804	186 375
Income Deductions and Non-Operating Taxes	1 527	6 572
Income before Interest Charges	183 277	179 803
Interest Charges		
Interest on long-term debt	61 726	62 274
Other interest and amortization	3 704	4 369
Allowance for funds used during construction—debt (Note 1)	(2 831)	(2 060)
Total	62 599	64 583
Net Income	120 678	115 220
Preferred Stock Dividends	14 406	14 536
Earnings Available for Common Stock	\$ 106 272	\$100 684
Average Shares of Common Stock Outstanding (000's)	30 270	29 712
Earnings per Share on Average Shares	\$3.51	\$3.39
Common Dividends Declared per Share	\$2.25	\$2.135

See Notes to Financial Statements on pages 28 to 32

Balance Sheet

Northern States Power Company, Minnesota and Subsidiaries

ASSETS

Utility Plant (Notes 1 and 4)

Electric—including construction work in progress:

1979, \$216,560,000; 1978, \$204,380,000	\$2 802 123	\$2 662 017
Gas	204 465	191 067
Other	73 303	75 399
Total	3 079 891	2 928 483
Accumulated provision for depreciation	(786 504)	(710 740)
Nuclear fuel—including in process: 1979, \$23,697,000; 1978, \$18,718,000	142 283	124 457
Accumulated provision for amortization	(123 895)	(92 027)
Net utility plant	2 311 775	2 250 173

Other Property and Investments	5 916	5 216
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Current Assets

Cash (Note 6)	5 294	2 198
Temporary cash investments	9 186	49 573
Accounts receivable	93 742	51 498
Accumulated provision for uncollectible accounts	(1 800)	(1 585)
Materials and supplies—at average cost		
Fuel	81 284	47 553
Other	25 470	23 317
Prepayments and other	9 697	8 766
Total current assets	222 873	181 320

Deferred Debits

Extraordinary property losses (Note 7)	68 527	3 455
Other	10 767	11 368
Total deferred debits	79 294	14 823

Total	\$2 619 858	\$2 451 532
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See Notes to Financial Statements on pages 28 to 32

	December 31	
	1979	1978
	(Thousands of dollars)	
LIABILITIES		
Capitalization (Page 27)		
Common stock—authorized 40,000,000 shares of \$5 par value; outstanding shares: 1979, 30,640,817; 1978, 29,970,108 (Note 2)	\$ 153 204	\$ 149 851
Premium on common stock (Note 2)	336 430	324 417
Dividend reinvestment—installments	42	43
Retained earnings (Note 2)	342 479	304 534
Total common stock equity	832 155	778 845
Cumulative preferred stock—authorized 3,500,000 shares of \$100 par value; outstanding shares: 1979, 2,275,000; 1978, 2,300,000 (Note 3)		
Non-redeemable	205 000	205 000
Redeemable	20 000	22 500
Premium on preferred stock	729	784
Long-term debt (Note 4)	891 505	893 053
Total capitalization	1 949 389	1 900 182
Current Liabilities		
Notes payable (Note 6)	20 999	
Long-term debt and redeemable preferred stock due within one year	2 527	24 506
Accounts payable	65 248	48 542
Tyrone cancellation charges accrued (Note 7)	40 000	
Salaries, wages, and vacation pay accrued	13 263	13 735
Revenue refunds due customers	3 151	
Federal income taxes accrued	3 746	24 120
Other taxes accrued	64 732	65 145
Interest accrued	18 834	17 824
Dividends declared on preferred and common stocks	21 034	19 818
Other	555	620
Total current liabilities	254 089	214 310
Deferred Credits		
Accumulated deferred income taxes (Note 1)	315 779	254 550
Accumulated deferred investment tax credits (Note 1)	94 828	76 213
Other	5 773	6 277
Total deferred credits	416 380	337 040
Commitments and Contingent Liabilities (Notes 7 and 8)		
Total	\$2 619 858	\$2 451 532

Statement of Retained Earnings

Northern States Power Company, Minnesota and Subsidiaries

	Year Ended December 31	
	1979	1978
	(Thousands of dollars)	
Balance at Beginning of Year	\$304 534	\$267 118
Net income for the year	120 678	115 220
Capital stock expense	(36)	(125)
Other		427
Net additions	120 642	115 522
Dividends declared		
Cumulative preferred stock at required annual rates	14 406	14 536
Common stock—per share: 1979, \$2.25; 1978, \$2.135	68 291	63 570
Total dividends declared	82 697	78 106
Balance at End of Year (Note 2)	\$342 479	\$304 534

Statement of Changes in Financial Position

	Year Ended December 31	
	1979	1978
	(Thousands of dollars)	
Source of Funds		
Funds from operations		
Net income	\$ 120 678	\$ 115 220
Depreciation and other amortization	111 941	96 270
Nuclear fuel amortization	31 868	28 636
Deferred income taxes	61 229	37 079
Investment tax credit adjustments—net	18 615	9 220
Allowance for funds used during construction	(12 775)	(9 297)
Total	331 556	277 128
Proceeds from sale of notes and securities		
Notes payable	20 999	
Long-term debt	157	6 587
Common stock	15 365	10 846
Total	36 521	17 433
Total Source of Funds	\$ 368 077	\$ 294 561
Application of Funds		
Construction expenditures	\$ 231 336	\$ 213 370
Transfer of Tyrone to abandoned projects	(40 000)	
Allowance for funds used during construction	(12 775)	(9 297)
Tyrone abandonment	80 000	
Reductions of long-term debt and redeemable preferred stock	4 184	25 677
Preferred and common dividends	82 697	78 106
Increase (decrease) in working capital (excluding notes payable)	22 773	(15 430)
Other—net	(138)	2 135
Total Application of Funds	\$ 368 077	\$ 294 561
Increase (Decrease) in Working Capital (excluding notes payable)		
Cash and temporary cash investments	\$ (37 291)	\$ 164
Accounts receivable—net	42 029	(34 592)
Materials and supplies	35 884	(6 550)
Long-term debt and redeemable preferred stock due within one year	21 979	(14 372)
Accounts payable, Tyrone charges accrued and salaries, wages, etc.	(56 234)	2 047
Revenue refunds due customers	(3 151)	34 976
Income and other taxes accrued	20 787	4 633
Other current assets and liabilities—net	(1 230)	(1 736)
Total	\$ 22 773	\$ (15 430)

• See Notes to Financial Statements on pages 28 to 32

Statement of Capitalization

Northern States Power Company, Minnesota and Subsidiaries

	December 31, 1979		December 31, 1978	
	(Thousands of dollars)	Percent	(Thousands of dollars)	Percent
Common Stock Equity (Note 2)	\$ 832 155	43%	\$ 778 845	41%
Cumulative Preferred Stock				
Non-redeemable (Note 3)				
\$3.60 series, 275 000 shares .. \$27 500	4.56 series, 150 000 shares .. 15 000			
4.08 series, 150 000 shares .. 15 000	6.80 series, 200 000 shares .. 20 000			
4.10 series, 175 000 shares .. 17 500	7.00 series, 200 000 shares .. 20 000			
4.11 series, 200 000 shares .. 20 000	8.80 series, 250 000 shares .. 25 000			
4.16 series, 100 000 shares .. 10 000	7.84 series, 350 000 shares .. 35 000			
Total	<u>\$205 000</u>		<u>205 000</u>	11
Redeemable (Note 3)				
\$10.36 series, 1979, 225,000 shares; 1978, 250,000 shares	<u>1979</u> <u>1978</u>			
Less current sinking fund	<u>\$22 500</u> <u>\$25 000</u>			
Net	<u>2 500</u> <u>2 500</u>			
	<u>\$20 000</u> <u>\$22 500</u>			
Premium on Preferred Stock	729	1	22 500	1
Long-Term Debt (Note 4)				
First Mortgage Bonds Minnesota Company—Series due:				
June 1, 1982, 3¼%	\$21 500	May 1, 1998, 6¾%	45 000	
Oct. 1, 1984, 3½%	20 000	Oct. 1, 1999, 8%	45 000	
Sep. 1, 1986, 4¼%	15 000	Mar. 1, 2001, 8%	50 000	
July 1, 1988, 4%	30 000	June 1, 2001, 8¼%	50 000	
Dec. 1, 1990, 5%	35 000	Mar. 1, 2002, 7¾%	50 000	
Aug. 1, 1991, 4¾%	20 000	Feb. 1, 2003, 7½%	50 000	
June 1, 1992, 4¾%	15 000	Jan. 1, 2004, 8¾%	75 000	
Sep. 1, 1993, 4¾%	15 000	Oct. 1, 1989-2004, 7.96%	35 000*	
June 1, 1995, 6½%	30 000	May 1, 1996-2005, 7¾%	25 000*	
Mar. 1, 1996, 6.2%	8 800*	May 1, 2005, 9½%	80 000	
Aug. 1, 1996, 5¾%	45 000	Total	<u>\$790 300</u>	
Oct. 1, 1997, 6½%	30 000		790 300	790 300
First Mortgage Bonds Wisconsin Company—Series due:				
(less reacquired bonds of \$1,009,000 and \$978,000 at December 31, 1979 and 1978, respectively)				
Annual Sinking Fund Requirement	1979	1978		
June 1, 1987, 4¾%	\$100	\$ 7 767	\$ 7 900	
Aug. 1, 1994, 4½%	150	12 708	12 897	
Dec. 1, 1999, 9¼%	100	8 871	9 038	
Oct. 1, 2003, 7¾%	300	28 045	28 331	
Total	<u>\$650</u>	<u>\$57 391</u>	<u>\$58 166</u>	
		57 391	58 166	
Guaranty Agreements Minnesota Company—Series due:*				
Feb. 1, 1989-2003, 5.39%	\$ 7 600	\$ 7 600		
May 1, 1987-2003, 5.65%	28 750	28 750		
Feb. 1, 2003, 7.40%	3 500	3 500		
Total	<u>\$39 850</u>	<u>\$39 850</u>	39 850	39 850
Miscellaneous Long-Term Debt	3 084	3 781		
Unamortized Premium and Discount on Long-Term Debt	880	956		
Total long-term debt	891 505	46	893 053	47
Total Capitalization	\$1 949 389	100%	\$1 900 182	100%

*Pollution control financing at average interest rates (Note 1).

See Notes to Financial Statements on pages 28 to 32

Notes to Financial Statements

Northern States Power Company, Minnesota and Subsidiaries

1. Summary of Accounting Policies

System of Accounts—The accounting records of the Company and the Wisconsin Company are maintained in accordance with either the uniform systems of accounts prescribed by the Federal Energy Regulatory Commission (FERC) or those prescribed by the state commissions, which systems are the same in all material respects.

Principles of Consolidation—All significant subsidiary companies have been included in the financial statements.

Utility Plant and Retirements—Utility plant is stated at original cost. The cost of additions to utility plant includes contracted work, direct labor and materials, allocable overheads and allowance for funds used during construction. The cost (actual or estimated) of units of property retired, sold, or otherwise disposed of, plus removal costs less salvage, is charged to the accumulated provision for depreciation and amortization. The accumulated provision for depreciation is adjusted for the applicable portion of such accumulated provision at the time of sales of operating units or systems. Maintenance and repair costs and replacement and renewal of items determined to be less than units of property are charged to operating expenses.

Allowance for Funds Used During Construction (AFC)

—AFC is included in construction work in progress and credited to income using composite rates which assumes that funds used for construction were provided by borrowings, preferred stock, and common equity. The portion applicable to borrowed funds is credited to interest charges and that applicable to equity (other) funds is credited to other income. This accounting practice results in the inclusion in construction work in progress of AFC which will ultimately be included in the rate base in establishing rates for utility service. The composite AFC rate for the Company for 1979 and 1978 was 7.5% and 7.2% respectively. The AFC rate approximates a net of tax rate which because of rate treatment in Minnesota yields the same result as would be obtained if a gross rate were used and the tax effect recorded as a deferred item. The determination of this rate is pursuant to an order of the Minnesota Public Service Commission in rate proceedings. The composite AFC rate for the Wisconsin Company was 7%.

Pollution Control Facilities—Certain pollution control facilities are leased or purchased from various municipalities which have issued pollution control revenue bonds to finance these facilities. The cost of the facilities and the related debt have been recorded in utility plant and long-term debt, respectively.

Depreciation—For financial reporting purposes, depreciation is computed on the straight-line method based on estimated useful lives of the various classes of property. Such provisions as a percentage of the average balance of depreciable property in service were 3.44% in 1979 and 3.41% in 1978. The depreciation expense for nuclear generating plants includes a provision for decommissioning costs. Decommissioning costs are estimated to be 10% of installed cost of nuclear plant.

Nuclear Fuel Amortization—Nuclear fuel amortization for fuel loaded prior to December 1, 1977, includes an estimated charge for cost of future reprocessing of spent fuel with a credit for value of residual uranium in spent fuel. The estimated reprocessing costs are greater than the estimated value of residual uranium. Commencing with fuel reloads after December 1, 1977, the amortization includes only an estimated charge for future storage and disposal of spent fuel. These estimated disposal costs are subject to continuing review and along with the original cost of the nuclear fuel are amortized to fuel expense based on energy expended.

Income Taxes—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. As a result, income taxes are now deferred for substantially all differences between book and tax basis. However, income tax expense is still currently affected by the reversal of amounts accounted for on the flow-through method in prior years.

Investment Tax Credit—The investment tax credits are deferred and amortized to income over the estimated lives of the related property. Additional investment credits of 1½% related to the Employee Stock Ownership Plan do not affect net income as the reduction in Federal income taxes charged to operations is offset by a charge to deferred investment tax credit adjustment; such amounts are included in accounts payable until the common stock is issued.

Revenues—Customers' meters are read and bills rendered on a cycle basis. Revenues of the Company are recorded in the accounting period during which the meters are read. The Wisconsin Company, pursuant to an order of the Public Service Commission of Wisconsin, accrues estimated unbilled revenues for services provided from the monthly meter reading date to month-end.

2. Common Stock

	Number of Shares		Par Value		Premium	
	1979	1978	1979	1978	1979	1978
	(Thousands of dollars)					
Balance at beginning of year	29 970 108	29 532 773	\$149 851	\$147 664	\$324 417	\$315 691
Dividend Reinvestment and Stock Purchase Plan	564 169	335 091	2 821	1 676	9 891	6 510
Employee Stock Ownership Plan	106 540	102 244	532	511	2 122	2 216
Balance at end of year	30 640 817	29 970 108	\$153 204	\$149 851	\$336 430	\$324 417

The Company's Articles of Incorporation provide for certain restrictions on the payment of cash dividends on common stock.

Retained earnings were not restricted as to payment of cash dividends on common stock.

3. Cumulative Preferred Stock

All Issues—The preferred stock may be called at the option of the Company at prices per share at December 31, 1979, ranging from \$102.00 to \$115.00 plus accrued dividends.

Redeemable Issue—The \$10.36 series is subject to a mandatory sinking fund requirement for the retirement of a minimum of 12,500 shares and a maximum of 25,000 shares at \$101.10 per share, the original purchase price. In 1979 the Company retired 25,000 shares and plans to retire another 25,000 shares in 1980.

4. Long-Term Debt

The annual sinking fund requirements of the Company are the amounts necessary to redeem 1% of the highest principal amount of each series of first mortgage bonds (other than pollution control financing) at any time outstanding. Property additions (166⅔% of principal amounts of bonds otherwise required to be so redeemed) have been applied in lieu of cash.

All utility property, except for nuclear fuel and other minor exclusions, is subject to the lien of the indentures of the Company and the Wisconsin Company relating to their first mortgage bonds.

5. Income Tax Expense

The total income tax expense differs from the amount computed by applying the Federal income tax statutory rate (46% for 1979 and 48% for 1978) to net income before income tax expense. The reasons for the difference are as follows:

	1979	1978
	(Thousands of dollars)	
Tax computed at statutory rate	\$106 637	\$118 460
Increases (decreases) in tax from:		
State income taxes, net of Federal income tax benefit	12 823	14 161
Allowance for funds used during construction	(5 877)	(4 463)
Investment tax credit on plant additions	(25 725)	(13 426)
Investment tax credit adjustments—net	22 152	10 410
Reduced tax depreciation resulting from use of the flow-through method	6 070	7 750
Other—net	(4 938)	(1 321)
Total income tax expense	\$111 142	\$131 571
Effective income tax rate	47.9%	53.3%

	Federal		State		Total	
	1979	1978	1979	1978	1979	1978
	(Thousands of dollars)					
Income tax expense is comprised of the following:						
Charged to operations:						
Current tax expense	\$ 13 471	\$ 61 886	\$ 12 480	\$ 18 755	\$ 25 951	\$ 80 641
Deferred tax expense	50 375	29 974	10 884	7 856	61 259	37 830
Investment tax credit adjustments—net	22 152	10 410			22 152	10 410
Total	85 998	102 270	23 364	26 611	109 362	128 881
Deferred tax expense included in depreciation expense ..	2 174	1 825	373	330	2 547	2 155
Charged to income deductions:						
Current tax expense	(747)	995	10	291	(737)	1 286
Deferred tax expense	(30)	(751)			(30)	(751)
Total income tax expense	\$ 87 395	\$104 339	\$ 23 747	\$ 27 232	\$111 142	\$131 571

Deferred income tax expense is comprised of the following:

Tyrone abandonment	\$ 31 250	
Excess of tax over book depreciation—net	23 296	\$ 25 058
ADR repair allowance	5 807	9 396
Overhead costs	4 611	4 471
Other	(1 188)	309
Total	\$ 63 776	\$ 39 234

6. Short-Term Borrowings and Compensating Balances

The Company and subsidiaries had bank lines of credit aggregating \$83,400,000 at December 31, 1979. The Company has compensating balance arrangements in support of such lines of credit and substantially all cash shown on the balance sheet is considered compensating balances. These credit lines make short-term financing available by providing bank loans and back-up for commercial paper.

Following is a summary of information regarding short-term borrowings for 1979 (None for 1978):

	Commercial Paper
	(Thousands of dollars)
Year end balance	\$20 999
Average effective interest rate at end of year	13.6%
Highest month end balance	\$20 999
Average daily balance outstanding	\$ 4 600
Weighted average effective interest rate (computed on a daily basis)	12.3%

7. Tyrone Nuclear Plant Abandonment

The Wisconsin Company is a participant in a jointly owned project for the construction of a 1,100 megawatt nuclear generating plant called the Tyrone Energy Park, in which it has a 67.6% undivided interest and three other entities have the remaining 32.4%. On March 6, 1979, the Public Service Commission of Wisconsin (PSCW) issued an order denying the application for authority to construct such proposed plant. On July 24, 1979, the co-owners reached an agreement to terminate the project.

The Wisconsin Company spent approximately \$40,000,000 prior to termination for its 67.6% share of the project and estimates it will incur \$40,000,000 for cancellation costs net of recoverable costs, for a total of \$80,000,000. The actual amount of cancellation costs ultimately to be incurred and recoverable costs to be realized will depend upon the result of negotiations with vendors and others. The total cost has been recorded as a deferred extraordinary property loss and is being amortized over a sixty-month period which started with March 1979. Deferred taxes have been recorded to reflect the timing difference between the tax write-off and the book amortization. The Company and the Wisconsin Company have filed an application with the FERC to provide for the sharing of the loss between the two Companies over the sixty-month period under terms of an existing Coordinating Agreement. FERC has allowed payments to be made by the Company to the Wisconsin Company in accordance with such application subject to refund.

When revenues under the present rates become inadequate to cover the amortization of costs, the Company and the Wisconsin Company will seek to recover such costs through rate increases in various jurisdictions. To the extent that amortization were to be denied by the various regulatory jurisdictions in rate proceedings, the remaining appropriate unamortized costs would be written-off at the time the determination is made. The unamortized costs, net of deferred income taxes, at December 31, 1979 was \$35,417,000. The Company's management has assessed the potential impact of the termination of the Tyrone Energy Park project and has concluded that the effect of a write-off, if any, would not be material to the financial position of the Company.

8. Commitments and Contingent Liabilities

The Company and subsidiaries had commitments (exclusive of those related to the Tyrone Energy Park, see Note 7) at December 31, 1979, in connection with construction programs aggregating about \$499,000,000 including \$418,000,000 relating to nuclear fuel purchases.

The Company has contracts for the purchase of coal, natural gas, and oil, and also has a contract for delivery of BTU's of energy for the operation of its Monticello nuclear power plant. The nuclear fuel lease payments are charged to operating expense (fuel expense) based on the BTU's of energy expended.

Rentals (including nuclear fuel of \$11,856,000 and \$10,078,000) were approximately \$18,400,000 and \$15,800,000 for 1979 and 1978, respectively.

Minimum lease commitments as of December 31, 1979, under all noncancelable leases (principally lease of nuclear fuel) are about: 1980, \$11,800,000; 1981, \$12,300,000; 1982, \$13,300,000; 1983, \$23,400,000; 1984, \$300,000; and 1985-

1989, \$300,000. The minimum lease commitments for nuclear fuel are based on the estimated usage through 1983, a final payment of \$20,000,000 in 1983, and the escalation of the contract price using the latest wholesale commodities price index.

The Price-Anderson liability provisions of the Atomic Energy Act of 1954 provides for a limit of \$560 million on each nuclear generating unit in the United States for public liability claims that could arise from a nuclear incident. In the event of any such incident, all owners of nuclear generating units licensed to operate would be required to contribute toward satisfaction of such claims. The owners insure against this exposure by purchasing the maximum available private insurance of \$160 million, and the remainder is provided by indemnity agreements with the Nuclear Regulatory Commission. In the event of such an incident, the Company, to the extent of its ownership participation, could be assessed up to \$5 million for each licensed reactor owned, with a maximum assessment of \$10 million per reactor in a year. The Company presently owns three reactors.

9. Pension Plans

The noncontributory funded pension plans cover substantially all employees. Pension costs are determined under the aggregate cost method using market value of assets of the trust fund. Contributions, equal to the pension costs accrued, made to the trust fund were \$18,070,500 for 1979 and \$16,308,000 for 1978. The actuarially computed value of vested benefits as of December 31, 1979, exceed the total of the pension fund by about \$3,400,000.

10. Segment Information

See page 21 for business segment information.

11. Summarized Quarterly Financial Data (Not Certified)

	Quarter Ended			
	March 31, 1979	June 30, 1979	September 30, 1979	December 31, 1979
	(Thousands of dollars)			
Operating revenues	\$297 120	\$239 635	\$246 127	\$265 293
Operating income	55 323	37 214	42 869	36 183
Net income	43 448	25 018	30 692	21 519
Earnings available for common stock	39 814	21 384	27 123	17 950
Earnings per share	1.33	.71	.89	.59
	Quarter Ended			
	March 31, 1978	June 30, 1978	September 30, 1978	December 31, 1978
	(Thousands of dollars)			
Operating revenues	\$289 186	\$215 781	\$243 836	\$230 448
Operating income	53 272	35 007	47 704	35 975
Net income	39 518	20 403	33 909	21 390
Earnings available for common stock	35 884	16 769	30 275	17 756
Earnings per share	1.21	.57	1.02	.59

12. Financial Reporting of Changing Prices (Not Certified)

The following information is supplied in accordance with the requirements of Financial Accounting Standards Board (FASB) Statement No. 33, Financial Reporting and Changing Prices, for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

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

The current cost of all depreciable property represents the estimated cost of replacing existing depreciable plant assets and was determined by indexing the original cost of plant by the Handy-Whitman Index of Public Utility Construction Costs. The unrecovered portion of the original cost of the capitalized nuclear fuel is restated in terms of constant dollar and current cost by applying the CPI-U. Spent nuclear fuel is not reflected in either of the supplementary calculations.

The net assets at year end were determined by reducing the respective replacement costs by the corresponding theoretical accumulated provision for depreciation. This provision for depreciation was calculated by applying statistical reserve ratios by FERC account to the respective vintaged replacement costs.

The current year's provision for depreciation for each method was determined by applying depreciation rates by FERC account to the year's average indexed plant amounts.

Fuel inventories, the cost of fuel used in generation, and gas purchased for resale have not been restated from their historical cost in nominal dollars. Regulation limits the recovery of fuel and purchased gas costs through the operation of adjustment clauses of adjustments in basic rate schedules to actual costs. For this reason fuel inventories are effectively monetary assets. As prescribed by FASB Statement No. 33, income taxes are not adjusted.

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

To properly reflect the economics of rate regulation in the Statement of Income from Continuing Operations, the reduction of net property is offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline of 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. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and preferred stock and is limited to recovery of only the embedded cost.

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

(Thousands of Dollars)

	Conventional Historical Cost	Constant Dollar Average 1979 Dollars	Current Cost Average 1979 Dollars
Operating revenues	\$1 048 176	\$1 048 176	\$1 048 176
Electric fuel and purchased power	201 068	201 068	201 068
Gas purchased for resale expense	142 606	142 606	142 606
Depreciation	93 828	163 451	190 742
Amortization	13 333	13 333	13 333
Other operating and maintenance expense	316 389	316 389	316 389
Income tax expense	109 362	109 362	109 362
Interest expense	62 599	62 599	62 599
Other income and deductions—net	(11 687)	(11 687)	(11 687)
	<u>927 498</u>	<u>997 121</u>	<u>1 024 412</u>
Income from continuing operations (excluding reduction to net recoverable cost)	<u>\$ 120 678</u>	<u>\$ 51 055*</u>	<u>\$ 23 764</u>
Increase in specific prices (current cost) of property held during the year**			\$ 401 318
Reduction to net recoverable cost		\$ (216 050)	(105 632)
Effect of increase in general price level			(484 445)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost			(188 759)
Gain from decline in purchasing power of net amounts owed		184 943	184 943
Net		<u>\$ (31 107)</u>	<u>\$ (3 816)</u>

*Including the reduction to net recoverable cost, the income (loss) from continuing operations on a constant dollar basis would have been (\$164,995) for 1979.

**At December 31, 1979, current cost of property, net of accumulated depreciation was \$4,061,168, while historical cost or net cost recoverable through depreciation was \$2,311,775.

12. Financial Reporting of Changing Prices (Not Certified) (Continued)

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

(In Thousands of Mid-Year 1979 Dollars)

	Years Ended December 31,				
	1975	1976	1977	1978	1979
Operating revenues	\$911 731	\$977 397	\$1 048 997	\$1 086 969	\$1 048 176
Historical cost information adjusted for general inflation					
Income from continuing operations (excluding reduction to net recoverable cost)					\$ 51 055
Income per common share (after dividend requirements on preferred stock and excluding reduction to net recoverable cost) ...					\$1.21
Net assets at year-end at net recoverable cost					\$ 996 684
Current cost information					
Income from continuing operations (excluding reduction to net recoverable cost)					\$ 23 764
Income per common share (after dividend requirements on preferred stock)					\$.31
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost					\$ 188 759
Net assets at year-end at net recoverable cost					\$ 996 684
General information					
Gain from decline in purchasing power of net amounts owed					\$ 184 943
Cash dividends declared per common share	\$2.51	\$2.46	\$2.42	\$2.37	\$2.25
Market price per common share at year-end	\$35.61	\$37.47	\$33.62	\$26.09	\$22.38
Mid-Year consumer price index	160.6	170.1	181.8	195.3	216.6

Report of Management to Shareholders

Management is responsible for the financial statements and representations in the annual report. Management believes the financial statements have been prepared in conformance with generally accepted accounting principles. In preparing such statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported.

Management depends on the Company's internal accounting control system to assure reliability in financial reporting. This system is designed to reasonably assure the assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly for the preparation of financial statements in accordance with generally accepted accounting principles. Management believes the Company's accounting controls provide reasonable assurance that potentially material errors or irregularities would be prevented or would be detected within a timely period by employees in the normal course of their duties.

The Audit Committee of the Board of Directors, composed solely of directors who are not officers or employees, meets regularly with management, internal auditors and the Company's independent certified public accountants to discuss their evaluation of internal accounting controls and financial reporting. Internal and independent auditors have free access to the Audit Committee, without management's presence, to discuss the results of their audits. The Audit Committee recommends for shareholder ratification the selection of the independent auditors to perform an audit in accordance with generally accepted auditing standards and express an opinion on NSP's financial statements.

Accountants' Opinion

To the Shareholders of Northern States Power Company:

We have examined the balance sheets and statements of capitalization of Northern States Power Company (Minnesota) and its subsidiaries as of December 31, 1979 and 1978, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated February 16, 1979, our opinion on the 1978 financial statements was qualified as being subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the order of the Public Service Commission of Wisconsin as discussed in Note 7 denying the application for a certificate of need for the proposed Tyrone Energy Park Nuclear Plant been known. Management has assessed the effects of any adjustments that would be required in the event of any adverse resolution of the matter and have concluded that such effects would not be material to the financial position of the Company. Accordingly, our present opinion on the 1978 financial statements, as expressed herein, is different from that expressed in our previous report.

In our opinion, such financial statements present fairly the financial position of the Companies at December 31, 1979 and 1978, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

DELOITTE HASKINS & SELLS

Minneapolis, Minnesota
February 15, 1980

Directors & Officers

Directors of the Minnesota Company

David A. Christensen (44)
President and Chief Executive Officer
Raven Industries, Inc.
(Manufacturers of reinforced plastics,
sportswear and electronic equipment)
Sioux Falls, South Dakota

W. John Driscoll (50)†
President
Green Valley Holding Company
(Private investment firm)
St. Paul, Minnesota

N. Bud Grossman (58)†
Board Chairman and President
Gelco Corporation
(International transportation
management firm)
Eden Prairie, Minnesota

Dale L. Haakenstad (51)‡
President
Western States Life Insurance Company
(Life insurance company)
Fargo, North Dakota

Robert E. Haugan (62)‡
President, The Webb Company
(Printing and publishing)
St. Paul, Minnesota

Richard H. Magnuson (54)
Vice President and General Counsel,
Land O'Lakes, Inc.
(Food processing and marketing
cooperative)
Minneapolis, Minnesota

Donald W. McCarthy (57)
Chairman of the Board, President
and Chief Executive Officer
of the Company
Minneapolis, Minnesota

M. D. McVay (61)
President, Cargill, Incorporated
(International merchant, food, milling
and shipping enterprise)
Minneapolis, Minnesota

William G. Phillips (59)
Chairman and Chief Executive Officer,
International Multifoods
(International milling, food processing,
agricultural commodities and
restaurant enterprise)
Minneapolis, Minnesota

G. M. Pieschel (52)
President and Chairman
Farmers & Merchants State Bank
and Springfield Investment Co.
(A one-bank holding company)
Springfield, Minnesota

D. B. (Rhiny) Reinhart (59)‡
President, Gateway Foods, Inc.
(Wholesale food distributor)
La Crosse, Wisconsin

Henry T. Rutledge (67)‡
Retired Chairman and Chief Executive
Officer, Northwest Bancorporation
(A registered bank holding company)
Minneapolis, Minnesota

Dorothy J. Skwieria (43)
Vice Chairman
Minnesota Corrections Board
(State parole board)
St. Paul, Minnesota

Chairman Emeritus
Robert H. Engels (69)
Retired Chairman of the Board of
the Company
Minneapolis, Minnesota

Officers of the Minnesota Company

D. W. (Jack) Angland (57)
Executive Vice President
Wiley I. Beavers (56)
Vice President-Personnel
Arland D. Brusven (47)
Secretary and Financial Counsel
Roland W. Comstock (49)
Vice President-Communications
J. O. (Jim) Cox (52)¹
Vice President-Financial Operations

Lewis J. Crain (55)
Vice President
Arthur V. Dienhart (59)
Vice President-Plant Engineering
and Construction
Ralph O. Duncanson (54)
Vice President-Division Operations
Clayton K. Larson (61)
Executive Vice President-Finance
Donald W. McCarthy (57)
Chairman of the Board, President
and Chief Executive Officer

M. D. (Bud) Olson (60)
Vice President-Commercial Operations
Gerald S. Pettersen (48)
Controller
Robert E. Pile (57)²
Vice President
Arthur Renquist (59)
Vice President-Law
Bruce A. Richard (50)
Senior Vice President-Corporate Affairs
Harry W. Spell (56)³
Vice President-Assistant to the President

Edwin M. Theisen (49)⁴
Vice President and Treasurer
Leo J. Wachter (60)⁵
Vice President-Power Production
and System Operation
Harriet B. Rogge⁶
Assistant Secretary
Roy H. Berglund
Assistant Treasurer

Directors of the Wisconsin Company A wholly-owned subsidiary of Northern States Power Company (Minnesota)

John L. Carroll (63)⁷
President and Chief Executive Officer
Northern States Power Company
(Wisconsin)
Eau Claire, Wisconsin
Chauncey J. Cooke (60)†
Farmer
Eau Claire, Wisconsin

F. Jerry Kripps (57)
Executive Vice President-Operations
Northern States Power Company
(Wisconsin)
Eau Claire, Wisconsin
Clayton K. Larson (61)
Executive Vice President-Finance
Northern States Power Company
(Minnesota)
Minneapolis, Minnesota

Ray A. Larson, Jr. (50)†
President
Wisconsin Sand and Gravel Company
Eau Claire, Wisconsin
Donald W. McCarthy (57)
Chairman of the Board, President
and Chief Executive Officer
Northern States Power Company
(Minnesota)
Minneapolis, Minnesota

D. B. (Rhiny) Reinhart (59)†
President, Gateway Foods, Inc.
La Crosse, Wisconsin
Richard L. Roehrich (55)
Vice President-Personnel
Northern States Power Company
(Wisconsin)
Eau Claire, Wisconsin

Officers of the Wisconsin Company

John L. Carroll (63)⁷
President and Chief Executive Officer
George A. Des Rosier (60)
Vice President-Division Operations

Arthur V. Dienhart (59)
Vice President-Plant Engineering
and Construction
Donald P. Jolstad (50)
Secretary and Assistant Treasurer

John L. Koplin (46)
Treasurer
F. Jerry Kripps (57)
Executive Vice President-Operations

Richard L. Roehrich (55)
Vice President-Personnel
Glenn B. Thorsen (45)
Vice President-Finance
Irene Shiffer
Assistant Secretary

† Member of the Audit Committee of the Minnesota Board

† Member of the Audit Committee of the Wisconsin Board

¹ Vice President and Treasurer, 1/1/80

² Vice President-Gas Planning and Supply, 1/1/80

³ Vice President-Corporate Services, 1/1/80

⁴ President, Wisconsin Company, 1/1/80

⁵ Vice President-Power System Operation and Maintenance, 1/1/80

⁶ Assistant to the President, 1/1/80

⁷ Chairman of the Board and Chief Executive Officer, Wisconsin Company, 1/1/80

() Denotes age

STATEMENT OF INCOME

	1979	1978	1977	1976	1975	1974	1969
	(Millions of dollars)						
Operating Revenues							
Electric	\$ 832.7	\$809.7	\$732.3	\$643.8	\$566.0	\$456.3	\$267.4
Gas	205.6	160.5	141.8	118.9	103.4	83.6	52.5
Telephone and heating	9.9	9.1	7.4	6.9	6.0	4.9	3.7
Total	1 048.2	979.3	881.5	769.6	675.4	544.8	323.6
Operating Expenses							
Fuel for electric generation	179.0	168.7	155.5	127.8	98.2	79.0	37.0
Purchased and interchange power	22.1	16.3	10.6	21.0	29.6	42.5	12.6
Gas purchased for resale	142.6	109.0	94.5	74.9	60.6	43.0	27.0
Administrative and general	59.4	59.0	48.0	36.7	34.7	27.4	20.6
Other operation	95.6	86.6	83.9	74.2	62.3	54.3	41.3
Maintenance	73.8	65.0	62.7	54.5	43.3	31.0	19.9
Depreciation and amortization	107.2	89.2	85.5	78.4	69.5	61.7	30.8
Property and general taxes	87.5	84.7	80.7	70.2	73.6	63.7	42.8
Income taxes	25.9	80.6	49.7	17.0	36.8	(1.1)	24.4
Deferred income taxes—net	61.3	37.8	31.8	48.6	27.8	30.5	5.5
Investment tax credit adjustments—net	22.2	10.4	23.0	20.7	6.6	6.7	(.2)
Total	876.6	807.3	725.9	624.0	543.0	438.7	261.7
Operating Income	171.6	172.0	155.6	145.6	132.4	106.1	61.9
Other Income							
Allowance for funds used during construction							
Debt and equity				18.4	23.1	24.9	7.7
Equity	9.9	7.2	5.3				
Miscellaneous	3.3	7.2	3.8	2.1	2.2	2.3	.5
Total	13.2	14.4	9.1	20.5	25.3	27.2	8.2
Total Income	184.8	186.4	164.7	166.1	157.7	133.3	70.1
Income Deductions, Non-operating Taxes	1.5	6.6	1.7	1.5	1.1	2.3	.2
Income Before Interest Charges	183.3	179.8	163.0	164.6	156.6	131.0	69.9
Interest Charges							
Interest on long-term debt	61.7	62.3	62.6	62.8	59.9	53.5	22.2
Other interest and amortization	3.7	4.4	3.5	4.2	5.6	8.6	2.3
Allowance for funds used during construction—debt	(2.8)	(2.1)	(1.7)				
Total	62.6	64.6	64.4	67.0	65.5	62.1	24.5
Net Income	120.7	115.2	98.6	97.6	91.1	68.9	45.4
Preferred Stock Dividends	14.4	14.5	14.5	14.5	14.5	13.1	7.0
Earnings Available for Common Stock	\$ 106.3	\$100.7	\$ 84.1	\$ 83.1	\$ 76.6	\$ 55.8	\$ 38.4
Earnings Per Share on Average Shares	\$3.51	\$3.39	\$2.86	\$2.93	\$2.95	\$2.40	\$2.24

ELECTRIC	1979	1978	1977	1976	1975	1974	1969
Revenues (thousands)							
Residential	\$ 284 174	\$ 270 835	\$ 246 681	\$233 050	\$211 133	\$174 509	\$112 720
Small commercial and industrial	131 872	122 992	112 435	109 110	102 408	87 954	53 268
Large commercial and industrial	289 203	266 804	234 480	214 121	193 660	151 691	81 773
Street lighting and other	20 061	19 193	18 944	19 165	16 549	13 966	9 348
Total retail	725 310	679 824	612 540	575 446	523 750	428 120	257 109
Sales for resale	102 377	125 592	118 018	61 444	38 472	24 655	7 148
Miscellaneous	4 976	4 252	1 702	6 894	3 707	3 503	3 095
Total	\$ 832 663	\$ 809 668	\$ 732 260	\$643 784	\$565 929	\$456 278	\$267 352
Customer Accounts (at December 31)							
Residential	949 499	924 973	901 770	889 894	872 674	859 342	772 890
Small commercial and industrial	103 831	102 049	99 556	89 157	87 758	86 980	82 166
Large commercial and industrial	5 107	4 861	4 634	4 346	4 251	4 105	3 808
Street lighting and other	6 641	6 504	6 262	6 870	6 685	6 479	5 372
Total retail	1 065 078	1 038 387	1 012 222	990 267	971 368	956 906	864 236
Sales for resale	76	84	83	73	72	71	59
Total	1 065 154	1 038 471	1 012 305	990 340	971 440	956 977	864 295
Residential Service							
Annual kwh per customer ...	7 363	7 331	7 183	7 288	7 179	6 844	6 179
Annual revenue per customer .	\$ 303.34	\$ 296.64	\$ 275.92	\$ 264.70	\$ 244.13	\$ 205.08	\$ 147.63
Kilowatt-hour Output (millions)							
Thermal	24 381	25 866	26 428	21 598	18 627	15 572	11 348
Hydro	924	945	771	569	794	768	783
Purchased and interchange ..	1 856	1 499	828	1 723	2 466	3 640	2 705
Total	27 161	28 310	28 027	23 890	21 887	19 980	14 836
Capability at Time of Maximum Demand (megawatts)							
Company owned	6 108	6 257	6 209	5 657	5 063	4 272	2 833
Purchase and sales—net	(264)	(306)	(644)	(241)	13	280	411
Total	5 844	5 951	5 565	5 416	5 076	4 552	3 244
Maximum Demand (megawatts)	4 247	4 625	4 503	4 317	4 206	3 954	2 873
Date of Maximum Demand ..	Aug. 7	Sept. 7	July 19	Aug. 19	July 31	July 8	Aug. 29
GAS							
Revenues (thousands)							
Residential							
With space heating	\$ 100 810	\$ 80 394	\$ 68 756	\$ 58 654	\$ 51 451	\$ 42 599	\$ 28 968
Without space heating	3 434	2 993	2 890	2 565	2 447	2 306	2 123
Commercial and industrial ...	98 224	74 437	67 654	56 127	49 120	38 386	21 242
Miscellaneous	3 155	2 657	2 566	1 518	394	292	183
Total	\$ 205 623	\$ 160 481	\$ 141 866	\$118 864	\$103 412	\$ 83 583	\$ 52 516
Customer Accounts (at December 31)							
Residential							
With space heating	206 195	198 977	193 581	188 631	183 445	176 649	148 783
Without space heating	33 488	35 124	36 356	37 712	38 460	39 662	46 393
Commercial and industrial ...	22 762	22 222	21 848	21 460	21 019	20 502	17 558
Total	262 445	256 323	251 785	247 803	242 924	236 813	212 734

Common Stock Data

Year	Shareholders End of Year	Average Shares Outstanding (Thousands)	Earnings Per Average Share		Dividends Declared		Market Prices			Book Value Year End
			Amount	Percent Increase	Amount	Percent Increase	High	Low	Close	
1974	103 454	23 233	\$2.40	(8.0)%	\$1.836		26 ³ / ₈	15 ¹ / ₄	16	\$21.84
1975	101 839	25 964	2.95	22.9	1.862	1.4%	27 ¹ / ₄	15 ⁷ / ₈	26 ³ / ₈	22.89
1976	102 333	28 319	2.93	(.7)	1.94	4.2	30 ¹ / ₄	23 ¹ / ₂	29 ¹ / ₂	23.87
1977	100 253	29 389	2.86	(2.4)	2.03	4.6	30 ¹ / ₂	26 ¹ / ₂	28 ¹ / ₄	24.74
1978	101 389	29 712	3.39	18.5	2.135	5.2	28 ¹ / ₄	23 ¹ / ₄	23 ¹ / ₂	25.99
1979	100 857	30 270	3.51	3.5	2.25	5.4	25 ⁷ / ₈	21 ³ / ₈	22 ³ / ₈	27.16

High and Low Sales Prices Based on NYSE Composite Transactions

	Calendar Quarter—1978								Calendar Quarter—1979							
	1		2		3		4		1		2		3		4	
	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
Dividends Declared	28 ¹ / ₄	24 ⁵ / ₈	26 ⁷ / ₈	23 ³ / ₈	27 ³ / ₈	24 ⁵ / ₈	25 ⁵ / ₈	23 ¹ / ₄	25 ⁷ / ₈	23 ³ / ₈	24 ⁷ / ₈	21 ³ / ₈	25 ¹ / ₄	23 ³ / ₄	24	21 ³ / ₈
	\$.51 ¹ / ₂		\$.54		\$.54		\$.54		\$.54		\$.57		\$.57		\$.57	

Distribution of Common Stock—December 31, 1979

By Size of Holdings

Number of Shares Held	Shareholders		Shares	
	Number	Percent of Total	Number	Percent of Total
1 to 25	20 353	20.2	249 580	.8
26 to 50	12 989	12.9	507 141	1.7
51 to 100	22 069	21.9	1 845 230	6.0
101 to 200	22 620	22.4	3 406 544	11.1
201 to 500	16 675	16.5	5 353 160	17.5
501 to 1 000	4 288	4.3	3 032 289	9.9
1 001 to 2 000	1 222	1.2	1 665 082	5.4
2 001 and over	641	.6	14 581 791	47.6
Total	100 857	100.0	30 640 817	100.0

Geographical

States	Shareholders		Shares	
	Number	Percent	Number	Percent
Minnesota	39 777	39.4	9 012 246	29.4
North Dakota	2 163	2.2	408 302	1.3
South Dakota	1 576	1.6	297 491	1.0
Wisconsin	10 930	10.8	1 823 006	6.0
Total	54 446	54.0	11 541 045	37.7
California	6 546	6.5	2 002 918	6.5
Illinois	5 011	5.0	2 148 333	7.0
Florida	4 149	4.1	940 256	3.1
New York	3 757	3.7	6 491 629	21.2
Michigan	2 845	2.8	583 986	1.9
Balance of				
United States	23 865	23.7	6 872 457	22.4
Foreign	238	.2	60 193	.2
Total	100 857	100.0	30 640 817	100.0

Shareholders' Calendar

Schedule of Dividend Payment Dates

Common Stock	Preferred Stock
April 20, 1980	April 15, 1980
July 20, 1980	July 15, 1980
October 20, 1980	October 15, 1980
January 20, 1981	January 15, 1981

NSP's Dividend Reinvestment and Stock Purchase Plan

NSP has recently modified its Dividend Reinvestment and Stock Purchase Plan. These changes will affect participants who are reinvesting common and preferred stock dividends as well as those making optional cash payments to purchase additional shares of NSP common stock. (See pages 2 and 18.)

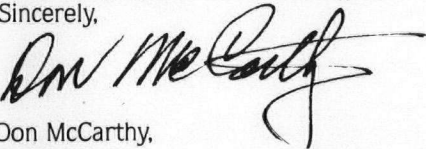
Investments in the plan will purchase shares of NSP common stock on the open market rather than new shares issued by the company. Shares will be purchased at an average market price. There will be no five percent discount on shares of NSP common stock purchased with reinvested dividends or optional cash payments.

Common and preferred stock dividends will still be reinvested automatically. Dividends will be reinvested quarterly, while optional cash payments will be invested monthly. NSP will continue to pay all expenses and brokerage commissions. All brokerage commissions paid by NSP must be treated as taxable dividend income and will be reported accordingly. NSP will send a statement after each purchase detailing each participant's ownership in the plan.

You may join at any time by completing an authorization form and returning it to NSP. Authorization forms may be obtained by writing: Shareholder Relations, NSP, 414 Nicollet Mall, Minneapolis, MN 55401. You may also call NSP's Shareholder Relations Department toll-free at 800-328-8226 from outside Minnesota; 800-292-4149 from within Minnesota; or 330-5560 from within the Minneapolis/St. Paul area. You may terminate your participation in the plan at any time by notifying NSP in writing.

NSP 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.
Sincerely,


Don McCarthy,
President

1) Please mark which of the following describes you.
(Check more than one if applicable)

<input type="checkbox"/> individual shareholder	<input type="checkbox"/> media person
<input type="checkbox"/> institutional shareholder	<input type="checkbox"/> NSP employee
<input type="checkbox"/> security analyst	<input type="checkbox"/> NSP retiree
<input type="checkbox"/> stockbroker	<input type="checkbox"/> NSP customer
<input type="checkbox"/> financial advisor	

2) How many years have you been an NSP shareholder?

<input type="checkbox"/> 0-4 years	<input type="checkbox"/> 11-15 years
<input type="checkbox"/> 5-10 years	<input type="checkbox"/> 16 years or more

3) About how many shares of NSP common stock do you own?

<input type="checkbox"/> 1-100 shares	<input type="checkbox"/> more than 500 shares
<input type="checkbox"/> 101-500 shares	

4) What is your age?

<input type="checkbox"/> 18-34	<input type="checkbox"/> 55-64
<input type="checkbox"/> 35-54	<input type="checkbox"/> 65 or over

5) How did you first become interested in purchasing NSP stock?

☐ Through a stockbroker
☐ Through investment analysts
☐ Through another NSP shareholder
☐ Through an NSP employee/retiree
☐ Through news media reporting
☐ Through employment with NSP

6) About how much of this NSP Annual Report did you read?

<input type="checkbox"/> All of it	<input type="checkbox"/> 1/4 to 1/2
<input type="checkbox"/> 3/4 or more	<input type="checkbox"/> less than 1/4
<input type="checkbox"/> 1/2 to 3/4	<input type="checkbox"/> just glanced at it

7) What is the major reason you read NSP's Annual Report?

8) Which of the following did you read in the NSP Annual Report this year?

<input type="checkbox"/> Highlights (p. 1)	<input type="checkbox"/> World of Finances
<input type="checkbox"/> Letter from the President	<input type="checkbox"/> The charts
<input type="checkbox"/> World of Electric Operations	<input type="checkbox"/> Significant Ratios
<input type="checkbox"/> World of Regulation	<input type="checkbox"/> Financial Tables and Notes

9) Which part or parts of NSP's 1979 Annual Report seemed most useful to you? Why?

10) What, if anything, was missing from the Annual Report?

11) How would you describe the NSP Annual Report's readability?

<input type="checkbox"/> Very readable	<input type="checkbox"/> Somewhat difficult
<input type="checkbox"/> Mostly readable	<input type="checkbox"/> Very difficult

12) Overall, do you think this Annual Report was very informative, somewhat informative, only slightly informative, or not at all informative?

<input type="checkbox"/> Very informative	<input type="checkbox"/> Only slightly informative
<input type="checkbox"/> Somewhat informative	<input type="checkbox"/> Not at all informative

13) Regarding NSP's quarterly Shareholder's News, do you usually read all, most, some, very little or none of the information?

<input type="checkbox"/> all	<input type="checkbox"/> very little
<input type="checkbox"/> most	<input type="checkbox"/> none
<input type="checkbox"/> some	

14) Would you like the quarterly NSP Shareholders' News to include more, less or about the same amount of information as past issues?

<input type="checkbox"/> more	<input type="checkbox"/> about the same
<input type="checkbox"/> less	

15) What specifically, if anything, would you like changed in the quarterly NSP Shareholders' News?

16) Do you have any other comments or suggestions for the Annual Report, quarterly Shareholders' News or other NSP communications to investors?

(Optional)

Name _____

Address _____

City _____ State _____ Zip _____

Northern States Power Company
414 Nicollet Mall
Minneapolis, Minnesota 55401

(Tear along this line)

NSP and its Service Area

Northern States Power Company is owned by about 107,000 shareholders and provides electric service to more than one million customers in Minnesota, North Dakota, South Dakota and Wisconsin. The company also provides natural gas to more than 260,000 customers in Minnesota, Wisconsin and North Dakota.

About 64 percent of NSP's 1979 electric revenues were derived from retail customer usage in the Minneapolis-St. Paul metropolitan area and about 64 percent of gas revenues from usage in the St. Paul area.

Electric operations accounted for 79 percent of NSP's total 1979 revenues, while gas operations contributed another 20 percent. NSP's steam heating and telephone operations accounted for one percent of 1979 revenues.

- Electric Service Areas
- Electric and Gas Service Areas
- Lake Superior District Power Company (proposed affiliated company)

- 1 Sherburne County (Sherco)
- 2 Monticello
- 3 Riverside
- 4 Black Dog
- 5 High Bridge
- 6 Allen S. King
- 7 Prairie Island

Stock Information

Information about your stock is available from Sue Blomquist, Administrator, Shareholder Relations, Northern States Power Company, 414 Nicollet Mall, Minneapolis, Minnesota 55401 or by calling toll-free at 800-328-8226. (From within the Minneapolis-St. Paul area call 330-5560. Other Minnesota residents call toll-free at 800-292-4149.) A statistical supplement to this report is also available, as is a copy of NSP's Form 10-K annual report to the Securities and Exchange Commission.

Information on NSP

More information on NSP's operations and special publications issued by the company are available by writing to: Communications Department, Northern States Power Company, 414 Nicollet Mall, Minneapolis, Minnesota 55401. Company publications cover energy conservation, alternative energy sources, coal and nuclear generation, natural gas and NSP's research efforts.

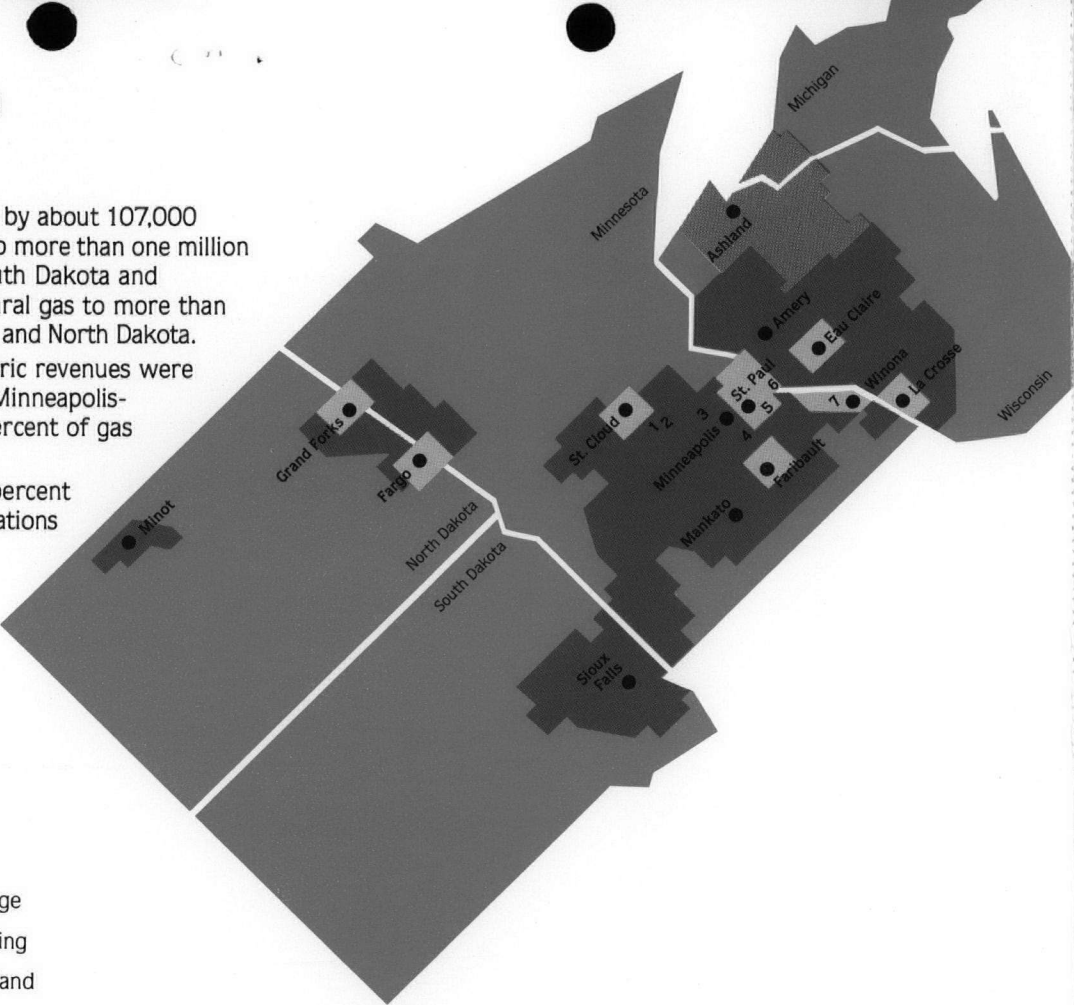
Stock Exchange Listings

Common stock is listed for trading on the New York Stock Exchange and the Midwest Stock Exchange. The ticker symbol is NSP. Preferred stock is listed for trading on the New York Stock Exchange.

Annual Meeting of Shareholders

The annual meeting of shareholders will be held at 10 a.m., Wednesday, May 28, 1980, at the Minneapolis Auditorium and Convention Hall, Lobby C, Third Avenue South and 14th Street, Minneapolis, Minnesota.

This information is not an offer to sell, nor the solicitation of an offer to buy. The offer is made only by prospectus, which is available from NSP.



Fiscal Agents

NORTHERN STATES POWER COMPANY, MINNESOTA

Registrars

Common Stock
Northwestern National Bank, Minneapolis

Preferred Stock
First National Bank of Minneapolis

Transfer Agent

Common and Preferred Stocks
Northern States Power Company, 414 Nicollet Mall, Minneapolis, Minnesota 55401

Forwarding Agent

Northwestern Trust Company, 40 Wall Street, New York, New York 10005

Trustee • Bonds

Harris Trust and Savings Bank, Chicago

Coupon Paying Agents • Bonds

Harris Trust and Savings Bank, Chicago
Irving Trust Company, New York

NORTHERN STATES POWER COMPANY, WISCONSIN

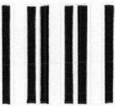
Trustee • Bonds

First Wisconsin Trust Co., Milwaukee

Coupon Paying Agents • Bonds

First Wisconsin Trust Co., Milwaukee
Harris Trust and Savings Bank, Chicago
Irving Trust Company, New York

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