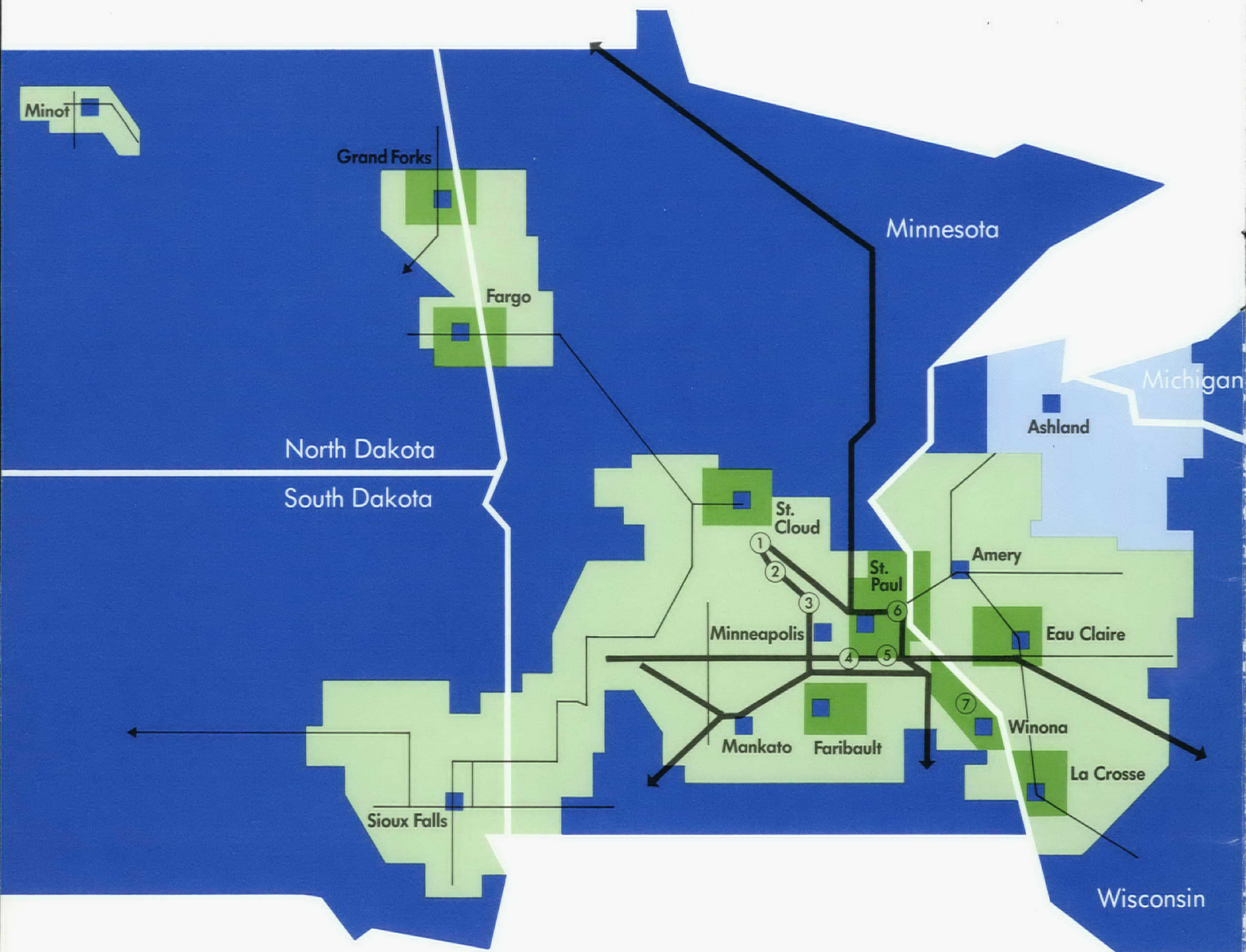




Northern States Power Company / 1980 Annual Report /

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Northern States Power Company (Minnesota) and its subsidiary, Northern States Power Company (Wisconsin), together known as NSP, serve a 40,000 square mile area in parts of Minnesota, Wisconsin, North and South Dakota. The company generates, transmits and distributes electric power to more than one million customers and distributes natural gas in 81 communities within its service area. It also supplies some heating and telephone service.

NSP, an Equal Opportunity employer, had 6,965 benefit employees at December 31, 1980.

-  Electric Service Area
-  Electric and Gas Service Area
-  Lake Superior District Power Company
-  Major Cities
-  345-kv and 500-kv lines
-  230-kv and under lines

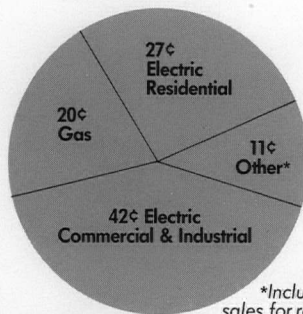
- ① Sherburne County (Sherco) (Coal)
- ② Monticello (Nuclear)
- ③ Riverside (Coal)
- ④ Black Dog (Coal)
- ⑤ High Bridge (Coal)
- ⑥ Allen S. King (Coal)
- ⑦ Prairie Island (Nuclear)

## Headlines:

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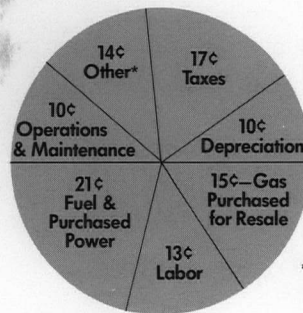
## The Revenue Dollar

Where it comes from...



\*Includes electric sales for resale, telephone and heating.

Where it goes...



\*Includes net income, AFC, dividends and interest charges.

## Highlights:

	1980	1979	Percent Increase (Decrease)
Dividend rate at year end . . . . .	<b>\$2.42</b>	\$2.28	6.1%
Earnings per share . . . . .	<b>3.23</b>	3.51	(8.0)
Return on average common equity . . . . .	<b>11.7%</b>	13.2%	
Earnings available for common (millions) . . . . .	<b>\$ 97.3</b>	\$ 106.3	(8.5)
Revenues (millions) . . . . .	<b>1 159.1</b>	1 048.2	10.6
Total assets (millions) . . . . .	<b>2 735.3</b>	2 619.9	4.4
Generating capability-summer (thousands of kilowatts) . . . . .	<b>6 052</b>	6 108	(.9)
Peak electric demand (thousands of kilowatts) . . . . .	<b>4 873</b>	4 247	14.7*
Electric retail use (millions of kilowatt hours) . . . . .	<b>21 008</b>	20 575	2.1
Gas heating use (millions of cubic feet) . . . . .	<b>45 419</b>	48 845	(7.0)
Customers . . . . .	<b>1 371 651</b>	1 344 237	2.0
Benefit employees . . . . .	<b>6 965</b>	6 700	4.0

\*3.9 percent weather normalized

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## To Our Shareholders:

1980 was a disappointing year for NSP. 1980 earnings per share were \$3.23, down from the \$3.51 earned in 1979. Moreover, 57 cents of the 1980 earnings are the result of rate increases which are subject to refund. This is certainly not satisfactory financial performance.

1980 was one of those years when if anything could go wrong, it did go wrong. NSP was beset with high inflation, business recession, diminished growth in use of our energy by our customers, many summer storms, increased generating plant maintenance, a marked decrease in electric sales to other utilities and an ever-increasing amount of regulation.

While retail electric sales increased 2.1 percent, total electric sales, including sales to other utilities, were down 1.0 percent, and natural gas sales decreased 2.9 percent.

Although earnings were down, we were able to increase dividends 6.1 percent, bringing the annual dividend rate to \$2.42. This was the fourth consecutive June that dividends have been raised.

Other financial measures remained strong—capital structure, bond interest coverage and internal cash generation. Hence the quality of our senior securities continues high and the need to raise funds through the sale of securities remains relatively low.

Our crystal ball indicates that in 1981 there will be continued high inflation rates, a sluggish economy and little growth in the use of our energy; we are forecasting only a 1.7 percent increase in retail electric kwh sales and a 1.2 percent decrease for natural gas use.

While pending rate cases should help improve our 1981 earnings performance over 1980, it will be difficult to achieve the level of earnings we think you deserve. While the company intends to file for additional rate increases this year, they cannot be implemented in time to improve the 1981 outlook significantly. This is not a management choice, but is related to the timing of present cases and the laws and regulations of the four states we serve.

Beyond 1981, we believe the financial outlook is considerably brighter. We expect somewhat faster growth in electric use because of economic recovery, increasing homebuilding in our service area, and substitution of electricity for other types of energy. In addition, we will not be burdened by substantial financing requirements because we will not be building a new generating plant any sooner than 1985.

We are also generally optimistic about the future because we believe NSP has the ability to meet the challenges ahead. This ability has been demonstrated in several areas.

First, over the past four years our generating plant availability has been notably superior to the industry average. In a recent world survey, our nuclear plants in 1979 ranked first and third. While nuclear availability for 1980 was down from past years, it was better than the industry average; we expect continued superior performance in the future. Also, on the nuclear side of our business, we have been among the leaders in exploring methods to recover costs for decommissioning nuclear plants and for nuclear fuel disposal. We also are leaders in trying to develop more heating units from given quantities of nuclear fuel.

Over the past three years we intensified our corporate planning efforts and we were one of four companies in 1980 to be nominated for an industry award for strategic planning efforts. We have a new major planning project called "Project 2000—Strategic Directions for NSP". Here we will evaluate the future of the electric and gas business, how we should structure ourselves to handle that business,

and the possibilities of other kinds of businesses. The future appears to be bright, at least from the standpoint of energy requirements from electricity. Today about 20 percent of U.S. energy consumption is ultimately in the form of electricity. It is estimated that 20 years from now 35 to 45 percent of ultimate energy use will be electric. To reach this percentage will require a compound annual growth rate 2½ times faster than U.S. total projected energy growth.

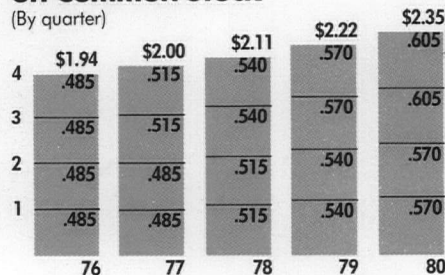
We established a plan to help us reduce peak demand growth by 300 to 500 megawatts by 1990 through load management and we are studying effective alternatives in cooperation with the Electric Power Research Institute and others.

We completed the transmission link between Manitoba Hydro and NSP in May, 1980, adding the equivalent of 500 megawatts of hydro generation provided by a renewable resource. We are expanding use of unconventional energy sources and expect benefits soon from use of wood, refuse, rubber and grain dust as fuels.

While all of these things put us in a favorable light, we also face many of the same challenges other utilities face. In addition to the primary goal of improved financial performance, other challenges are related to regulation of construction and operation of generating plants.

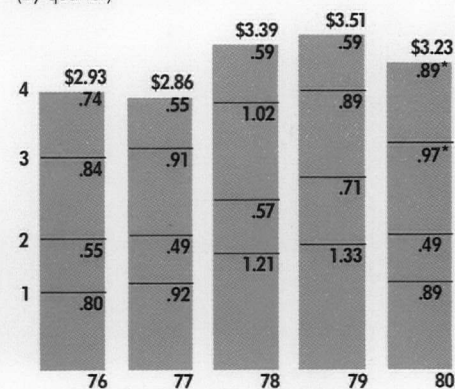
First, there is the challenge of operating our three nuclear plants. Following the Three Mile Island

### Dividends Paid on Common Stock



### Earnings Per Share

(By quarter)



\*Includes earnings subject to refund pending regulatory approval of rate increases; 3rd qtr., 20¢; 4th qtr., 37¢.

accident, the Nuclear Regulatory Commission (NRC) has ordered many changes in all nuclear generating plants. To respond to the NRC, this company and the industry are incurring additional operating and construction costs. We have additional potential problems related to disposal of nuclear spent fuel and low level radioactive wastes. Solutions to these problems must come from federal and state governments and power companies, and will not be easy ones politically. Interdisciplinary project teams from NSP are assigned to deal with these problems and we expect them to be successful.

The Minnesota Energy Agency issued a certificate of need in February, 1981, granting the company's request to increase its spent fuel storage capacity at Prairie Island. The certificate postpones possible premature shutdown of the facility. Energy provided from our three nuclear plants has been our most economical power source, and we expect that economy to continue even after substantial investment in modifications.

Another challenge to generating electricity is getting the coal-fired Sherco Unit 3 on-line. We have many regulatory hurdles to overcome, but we are optimistic that we will get the job done.

We applied to the Minnesota Energy Agency to modify the existing certificate of need for Sherco 3, the 800-megawatt coal-fired unit to be added to the Sherburne County facility. If approved, NSP would retain ownership of about 450-mw, with the remaining capacity owned by other Minnesota electric suppliers. By the end of 1981 we expect a ruling on this application.

The Company is pursuing regulatory authorization to recover unamortized costs of abandoning the Tyrone nuclear plant, and we anticipate we will be able to recover a substantial amount of the Tyrone abandonment costs through increased rates.

Our proposed affiliation with Lake Superior District Power Company is progressing. Securities and Exchange Commission hearings were held and an order on the Company's application for approval is pending.

Finally, there is the question of obtaining adequate rate relief. We

are all well aware of the generally unfavorable financial results for the whole electric utility industry over the past few years. One underlying problem is inadequate rate relief. While NSP's financial performance has been better than average for the electric utility industry, this industry has not been able to earn returns equal on average to other American industries. We believe an improvement in our return on common equity is one of our most important challenges, and we continue to work diligently with our various publics to achieve that improvement.

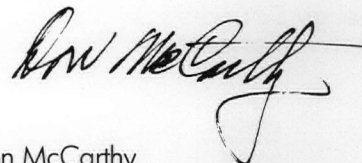
During 1980 our management was strengthened by election to the Board of Directors of Margaret R. Preska, president of Mankato State University, and Clayton K. Larson, who was named NSP President and Chief Operating Officer in October.

We appreciate the contributions made by the directors, officers and employees and share their pride in NSP's long record of successful partnership with our shareholders and our customers.

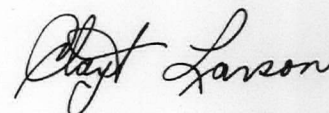
To cope with ongoing commitments and anticipated industry changes, our realigned top management forms an integrated team geared to filling current needs and future requirements. Five executives report to the Chairman and President in five areas: Corporate Affairs, Division Operations, Corporate Services, Power Supply, and Finance.

This annual report details the work and plans of each area.

Sincerely,



Don McCarthy  
Chairman and Chief Executive Officer

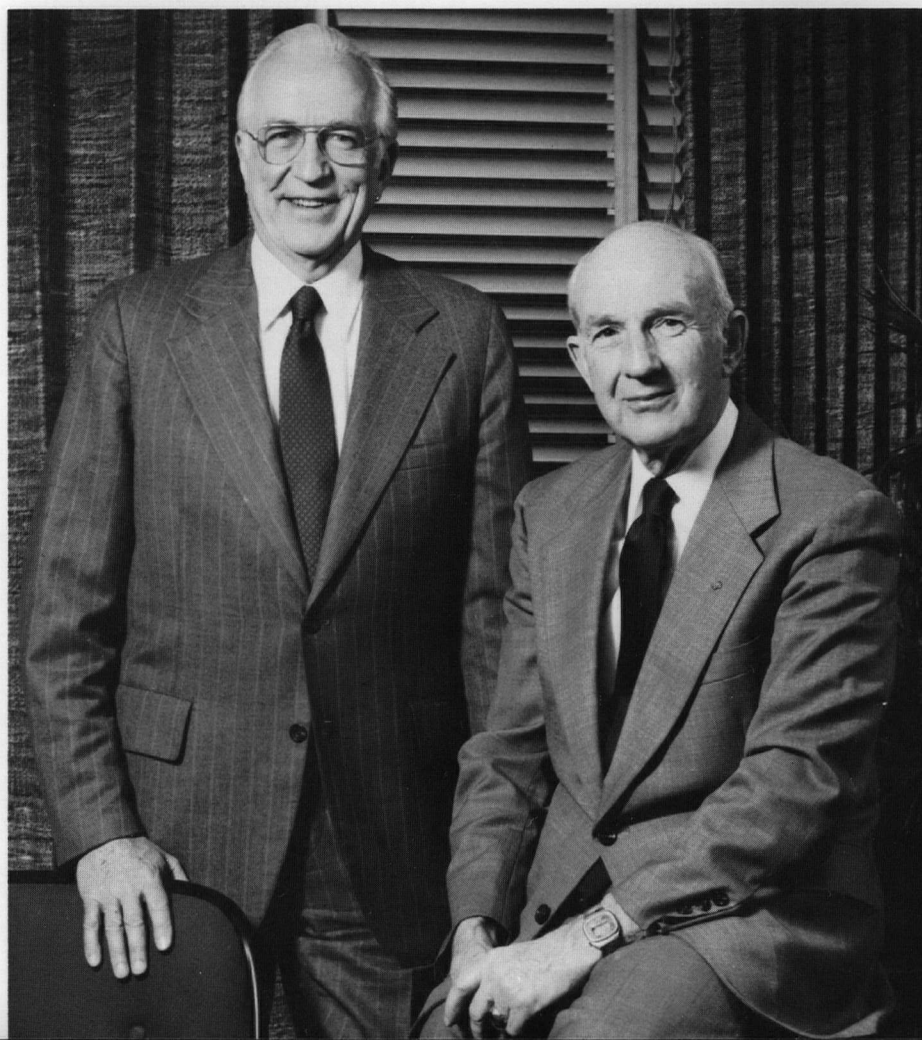


Clayton Larson  
President and Chief Operating Officer

February 27, 1981

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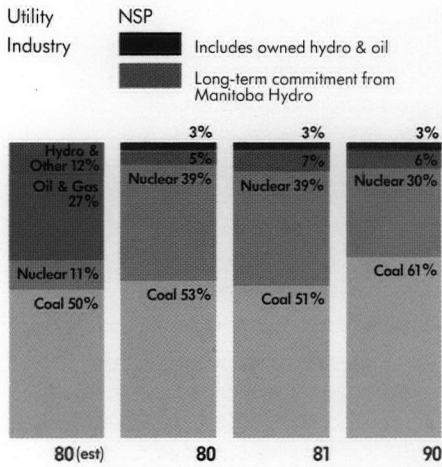
Clayton K. Larson and Donald W. McCarthy



# Power Supply

In 1980 our customers used a total of 25,354 million kilowatt hours (kwh) of electric power. Of the total NSP generation, about 53 percent was supplied by our coal-burning

## Energy Sources for Electric Generation



power plants, 39 percent from our nuclear plants and 8 percent was hydroelectric energy from our own plants and Manitoba Hydro. Only 0.2 percent was produced by oil-fired equipment.

## Manitoba Link Completed

The increased importation of hydroelectric energy from Canada was made possible by the completion of a new 500-kv (kilovolt) transmis-



**Dennis E. Gilberts**  
Senior Vice President—  
Power Supply

sion line between the Twin Cities and Winnipeg. We are particularly pleased that this line was completed on time and within the original budget. Our only disappointment regarding this project was that a severe drought in the watershed of the Nelson River restricted the amount of energy available during the summer of 1980. With more normal weather we expect to receive up to 7 percent of our energy from this source.

Completion of this transmission link provides a means to interchange power with Manitoba Hydro on a seasonal basis. Their system peak occurs in the winter heating season, while NSP's system experiences its peak load in the summer, due to air conditioning demands. This allows both of the systems to defer constructing additional generating facilities by the interchange of power over the new high-voltage line.

## Plant Performance High

In 1980 our major generating plants performed very well. A commonly used measure of plant performance is operating availability, which is simply the percent of time during the

## Plant Availability 1980\*

A.S. King	88%
Sherco 1 & 2	86%
National Avg. Fossil Fuel**	74%
Monticello	78%
Prairie Island 1	78%
Prairie Island 2	82%
Nat'l Avg. Nuclear†	65%

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

\*\*National Electric Reliability Council 1979 data.

†Nuclear Regulatory Agency 1980 data.

year the plant was running or could have been run if the system demand required it to do so. Because of 1980 refueling, maintenance and repairs, the operating availability of our three nuclear units averaged 79 percent, down from record availability the previous year, which compares to an average of 65 percent for all U.S. nuclear plants.

Similarly, our three largest coal-fired units also performed very well with an average operating availability of 86 percent. This compares to most recent available national statistics of 74 percent for plants of this class.

## Nuclear Waste Disposal Unresolved

Public interest in nuclear plant matters remained high during 1980. Technical operating and maintenance activities, which in past years would have been of concern only to our own engineers and the regulatory agencies, now receive extensive coverage by the media.

One area which continued to receive a great amount of attention during the year was the disposal of radioactive wastes associated with the spent fuel discharged from the reactors. While the vast majority of expert opinion holds that these wastes can be safely isolated, the authorization to proceed with the siting and building of disposal facilities remains a difficult political problem. In the interim, while the federal government defers action, it is necessary to accommodate this spent fuel which accumulates year by year at the plant site. This can be accomplished by replacing the racks which hold the spent fuel in the storage pool with new racks which allow a closer spacing of the fuel bundles.

In 1980, at Monticello we completed the reracking of the storage pool so that now it can

accommodate all of the spent fuel generated from the beginning of operation in 1971 through the 1991 refueling. By that time, we expect off-site disposal facilities will be available.

A similar expansion for Prairie Island is planned to commence in 1981 when the necessary federal permit is secured. This expansion must be complete by fall of 1983 in order to allow uninterrupted operation of the plant and, at the same time, provide sufficient capacity to unload the core for maintenance. This expansion will accommodate all the fuel we anticipate discharging through 1990.

### Plant Safety Improved

A continuing flow of information, regulations and plant modification requirements has resulted from analyses by the Nuclear Regulatory Commission (NRC) and the industry of the experience gained from the accident at Three Mile Island plant in Pennsylvania. The expenditure of about \$57 million at our nuclear plants for modifications as well as increased ongoing operating costs is

necessary to implement required changes. In spite of this, our nuclear plants continue to provide our most economical power. Further, we are convinced that the changes resulting from lessons learned at Three Mile Island have significantly added to the already wide safety margin built into our nuclear operations.

### Fuel Costs

(Dollars per million BTUs)

	Industry 1980 (est)	NSP			Annual Growth 85/80
		1980	1981	1985	
Coal . .	\$1.32	<b>\$1.04</b>	\$1.14	\$1.60	9.0%
Nuclear	.45	<b>.44</b>	.48	.78	12.1%
Oil. . . .	3.96	<b>4.02</b>	4.42	9.68	19.2%
All Fuels	\$1.68	<b>\$ .79</b>	\$.86	\$1.32	10.8%

Costs associated with operation of our coal-fired plants also increased substantially in 1980. This was due primarily to the increasing price of coal, severance taxes and transportation of the coal from the mines.

### Fuel Options Tested

While coal, nuclear and hydro sources will continue to provide the

bulk of the company's energy for the foreseeable future, we have not overlooked some of the more unconventional resources. Currently we are converting a 15-mw generating unit at our French Island plant at La Crosse, Wisconsin, to a fluidized-bed, wood-fired operation. Bark, sawdust and other waste products from local sawmills will be used to fuel the plant, thereby solving a waste disposal problem for the mills and providing a new source of energy for NSP. Other projects are under way investigating the use of municipal garbage as a fuel, as well as various waste streams from plants processing agricultural products. Nor are we neglecting the other side of the equation—the use by other enterprises of our waste heat and surplus steam capacity. Several projects are being explored which would provide steam to industries and district heating systems from our plants.

### Load Forecast Updated

We recently completed a new forecast of electric demand which is materially lower than our previous forecast. The new projections show a peak growth of 2.5 percent per year

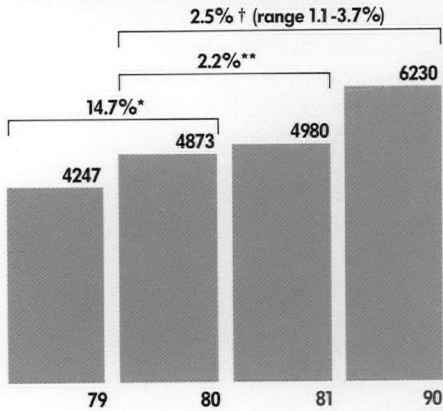
Manitoba Hydro Kettle Generating Station on Nelson River has 1,272 mw capacity.



over the next ten years, compared with a 4.2 percent growth rate in the earlier forecast. This means that by 1990 the expected summer peak will be about 20 percent less than the old forecast.

### Peak Demand Growth

(Megawatts—Percents indicate annual growth rate)



\*Weather normalized 3.9%  
 \*\*Weather normalized 3.2%  
 †Weather normalized 2.6%

In retail electric use, we expect a growth rate of 3.6 percent per year for the next ten years—very close to the earlier forecast. While we estimate somewhat slower growth in regional product and increase in the number of households, we believe the resulting energy declines will be offset by more electric space heating.

Cost of electric heating in our service area, especially from heat pumps, is less than the cost of oil or Canadian-import natural gas, even assuming use of a new, efficient gas furnace.

With additional electric space heating in the winter and air conditioning near anticipated saturation in summer, we expect a gradual leveling of demands upon our generating facilities.

By lowering peak demands, we can reduce the need to add expensive new generation equipment, thereby holding down our rates and reducing our need for additional investment capital.

### Air Quality Improved

The year also saw the start of projects to reduce air pollutant emissions at three of our plants. Two



Riverside plant fly ash helps form an urban wildlife refuge.

of these involve replacing obsolete mechanical dust collectors with new electrostatic precipitators at our Red Wing and Wilmarth plants. The third project is a demonstration installation of a dry sulfur dioxide scrubber and baghouse particulate removal system on our Riverside No. 6 and 7 boilers. This is being done jointly with Joy-Niro Company at a cost of about \$7 million. We expect the installation will allow the recovery of capacity on

these units, which had been derated, to bring them into compliance with state emission limits. It will also demonstrate the new scrubbing technology which appears very promising for future coal-burning facilities.

As we look forward into 1981, our generating and transmission facilities are in excellent condition, and we have adequate supplies of fuel and the other resources necessary to supply the electric energy required by our customers.



**G**aining public understanding and acceptance of NSP positions on public matters is the primary task of Corporate Affairs. Broad understanding of any business is advantageous; but it is crucial for a utility owned by private investors, regulated by several levels of government and providing service to the public. Corporate Affairs also seeks government policies, legislation and regulations which enable NSP to serve its customers and to provide a fair return to investors. In addition, through the law department, Corporate Affairs represents NSP in legal proceedings and provides legal services in the conduct of its business.

**1980s Issues Studied**

Through the local, state and federal public affairs sections, NSP provides accurate, timely and reliable information on issues that affect its operation. These include such varied areas as environmental protection, rate regulation, taxation, conservation, plant siting and routing of transmission lines.

At the federal level, coal severance taxes and slurry proposals, nuclear and environmental issues, as well as general business legislation affect NSP. We joined other utilities and coal users to urge a 12.5 percent limitation on severance taxes for coal shipped across state lines. Montana, the primary source of NSP's

coal for generation, imposes a 30 percent severance tax costing our customers about \$14 million last year. NSP is also a plaintiff in litigation now before the U.S. Supreme Court challenging the tax as an unlawful burden on interstate commerce.

**Rate Increases Sought**

Of NSP's total 1980 revenues (excluding non-firm sales to other utilities), 75.7 percent were within Minnesota's regulatory jurisdiction, 12.0 percent within Wisconsin's, 7.4 percent within North Dakota's, 2.5 percent within South Dakota's and 2.4 percent within the Federal Energy Regulatory Commission (FERC).

In spite of rapidly increasing costs in 1978 and 1979, NSP did not file for a major electric rate increase during that period. This is consistent with NSP's objective of holding rates to the lowest level possible while providing an adequate return to investors. However, it became apparent in early 1980 that with persistent record rates of inflation, the company could not maintain reasonable earnings. Accordingly the company sought rate increases aggressively from all jurisdictions and for all utilities.

Rate increases requested and granted in previous years were:

Year	Requested (Millions of dollars)	Granted (Millions of dollars)
1977.....	\$92.4	\$56.4
1978.....	1.9	1.3
1979.....	7.4	4.8

In its last NSP rate order in 1979, the Minnesota Public Utilities Commission (MPUC) granted NSP \$4.8 million, or 65 percent of its requested increase in gas rates. The MPUC granted a 12.9 percent return on an imputed common equity ratio of 40 percent. The company's test-year common equity ratio

was 41.56 percent, and the company believes this ruling is not in the best interest of customers or shareholders. We are contesting the issue in current proceedings.

In its current Minnesota electric rate filings, NSP asked for a 15.5

**Residential Electric Bills**

(500 KWH\*/Month for selected cities—Dec. 1980)

New York	\$55.44
Boston	\$46.31
Philadelphia	\$43.28
Chicago	\$33.32
Phoenix	\$31.77
Detroit	\$29.88
Mpls./St. Paul	\$26.18
Houston	\$25.85
Milwaukee	\$25.25

\*Includes fuel and purchased power adjustments

percent return on its common equity ratio of 42.2 percent. The request was for \$77.5 million in increased revenues on an annual basis, or an increase of 12.66 percent. Included in this increase is:

- \$24 million to cover increased costs in order to bring the allowed return to the 12.9 percent level permitted in the MPUC's last gas rate order.
- \$35.5 million to increase the return on common from 12.9 to 15.5 percent.
- Approximately \$11 million for the amortization of the Tyrone abandonment.
- \$7 million for nuclear insurance and other miscellaneous costs.



**Bruce A. Richard**  
Senior Vice President—  
Corporate Affairs

These rates are being collected subject to refund until the final determination is made.

The table below shows the status of 1980's rate increase program.

### Tyrone Recovery Sought

The company is pursuing regulatory authorization to recover the unamortized costs of abandoning the Tyrone nuclear plant. The costs are based on NSP's application to the Federal Energy Regulatory Commission (FERC) and the Wisconsin Company's application to the Public Service Commission of Wisconsin (PSCW) to amortize Tyrone costs over a five-year period beginning March 1979. The Minnesota commission has not yet taken a position on the Tyrone-related costs in our current rate case, and the PSCW has determined that costs allocable to retail customers in that state may be collected under the terms of our filing with the FERC. We remain optimistic that we will be able to recover a substantial amount of the Tyrone abandonment costs through increased rates.

While the company expects FERC will recognize most of such

costs in NSP wholesale rates, court appeals from other state commission rulings may be necessary to recover these expenses in retail electric rates. A proportionate share of Tyrone costs was included as a cost of service in each rate case.

### Rate Design Change Asked

Federal Department of Energy rate design standards call for cost-based rates, time-of-day and load management rates and rates which encourage conservation. NSP favors this, too, based upon actual costs of delivering service to each class of customers. Concern about the standards' effect on customer ability to pay brought public participation in rate proceedings in 1980 to an all-time high.

### Nuclear Decommissioning Considered

At the request of the MPUC, the company has submitted recommended changes in the estimated cost of decommissioning its nuclear plants at the end of their useful life. The proposal also includes a recommended change in the method of recovering

these costs. Depreciation expense, calculated on an internal sinking fund basis, would increase about \$8.6 million annually. On February 19, 1981, the MPUC approved NSP's proposal on principle.

### Time-Of-Day Rates Offered

While final regulatory decisions have not been made, in October NSP customers were offered the option of lower electric rates if they would shift a large part of use to off-peak demand time from 9 p.m. to 9 a.m., or weekends and holidays. NSP's support of time-of-day (TOD) rates is part of a national pattern of rate reform aimed at minimizing peak electric generation loads by leveling demand.

The TOD rates are cost effective for homes with above-average electric use and for some commercial and industrial customers, although customers pay the cost of additional metering. Under the program, charges are higher than standard rates during the day, but lower at night.

## 1980 Rate Increase Program

	Annual Increase			Effect on 1980 Revenues	Status
	Requested	Allowed (Millions of dollars)	Pending		
Electric—Retail					
Minnesota	\$ 77.5		\$ 77.5	\$ 29.6(B)	Rates effective 7-30-80.
North Dakota	6.2	\$ 3.3(F)			Order issued 12-31-80, Tyrone amortization under litigation by Company.
South Dakota	5.1	2.4(F)		.1(F)	Settlement order issued 11-19-80, Tyrone amortization under litigation by Company.
Wisconsin	20.7	6.4(I)	14.3	2.8(I)	Interim rates effective 7-9-80.
Electric—Wholesale					
Wisconsin	.9		.9	.5(B)	Settlement agreement of \$0.7 million, subject to FERC approval.
Gas—Retail					
Minnesota	11.0		11.0	2.0(B)	Rates effective 10-28-80.
North Dakota	1.5		1.5		
Wisconsin	1.4	1.3(F)		.2(F)	Order issued 11-12-80.
Heating—St. Paul	.8	.5(I)	.3	.2(I)	Interim rates effective 10-15-80.
1980 Totals	<u>\$125.1</u>	<u>\$ 13.9</u>	<u>\$105.5</u>	<u>\$ 35.4</u>	

B Denotes filed rates under bond subject to refund

I Denotes interim rates subject to refund

F Denotes final rates

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## **NSP Opposes Rolled-In Rates**

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Retail natural gas rates on the NSP Midwestern system (Canadian imports) are nearly double those for customers supplied by Northern Natural (primarily domestic gas). Customer complaints about the difference resulted in hearings before the MPUC and the North Dakota Public Service Commission on whether the company should be required to average (roll-in) its natural gas purchase costs for both pipelines to determine rates. The company opposes this as an improper rate-making concept. Rulings are pending from both commissions.

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## **Sherco 3 Modification Asked**

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NSP applied to the Minnesota Energy Agency (MEA) to modify the existing certificate of need for Sherco 3, 800 megawatts (mw), the third coal-fired generating unit at NSP's Sherburne County facility. The modifications, if approved, will allow Southern Minnesota Municipal Power Agency (SMMPA) to own 300 mw, and United Minnesota Municipal Power Agency (UMMPA) to own 49 mw. NSP would retain ownership of about 450 mw of the 800 mw unit, of which 20 mw is available to Lake Superior District Power Company (LSDP).

Recent trends in electric use on the NSP system make it possible to allow these other utilities to purchase a portion of Sherco 3. The modification would eliminate the need and the environmental impact of constructing a new plant in southern Minnesota by using the existing Sherco site.

The company has several reasons to continue its ownership in Sherco 3.

- Construction of the unit will lower production costs of electricity by replacing both oil generation and more expensive coal units on NSP's system—a savings to NSP customers over the life of the plant.
- If oil becomes prohibitively costly or unavailable for electric generation,

20 percent of NSP's total owned capacity (about 1,200 mw) would be lost. This capacity is used sparingly now, in peak periods only.

- About 300 mw of our coal-fired capacity soon will be more than 30 years old. These units may not perform well or could be limited by environmental restrictions in the future.

Hearings will begin in 1981 before the MEA to modify the Sherco 3 certificate of need. Each participant will be responsible for justifying its own future power needs.

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## **Tyrone Site Preferred**

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The Wisconsin Company named the Tyrone Energy Park site near Durand, Wisconsin, as preferred site for a proposed coal-fired plant to be constructed in the early 1990s, with a site near Wheaton, Wisconsin, as alternate choice. In 1979, the Wisconsin Public Service Commission denied the construction of a proposed nuclear plant at the Tyrone site, to be in operation in 1987, because need was not established.

The Tyrone site meets or exceeds all siting criteria and would be the least disruptive to its neighbors, the Wisconsin Company said.

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## **Insurance Costs Soar**

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As a result of the Three Mile Island accident, important changes occurred during 1980 in NSP's insurance program. Premiums for property insurance at nuclear generating plants increased 55 percent and nuclear liability premiums, 16 percent. In addition, U.S. utilities operating nuclear plants formed a mutual insurance company, Nuclear Electric Insurance Ltd., to spread the risk of increased costs of replacement power in the event of an extended accidental outage of any such plant. MPUC approved NSP

joining this company for a maximum coverage over a two-year period of \$70.2 million for Monticello and \$62.4 million for each of the two Prairie Island units.

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## **Nuclear Spent Fuel Stored**

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Minnesota's Environmental Quality Board has issued an order granting a certificate of need for doubling spent fuel storage at the Prairie Island nuclear plant by a plan to re-rack spent fuel more closely in its storage pools.

However, in connection with this proceeding an appeal is pending in St. Paul District Court challenging some of the regulations under which the certificate was granted and contending such storage is permanent, and therefore requires legislative approval. The Nuclear Regulatory Commission is considering the company's request to construct the expanded storage and a favorable decision is expected in mid-summer.

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## **LSDP Affiliation Pending**

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The company and Lake Superior District Power Company (LSDP) agreed in 1977 to a plan for affiliation of the two companies. The Securities and Exchange Commission (SEC) has held hearings on the application and an order is pending.

LSDP, headquartered in Ashland, Wisconsin, supplies electric and natural gas service to about 40,000 customers in northern Wisconsin and two counties in Michigan's Upper Peninsula. In 1980 its operating revenues totaled \$41.4 million.

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## **Communications Promote Acceptance**

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NSP maintains a continuous flow of corporate and energy information to customers and the public within

its four-state service area. It answers specific questions and offers energy assistance while explaining company aims and policies. More than 350,000 printed brochures prepared by NSP were circulated to customers in 1980. This public contact was augmented by film and slide presentations. A group of knowledgeable employees spoke to a record 567 civic and private organizations in 1980, and 253 tour groups visited five generating plants.

Corporate relationship with Twin Cities reporters and editors was rated highly in a recent survey. Comparing overall communications efforts of government agencies, utilities and other large local corporations, the journalists said utilities generally, and NSP specifically, were doing the best job of keeping the public informed.

The company was mentioned spontaneously by 68 percent of

survey participants. Reporters and editors volunteered NSP as one of two top Twin Cities agencies or companies in effective media communication, citing 24-hour a day accessibility of media representatives and their prompt and knowledgeable responses to questions.

These results corroborate an earlier survey of NSP customers who gave the company fourth highest credibility among 12 local corporations.

## Financial

### Industry Performance

In 1980, the electric utility industry continued to show poor financial performance. Return on equity will be in the 11 to 12 percent range for the eighth straight year, and earnings per share are estimated to decrease by about 1.5 percent. The continuation of poor earnings performance was caused primarily by record high levels of inflation and interest rates, a relatively small increase in kilowatt hour sales and insufficient rate relief by regulators.

Dividends are estimated to increase by about 3 percent in the face of that earnings decline, increasing the industry's payout ratio from 77 percent in 1979 to about 80 percent for 1980.

The earnings decline was accompanied by deterioration of earnings quality. Non-cash allowance for funds used during construction (AFC) accounted for nearly 52 percent of earnings per share—the first time AFC was over half of reported earnings.

Because of high interest rates and poor earnings performance, the market price of electric utilities fell by 4 percent during 1980. This poor market performance kept the average market price to book value at about 75 percent in 1980.

Moreover, the industry generated only about 34 percent of its construction expenditures internally and had to sell about \$15 billion of securities to finance the remainder of its needs. Of that amount, about \$5 billion was common stock, which was sold substantially below book value.

**T**he company has performed better than the industry in the past and it is expected that its performance will continue to be better in the future. The company's construction and financing programs are relatively modest and its financial flexibility will allow issuance of securities on reasonable terms.

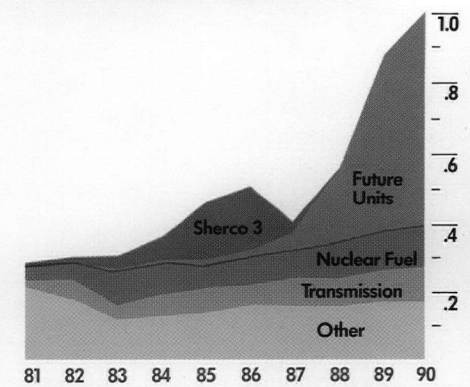
In 1980 NSP construction expenditures were \$222 million, about \$9 million less than for 1979. About 89 percent of the 1980 expenditures were provided by internal funds. Funds for the balance of construction costs, \$37 million to buy 1.5 million shares of NSP common stock and \$7 million for acquisition and retirement of other securities, came from three sources: a \$63 million increase in short term borrowing, a \$1 million decrease in temporary investments and issuance of \$4 million in new stock through the Employee Stock Ownership Plan (ESOP) and Dividend Reinvestment and Stock Purchase Plan (DRP). (See Capital Structure on page 11 for a discussion of common stock.)



**Harry W. Spell**  
Senior Vice President—  
Finance

Estimated cash requirements for 1981 include \$290 million for construction and \$32 million of cancellation payments for the Tyrone nuclear plant. (See page 29). It is expected that these requirements will be met from internally generated funds, sale of \$75 to \$125 million of mortgage bonds and proceeds from

### 1981-1990 Construction Expenditures



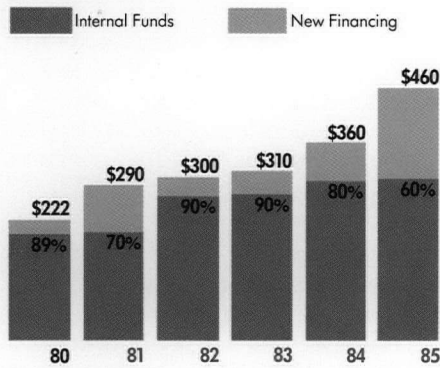
the sale of about \$17 million of pollution control bonds. NSP expects short-term debt to be from \$25 to \$75 million by the end of 1981.

Financing for the 1981-1985 period is expected to be relatively light—about \$450 million—with internal funds providing about 75 percent of total construction expenditures of \$1.7 billion. Internal funds generation of 75 percent compares very favorably with industry estimates of only 40 percent.

From 1986 to 1990, however, construction expenditures are expected to jump to \$3.4 billion, of which \$1.5 billion will be raised in the capital markets. This reflects a level of internal funds generation of about 55

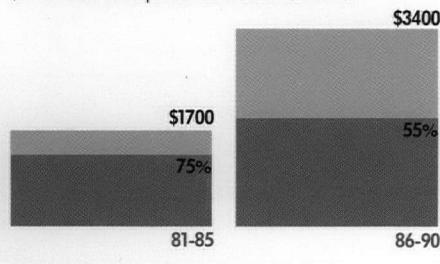
### Construction & Financing Forecast

(Dollars in Millions)



### Ten-Year Summary

\$5.1 billion anticipated between 1981-1990



percent of construction expenditures. Construction cost estimates include 10 percent annual cost increases through 1990.

### Financial Objectives

Company financial performance must be adequate to market securities at any time and at reasonable cost. To assure this performance, NSP sets financial objectives based upon its own studies and discussions with bond rating agencies, investment bankers, commercial bankers and rate of return experts.

While many financial measures are important, the key ones are capital structure ratios, bond interest coverage, earnings per share growth and dividend policy. Generally, these 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 otherwise would be possible.

NSP's financial objectives are based on an assumed average inflation rate of nearly 10 percent through 1985 and about 8 percent in the late 1980s, and on rates for double-A utility bonds that will gradually decline from present levels of almost 15 percent to 11 percent by 1990. The company continuously reviews its financial objectives, modifying them as projections of economic, business and risk levels change.

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 its creditors more protection. The objective level for common equity is now 40 to 42 percent of total capital invested in NSP.

Capital structure objectives were achieved in 1978 and maintained in 1979 and 1980. NSP's capital structure, with 41 percent in common equity, is stronger than the 36 percent average for the electric utility industry.

During 1980, the company repurchased 1.5 million shares of its common stock and changed the DRP and ESOP plans to use market stock rather than new stock. These actions were taken to bring the common equity ratio in the capital structure back to objective levels. 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 Minnesota Public Utilities Commission (MPUC), in a 1979 gas rate decision, set return levels based on a common equity ratio of 40 percent. In the current electric case in Minnesota, the amount of common equity in the capital structure is also an issue. The company used a projected test year with 42.2 percent of common equity. The Department of Public Service, an intervenor in the case, contends that 40 percent is more appropriate.

### Construction Schedule—Capacity Additions

Plant and Location	Size of Unit (Megawatts)	Type of Fuel	Estimated Cost (Millions)	Cost Per Kilowatt	Scheduled In-Service Date
Sherburne County No. 3*	450	Coal	\$ 568	\$1262	1985**
Riverside No. 7	60	Coal	48	800	1990
Jim Falls	30	Hydro	104	3467	1990
Wisconsin Unit †	620	Coal	1204	1942	1991

\*800-mw unit with 350-mw owned by other power suppliers. (See page 9.)

\*\*The actual in-service date will be dependent on the needs of the owners with the final decision made by the Minnesota Energy Agency.

Our financial planning provides flexibility for in-service dates from 1985-1987. Construction expenditures and amounts of financing described elsewhere in this document are based upon 1987 in-service date.

†670-mw unit with 50-mw owned by Lake Superior District Power Company.

**Bond Interest Coverage**

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

In 1966, NSP's bond interest coverage was 5.6 times. NSP's coverage dropped to 2.7 times by 1974 as the capital structure weakened and interest costs soared. This was an industry-wide predicament and many utility bond and preferred stock ratings were lowered during this time.

Since 1974 NSP has maintained its ratings and improved interest coverage by expanding the proportion of common equity in the

**Capital Structure**

**Bond Interest Coverage**

	1980	1981	Objective
Common Equity . .	<b>41%</b>	40%	40%-42%
Preferred Equity . .	<b>11%</b>	10%	10%-12%
Long and Short-Term Debt . .	<b>48%</b>	50%	48%-50%
Bond Interest Coverage (Pre-tax) . . . . .	<b>4.0</b>	4.0	3.75-4.75

capital structure. Interest coverage is 4.0 times while comparable utilities have an average coverage ratio of about 3.0. We expect the company's interest coverage to stay well within objective levels for the next four years. However, as construction and financing programs begin to accelerate, our average interest rate (embedded cost) on all outstanding debt is expected to increase to about 9.5 percent by the end of the decade from 7.0 percent in 1980. This will put steady downward pressure on

coverage and will require a strong common equity ratio and a higher return on common equity.

**Earnings Per Share Growth**

Earnings per share growth is largely dependent upon the return on common equity. (Return on common equity is the earnings available for common stock as a percentage of the average amount of common equity.)

NSP's objective is an average growth rate of 6 to 7 percent per year, which requires an improvement in return on common equity to 15 to 16 percent. This compares with returns earned in 1978, 1979 and 1980 of 13.3, 13.2 and 11.7 percent respectively. It must be emphasized that our earnings growth objective cannot be realized without a substantial improvement in return on common equity. The current five year growth rate in earnings per share is only 3.4 percent. (See financial statistics on Page 33).

It is important to note that the quality of NSP's earnings remained high in 1980. Allowance for funds used during construction (AFC) was only 13 percent of earnings compared with 52 percent for the electric utility industry.

Electric utilities must earn returns comparable to U.S. industry to compete effectively for capital. Surveys indicate that most institutional investors believe that electric utilities have the same or more risk than industrials. Yet while American industry earned 16.5 percent in 1979 and an estimated 14.5 percent in 1980, electric utilities have been able to earn only about 11 percent during those years.

**Dividend Policy**

NSP's 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. The company's average payout ratio for the last three years and five years was 67.0 and 67.8 percent respectively.

Company policy is to increase 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 four years.

In addition to the payout ratio, NSP considers the ratio of dividends paid to the common stock's book value when declaring dividends. The ratio of dividends (\$2.42) to common stock book value (year-end 1979) was 8.9 percent.

NSP's payout objective of 65 to 70 percent is substantially less than the average payout for the industry as a whole, which was about 80 percent in 1980. The company believes that its lower payout provides better potential for future dividend growth.

**Reaching the Objectives**

In the past, we have stated that inflation and regulation are the factors that will present the greatest challenges to achieving good financial performance. The economic results in 1980 and the regulatory challenges during the year, both in terms of operating and construction of generating plants, and in terms of rate increases, further strengthen our position that inflation and regulation will indeed continue to present our greatest challenges.

## Division Operations

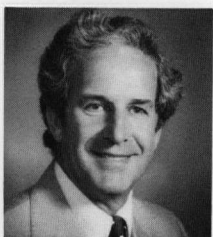
**M**ore than 1.3 million customers in four states purchase electric, gas, steam and telephone service through 17 company divisions. Seven divisions are centered in the Twin Cities Metropolitan Area and the rest in other cities throughout the NSP service area.

Our total retail electric sales in 1980 were 2.1 percent ahead of 1979. Residential sales advanced 2.2 percent while small commercial and industrial sales increased 2.9 percent and large commercial and industrial sales 1.8 percent.

On a hot, humid July 14, demand for electricity reached 4,873 megawatts (mw), a 14.7 percent jump from the peak 4,247 mw on August 7, 1979. The winter peak demand was reached January 9, 1980, at 3,909 mw, compared to 3,873 mw winter peak the preceding year, an increase of only .8 percent.

Average annual electric use by NSP residential customers decreased marginally (.1 percent) in 1980, reflecting a gradually flattening use trend. Over the past five years the average annual increase in use per residential customer was .5 percent; over the last 10 years this was 1.2 percent and over 20 years, 3.4 percent. Customers without space heating had an average annual decrease in use per customer of .2 percent over the past five years.

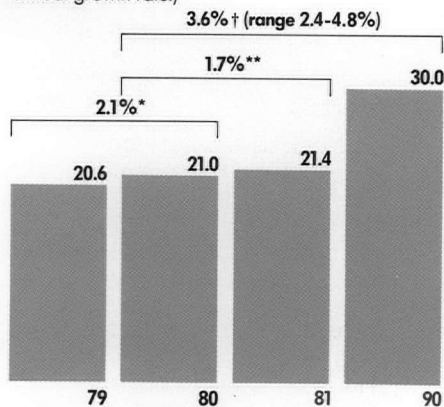
In the same five year period, residential customers with space heating had an average annual decrease in use per customer of 3.2 percent, and 4.1 percent in the last two years.



**Ralph O. Duncanson**  
Senior Vice President—  
Division Operations

### Retail Electric Use

(Billions of KWH—Percents indicate annual growth rate.)



\*Weather normalized 2.6%

\*\*Weather normalized 2.1%

†Weather normalized 3.7%

Several factors will tend to hold down further growth in use by each residential customer: increasing costs, improved appliance efficiency, smaller families, fewer single family homes, thermal efficient homes, altruistic conservation, curtailed new

home construction, load management and solar and wind energy use. However, some changes could increase future home electric use: substitution of electric energy for other fuels, new electric space heating installation and, possibly in the future, electric cars. NSP anticipates continued conservation by home customers to decrease their average electric use by 1.5 percent in 1981 and .2 percent the following year.

Our service area added 16,781 new dwelling units in 1980, a decrease of 27.9 percent from the 23,275 dwelling units added in 1979. This drop mirrored a decrease in construction activity throughout the U.S. All NSP divisions experienced construction declines, ranging from 51.2 percent in North Dakota divisions to 3.8 percent in divisions that serve Minneapolis and St Paul. Throughout the service area, the rate

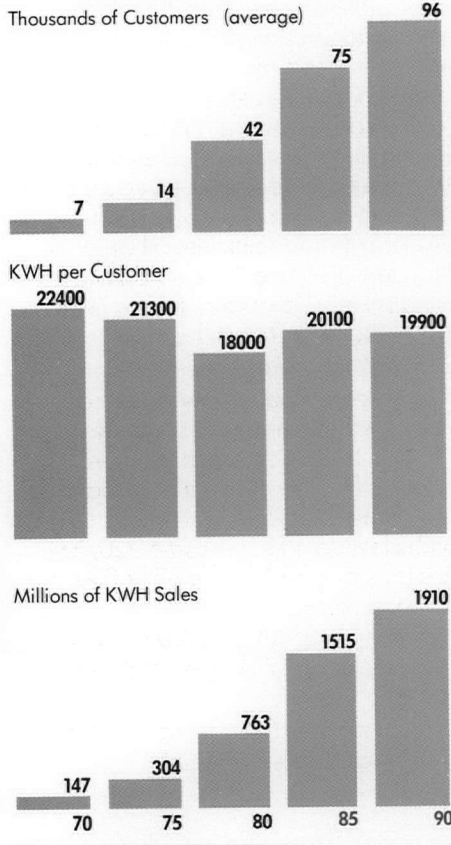
*Summer storms splintered transmission towers.*



of single family housing additions in 1980 fell 30.2 percent and multifamily units, 25.8 percent.

A total of 5,318 electrically heated residences were added as NSP customers in 1980—a 18.8 percent drop from the 6,547 added in 1979. Part of the slowed electric

### Growth in Residential Electric Heating Customers and KWH Sales



home heating demand is due to construction of fewer new homes, but a smaller percentage of new residences are using electric heat. In 1980, 19 percent of new dwelling unit customers included electric heating, compared to 22 percent the previous year.

Employees of Division Operations respond directly to varied customer needs and problems, and they provide the company with a continuous perspective on local developments that affect energy planning.

### Storms Leave Heavy Damage

On July 15, 1980, a sudden summer storm began in Minnesota with an 85 mile an hour wind that swept into Wisconsin picking up speed to at least 112 miles an hour at Eau Claire. Some 150,000 persons in the hardest-hit Wisconsin counties lost electric power, with 90 to 95 percent of Eau Claire without service. More than 60 double-pole 345-kilovolt (kv) transmission line structures were shattered along a 10-mile stretch. Five major and a dozen smaller transmission lines were knocked out, and damage repairs following this storm for the Wisconsin Company alone were over \$4 million.

This "big wind" was the worst in a summer that hit NSP's service area with 22 damaging storms. Repair costs were the greatest in the company's history—two and one-half times customary costs at a total of more than \$7 million. In addition to initial restoration of service, future costs are affected for tree trimming long after the crisis.

Crews from all parts of the company joined local workers to restore service after each storm, and division personnel often worked long hours under difficult conditions.

### Need Help? ASK NSP

Service to customers traditionally meant providing reliable supplies of energy to homes and workplaces, but in the 1980s this service takes on a new dimension—helping customers conserve energy and keep costs down, both for themselves and NSP. A new public concern about energy resources and use is intensified by climbing cost and curtailed supplies of fuels.

NSP responds to the demand for energy information through the "ASK NSP" service begun in 1979. Calls in 1980 more than doubled to nearly 57,000 inquiries. New messages are

added continuously to the library of tapes available. Answers on solar energy, electric appliance operation costs and insulation benefits were most requested.

### Home Energy Audit Tested

Faribault and Northfield home customers are testing a new, voluntary home energy audit program which NSP will extend to other residential customers this year. The audit involves a detailed home inspection by a state-certified NSP auditor who will recommend energy related modifications, then estimate the cost and savings from such home improvements. The customer pays only \$10 for the survey, with remaining costs borne by all rate payers.

Mandated by state and federal conservation regulations, the home energy audits will be offered to all other customers over a two-year period after the pilot program is completed.

### 'Energy Poor' Get Help

As energy cost increases, some customers can't meet winter utility bills. Minnesota's Public Utilities Commission (MPUC) prohibits disconnecting utility service that affects the primary heat source between October 15 and April 15 if the customer is unable to pay and arranges with NSP to pay by a negotiated schedule. The company assists by referral to agencies which aid in paying fuel bills.

### Investment in Conservation

In a pilot program to determine steps NSP and other Minnesota utilities can take to cut energy waste, the MPUC selected three NSP proposals for 1981 limited demonstration projects.

One involves company rebates of \$50 to \$100 to Minnesota





*NSP's fleet is adopting a new identity and new fuels.*

customers in the Moorhead and East Grand Forks areas who invest in insulation or furnace equipment recommended by a Residential Conservation Service audit.

A second rebate program will reimburse customers for part of the cost of high-efficiency electric appliances. The rebate is based on savings to the company through shaving its peak demand, thus postponing future added generating capacity. For the limited pilot study, up to \$3 million would be invested by the company.

NSP also was ordered by the MPUC to negotiate with the City of St. Paul to plan a program for investing in qualified test homes for space and water heating

conservation improvements that meet minimum cost-effectiveness criteria. The company will defer principal and low interest payments by homeowners until the sale or transfer of the homes.

Evaluation of these three company investment programs will be made jointly with the Minnesota Energy Agency and the MPUC.

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### **NSP Conserves, Too**

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The company bought one existing residence in south Minneapolis and one in Eau Claire to remodel as demonstration centers for energy conservation ideas and materials. Customers are encouraged to use these centers for technical information adaptable to other existing structures. Older buildings

were selected to encourage similar renovation of the area's basic housing stock.

Meanwhile studies of potential alternative energy sources are being tested at NSP centers for public benefit.

In 1980 a variety of solar water heating systems were installed at five division service centers. Each provides up to 70 percent of hot water used at the centers. Automatic monitoring equipment gives extensive performance information.

The company also is turning to alternate fuels for vehicles to reduce transportation cost and dependence on gasoline. Over the next five years, investment in propane, diesel and electric-powered vehicles could save more than \$5 million. By next June, 765 corporate vehicles will be converted to use the cheaper, clean and plentiful propane. Minot Division's telephone fleet already is converted to propane.

The company now is negotiating with the federal Department of Energy to participate in a 50-vehicle electric fuel demonstration program. Over the four years of the test, the 50 vehicles would save some 220,000 gallons of gasoline, for \$264,000 in reduced fuel costs. The electric fleet would use about \$22,000 in electric power during this four-year period.

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### **NSP Maximizes Potential**

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Electric generating plants produce heat that can be used for purposes unrelated to electric distribution. The Sherco plant attracted wide attention by leasing land to greenhouse operations for cultivation of flowers, nursery stock and vegetables using warm water from the plant.

What's new in Sherco's warm water? Today more than 1,000 young catfish are gliding in water from the

closed-cycle plant cooling system. Purpose of the experiment is to test whether aquaculture—commercial fish farming—can be successful in this warm environment.

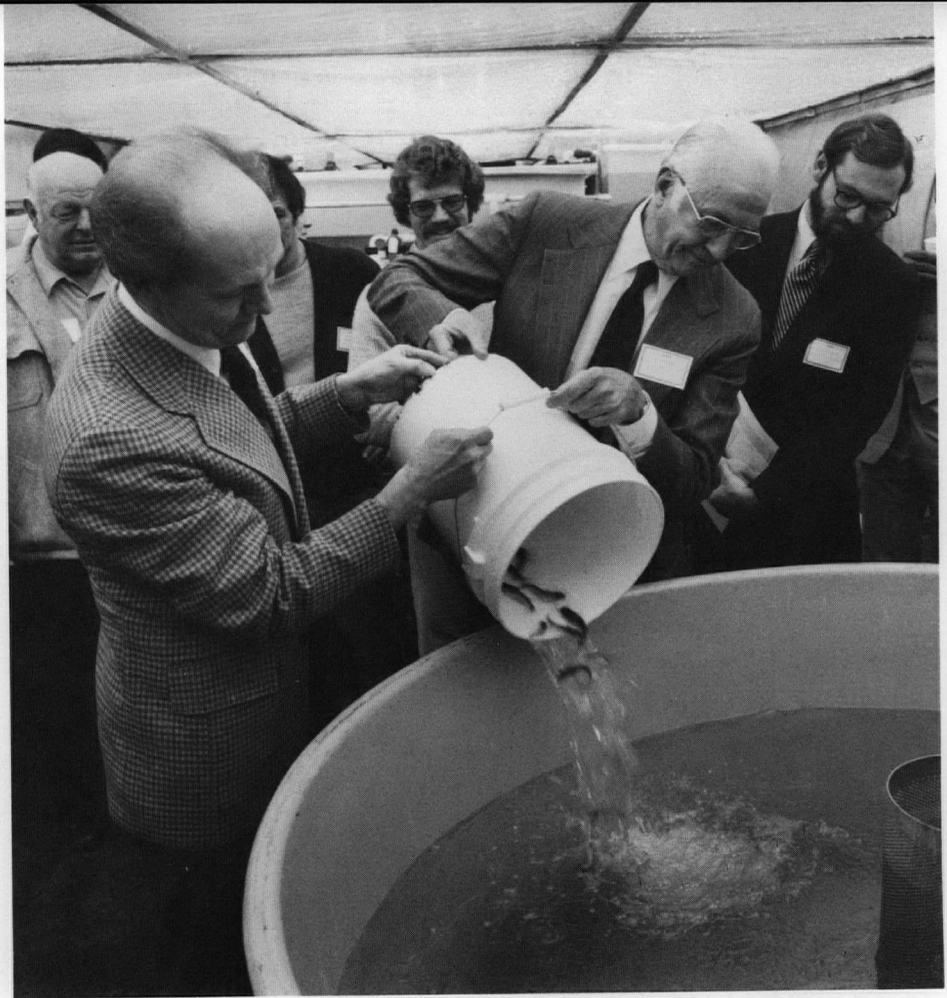
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### New Businesses Explored

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The company's strategy for the future includes not only expansion of its traditional public utility business. A diversification program was established in 1980 to consider the emerging conservation and alternative energy industry. Market studies to identify, evaluate and develop new opportunities for NSP are under way.

Alternative energy sources, incineration of hazardous wastes from industry, district heating and industrial heat supply, marketing dry pulverized coal, energy consulting or operation of energy services, and telephone remote communication services in conjunction with load management are among options being studied. Emphasis for all new business ventures will be to make greater use of existing NSP resources.

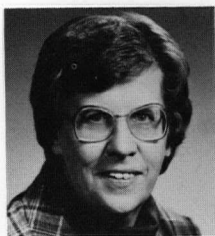


*NSP officials begin aquaculture test.*

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## Corporate Services

**C**orporate Services includes gas utility operations, human resources, information systems, buildings, purchasing supervision, stores and inventory of needed equipment.



**Harriet B. Rogge**  
Vice President—  
Administration

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### Gas Supplies Are Ample

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NSP distributes natural gas to more than 270,000 customers, serving 81 communities in parts of Minnesota, Wisconsin and North Dakota. Gas is purchased from two sources—Northern Natural Gas Company, Omaha, Nebraska (primarily domestic gas), and Midwestern Gas Transmission Company, Houston, Texas (all Canadian gas). About 85 percent of our customers are on the Northern system.

We added more than 10,400 residential gas heating customers in 1980. Of these additions, approximately 8,000 converted from the use of other fuels, primarily oil.

Total gas sales were 71 million-mcf (thousand cubic feet), a 2.9

percent decrease from 1979. Sales to heating customers declined 7 percent due to warmer than normal weather and increased customer conservation efforts. Gas sales to interruptible gas customers (primarily large commercial and industrial users) increased 8.5 percent, since adequate gas supplies were available to them through lower requirements of gas heating customers and additional pipeline supplies.

On January 6, 1981, NSP had a record natural gas sendout of 438,000-mcf, topping the previous record of 422,000-mcf January 15, 1977.

Average cost to NSP was \$2.09/mcf from Northern Natural and \$4.52/mcf from Midwestern

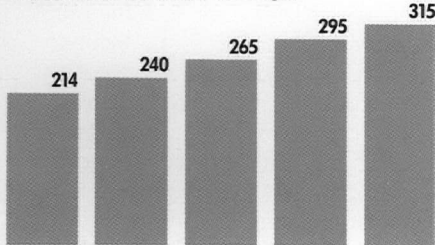
during 1980. Since 1978 the average cost per mcf has increased at an average annual rate of 21 percent from Northern Natural and 37 percent from Midwestern. We expect costs of both domestic and Canadian gas will continue to increase with the phased deregulation of natural gas in the U.S. and the increase in Canada's OPEC oil costs.

Natural gas reserve additions improved significantly as a result of phased deregulation of newly discovered natural gas. In 1979 the additions were 35 percent higher than the previous year, and the American Gas Association (AGA) anticipates that in 1980 or 1981 reserves additions in the lower 48 states will equal consumption for the first time since 1967. AGA predicts consumption can continue at least at present levels for the rest of this century.

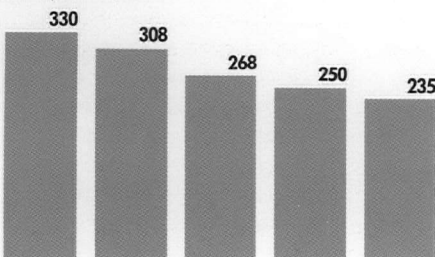
Wisconsin's Public Service Commission in 1980 approved a "controlled service plan" ending a

### Growth in Gas Customers and MCF Sales

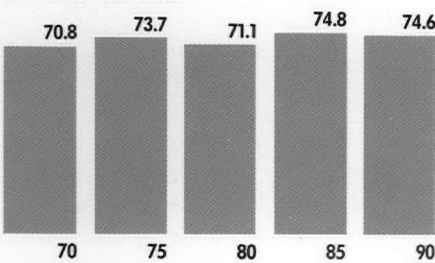
Thousands of Customers (average)



MCF per Customer



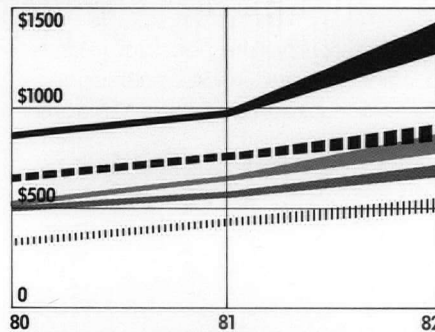
Millions of MCF Sales



### Relative Cost for Home Heating

Based on new energy efficient systems

- No. 2 Heating Oil
- Electric (Resistance)
- Midwestern Natural Gas
- Electric (Heat Pump)
- Northern Natural Gas



Efficiency ratios: 100% Electric resistance; 130% Electric Heat Pump; 80% Natural Gas; 75% No. 2 Heating Oil. Annual cost based on rates in effect in January of each year for 90 million Btu heating requirement.

moratorium on new natural gas hookups and giving NSP permission to add customers in the La Crosse area on the Northern system.

### Employee Competence Renewed

NSP's 6,965 benefit employees routinely improve and expand their job skills to maintain efficiency in company operations and promote safety for themselves and the public. Our medical and technical system for employee safety and health requirements is fully staffed and operational. Safety-consciousness resulted in a 12 percent reduction in our lost-time ratio in 1980.

A new learning center at the corporate headquarters tailors employee training to individual needs and available time. There a computer system substitutes for a teacher, offering courses at the student's pace and time. Others continue their education using videotapes on a wide variety of work-related subjects.

Company-wide PRIDE (Personal Resources for Individual Development of Excellence) management development courses were completed by 314 managers during the year, and 130 additional managers were trained in the Integrated Management System, a version of

management-by-objectives, bringing the total to about 1,000 graduates. In all, 2,500 employees completed professional, technical and vocational training courses to add to their knowledge, skills and potential.

NSP's strong affirmative action employment program continues with good results.

Employee efficiency is reinforced through the reorganized Social Resource Center and Training Department. There the company tries to meet social, physical, mental health, chemical dependency and development needs of employees.

### NSP Offers Flexible Benefits

Last year the company offered flexible benefits to non-union employees (benefits for union employees are negotiated). Because a uniform fringe benefit plan doesn't fit the specific needs of each employee, workers were given the chance to select programs in medical, disability, vacation and retirement/savings beyond the basic protection of the company's minimum plan. Each option has a price, and workers were assigned "flex-dollars" depending on age, service and other factors. The innovative program will be reopened annually to all eligible employees. NSP's program is the most extensive flexible benefit plan in the utility industry.

### Information Resources Merged

Information Systems is the result of a 1980 consolidation of computer and office systems functions to manage corporate information resources and associated computerized systems.

Calculation and issuance of itemized customer billings, issuance of shareholder dividend checks and corporate record-keeping is handled efficiently by computer through Information Systems. The department also operates the computer system, develops computer applications and

provides office services, such as word processing, internal printing, mailing and document-copying.

Information Systems also is responsible for long range planning, design and operation of the computer communication network needed to provide timely corporate data for departments which deal with

different regulatory and financial agencies or do corporate strategic planning.

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### Office Space Studied

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Since the corporate headquarters building opened in 1965, personnel there increased by 65 percent. Some

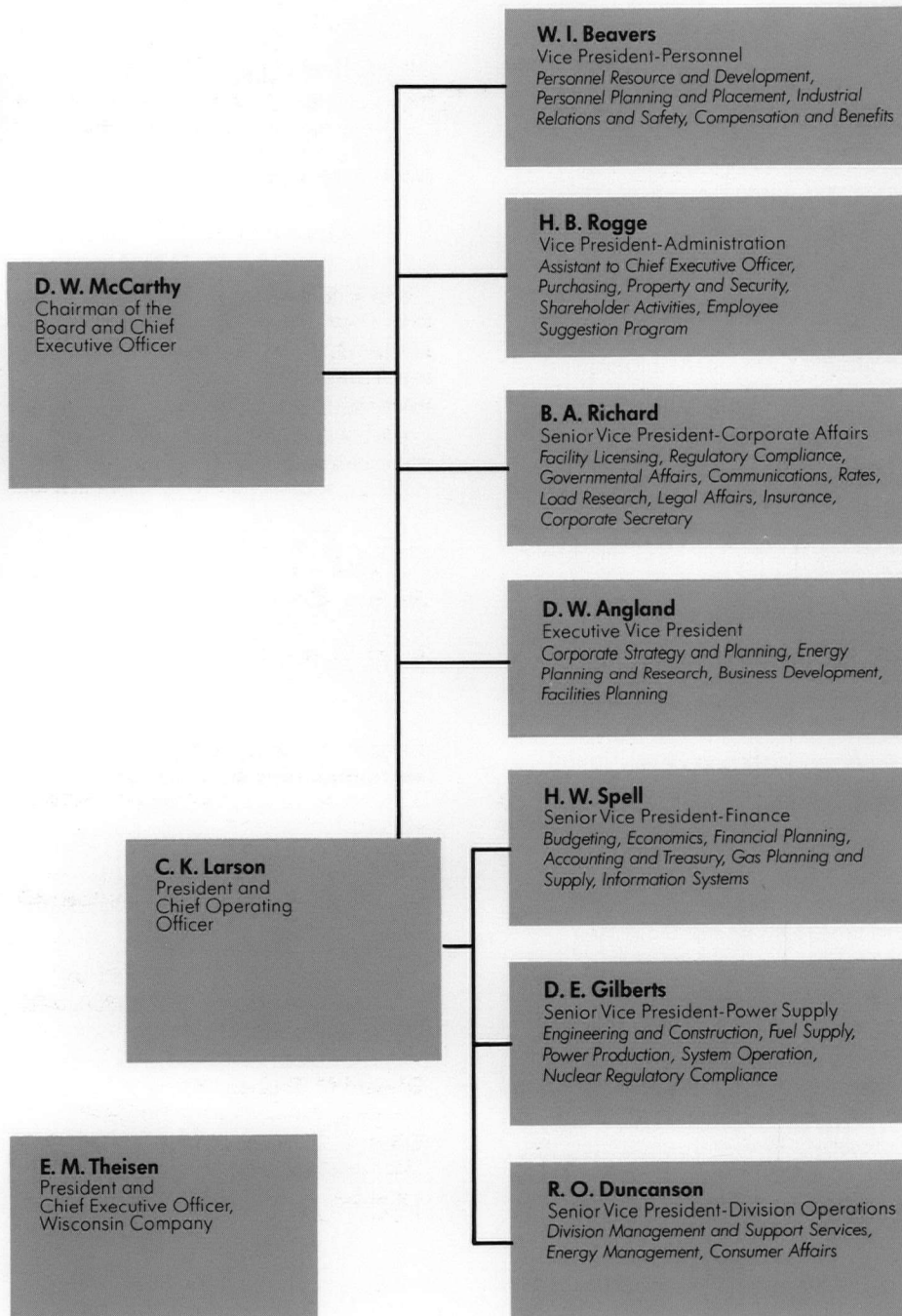
departments are now housed in leased offices and added space will be required soon. A long range study of space needs to the end of this century is under way to accommodate growth as well as to provide a secure operating environment for the data processing functions and system operation.

Energy saving has a high priority in the all-electric headquarters, where total use has dropped 10 percent since 1976. Over the past two years significant gains were made through an energy recovery system to use heat generated by computers. Energy for electric space heating dropped from 1,215,000-kwh in 1978 to 110,000-kwh in 1980.

In Winona, Minnesota, a new division service center is under construction to consolidate operations there in a single building. Completion of the \$1.4 million project is expected in May, 1981.

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### Corporate Structure




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### Minority Purchasing Stressed

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In addition to its Equal Opportunity Employment policy, NSP carries on an active program to purchase supplies and services from minority vendors and contractors. About 45 minority firms got contracts totaling \$1.6 million in 1980. The company also supports minority businesses through the Metropolitan Economic Development Association and the Minnesota Minority Purchasing Council. NSP, Northwestern Bell and 3M Company cosponsored a corporate/minority business exchange day for the Council on October 8.

## Directors and Officers (as of December 31, 1980)

### Directors of the Minnesota Company

**David A. Christensen** (45) ‡  
President and Chief Executive Officer  
Raven Industries, Incorporated  
(Manufacturers of reinforced plastics, sportswear  
and electronic equipment)  
Sioux Falls, South Dakota

**W. John Driscoll** (51) ‡  
President  
Green Valley Holding Company  
(Private investment firm)  
St. Paul, Minnesota

**N. Bud Grossman** (59) ‡  
Board Chairman and President  
Gelco Corporation  
(Transportation leasing, management and  
corporate services firm)  
Eden Prairie, Minnesota

**Dale L. Haakenstad** (52) ‡  
President, Western States Life Insurance  
Company (Life insurance company)  
Fargo, North Dakota

**Robert E. Haugan** (63) ‡  
President  
The Webb Company (Printing and publishing)  
St. Paul, Minnesota

**Clayton K. Larson**<sup>1</sup> (62)  
President and Chief Operating Officer  
Northern States Power Company  
Minneapolis, Minnesota

**Richard H. Magnuson** (55)  
Vice President and General Counsel  
Land O'Lakes, Incorporated  
(Food processing, marketing and  
agricultural services cooperative)  
Minneapolis, Minnesota

**Donald W. McCarthy** (58)  
Board Chairman and Chief Executive Officer  
Northern States Power Company  
Minneapolis, Minnesota

**M. D. McVay** (62)  
President, Cargill, Incorporated  
(International merchant, food, milling and  
shipping enterprise)  
Minneapolis, Minnesota

**William G. Phillips** (60)  
Board Chairman and Chief Executive Officer  
International Multifoods Corporation  
(Food processing and marketing company)  
Minneapolis, Minnesota

**G. M. Pieschel** (53)  
President and Chairman  
Farmers and Mechanics State Bank  
(Commercial bank)  
Springfield, Minnesota

**Margaret R. Preska**<sup>2</sup> (42)  
President, Mankato State University  
(Institution of higher education)  
Mankato, Minnesota

**D. B. (Rhiny) Reinhart** (60)  
President, Gateway Foods, Incorporated  
(Wholesale food distributor)  
La Crosse, Wisconsin

**Dorothy J. Skwieria** (44)  
Vice Chairman  
Minnesota Corrections Board  
(State parole board)  
St. Paul, Minnesota

**Chairman Emeritus  
Robert H. Engels** (70)  
Retired Chairman of the Board of the  
Company  
Minneapolis, Minnesota

### Principal Officers of the Minnesota Company

**D. W. (Jack) Angland** (58)  
Executive Vice President

**Wiley I. Beavers** (57)  
Vice President—Personnel

**Arland D. Brusven** (48)  
Secretary and Financial Counsel

**Roland W. Comstock**<sup>7</sup> (50)  
Vice President—Public Affairs

**James O. Cox** (53)  
Vice President and Treasurer

**Arthur V. Dienhart** (60)  
Vice President—Plant Engineering and  
Construction

**Ralph O. Duncanson** (55)  
Senior Vice President—Division Operations<sup>3</sup>

**Dennis E. Gilberts** (49)  
Senior Vice President—Power Supply<sup>3</sup>

**Clayton K. Larson** (62)  
President and Chief Operating Officer<sup>1</sup>

**Donald W. McCarthy** (58)  
Chairman of the Board and Chief Executive  
Officer

**M. D. (Bud) Olson** (61)  
Vice President—Commercial Operations

**Gerald S. Petterson** (49)  
Controller

**Robert E. Pile** (58)  
Vice President—Gas Planning and Supply

**Arthur R. Renquist** (60)  
Vice President—Law

**Bruce A. Richard** (51)  
Senior Vice President—Corporate Affairs

**Harriet B. Rogge** (54)  
Vice President—Administration<sup>1</sup>

**Harry W. Spell** (57)  
Senior Vice President—Finance<sup>1</sup>

**Leo J. Wachter** (61)  
Vice President—Power System Operation and  
Maintenance

**Rosanne Giombolini**<sup>1</sup>  
Assistant Secretary

**Shirley L. Grich**<sup>1</sup>  
Assistant Secretary

**Roy H. Berglund**  
Assistant Treasurer

### Directors of the Wisconsin Company

**John L. Carroll** (64)  
Retired President and Chief Executive Officer<sup>4</sup>  
Northern States Power Company (Wisconsin)  
Eau Claire, Wisconsin

**Chauncey J. Cooke** (61) †  
Farmer  
Eau Claire, Wisconsin

**F. Jerry Kripps** (58)  
Executive Vice President—Operations  
Northern States Power Company (Wisconsin)  
Eau Claire, Wisconsin

**Clayton K. Larson** (62)  
President and Chief Operating Officer  
Northern States Power Company (Minnesota)  
Minneapolis, Minnesota

**Ray A. Larson, Jr.** (51) †  
President  
Wissota Sand and Gravel Company  
Eau Claire, Wisconsin

**D. B. (Rhiny) Reinhart** (60) †  
President, Gateway Foods, Incorporated  
La Crosse, Wisconsin

**Richard L. Roehrich** (56)  
Vice President—Personnel  
Northern States Power Company (Wisconsin)  
Eau Claire, Wisconsin

**Harry W. Spell**<sup>5</sup> (57)  
Senior Vice President—Finance  
Northern States Power Company (Minnesota)  
Minneapolis, Minnesota

**Edward M. Theisen** (50)  
President<sup>2</sup> and Chief Executive Officer<sup>6</sup>  
Northern States Power Company (Wisconsin)  
Eau Claire, Wisconsin

### Principal Officers of the Wisconsin Company

**George A. Des Rosier** (61)  
Vice President—Division Operations

**Arthur V. Dienhart** (60)  
Vice President—Plant Engineering and  
Construction

**Donald P. Jolstad** (51)  
Secretary and Assistant Treasurer

**John L. Koplin** (47)  
Treasurer

**F. Jerry Kripps** (58)  
Executive Vice President—Operations

**Richard L. Roehrich** (56)  
Vice President—Personnel

**Edward M. Theisen** (50)  
President<sup>2</sup> and Chief Executive Officer<sup>6</sup>

**Glenn B. Thorsen** (46)  
Vice President—Finance

**Irene Shiffer**  
Assistant Secretary

† Member of Finance-Audit Committee of the Wisconsin Board

‡ Member of Finance-Audit Committee of the Minnesota Board

<sup>1</sup> Elected October, 1980

<sup>2</sup> Elected January, 1980

<sup>3</sup> Elected June, 1980

<sup>4</sup> Retired July, 1980

<sup>5</sup> Elected November, 1980

<sup>6</sup> Elected August, 1980

<sup>7</sup> Elected March, 1980

(†) Denotes age

## Management's Discussion and Analysis of Financial Condition and Results of Operation

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### Capital Resources

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NSP has a continuing need for capital to finance its construction program. In 1980 construction expenditures were \$222 million, of which 89% was provided by internally generated funds. The 1981 budgeted construction expenditures are \$290 million and the budgeted expenditures for the five-year period 1981-1985 are \$1.7 billion. It is estimated that 70% of the 1981 expenditures and 75% of the 1981-1985 expenditures will be met by internally generated funds.

In addition to the construction program, \$46 million will be required during the five-year period 1981-1985 to retire two series of maturing first mortgage bonds and to meet sinking fund requirements of the redeemable preferred stock and Wisconsin Company first mortgage bonds. The Wisconsin Company will also need \$32 million to meet the accrued estimated cancellation charges of the Tyrone Energy Park Nuclear Plant (Tyrone).

For the five-year period 1981-1985, it is estimated that NSP will need \$450 million of external financing. In 1981 NSP plans to issue \$75-\$125 million of first mortgage bonds and approximately \$17 million of pollution control bonds. Additional financings in succeeding years would be implemented so that the corporate objectives for capitalization ratios can be maintained. Currently, these capitalization objectives are 40-42% common equity, 10-12% preferred stock, and 48-50% debt.

During 1980 the Company purchased 1,500,000 shares of its common stock in market transactions for a total cost of \$37 million which is held as treasury stock. In addition,

outstanding common stock is now being purchased for the Employee Stock Ownership Plan and Dividend Reinvestment and Stock Purchase Plan.

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### Liquidity

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An electric utility's liquidity is a function of internal funds generation, access to the long-term securities market, and the availability of short-term debt credit facilities.

At the end of 1980, approximately 48% of NSP's total capital structure was debt, which is relatively low for the utility industry. Compared to the electric utility industry, NSP has a relatively low debt ratio, adequate interest coverage, and favorable internal cash generation. Consequently, NSP expects to have access to long-term debt markets on terms better than the electric utility industry in general.

Short-term debt of \$84 million at the end of 1980 represents about 4% of total capitalization. At the end of 1980, NSP had \$110 million of credit lines with commercial banks.

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### Results of Operation

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NSP's 1980 earnings per share of \$3.23 (\$.57 per share result from rate increases subject to refund), is a significant decrease from the \$3.51 and \$3.39 earned per share in 1979 and 1978, respectively. The earnings decline resulted from inflationary operating expense increases in all areas, including the rapidly increasing cost of complying with government regulations, which outpaced higher revenues resulting from rate increases and modest sales growth. The financial results of NSP, to a large

degree, depend upon increases in customer energy usage and the ability to increase prices as needed to offset inflationary cost increases and the cost of meeting government regulations.

Since the Arab Oil Embargo of 1973-74, prices of all forms of energy have risen and consumers have responded by conserving on their energy consumption. For the five-year period ending in 1972, NSP's growth rate in retail electric sales averaged 8.5% per year. In contrast, the growth rate from 1973 through 1980 averaged 3.2% per year. Sales growth for the past three years was 2.1% in 1980, 4.1% in 1979, and 4.8% in 1978. Growth in 1980 came from an increase in the average number of customers (2.3%) while average annual use per customer showed little change due primarily to the economic recession and conservation. Even though a general economic recovery is assumed, it is expected that 1981 retail kwh sales will increase by only 1.7% over 1980 since new customer additions are expected to drop due to a continuation of the depressed housing market.

Kilowatt hour sales to other utilities declined by 17.6% in 1980, 30.6% in 1979, and 12.0% in 1978. These declines were partially attributable to lower electric demands throughout the Upper Midwest Region as a result of consumer conservation and the general economic recession. Sales to other utilities also declined as more of NSP's generation was required for its own customers, which left only higher priced energy available for resale. Also, the addition of new generating facilities throughout the region reduced the need of other utilities to

purchase energy. Sales to other utilities were curtailed during the summer of 1980, because one of the severe summer storms knocked out a major transmission interconnection. The ability to sell energy to other utilities was improved somewhat by the completion of the 500 kilovolt interconnection with Manitoba Hydro in May 1980. NSP expects sales to other utilities to increase by 8% in 1981 over depressed 1980 levels.

Gas mcf sales decreased by 2.9% in 1980, but had increased by 6.9% in 1979 and 0.6% in 1978. The level of gas mcf sales in any year is impacted by weather conditions. The temperature during the 1980 heating season was about 9% warmer than 1979, which was a primary reason for the 7.0% drop in mcf sales to heating customers in 1980. Customer conservation efforts have and are expected to continue to have a depressing impact on gas mcf sales. While it is expected that a substantial number of residential customers will convert to gas heating, conservation efforts are expected to offset these increased requirements resulting in relatively flat gas heating sales over the next two years.

NSP did not have any major rate cases in 1979 or 1978; however, with the prospect of only modest sales growth, coupled with inflationary expense pressures in 1980, NSP sought increased rates in all rate jurisdictions. NSP's 1980 rate increase program reflected \$125.1 million in annual revenue increases. The State of Minnesota electric rate increase of \$77.5 million and the gas rate increase of \$11.0 million have been implemented, but remain subject to refund pending approval of the Minnesota Public Utilities Commission. In addition, electric retail and wholesale rate increases in the Wisconsin Company await final

approval. See the table on Page 8 regarding the status of the 1980 rate increase program.

Electric production expense includes fuel for electric generation and purchased and interchange power, while gas supply expense is shown as gas purchased for resale on the income statement. Both gas supply and electric production costs have increased during the past three years. The increases in electric production expenses can be attributed largely to increases in coal transportation rates and to the cost of fuel itself. Although NSP's 1980 power plant performance was above historical industry averages, it was below the exceptional performance experienced during 1979. This drop in power plant performance resulted in an increase in production costs for 1980.

Gas supply expense has increased solely as a result of higher costs from wholesale suppliers due in large part to the deregulation of natural gas. The average cost per mcf of gas purchased from Northern Natural Gas Company was \$2.09 during 1980, reflecting an average annual increase of 21% per year since 1978. The cost of gas purchased from Midwestern Gas Transmission Company was \$4.52 per mcf during 1980 which reflects an average annual increase of 37% since 1978. Continued increases are expected because of deregulation of domestic natural gas. While both electric production and gas supply expense increases are recovered from consumers through automatic fuel and gas purchased for resale adjustments, the customer is receiving a price increase signal which continues to prompt energy conservation efforts.

Administrative and general, other operation and maintenance expenses, in total, have increased by

20.9% in 1980, 8.7% in 1979, and 8.2% in 1978. These expenses have been impacted significantly by inflation and increased regulatory-related expenses. Inflation has increased the cost of all labor, maintenance materials and consultant services. In addition, increased expenses have been incurred as a result of operating and maintenance projects prompted by the Nuclear Regulatory Commission (NRC). Generating plant operation and maintenance expenses increased by \$21 million, or 25% in 1980. Of this increase, nearly \$10 million was a direct result of NRC prompted maintenance.

Depreciation and amortization increased in 1980 and 1979 compared to 1978 because of the amortization of the costs related to abandonment of Tyrone. This project was terminated in 1979, and the related expenditures and estimated cancellation costs of contracts are being amortized over a five-year period beginning in March 1979. Total amortization for Tyrone for 1980 and 1979 was \$15.0 and \$13.3 million, respectively. See Note 8 to the financial statements for a further discussion of Tyrone.

Another factor affecting income was the reduction of the Federal income tax rate from 48%, to 46% in 1979. This rate change reduced income taxes by \$3.6 and \$3.9 million in 1980 and 1979, respectively.

It is expected that inflation and regulatory-prompted expenses will continue to impact operating expense which will require continued rate relief efforts. See Note 13 to the financial statements for a further discussion on the impact of inflation on the Company.

## Statement of Income

Northern States Power Company, Minnesota and Subsidiaries

	Year Ended December 31		
	1980	1979	1978
	(Thousands of dollars)		
<b>Operating Revenues</b>			
Electric .....	\$ 914 704	\$ 832 663	\$809 668
Gas .....	233 809	205 623	160 481
Telephone and heating .....	10 539	9 890	9 102
Total (Note 2) .....	<b>1 159 052</b>	<b>1 048 176</b>	<b>979 251</b>
<b>Operating Expenses</b>			
Fuel for electric generation .....	203 924	178 972	168 663
Purchased and interchange power .....	36 451	22 096	16 284
Gas purchased for resale .....	172 893	142 606	109 021
Administrative and general .....	72 716	59 422	58 985
Other operation .....	115 139	95 628	86 576
Maintenance .....	88 838	73 842	64 965
Depreciation and amortization (Notes 1 and 8) .....	114 151	107 161	89 195
Property and general taxes .....	92 535	87 497	84 722
Income taxes (Notes 1 and 5) .....	100 105	109 362	128 881
Total .....	<b>996 752</b>	<b>876 586</b>	<b>807 292</b>
<b>Operating Income</b> .....	<b>162 300</b>	<b>171 590</b>	<b>171 959</b>
<b>Other Income</b>			
Allowance for funds used during construction—equity (Note 1) .....	9 950	9 944	7 237
Miscellaneous .....	4 192	3 270	7 179
Total .....	<b>14 142</b>	<b>13 214</b>	<b>14 416</b>
<b>Total Income</b> .....	<b>176 442</b>	<b>184 804</b>	<b>186 375</b>
<b>Income Deductions and Non-Operating Taxes</b> .....	<b>(690)</b>	<b>1 527</b>	<b>6 572</b>
<b>Income before Interest Charges</b> .....	<b>177 132</b>	<b>183 277</b>	<b>179 803</b>
<b>Interest Charges</b>			
Interest on long-term debt .....	61 352	61 726	62 274
Other interest and amortization .....	7 209	3 704	4 369
Allowance for funds used during construction—debt (Note 1) .....	(2 712)	(2 831)	(2 060)
Total .....	<b>65 849</b>	<b>62 599</b>	<b>64 583</b>
<b>Net Income (Note 2)</b> .....	<b>111 283</b>	<b>120 678</b>	<b>115 220</b>
<b>Preferred Stock Dividends</b> .....	<b>14 030</b>	<b>14 406</b>	<b>14 536</b>
<b>Earnings Available for Common Stock (Note 2)</b> .....	<b>\$ 97 253</b>	<b>\$ 106 272</b>	<b>\$100 684</b>
<b>Average Shares of Common Stock Outstanding (000's)</b> .....	<b>30 087</b>	<b>30 270</b>	<b>29 712</b>
<b>Earnings per Share on Average Shares (Note 2)</b> .....	<b>\$3.23</b>	<b>\$3.51</b>	<b>\$3.39</b>
<b>Common Dividends Declared per Share</b> .....	<b>\$2.385</b>	<b>\$2.25</b>	<b>\$2.135</b>

See Notes to Financial Statements on pages 27 to 32.



## Statement of Retained Earnings

Northern States Power Company, Minnesota and Subsidiaries

	Year Ended December 31		
	1980	1979	1978
	(Thousands of dollars)		
<b>Balance at Beginning of Year</b> .....	<b>\$342 479</b>	<b>\$304 534</b>	<b>\$267 118</b>
Net income .....	<b>111 283</b>	120 678	115 220
Capital stock expense .....	<b>(89)</b>	(36)	(125)
Other .....	<b>4</b>		427
Net additions .....	<b>111 198</b>	120 642	115 522
Dividends declared			
Cumulative preferred stock at required annual rates .....	<b>14 030</b>	14 406	14 536
Common stock—per share: 1980, \$2.385; 1979, \$2.25; 1978, \$2.135. ....	<b>71 595</b>	68 291	63 570
Total dividends declared .....	<b>85 625</b>	82 697	78 106
<b>Balance at End of Year</b> (Note 3) .....	<b>\$368 052</b>	<b>\$342 479</b>	<b>\$304 534</b>

## Statement of Changes in Financial Position

### Source of Funds

Funds from operations			
Net income .....	<b>\$111 283</b>	\$120 678	\$115 220
Depreciation and other amortization .....	<b>118 422</b>	111 941	96 270
Nuclear fuel amortization .....	<b>38 316</b>	31 868	28 636
Deferred income taxes .....	<b>14 532</b>	61 229	37 079
Investment tax credit adjustments—net .....	<b>8 726</b>	18 615	9 220
Allowance for funds used during construction .....	<b>(12 662)</b>	(12 775)	(9 297)
Total .....	<b>278 617</b>	331 556	277 128
Proceeds from sale of notes and securities			
Notes payable .....	<b>63 079</b>	20 999	
Long-term debt .....	<b>509</b>	157	6 587
Common stock .....	<b>3 920</b>	15 365	10 846
Total .....	<b>67 508</b>	36 521	17 433
<b>Total Source of Funds</b> .....	<b>\$346 125</b>	<b>\$368 077</b>	<b>\$294 561</b>

### Application of Funds

Construction expenditures .....	<b>\$222 343</b>	\$231 336	\$213 370
Transfer of Tyrone to abandoned projects .....		(40 000)	
Allowance for funds used during construction .....	<b>(12 662)</b>	(12 775)	(9 297)
Tyrone abandonment .....	<b>(5 000)</b>	80 000	
Reductions of long-term debt and redeemable preferred stock .....	<b>1 044</b>	4 184	25 677
Acquisition of common stock .....	<b>36 774</b>		
Acquisition of redeemable preferred stock .....	<b>4 291</b>		
Preferred and common dividends .....	<b>85 625</b>	82 697	78 106
Increase (decrease) in working capital (excluding notes payable) .....	<b>10 230</b>	22 773	(15 430)
Other—net .....	<b>3 480</b>	(138)	2 135
<b>Total Application of Funds</b> .....	<b>\$346 125</b>	<b>\$368 077</b>	<b>\$294 561</b>

### Increase (Decrease) in Working Capital (excluding notes payable)

Cash and temporary cash investments .....	<b>\$ (498)</b>	\$ (37 291)	\$ 164
Accounts receivable—net .....	<b>23 035</b>	42 029	(34 592)
Materials and supplies .....	<b>23 068</b>	35 884	(6 550)
Long-term debt and redeemable preferred stock due within one year .....	<b>2 527</b>	21 979	(14 372)
Accounts payable, Tyrone charges accrued and salaries, wages, etc .....	<b>(3 669)</b>	(56 234)	2 047
Revenue refunds due customers .....	<b>3 151</b>	(3 151)	34 976
Income and other taxes accrued .....	<b>(40 478)</b>	20 787	4 633
Other current assets and liabilities—net .....	<b>3 094</b>	(1 230)	(1 736)
<b>Total</b> .....	<b>\$ 10 230</b>	<b>\$ 22 773</b>	<b>\$ (15 430)</b>

See Notes to Financial Statements on pages 27 to 32.

# Balance Sheet

Northern States Power Company, Minnesota and Subsidiaries

	December 31	
	1980	1979
	(Thousands of dollars)	
<b>ASSETS</b>		
<b>Utility Plant</b> (Notes 1 and 6)		
Electric—including construction work in progress: 1980, \$217,673,000; 1979, \$216,560,000 . . .	\$2 949 850	\$2 802 123
Gas . . . . .	227 648	204 465
Other . . . . .	86 817	73 303
Total . . . . .	3 264 315	3 079 891
Accumulated provision for depreciation . . . . .	(871 877)	(786 504)
Nuclear Fuel—including in process: 1980, \$19,183,000; 1979, \$23,697,000 . . . . .	163 611	142 283
Accumulated provision for amortization . . . . .	(162 211)	(123 895)
Net utility plant . . . . .	2 393 838	2 311 775
<b>Other Property and Investments</b> . . . . .	5 961	5 916
<b>Current Assets</b>		
Cash (Note 7) . . . . .	5 604	5 294
Temporary cash investments . . . . .	8 378	9 186
Accounts receivable . . . . .	116 350	93 742
Accumulated provision for uncollectible accounts . . . . .	(1 373)	(1 800)
Materials and supplies—at average cost		
Fuel . . . . .	99 364	81 284
Other . . . . .	30 458	25 470
Prepayments and other . . . . .	14 445	9 697
Total current assets . . . . .	273 226	222 873
<b>Deferred Debits</b>		
Extraordinary property losses (Note 8) . . . . .	47 601	68 527
Other . . . . .	14 641	10 767
Total deferred debits . . . . .	62 242	79 294
<b>Total</b> . . . . .	<u>\$2 735 267</u>	<u>\$2 619 858</u>

See Notes to Financial Statements on pages 27 to 32.

December 31

1980 1979

(Thousands of dollars)

**LIABILITIES****Capitalization** (Page 26) (Note 3)

Common stock—authorized 40,000,000 shares of \$5 par value; issued shares: 1980, 30,834,075; 1979, 30,640,817	\$ 154 170	\$ 153 204
Premium on common stock	339 426	336 430
Dividend reinvestment—installments		42
Retained earnings	368 052	342 479
Treasury stock: 1,500,000 shares at cost	(36 774)	
Total common stock equity	824 874	832 155
Cumulative preferred stock—authorized 3,500,000 shares of \$100 par value; outstanding shares: 1980, 2,207,304; 1979, 2,275,000 (Note 4)		
Non-redeemable	205 000	205 000
Redeemable (net of treasury shares at cost)	15 709	20 000
Premium on preferred stock	729	729
Long-term debt (Note 6)	890 900	891 505
Total capitalization	1 937 212	1 949 389

**Current Liabilities**

Notes payable—commercial paper (Note 7)	84 078	20 999
Redeemable preferred stock due within one year		2 527
Accounts payable	75 597	65 248
Tyrone cancellation charges accrued (Note 8)	32 000	40 000
Salaries, wages, and vacation pay accrued	14 583	13 263
Revenue refunds due customers		3 151
Federal income taxes accrued	37 808	3 746
Other taxes accrued	71 148	64 732
Interest accrued	20 643	18 834
Dividends declared on preferred and common stocks	21 152	21 034
Other	282	555
Total current liabilities	357 291	254 089

**Deferred Credits**

Accumulated deferred income taxes (Note 1)	330 311	315 779
Accumulated deferred investment tax credits (Note 1)	103 554	94 828
Other	6 899	5 773
Total deferred credits	440 764	416 380

**Commitments and Contingent Liabilities** (Notes 8 and 9)

Total	\$2 735 267	\$2 619 858
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# Statement of Capitalization

Northern States Power Company, Minnesota and Subsidiaries

	December 31, 1980		December 31, 1979	
	(Thousands of dollars)	%	(Thousands of dollars)	%
<b>Common Stock Equity (Note 3)</b> .....	<b>\$ 824 874</b>	<b>43%</b>	<b>\$ 832 155</b>	<b>43%</b>
<b>Cumulative Preferred Stock</b>				
Non-redeemable (Note 4)				
\$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>	<b>205 000</b>	<u>205 000</u>	<b>10</b>
Redeemable (Note 4)				
\$10.36 series, 1980, 200,000 shares;	1980	1979		
1979, 225,000 shares .....	<b>\$20 000</b>	\$22 500		
Less current sinking fund .....		2 500		
Less treasury stock (42,696 shares) .....	<b>4 291</b>			
Net .....	<u>\$15 709</u>	<u>\$20 000</u>	<b>15 709</b>	<b>1</b>
<b>Premium on Preferred Stock</b> .....		<b>729</b>	<u>729</u>	<b>1</b>
<b>Long-Term Debt (Note 6)</b>				
<b>First Mortgage Bonds Minnesota Company—Series due:</b>				
June 1, 1982, 3¼% .....	\$21 500	May 1, 1998, 6¼% .....	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, 7.97% .....	35 000*	
June 1, 1995, 6¼% .....	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			
Oct. 1, 1997, 6½% .....	30 000			
Total .....	<u>\$790 300</u>	<b>790 300</b>	<u>790 300</u>	
<b>First Mortgage Bonds Wisconsin Company—Series due:</b>				
(less reacquired bonds of \$924,000 and \$1,009,000 at December 31, 1980 and 1979, respectively)				
Annual Sinking Fund Requirement		1980	1979	
June 1, 1987, 4⅝% .....	\$100	<b>\$ 7 660</b>	\$ 7 767	
Aug. 1, 1994, 4½% .....	150	<b>12 562</b>	12 708	
Dec. 1, 1999, 9¼% .....	100	<b>8 758</b>	8 871	
Oct. 1, 2003, 7¾% .....	300	<b>27 846</b>	28 045	
Total .....	<u>\$650</u>	<u>\$56 826</u>	<u>\$57 391</u>	<b>56 826</b>
<b>Guaranty Agreements Minnesota Company—Series due:*</b>				
Feb. 1, 1989-2003, 5.39% .....	<b>\$ 7 600</b>	\$ 7 600		
May 1, 1987-2003, 5.66% .....	<b>28 750</b>	28 750		
Feb. 1, 2003, 7.40% .....	<b>3 500</b>	3 500		
Total .....	<u>\$39 850</u>	<u>\$39 850</u>	<b>39 850</b>	<b>39 850</b>
<b>Miscellaneous Long-Term Debt</b> .....		<b>3 114</b>	<u>3 084</u>	
<b>Unamortized Premium and Discount on Long-Term Debt</b> .....		<b>810</b>	<u>880</u>	
Total long-term debt .....		<b>890 900</b>	<u>891 505</u>	<b>46</b>
<b>Total Capitalization</b> .....		<b>\$1 937 212</b>	<u>\$1 949 389</u>	<b>100%</b>

\*Pollution control financing at average interest rates.  
See Notes to Financial Statements on pages 27 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. 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, a non-cash item, is included in construction work in progress and credited to income using composite rates which assumes that funds used for construction were provided by debt and equity. The AFC so included in construction work in progress will ultimately be included in the rate base in establishing rates for utility service. The composite AFC rate for the Company was 7.75% in 1980, 7.5% in 1979, and 7.2% in 1978. 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 Utilities Commission in rate proceedings. The composite AFC rate for the Wisconsin Company was 7%.

*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 3.46% in 1980, 3.44% in 1979, and 3.41% in 1978. The depreciation expense for nuclear generating plants includes a provision for decommissioning costs of 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 the 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*—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 Credits*—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 because 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 purchased.

*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. Revenues Subject to Refund

Some of the rate increases which were placed in effect in 1980 are subject to refund. For 1980 electric and gas revenues include \$35,115,000 subject to refund which has increased net income and earnings per share by \$17,036,000 and \$.57 respectively.

### 3. Common Stock

	Common Stock			Treasury Stock	
	Shares	Par Value	Premium	Shares	Cost
	(Thousands of dollars)				
Balance at January 1, 1978	29 532 773	\$147 664	\$315 691		
Dividend Reinvestment and Stock Purchase Plan	335 091	1 676	6 510		
Employee Stock Ownership Plan	102 244	511	2 216		
Balance at December 31, 1978	29 970 108	149 851	324 417		
Dividend Reinvestment and Stock Purchase Plan	564 169	2 821	9 891		
Employee Stock Ownership Plan	106 540	532	2 122		
Balance at December 31, 1979	30 640 817	153 204	336 430		
Dividend Reinvestment and Stock Purchase Plan	190 093	950	2 948		
Employee Stock Ownership Plan	3 165	16	48		
Purchase of Treasury Stock				1 500 000	\$(36 774)
Balance at December 31, 1980	30 834 075	\$154 170	\$339 426	1 500 000	\$(36 774)

The Company's Articles of Incorporation and Trust Indenture 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.

### 4. Cumulative Preferred Stock

*All Issues*—The preferred stock may be called at the option of the Company at prices per share at December 31, 1980, ranging from \$102.00 to \$115.00 plus accrued dividends.

*Redeemable Issue*—The \$10.36 series is subject to a mandatory annual 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 1980 and 1979, the Company retired 25,000 shares each year.

### 5. Income Tax Expense

The total income tax expense differs from the amount computed by applying the Federal income tax statutory rate (46% for 1980, 1979 and 48% for 1978) to net income before income tax expense. The reasons for the difference are as follows:

	1980	1979	1978
	(Thousands of dollars)		
Tax computed at statutory rate	\$ 97 273	\$106 637	\$118 460
Increases (decreases) in tax from:			
State income taxes, net of Federal income tax benefit	9 472	12 823	14 161
Allowance for funds used during construction	(5 825)	(5 877)	(4 463)
Investment tax credit on plant additions	(14 987)	(25 725)	(13 426)
Investment tax credit adjustments—net	10 605	22 152	10 410
Reduced tax depreciation resulting from use of the flow-through method in prior years	6 555	6 070	7 750
Other—net	(2 914)	(4 938)	(1 321)
Total income tax expense	\$100 179	\$111 142	\$131 571
Effective income tax rate	47.4%	47.9%	53.3%
Composite statutory tax rate	51.7%	51.7%	53.4%
Income tax expense is comprised of the following:			
Included in income taxes			
Current Federal tax expense	\$ 60 938	\$ 13 471	\$ 61 886
Current state tax expense	14 033	12 480	18 755
Deferred Federal tax expense	11 042	50 375	29 974
Deferred state tax expense	3 487	10 884	7 856
Investment tax credit adjustments—net	10 605	22 152	10 410
Total	100 105	109 362	128 881
Included in depreciation expense			
Deferred Federal tax expense	2 059	2 174	1 825
Deferred state tax expense	353	373	330
Included in income deductions			
Current Federal tax expense	(2 008)	(747)	995
Current state tax expense	(333)	10	291
Deferred Federal tax expense	3	(30)	(751)
Total income tax expense	\$100 179	\$111 142	\$131 571
Deferred income tax expense is comprised of the following:			
Tyrone abandonment	\$ (9 523)	\$ 31 250	
Excess of tax over book depreciation—net	18 665	23 296	\$ 25 058
ADR repair allowance	4 506	5 807	9 396
Overhead costs	4 031	4 611	4 471
Other	(735)	(1 188)	309
Total	\$ 16 944	\$ 63 776	\$ 39 234

## 6. 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 have been applied in lieu of cash as permitted by the Company's Trust Indenture.

All utility property, except for minor exclusions, is subject to the lien of the indentures relating to the first mortgage bonds.

## 7. Short-Term Borrowings and Compensating Balances

At December 31, 1980 there were bank lines of credit aggregating \$110,400,000. There are compensating balance arrangements in support of such lines of credit and substantially all cash is considered compensating balances. These credit lines make short-term financing available by providing bank loans and back-up for commercial paper.

## 8. Tyrone Nuclear Plant Abandonment

The Wisconsin Company was 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 had a 67.6% undivided interest. Three other entities had the remaining 32.4%. During 1979, the Public Service Commission of Wisconsin issued an order denying the application for authority to construct the proposed plant and the co-owners subsequently reached an agreement to terminate the project.

At December 31, 1980 the Wisconsin Company had spent approximately \$43 million, net of salvage for its 67.6% share of the project and estimates it will incur \$32 million for the remaining cancellation costs net of recoverable costs, for a total of \$75 million. The actual amount of remaining cancellation costs ultimately to be incurred 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 in 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 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.

The Company and the Wisconsin Company are seeking to recover these costs through rate increases in various jurisdictions. To the extent that amortization were to be denied in rate proceedings, the remaining appropriate unamortized costs would be written-off at the time a final determination is made. The unamortized costs, net of deferred income taxes, at December 31, 1980 and 1979 were \$24,937,000 and \$35,417,000, respectively. 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.

## 9. Commitments and Contingent Liabilities

At December 31, 1980 there were commitments (exclusive of those related to the Tyrone Energy Park, see Note 8) in connection with construction programs aggregating about \$620 million including \$525 million relating to nuclear fuel purchases.

There are also contracts for the purchase of coal, natural gas, and oil, and a contract for delivery of BTUs of energy for the operation of the Monticello nuclear power plant. The nuclear fuel lease payments are charged to fuel for electric generation based on the BTUs of energy expended.

Rentals (including nuclear fuel of \$10,590,000, \$11,856,000, and \$10,078,000) were approximately \$19,200,000, \$18,400,000 and \$15,800,000 for 1980, 1979 and 1978, respectively.

Minimum lease commitments as of December 31, 1980, under all non-cancelable leases (principally lease of nuclear fuel) are about: 1981, \$13,000,000; 1982, \$15,100,000; 1983, \$26,800,000; 1984, \$300,000; 1985, \$300,000; and, 1986-1990, \$100,000. The minimum lease commitments for nuclear fuel are based on the estimated use through 1983, a final payment of \$22,000,000 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 now owns three reactors.

## 10. 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 \$20,522,400 for 1980, \$18,070,500 for 1979 and \$16,308,000 for 1978. A comparison of accumulated plan benefits and plan net assets for the defined benefit plans is presented below:

	December 31, 1980
	(Thousands of dollars)
Actuarial present value of accumulated plan benefits:	
Vested .....	\$212 315
Nonvested .....	13 477
Total .....	<u>\$225 792</u>
Net assets available for benefits .....	<u>\$236 605</u>

The net assets available for benefits exceed the actuarial present value of vested benefits as of December 31, 1980, by \$24,290,000. The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7% for 1980.

## 11. Segment Information

	Year Ended December 31, 1980			
	Electric	Gas	Other	Total
	<i>(Thousands of dollars)</i>			
Operating revenues . . . . .	\$ 914 704	\$233 809	\$10 539	\$1 159 052
Operating income before income taxes . . . . .	246 072	14 158	2 175	262 405
Depreciation and amortization . . . . .	104 659	7 760	1 732	114 151
Construction expenditures . . . . .	190 656	28 412	3 275	222 343
	December 31, 1980			
Net utility plant . . . . .	\$2 205 046	\$165 391	\$23 401	\$2 393 838
Other corporate assets . . . . .				341 429
Total assets . . . . .				\$2 735 267

	Year Ended December 31, 1979			
	Electric	Gas	Other	Total
	<i>(Thousands of dollars)</i>			
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
	December 31, 1979			
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
	<i>(Thousands of dollars)</i>			
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
	December 31, 1978			
Net utility plant . . . . .	\$2 091 794	\$136 315	\$22 064	\$2 250 173
Other corporate assets . . . . .				201 359
Total assets . . . . .				\$2 451 532

## 12. Summarized Quarterly Financial Data (Not Certified)

	Quarter Ended			
	March 31, 1980	June 30, 1980	September 30, 1980*	December 31, 1980*
	<i>(Thousands of dollars)</i>			
Operating revenues . . . . .	\$322 288	\$250 415	\$279 389	\$306 960
Operating income . . . . .	40 562	30 404	46 438	44 897
Net income . . . . .	31 004	18 725	32 127	29 426
Earnings available for common stock				
Earnings per share . . . . .	27 435	15 165	28 632	26 021
Earnings per share . . . . .	.89	.49	.97	.89

	Quarter Ended			
	March 31, 1979	June 30, 1979	September 30, 1979	December 31, 1979
	<i>(Thousands of dollars)</i>			
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				
Earnings per share . . . . .	39 814	21 384	27 123	17 950
Earnings per share . . . . .	1.33	.71	.89	.59

\*For the three months ended September 30, 1980 and December 31, 1980, revenues include \$12,557,000 and \$22,558,000, respectively, subject to refund which has increased net income and earnings per share by \$6,097,000 and \$10,939,000 and \$.20 and \$.37, respectively.

## 13. Financial Reporting of Changing Prices (Not Certified)

The following information is supplied in accordance with the requirements of the 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. This information is not intended as a substitute for earnings reported on a historical cost basis. It offers some perspective of the approximate effects of inflation rather than a precise measurement of these effects.

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

**Property, Plant, and Equipment**—The current cost of all depreciable property is the estimated cost of replacing existing depreciable property and was determined by indexing the original cost of the property 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



**13. Financial Reporting of Changing Prices (Not Certified)  
(Continued)**

is not reflected in either of the supplementary calculations.

*Accumulated Depreciation*—The net assets at year-end were determined by reducing the respective constant dollar and current costs by the corresponding theoretical accumulated provision for depreciation. This provision for accumulated depreciation was calculated by the appropriate survivor curve reserve ratios, by FERC account, to the respective vintaged indexed amounts.

*Depreciation Expense*—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.

*Reduction to Net Recoverable Cost*—Under the rate-making prescribed by the regulatory commissions, 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 property, management believes, based on past practices, it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

*Gain from Decline in Purchasing Power of Net Amounts Owed*—By holding monetary assets, a loss of purchasing power is suffered during periods of inflation because the amount of cash received in the future for these items will purchase less. Conversely, by holding monetary liabilities, primarily long-term debt, there is a benefit because the payment in the future will be made with dollars having

less purchasing power. Significant amounts of long-term debt outstanding which will be paid back in dollars having less purchasing power and, therefore, for purposes of these calculations, shows a net gain from holding monetary liabilities in excess of monetary assets. However, the Company and Wisconsin Company do not have the opportunity to realize a holding gain on debt and preferred stock because they are limited to the recovery of only the historical embedded cost.

*Other Items*—Fuel inventories, the cost of fuel used in generation, and gas purchased for resale have not been restated. Regulation permits the recovery of actual fuel and purchased gas costs through the operation of adjustment clauses in basic rate schedules. For this reason, fuel inventories are effectively monetary assets.

Since present tax laws do not allow deductions for higher depreciation rates to reflect the effects of inflation, income taxes included in the data adjusted for general inflation were not adjusted from those amounts presented in the primary financial statements. Therefore, the effective Federal income tax rate, when adjusted for inflation, is 83.5 percent under constant dollar and 105.0 percent under current cost for 1980, each of which exceeds its reported effective tax rate of 47.4 percent.

As can be seen from the accompanying information in the five-year comparison of supplementary financial data, inflation has had a significant impact. Although operating revenues over the last five years has increased significantly as reported, they have remained relatively constant in real terms. Also, even though cash dividends have increased every year, they have decreased every year in price level adjusted dollars. Market price per share in adjusted dollars has also had a significant decline.

**Statement of Income from Continuing Operations Adjusted for Changing Prices  
for the Year Ended December 31, 1980** *(Thousands of dollars)*

	Historical Cost	Constant Dollar Average 1980 Dollars	Current Cost Average 1980 Dollars
Operating revenues . . . . .	\$1 159 052	\$1 159 052	\$1 159 052
Electric fuel and purchased power . . . . .	240 375	240 375	240 375
Gas purchased for resale . . . . .	172 893	172 893	172 893
Depreciation . . . . .	99 149	190 672	215 215
Amortization . . . . .	15 002	15 002	15 002
Other operating and maintenance expense . . . . .	369 228	369 228	369 228
Income tax expense . . . . .	100 105	100 105	100 105
Interest expense . . . . .	65 849	65 849	65 849
Other income and deductions—net . . . . .	(14 832)	(14 832)	(14 832)
Total . . . . .	1 047 769	1 139 292	1 163 835
Income (Loss) from continuing operations (excluding reduction to net recoverable cost) . . .	\$ 111 283	\$ 19 760*	\$ (4 783)
Reduction to net recoverable cost . . . . .		\$ (186 513)	\$ (81 554)
Gain from decline in purchasing power of net amounts owed . . . . .		\$ 179 492	\$ 179 492
Effect of increase in general price level . . . . .			\$ 498 459
Increase in specific prices (current cost) of property held during the year** . . . . .			418 043
Excess of increase in general price level over increase in specific prices . . . . .			\$ 80 416

\*Including the reduction to net recoverable cost, the income (loss) from continuing operations on a constant dollar basis would have been \$(166 753) for 1980.

\*\*At December 31, 1980, current cost of property, net of accumulated depreciation was \$4,445,208, while historical cost or net cost recoverable through depreciation was \$2,393,838.

### 13. Financial Data 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 1980 Dollars)

	Year Ended December 31,				
	1980	1979	1978	1977	1976
Operating revenues					
As reported	\$1 159 052	\$1 048 176	\$ 979 251	\$ 881 510	\$ 769 604
Adjusted	1 159 052	1 198 065	1 241 690	1 200 617	1 120 543
Income (Loss) from continuing operations (excluding reduction to net recoverable cost)					
As reported	\$ 111 283	\$ 120 678			
Constant dollar adjusted	19 760	58 356			
Current cost adjusted	(4 783)	27 162			
Income (Loss) per common share (after dividend requirements on preferred stock)					
As reported	\$3.23	\$3.51			
Constant dollar adjusted	.19	1.38			
Current cost adjusted	(.63)	.35			
Net assets at year-end at net recoverable cost					
As reported	\$1 046 312	\$1 057 884			
Constant dollar adjusted	1 002 581	1 139 210			
Current cost adjusted	1 002 581	1 139 210			
Excess of increase in general price level over increase in specific prices	\$ 80 416	\$ 95 014			
Gain from decline in purchasing power of net amounts owed	\$ 179 492	\$ 211 390			
Cash dividends declared per common share					
As reported	\$2.385	\$2.25	\$2.135	\$2.03	\$1.94
Adjusted	2.385	2.57	2.71	2.76	2.82
Market price per common share at year-end					
As reported	\$21.50	\$22.375	\$23.50	\$28.25	\$29.50
Adjusted	21.50	25.57	29.80	38.48	42.95
Mid-Year consumer price index	247.6	216.6	195.3	181.8	170.1

#### 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, 1980 and 1979 and the related statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 2 to the financial statements, 1980 revenues include amounts which are subject to refund pending the outcome of various rate proceedings. The ultimate outcome of these proceedings cannot presently be determined.

In our opinion, subject to the effects on the 1980 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, such financial statements present fairly the financial position of the Companies at December 31, 1980 and 1979, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

*Debbie Haskins & Sells*  
DELOITTE HASKINS AND SELLS  
Minneapolis, Minnesota  
February 17, 1981

## Selected Financial Data

	1980	1979	1978	1977	1976	
		(Dollars in millions except per share amounts)				
Operating revenues . . . . .	\$1 159.1	\$ 1 048.2	\$ 979.3	\$ 881.5	\$ 769.6	
Operating expenses . . . . .	996.8	876.6	807.3	725.9	624.0	
Net income . . . . .	111.3	120.7	115.2	98.6	97.6	
Earnings available for common stock . . . . .	97.3	106.3	100.7	84.1	83.1	
Average shares of common stock outstanding (000's) . . . . .	30 087	30 270	29 712	29 389	28 319	
Earnings per share on average shares . . . . .	3.23	3.51	3.39	2.86	2.93	
Dividends declared per share . . . . .	2.385	2.25	2.135	2.03	1.94	
Total assets . . . . .	2 735.3	2 619.9	2 451.5	2 407.4	2 306.4	
Long-term debt . . . . .	890.9	891.5	893.1	916.0	926.6	
Redeemable preferred stock (net of treasury shares) . . . . .	15.7	20.0	22.5	25.0	25.0	
Ratio of earnings to fixed charges . . . . .	4.0	4.4	4.6	4.0	3.7	

## Financial Statistics

	1980	1979	1978	1977	1976
Earnings per share on average shares . . . . .	\$ 3.23	\$ 3.51	\$ 3.39	\$ 2.86	\$ 2.93
Return on average common equity . . . . .	11.7%	13.2%	13.3%	11.8%	12.6%
Dividends in percent of earnings . . . . .	73.6%	64.3%	63.1%	71.0%	67.1%
Dividends in percent of book value . . . . .	8.9%	8.8%	8.7%	8.6%	8.5%
Five year growth rates in earnings per share (1) . . . . .	3.4%	6.8%	5.4%	2.2%	2.4%
Construction expenditures (Millions) . . . . .	\$ 222.3	\$ 231.3	\$ 213.4	\$ 159.3	\$ 178.0
Percent of construction expenditures financed by internally generated funds (excluding AFC) . . . . .	88.7%	76.8%	98.0%	100.0%	75.7%
Cash dividend coverage . . . . .	3.7	4.6	4.1	4.1	4.2
AFC as a percent of earnings per share . . . . .	13.0%	12.0%	9.2%	8.4%	22.2%
Effective tax rate . . . . .	47.4%	47.9%	53.3%	51.5%	47.6%
Capitalization (2)					
Common . . . . .	40.8%	42.2%	40.5%	38.7%	36.7%
Preferred . . . . .	11.0%	11.6%	12.0%	12.2%	12.1%
Debt . . . . .	48.2%	46.2%	47.5%	49.1%	51.2%
Total . . . . .	100.0%	100.0%	100.0%	100.0%	100.0%
Embedded cost of long-term debt . . . . .	7.00%	7.00%	6.90%	6.85%	6.79%
Average plant investment per dollar of revenue . . . . .	\$ 2.87	\$ 2.99	\$ 3.02	\$ 3.16	\$ 3.42
Depreciation reserve in percent of depreciable plant . . . . .	29.1%	27.9%	26.4%	24.3%	23.7%
Depreciation provision in percent of average depreciable plant . . . . .	3.46%	3.44%	3.41%	3.43%	3.45%
Benefit employees (at December 31) . . . . .	6 965	6 700	6 580	6 694	6 511

AFC— Allowance for Funds Used During Construction

(1) Least squares method.

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

## Operating Statistics

Northern States Power Company, Minnesota and Subsidiaries

### ELECTRIC

Revenues (thousands)	1980	1979	1978	1977	1976
Residential					
With space heating	\$ 28 017	\$ 23 607	\$ 17 921	\$ 12 739	\$ 9 711
Without space heating	290 225	260 567	252 914	233 942	223 339
Small commercial and industrial	149 878	131 872	122 992	112 435	109 110
Large commercial and industrial	330 276	289 202	266 804	234 480	214 121
Street lighting and other	22 216	20 061	19 193	18 944	19 165
Total retail	820 612	725 309	679 824	612 540	575 446
Sales for resale	87 220	102 378	125 592	118 018	61 444
Miscellaneous	6 872	4 976	4 252	1 702	6 894
Total	\$ 914 704	\$ 832 663	\$ 809 668	\$ 732 260	\$643 784
<b>Sales (millions of Kwh)</b>					
Residential					
With space heating	763	721	575	445	369
Without space heating	6 283	6 177	6 118	5 976	6 048
Small commercial and industrial	3 380	3 284	3 172	3 027	2 964
Large commercial and industrial	10 033	9 854	9 374	8 875	8 541
Street lighting and other	549	539	526	543	574
Total retail	21 008	20 575	19 765	18 866	18 496
Sales for resale	4 346	5 041	6 795	7 500	3 730
Total	25 354	25 616	26 560	26 366	22 226
<b>Customer Accounts (at December 31)</b>					
Residential					
With space heating	44 711	39 393	32 846	25 878	19 737
Without space heating	921 545	910 106	892 127	875 892	870 157
Small commercial and industrial	105 888	103 831	102 049	99 556	89 157
Large commercial and industrial	5 335	5 107	4 861	4 634	4 346
Street lighting and other	6 792	6 641	6 504	6 262	6 870
Total retail	1 084 271	1 065 078	1 038 387	1 012 222	990 267
Sales for resale	77	76	84	83	73
Total	1 084 348	1 065 154	1 038 471	1 012 305	990 340
<b>Residential With Space Heating</b>					
Annual Kwh per customer	18 016	19 986	19 637	19 654	21 064
Annual revenue per customer	\$ 661.77	\$ 654.90	\$ 612.20	\$ 561.83	\$ 554.47
Average revenue per Kwh	3.67¢	3.28¢	3.12¢	2.86¢	2.63¢
<b>Residential Without Space Heating</b>					
Annual Kwh per customer	6 862	6 858	6 923	6 858	7 009
Annual revenue per customer	\$ 316.94	\$ 289.27	\$ 286.19	\$ 268.48	\$ 258.82
Average revenue per Kwh	4.62¢	4.22¢	4.13¢	3.91¢	3.69¢
<b>Kilowatt-hour Output (millions)</b>					
Thermal	23 706	24 381	25 866	26 428	21 598
Hydro	827	924	945	771	569
Purchased and interchange	2 561	1 856	1 499	828	1 723
Total	27 094	27 161	28 310	28 027	23 890
<b>Capability at Time of Maximum Demand (megawatts)</b>					
Company owned	6 110	6 108	6 257	6 209	5 657
Purchases and sales—net	504	(264)	(306)	(644)	(241)
Total	6 614	5 844	5 951	5 565	5 416
<b>Maximum Demand (megawatts)</b>	4 873	4 247	4 625	4 503	4 317
<b>Date of Maximum Demand</b>	July 14	Aug 7	Sept 7	July 19	Aug 19

## GAS

Revenues (thousands)	1980	1979	1978	1977	1976
Residential					
With space heating . . . . .	\$ 108 939	\$ 100 810	\$ 80 394	\$ 68 756	\$ 58 654
Without space heating . . . . .	2 921	3 434	2 993	2 890	2 565
Commercial and industrial . . . . .	119 157	98 224	74 437	67 654	56 127
Miscellaneous . . . . .	2 792	3 155	2 657	2 566	1 518
Total . . . . .	<u>\$ 233 809</u>	<u>\$ 205 623</u>	<u>\$ 160 481</u>	<u>\$ 141 866</u>	<u>\$118 864</u>
<b>Sales</b> (thousands of mcf)					
Residential					
With space heating . . . . .	30 558	33 616	31 533	30 044	31 795
Without space heating . . . . .	716	807	801	856	909
Commercial and industrial . . . . .	39 798	38 737	36 108	37 112	39 373
Miscellaneous . . . . .	51	54	40	85	80
Total . . . . .	<u>71 123</u>	<u>73 214</u>	<u>68 482</u>	<u>68 097</u>	<u>72 157</u>
<b>Customer Accounts</b> (at December 31)					
Residential					
With space heating . . . . .	216 602	206 195	198 977	193 581	188 631
Without space heating . . . . .	30 246	33 488	35 124	36 356	37 712
Commercial and industrial . . . . .	23 381	22 762	22 222	21 848	21 460
Total . . . . .	<u>270 229</u>	<u>262 445</u>	<u>256 323</u>	<u>251 785</u>	<u>247 803</u>
<b>Residential With Space Heating</b>					
Annual Mcf per customer . . . . .	145	167	161	157	171
Annual revenue per customer . . . . .	\$ 515.40	\$ 499.53	\$ 409.87	\$ 360.22	\$ 316.07
Average revenue per Mcf . . . . .	\$ 3.57	\$ 3.00	\$ 2.55	\$ 2.29	\$ 1.84

## Common Stock Data

	1980	1979	1978	1977	1976
Shareholders at year-end .....	<b>98 821</b>	100 857	101 389	100 253	102 333
Book value at year end .....	<b>\$ 28.12</b>	\$ 27.16	\$ 25.99	\$ 24.74	\$23.87
Market prices					
High .....	<b>25<sup>3</sup>/<sub>8</sub></b>	25 <sup>7</sup> / <sub>8</sub>	28 <sup>1</sup> / <sub>4</sub>	30 <sup>1</sup> / <sub>2</sub>	30 <sup>1</sup> / <sub>4</sub>
Low .....	<b>18</b>	21 <sup>3</sup> / <sub>8</sub>	23 <sup>1</sup> / <sub>4</sub>	26 <sup>1</sup> / <sub>2</sub>	23 <sup>1</sup> / <sub>2</sub>
Year-end .....	<b>21<sup>1</sup>/<sub>2</sub></b>	22 <sup>3</sup> / <sub>8</sub>	23 <sup>1</sup> / <sub>2</sub>	28 <sup>1</sup> / <sub>4</sub>	29 <sup>1</sup> / <sub>2</sub>

### Quarterly Stock Data

Following are the reported high and low sales prices based on the NYSE Composite Transactions for the quarters of 1980 and 1979 and the dividends declared per share during those quarters:

	1980		
	High	Low	Dividends
First Quarter	<b>23<sup>1</sup>/<sub>2</sub></b>	<b>18</b>	<b>.57</b>
Second Quarter	<b>25<sup>3</sup>/<sub>8</sub></b>	<b>19<sup>5</sup>/<sub>8</sub></b>	<b>.605</b>
Third Quarter	<b>25<sup>1</sup>/<sub>8</sub></b>	<b>23<sup>1</sup>/<sub>8</sub></b>	<b>.605</b>
Fourth Quarter	<b>23<sup>1</sup>/<sub>4</sub></b>	<b>20<sup>1</sup>/<sub>2</sub></b>	<b>.605</b>
	1979		
	High	Low	Dividends
First Quarter	25 <sup>7</sup> / <sub>8</sub>	23 <sup>3</sup> / <sub>8</sub>	.54
Second Quarter	24 <sup>7</sup> / <sub>8</sub>	21 <sup>3</sup> / <sub>8</sub>	.57
Third Quarter	25 <sup>1</sup> / <sub>4</sub>	23 <sup>3</sup> / <sub>4</sub>	.57
Fourth Quarter	24	21 <sup>3</sup> / <sub>8</sub>	.57

### Distribution of Common Stock—December 31, 1980 By Size of Holdings

Number of Shares Held	Shareholders		Shares Outstanding	
	Number	Percent of Total	Number	Percent of Total
1 to 25	20 151	20.4%	244 711	.8%
26 to 50	12 655	12.8	494 366	1.7
51 to 100	21 679	21.9	1 813 847	6.2
101 to 200	21 950	22.2	3 317 756	11.3
201 to 500	16 297	16.5	5 238 656	17.9
501 to 1 000	4 251	4.3	2 999 684	10.2
1 001 to 2 000	1 271	1.3	1 722 784	5.9
2 001 and over	567	.6	13 502 271	46.0
Total	<b>98 821</b>	<b>100.0%</b>	<b>29 334 075</b>	<b>100.0%</b>

### Geographical

States	Shareholders		Shares Outstanding	
	Number	Percent	Number	Percent
Minnesota	39 165	39.6%	8 862 972	30.2%
Wisconsin	10 764	10.9	1 795 113	6.1
North Dakota	2 141	2.2	393 347	1.3
South Dakota	1 537	1.5	314 075	1.1
Total	<b>53 607</b>	<b>54.2</b>	<b>11 365 507</b>	<b>38.7</b>
California	6 343	6.4	1 373 421	4.7
Illinois	4 838	4.9	2 306 541	7.9
Florida	4 134	4.2	957 165	3.3
New York	3 536	3.6	6 283 833	21.4
Michigan	2 752	2.8	560 058	1.9
Balance of United States	23 392	23.7	6 431 184	21.9
Foreign	219	.2	56 366	.2
Total	<b>98 821</b>	<b>100.0%</b>	<b>29 334 075</b>	<b>100.0%</b>

### Shareholders' Calendar

#### Schedule of Dividend Payment Dates

Common Stock	Preferred Stock
April 20, 1981	April 15, 1981
July 20, 1981	July 15, 1981
October 20, 1981	October 15, 1981
January 20, 1982	January 15, 1982

### NSP's Dividend Reinvestment and Stock Purchase Plan

Northern States Power Company's Dividend Reinvestment and Stock Purchase Plan is provided for shareholders to increase their holdings of NSP common stock. Dividends and optional cash payments are used to purchase NSP common stock shares on the open market at a weighted average price.

Common and preferred stock dividends are reinvested automatically. Dividends are reinvested quarterly, while optional cash payments are invested monthly. NSP sends a statement after each purchase, detailing the purchase and the shares held for the participant. Any costs, commissions or fees for reinvesting dividends and making optional cash payments are paid by NSP. For income tax purposes, brokerage commissions paid by NSP for participants are treated as taxable dividend income and are reported accordingly.

Shareholders 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, Minnesota 55401, or 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.) You may terminate your participation in the plan at any time by written notice to NSP Shareholder Relations.

### **Stock Information Is Available**

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 may call toll-free at (800) 292-4149.)

**A statistical supplement to this report is available from the Securities Issuance and Financial Reports Section, Northern States Power Company, 414 Nicollet Mall, Minneapolis, Minnesota 55401, 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.

### **Fiscal Agents**

#### **Northern States Power Company, Minnesota**

##### *Registrar*

*Common and Preferred Stocks*  
Northwestern National Bank  
Minneapolis, Minnesota 55479

##### *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  
111 West Monroe  
Chicago, Illinois 60690

##### *Coupon Paying Agents - Bonds*

Harris Trust and Savings Bank  
111 West Monroe  
Chicago, Illinois 60690  
Irving Trust Company  
1 Wall Street  
New York, New York 10015

#### **Northern States Power Company, Wisconsin**

##### *Trustee - Bonds*

First Wisconsin Trust Company  
777 East Wisconsin Avenue  
Milwaukee, Wisconsin 53202

##### *Coupon Paying Agents - Bonds*

First Wisconsin Trust Company  
777 East Wisconsin Avenue  
Milwaukee, Wisconsin 53202

Harris Trust and Savings Bank  
111 West Monroe

Chicago, Illinois 60690

Irving Trust Company

1 Wall Street

New York, New York 10015

### **Annual Meeting of Shareholders**

The annual meeting of shareholders will be held at 10 a.m. Wednesday, May 27, 1981, at the Minneapolis Auditorium and Convention Hall, Lobby C, Third Avenue South and 14th Street, Minneapolis, MN.

**Northern  
States  
Power  
Company**



414 Nicollet Mall  
Minneapolis, Minnesota 55401

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



**Northern States Power Company**

414 Nicollet Mall  
Minneapolis, Minnesota 55401

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