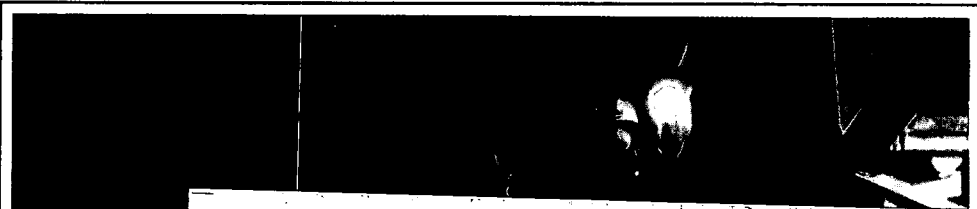




**Northern
States
Power
Company**

**Financial
and
Statistical
Information**

**A Supplement
to the 1981
Annual
Report**



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

**FINANCIAL AND STATISTICAL INFORMATION
A Supplement to the 1981 Annual Report to Shareholders**

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****Revenues Subject to Refund** — For the years ended December 31, 1981 and 1980 electric revenues included \$24 million and \$2 million respectively, which are subject to refund from rate orders. These revenues increased net income by \$11.8 million (40¢ per share) and \$1.1 million (4¢ per share), respectively.

Reference to "NSP" means Northern States Power Company (Minnesota) and subsidiary companies.

For further information relating to the contents of this report, please contact Harry W. Spell, Senior Vice President — Finance, Northern States Power Company, 414 Nicollet Mall, Minneapolis, MN 55401, or phone (612)330-5774.

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

MARCH, 1982

FINANCIAL STATISTICS

	December 31						
	1981	1980	1979	1978	1977	1976	1971
Earnings per shr. on ave. shr.**	\$ 3.89	\$ 3.23	\$ 3.51	\$ 3.39	\$ 2.86	\$ 2.93	\$ 2.54
Five year growth rates on earnings per share:							
End points**	5.8%	1.8%	7.9%	5.4%	.8%	2.9%	4.4%
Least squares**	5.3%	3.4%	6.8%	5.4%	2.2%	2.4%	4.4%
Dividends declared per share	\$2.525	\$2.385	\$ 2.25	\$2.135	\$ 2.03	\$ 1.94	\$ 1.70
Dividends in percent of earnings**	64.9%	73.6%	64.3%	63.1%	71.0%	67.1%	66.9%
Book value per share of common stock (at year end)**	\$29.48	\$28.12	\$27.16	\$25.99	\$24.74	\$23.87	\$19.59
Shares of common stock (000's)							
Average for year	29 334	30 087	30 270	29 712	29 389	28 319	19 020
End of year	29 334	29 334	30 641	29 970	29 533	29 283	19 022
Percent of construction expenditures financed by internally generated funds (excluding AFC)**	66.4%	88.7%	76.8%	98.0%	100.0%	75.7%	26.8%
Capitalization*							
Common (including premium and retained earnings)	40.4%	40.8%	42.2%	40.5%	38.7%	36.7%	28.9%
Preferred (including premium)	10.3	11.0	11.6	12.0	12.2	12.1	16.0
First mortgage bonds	42.7	41.9	43.0	45.3	46.8	47.2	48.6
Guaranty agreements — pollution control financing	1.9	1.9	2.0	2.0	2.1	2.1	
Miscellaneous long-term debt	.2	.2	.2	.2	.2	.2	3.6
Short-term debt	4.5	4.2	1.0			1.7	2.9
Total Debt	49.3	48.2	46.2	47.5	49.1	51.2	55.1
Total Capitalization	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Interest coverage							
Before taxes (including AFC)**	4.0	4.0	4.4	4.6	4.0	3.7	3.2
Before taxes (excluding AFC)**	3.8	3.8	4.3	4.5	3.9	3.4	2.8
Interest and preferred dividend coverage							
After taxes (including AFC)**	2.2	2.2	2.3	2.2	2.0	2.0	2.0
Embedded cost of long-term debt	7.76%	7.00%	7.00%	6.90%	6.85%	6.79%	5.72%
Embedded cost of preferred stock	6.14%	6.15%	6.28%	6.32%	6.32%	6.32%	5.82%
Average plant investment per dollar of revenue	\$ 2.77	\$ 2.87	\$ 2.99	\$ 3.02	\$ 3.16	\$ 3.42	\$ 4.06
Depreciation reserve in percent of depreciable plant	30.2%	29.1%	27.9%	26.4%	24.3%	23.7%	24.1%
Depreciation provision in percent of average depreciable plant	3.47%	3.46%	3.44%	3.41%	3.43%	3.45%	3.13%
Benefit employees (at year end)	7,045	6,965	6,700	6,580	6,694	6,511	6,150

AFC — Allowance for Funds Used During Construction.

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

**See note on CONTENTS page.

SUMMARY INCOME STATEMENT

(Millions of dollars)

	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>
Operating Revenues					
Electric	\$ 998.0	\$ 914.7	\$ 832.7	\$809.7	\$732.3
Gas	272.0	233.8	205.6	160.5	141.8
Telephone and Heating	10.9	10.6	9.9	9.1	7.4
Total**	<u>1 280.9</u>	<u>1 159.1</u>	<u>1 048.2</u>	<u>979.3</u>	<u>881.5</u>
Operating Expenses					
Fuel for Electric Generation	208.0	203.9	179.0	168.6	155.5
Purchased and Interchange Power	40.1	36.5	22.1	16.3	10.6
Gas Purchased for Resale	206.7	172.9	142.6	109.0	94.5
Administrative and General, Other Operation, and Maintenance					
Salaries and Wages	165.2	144.8	122.5	113.7	107.3
Pension Costs	18.9	15.5	14.4	12.3	10.5
Other Supplies and Expenses	125.4	116.4	91.9	84.6	76.8
Depreciation and Amortization	102.9	114.2	107.2	89.2	85.5
Property and General Taxes	97.5	92.5	87.5	84.7	80.7
Income Taxes (current and deferred)	98.1	89.5	87.2	118.5	81.5
Investment Tax Credit Adjustments — Net	20.1	10.6	22.2	10.4	23.0
Total	<u>1 082.9</u>	<u>996.8</u>	<u>876.6</u>	<u>807.3</u>	<u>725.9</u>
Operating Income	<u>198.0</u>	<u>162.3</u>	<u>171.6</u>	<u>172.0</u>	<u>155.6</u>
Other Income					
Allowance for Funds Used During Construction — debt and equity	15.1	12.7	12.8	9.3	7.0
Miscellaneous	2.1	4.2	3.2	7.2	3.8
Total	<u>17.2</u>	<u>16.9</u>	<u>16.0</u>	<u>16.5</u>	<u>10.8</u>
Total Income	215.2	179.2	187.6	188.5	166.4
Income Deductions and Nonoperating Taxes	6.8	(.7)	1.5	6.6	1.7
Interest — excluding credit for debt portion of AFC	<u>80.9</u>	<u>68.6</u>	<u>65.4</u>	<u>66.7</u>	<u>66.1</u>
Net Income**	127.5	111.3	120.7	115.2	98.6
Preferred Stock Dividends	<u>13.5</u>	<u>14.0</u>	<u>14.4</u>	<u>14.5</u>	<u>14.5</u>
Earnings Available for Common Stock**	114.0	97.3	106.3	100.7	84.1
Common Dividends	<u>74.1</u>	<u>71.6</u>	<u>68.3</u>	<u>63.6</u>	<u>59.7</u>
Earnings Retained**	<u>\$ 39.9</u>	<u>\$ 25.7</u>	<u>\$ 38.0</u>	<u>\$ 37.1</u>	<u>\$ 24.4</u>
Earnings Per Share on Average Shares**	\$ 3.89	\$ 3.23	\$ 3.51	\$ 3.39	\$ 2.86

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

**See note on CONTENTS page.

1976	1971	Annual Growth Rate*			Percent of Revenues*			
		1 Year 1981/1980	5 Year 1981/1976	10 Year 1981/1971	1981	1980	1976	1971
\$643.8	\$317.9	9.1%	8.6%	12.7%	77.9%	78.9%	83.7%	82.2%
118.9	64.5	16.3	18.3	16.2	21.2	20.2	15.4	16.7
6.9	4.2	3.1	10.1	11.5	.9	.9	.9	1.1
<u>769.6</u>	<u>386.6</u>	10.5	10.3	13.3	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
127.8	46.8	2.0	9.9	17.2	16.2	17.6	16.6	12.1
21.0	26.4	10.0	23.0	(.6)	3.1	3.2	2.7	6.8
74.9	33.1	19.5	22.7	21.7	16.1	14.9	9.7	8.6
95.3	57.1	14.1	11.2	11.3	12.9	12.5	12.4	14.8
8.1	5.2	21.7	17.2	15.0	1.5	1.3	1.1	1.4
62.0	27.2	7.7	14.9	18.1	9.8	10.0	8.1	7.0
78.4	38.8	(9.9)	7.1	11.3	8.0	9.9	10.2	10.0
70.2	46.7	5.4	6.2	7.6	7.6	8.0	9.1	12.1
65.6	25.6	9.6	5.8	17.8	7.7	7.7	8.5	6.6
20.7	1.6	89.9	(4.8)	27.6	1.6	.9	2.7	.4
<u>624.0</u>	<u>308.5</u>	8.6	11.4	14.1	<u>84.5</u>	<u>86.0</u>	<u>81.1</u>	<u>79.8</u>
145.6	78.1	22.0	4.9	9.7	15.5	14.0	18.9	20.2
18.4	17.6	19.9	3.3	(7.5)	1.2	1.1	2.4	4.6
2.1	.8	(50.1)	(1.2)	19.1	.1	.4	.3	.2
<u>20.5</u>	<u>18.4</u>	2.5	1.3	(4.7)	<u>1.3</u>	<u>1.5</u>	<u>2.7</u>	<u>4.8</u>
166.1	96.5	20.2	4.4	7.6	16.8	15.5	21.6	25.0
1.5	.8				.5		.2	.2
<u>67.0</u>	<u>37.5</u>	18.0	3.0	6.2	<u>6.3</u>	<u>5.9</u>	<u>8.7</u>	<u>9.7</u>
97.6	58.2	14.6	5.1	8.4	10.0	9.6	12.7	15.1
14.5	9.8	(3.7)	(1.4)	2.8	1.1	1.2	1.9	2.5
83.1	48.4	17.3	6.1	9.4	8.9	8.4	10.8	12.6
<u>55.7</u>	<u>32.3</u>	3.5	6.0	9.1	<u>5.8</u>	<u>6.2</u>	<u>7.2</u>	<u>8.4</u>
<u>\$ 27.4</u>	<u>\$ 16.1</u>	55.8	6.1	9.9	<u>3.1%</u>	<u>2.2%</u>	<u>3.6%</u>	<u>4.2%</u>
\$ 2.93	\$ 2.54	20.4	5.3	4.0				

BALANCE SHEETS

December 31

ASSETS	1981	1980	1979	1978	1977
	(Millions of dollars)				
Utility plant	\$3 471.6	\$3 264.3	\$3 079.9	\$2 928.5	\$2 754.5
Less reserves for depreciation	955.3	871.9	786.5	710.8	633.3
Nuclear fuel	203.7	163.6	142.3	124.5	99.2
Less provision for amortization	203.4	162.2	123.9	92.0	63.4
Net utility plant	<u>2 516.6</u>	<u>2 393.8</u>	<u>2 311.8</u>	<u>2 250.2</u>	<u>2 157.0</u>
Construction funds — pollution control series					6.2
Other property and invest. — net	15.4	6.0	5.9	5.2	7.5
Current assets					
Cash and temp. cash invest.	2.9	14.0	14.5	51.8	51.6
Accounts receivable — net	129.8	115.0	91.9	49.9	84.5
Material and supplies (average cost)					
Fuel	80.5	99.4	81.3	47.5	53.1
Other	36.2	30.4	25.5	23.3	24.3
Prepayments and other	15.6	14.4	9.7	8.8	8.8
Total current assets	<u>265.0</u>	<u>273.2</u>	<u>222.9</u>	<u>181.3</u>	<u>222.3</u>
Deferred debits					
Extraordinary property losses	43.8	47.6	68.5	3.5	.6
Unamortized debt expense	8.0	7.1	7.4	7.8	8.2
Other	11.3	7.6	3.4	3.5	5.6
Total deferred debits	<u>63.1</u>	<u>62.3</u>	<u>79.3</u>	<u>14.8</u>	<u>14.4</u>
Total	<u>\$2 860.1</u>	<u>\$2 735.3</u>	<u>\$2 619.9</u>	<u>\$2 451.5</u>	<u>\$2 407.4</u>
LIABILITIES					
Capitalization					
Common stock (incl. premium)	\$ 493.6	\$ 493.6	\$ 489.7	\$ 474.3	\$ 463.5
Retained earnings	408.0	368.1	342.5	304.5	267.1
Treasury stock (at cost)	(36.8)	(36.8)			
Total common stock equity	<u>864.8</u>	<u>824.9</u>	<u>832.2</u>	<u>778.8</u>	<u>730.6</u>
Cumulative preferred stock (incl. premium)					
Without mandatory redemption	205.5	205.5	205.5	205.5	205.5
With mandatory redemption (net of treasury shares at cost)	15.3	15.9	20.2	22.8	25.3
First mortgage bonds	913.7	847.1	847.7	848.5	871.2
Guaranty agreements — pollution control financing	39.9	39.9	39.9	39.9	39.9
Miscellaneous long-term debt	3.2	3.1	3.1	3.8	3.9
Unamortized premium and discount on long-term debt . . . . .		.8	.8	.9	1.0
Total long-term debt	<u>956.8</u>	<u>890.9</u>	<u>891.5</u>	<u>893.1</u>	<u>916.0</u>
Total capitalization	<u>2 042.4</u>	<u>1 937.2</u>	<u>1 949.4</u>	<u>1 900.2</u>	<u>1 877.4</u>
Current liabilities					
Notes payable	75.7	84.1	21.0		
Long-term debt and preferred stock with mandatory redemption due within one year	21.5		2.5	24.5	10.1
Accounts payable	81.1	75.6	65.2	48.6	54.9
Tyrone cancellation charges accrued	1.7	32.0	40.0		
Salaries, wages, and vacation pay accrued	12.7	14.6	13.3	13.7	9.4
Revenue refunds due customers	8.8		3.2		35.0
Taxes accrued	97.4	108.9	68.5	89.3	93.9
Interest accrued	22.5	20.6	18.8	17.8	16.9
Dividends declared	22.1	21.2	21.0	19.8	18.9
Other . . . . .	.4	.3	.6	.6	.7
Total current liabilities	<u>343.9</u>	<u>357.3</u>	<u>254.1</u>	<u>214.3</u>	<u>239.8</u>
Deferred credits					
Accumulated deferred income taxes	345.3	330.3	315.8	254.5	217.5
Accumulated deferred investment tax credits	120.8	103.6	94.8	76.2	67.0
Other	7.7	6.9	5.8	6.3	5.7
Total deferred credits	<u>473.8</u>	<u>440.8</u>	<u>416.4</u>	<u>337.0</u>	<u>290.2</u>
Total	<u>\$2 860.1</u>	<u>\$2 735.3</u>	<u>\$2 619.9</u>	<u>\$2 451.5</u>	<u>\$2 407.4</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>
	(Millions of dollars)				
SOURCE OF FUNDS					
<i>Funds from operations</i>					
Net income	\$127.5	\$111.3	\$120.7	\$115.2	\$ 98.6
Depreciation and other amortization	107.4	118.4	112.0	96.3	93.2
Nuclear fuel amortization	41.2	38.3	31.9	28.6	23.1
Deferred income taxes	15.0	14.6	61.2	37.1	31.6
Investment tax credit adj.—net	17.2	8.7	18.6	9.2	19.6
Allowance for funds used during construction	(15.1)	(12.7)	(12.8)	(9.3)	(7.0)
Total	<u>293.2</u>	<u>278.6</u>	<u>331.6</u>	<u>277.1</u>	<u>259.1</u>
<i>Proceeds from sale of notes and securities</i>					
Notes payable		63.1	21.0		
Long-term debt	89.3	.5	.1	6.6	4.3
Common stock		3.9	15.4	10.9	7.3
Total	<u>89.3</u>	<u>67.5</u>	<u>36.5</u>	<u>17.5</u>	<u>11.6</u>
TOTAL SOURCE OF FUNDS	<u>\$382.5</u>	<u>\$346.1</u>	<u>\$368.1</u>	<u>\$294.6</u>	<u>\$270.7</u>
APPLICATION OF FUNDS					
Construction expenditures	\$275.5	\$222.3	\$231.3	\$213.4	\$159.3
Transfer of Tyrone to abandoned projects			(40.0)		
Allowance for funds used during construction	(15.1)	(12.7)	(12.8)	(9.3)	(7.0)
Tyrone abandonment	(7.9)	(5.0)	80.0		
Repayment of notes payable	8.4				32.7
Reductions of long-term debt and preferred stock with mandatory redemption	22.5	1.1	4.2	25.7	11.4
Purchase of tax benefits	8.6				
Acquisition of common stock		36.8			
Acquisition of preferred stock with mandatory redemption . . . . .	.6	4.3			
Preferred dividends	13.5	14.0	14.4	14.5	14.5
Common dividends	74.1	71.6	68.3	63.6	59.7
Increase (decrease) in working capital (excluding notes payable)	(3.2)	10.2	22.8	(15.4)	5.8
Other — net	5.5	3.5	(1)	2.1	(5.7)
TOTAL APPLICATION OF FUNDS	<u>\$382.5</u>	<u>\$346.1</u>	<u>\$368.1</u>	<u>\$294.6</u>	<u>\$270.7</u>
INCREASE (DECREASE) IN WORKING CAPITAL (excluding notes payable)					
Cash and temporary cash investments	\$(11.1)	\$ (.5)	\$(37.3)	\$.2	\$ 47.0
Accounts receivable — net	14.8	23.0	42.0	(34.6)	7.4
Materials and supplies	(13.1)	23.1	35.9	(6.5)	5.0
Long-term debt and preferred stock with mandatory redemption due within one year	(21.5)	2.5	22.0	(14.4)	4.0
Accounts payable, Tyrone charges accrued and salaries, wages, etc.	26.7	(3.7)	(56.2)	2.0	(12.8)
Revenue refunds due customers	(8.8)	3.2	(3.2)	35.0	(23.5)
Income and other taxes accrued	11.5	(40.5)	20.8	4.6	(26.2)
Other current assets and liabilities — net	(1.7)	3.1	(1.2)	(1.7)	4.9
TOTAL	<u>\$ (3.2)</u>	<u>\$ 10.2</u>	<u>\$ 22.8</u>	<u>\$ (15.4)</u>	<u>\$ 5.8</u>

CONSTRUCTION EXPENDITURES

Construction expenditures during 1981 were \$275.5 million, including \$40.1 million for nuclear fuel.

Construction expenditures, including nuclear fuel, for the five-year period 1982-1986 are estimated at \$1.9 billion. By years, the expenditures are:

	1982	1983	1984	1985	1986	1982-86 Total
	(Millions of dollars)					
Construction expenditures excluding nuclear fuel	\$230	\$210	\$280	\$390	\$450	\$1 560
Nuclear fuel expenditures	40	100	70	90	60	360
Total construction expenditures	\$270	\$310	\$350	\$480	\$510	\$1 920

GROSS ADDITIONS TO PROPERTY AND CONSTRUCTION EXPENDITURES

	1981	1980	1979	1978	1977
	(Millions of dollars)				
Gross Additions to Property					
Electric production	\$100.0	\$ 55.3	\$ 22.8	\$ 73.2	\$ 51.8
Other electric	111.6	106.8	131.7	102.2	76.1
Nuclear fuel	40.1	21.3	17.8	25.2	16.4
Gas	22.4	24.8	15.0	9.2	9.2
Other utilities	8.8	16.1	4.8	5.1	8.5
Total	282.9	224.3	192.1	214.9	162.0
Tyrone abandonment			40.0		
Less Acquisitions, Salvage, etc.	7.4	2.0	.8	1.5	2.7
Construction Expenditures	\$275.5	\$222.3	\$231.3	\$213.4	\$159.3

The additions to utility plant and the retirements for the years 1977-1981 are summarized below:

	1981	1980	1979	1978	1977	Total 1977/1981
	(Millions of dollars)					
Balance at beginning of period	\$3 427.9	\$3 222.2	\$3 053.0	\$2 853.7	\$2 715.9	\$2 715.9
Gross additions	282.9	224.3	192.1	214.9	162.0	1 076.2
Retirements	(32.9)	(18.1)	(21.8)	(15.3)	(22.6)	(110.7)
Adjustments	(2.6)	(.5)	(1.1)	(.3)	(1.6)	(6.1)
Balance at end of period	\$3 675.3	\$3 427.9	\$3 222.2	\$3 053.0	\$2 853.7	\$3 675.3

UTILITY PLANT AND DEPRECIATION RESERVES

	December 31				
	1981	1980	1979	1978	1977
UTILITY PLANT					
(Millions of dollars)					
Electric					
Plant in service					
Production	\$1 509.0	\$1 459.6	\$1 439.3	\$1 418.4	\$1 405.5
Transmission	472.9	447.5	376.8	319.2	311.3
Distribution	834.0	773.7	723.5	675.8	628.5
General	54.4	49.3	43.8	42.1	40.5
Plant held for future use . . . . .	.9	1.0	1.0	1.0	1.0
Plant purchased or sold	(.5)				
Plant leased to others	1.1	1.1	1.1	1.1	1.1
Construction work in progress	266.8	217.7	216.6	204.4	111.4
Nuclear fuel (including in process)	203.7	163.6	142.3	124.5	99.2
Total electric	<u>3 342.3</u>	<u>3 113.5</u>	<u>2 944.4</u>	<u>2 786.5</u>	<u>2 598.5</u>
Gas					
Plant in service					
Production	10.8	10.8	10.3	10.3	10.1
Storage	22.4	22.3	22.1	22.0	21.9
Transmission	12.2	11.0	9.9	9.8	8.4
Distribution	191.0	170.1	151.7	141.8	134.2
General	6.1	5.7	4.9	4.6	4.1
Construction work in progress	4.8	7.7	5.6	2.6	4.6
Total gas	<u>247.3</u>	<u>227.6</u>	<u>204.5</u>	<u>191.1</u>	<u>183.3</u>
Telephone and Heating	25.8	31.9	30.8	30.5	28.7
Common	59.9	54.9	42.5	44.9	43.2
Total	<u>\$3 675.3</u>	<u>\$3 427.9</u>	<u>\$3 222.2</u>	<u>\$3 053.0</u>	<u>\$2 853.7</u>
RESERVES					
Electric	\$ 854.7	\$ 776.5	\$ 697.6	\$ 623.7	\$ 553.1
Nuclear fuel	203.4	162.2	123.9	92.0	63.4
Total electric	1 058.1	938.7	821.5	715.7	616.5
Gas	77.5	71.8	66.4	61.5	56.4
Telephone and Heating	7.2	9.5	9.7	9.1	8.1
Common	15.9	14.1	12.8	16.5	15.7
Total	<u>\$1 158.7</u>	<u>\$1 034.1</u>	<u>\$ 910.4</u>	<u>\$ 802.8</u>	<u>\$ 696.7</u>
NET UTILITY PLANT					
Electric	\$2 284.2	\$2 174.8	\$2 122.9	\$2 070.8	\$1 982.0
Gas	169.8	155.8	138.1	129.6	126.9
Telephone and Heating	18.6	22.4	21.1	21.4	20.6
Common	44.0	40.8	29.7	28.4	27.5
Net Utility Plant	<u>\$2 516.6</u>	<u>\$2 393.8</u>	<u>\$2 311.8</u>	<u>\$2 250.2</u>	<u>\$2 157.0</u>

DEPRECIATION POLICIES

DEPRECIATION FOR CORPORATE PURPOSES

The annual provision for depreciation has been computed by the straight-line method based upon estimated useful lives of the various classes of property. Depreciation rates for the Minnesota Company are reviewed periodically and have been certified by the Minnesota Public Utilities Commission (MPUC). For the Wisconsin Company, the rates are subjected to the same general review and are also certified by the Public Service Commission of Wisconsin (PSCW). Deferred taxes are included in the depreciation expense for the Wisconsin Company as required by the PSCW. The annual depreciation expense for 1981 increased by approximately \$8.1 million over 1980 (excluding Tyrone amortization). This increase in depreciation was due to property additions.

Nuclear fuel amortization includes recovery amounts for the original cost of nuclear fuel and also amounts to provide for the ultimate disposal of spent nuclear fuel. The original cost of the fuel is amortized to fuel expense based on the energy expended. Prior to August 1, 1981, future disposal cost estimates were recovered using a straight-line recovery approach. As of August 1, 1981, estimated disposal costs are recovered using an internal sinking fund method with cost estimates based on information prepared by the Department of Energy. This process is the result of an Order obtained from the MPUC and is subject to continuing review.

The annual depreciation expense shown on pages 2 and 3 of this report includes amounts for deferred taxes as authorized by the PSCW. These deferrals have been excluded in the computation of the composite depreciation rates shown below and on page 1.

The composite depreciation rate as a percent of depreciable property was 3.47% in 1981 as compared to 3.46% in 1980.

DEPRECIATION FOR INCOME TAX PURPOSES

For assets placed in service prior to 1981, the Company and Wisconsin Company use accelerated amortization, liberalized depreciation, the Class Life System (including ADR lives) and ADR repair allowance for income tax purposes. For assets placed in service after December 31, 1980, the income tax depreciation expense is computed using the accelerated cost recovery system (ACRS) as provided by the Economic Recovery Tax Act of 1981. On January 1, 1978, the Company began deferred accounting for the income tax effect of overhead costs capitalized but deducted currently for income tax purposes. This accounting was approved by the MPUC in a rate proceeding. As a result, income taxes are now deferred for substantially all 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. The provision for deferred income taxes was \$15.7 million for 1981 compared to \$16.9 million for 1980. Included in the net deferred income tax change is a decrease of \$12.4 million due to the adjustment of repair allowance deductions for income tax purposes.

INVESTMENT TAX CREDIT

The investment tax credits allowed under the Tax Reduction Act of 1975 and the Economic Recovery Tax Act of 1981 reduced the Federal income tax otherwise payable by \$26.1 million for 1981 and \$15.0 million for 1980.

The investment tax credits are deferred and amortized to income over the estimated lives of the related property. 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.

POPULATION TRENDS

	Percent Increase (Decrease) in Population			
	<u>1950-1960</u>	<u>1960-1970</u>	<u>1970-1980</u>	<u>1980-1981</u>
States in which NSP has service				
Minnesota	14.5%	11.5%	6.9%	.6%
Wisconsin	15.1	11.8	6.3	.6
North Dakota	2.1	(2.3)	5.6	.5
South Dakota	4.3	(2.2)	3.3	.3
Total	12.9	9.5	6.3	.6
NSP Service Area				
(Counties in which NSP has service)	15.1	12.9	(7.4)	2.7
Total United States	18.5	13.3	10.9	2.2(est.)

Twin Cities Metropolitan Area				
City of Minneapolis	(7.5)	(10.0)	(17.4)	(1.7)
City of St. Paul . . . . .	.7	(1.1)	(13.4)	(1.5)
Suburban	115.7	55.9	(4.9)	(1.6)
Total	28.8	22.4	(8.7)	(1.6)
Other communities over 5000 population	17.0	17.8	12.7	—
Other communities under 5000 population and rural areas in counties served by NSP	4.0	1.9	(22.4)	22.3
Total	15.1	12.9	(7.4)	2.7

Of the 2.8 million people served by NSP, 58% are in the Twin Cities Metropolitan Area.

	1981	
	<u>Estimated Population Served</u>	<u>Percent of Total</u>
Twin Cities Metropolitan Area		
City of Minneapolis	364 000	13.1%
City of St. Paul	264 000	9.5
Suburban	996 000	35.8
Total	1 624 000	58.4
Other communities over 5000 population	610 000	22.0
Other communities under 5000 population and rural	546 000	19.6
Total	<u>2 780 000</u>	<u>100.0%</u>

ELECTRIC AND GAS REVENUES AND SALES

	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>
Electric Operating Revenues (millions)					
Residential					
With space heating	\$ 32.1	\$ 28.0	\$ 23.6	\$ 17.9	\$ 12.7
Without space heating	312.3	290.2	260.6	252.9	234.0
Small commercial and industrial	162.8	149.9	131.9	123.0	112.4
Large commercial and industrial	363.3	330.3	289.2	266.8	234.5
Street lighting and other	25.6	22.2	20.0	19.2	19.0
Total retail	896.1	820.6	725.3	679.8	612.6
Sales for resale	90.1	87.2	102.4	125.6	118.0
Miscellaneous	11.8	6.9	5.0	4.3	1.7
Total**	<u>\$998.0</u>	<u>\$914.7</u>	<u>\$832.7</u>	<u>\$809.7</u>	<u>\$732.3</u>
Kilowatt — Hour Sales (billions)					
Residential					
With space heating . . . . .	.7	.8	.7	.6	.4
Without space heating	6.2	6.3	6.2	6.1	6.0
Small commercial and industrial	3.4	3.4	3.3	3.2	3.0
Large commercial and industrial	10.2	10.0	9.9	9.4	8.9
Street lighting and other . . . . .	.6	.5	.5	.5	.6
Total retail	21.1	21.0	20.6	19.8	18.9
Sales for resale	4.7	4.4	5.0	6.8	7.5
Total	<u>25.8</u>	<u>25.4</u>	<u>25.6</u>	<u>26.6</u>	<u>26.4</u>
Gas Operating Revenues (millions)					
Residential					
With space heating	\$120.8	\$108.9	\$100.8	\$ 80.4	\$ 68.7
Without space heating	3.5	2.9	3.4	3.0	2.9
Commercial and industrial firm	74.6	62.1	55.0	41.7	35.1
Total firm	198.9	173.9	159.2	125.1	106.7
Commercial and industrial interruptible	70.3	57.1	43.2	32.7	32.5
Interdepartmental and miscellaneous	2.8	2.8	3.2	2.7	2.6
Total	<u>\$272.0</u>	<u>\$233.8</u>	<u>\$205.6</u>	<u>\$160.5</u>	<u>\$141.8</u>
Mcf Sales (millions)					
Residential					
With space heating	28.3	30.5	33.6	31.5	30.0
Without space heating . . . . .	.6	.7	.8	.8	.9
Commercial and industrial firm	17.7	18.2	18.8	17.5	16.5
Total firm	46.6	49.4	53.2	49.8	47.4
Commercial and industrial interruptible	21.0	21.6	19.9	18.7	20.6
Interdepartmental . . . . .	.1	.1	.1	.1	.1
Total	<u>67.7</u>	<u>71.1</u>	<u>73.2</u>	<u>68.5</u>	<u>68.1</u>

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

**See note on CONTENTS page.

1976	1971	Annual Growth Rate*			Percent of Total*			
		1 Year 1981/1980	5 Year 1981/1976	10 Year 1981/1971	1981	1980	1976	1971
\$ 9.7	\$ 3.2	14.6%	27.9%	28.3%	3.2%	3.1%	1.5%	1.0%
223.3	125.7	7.6	7.0	9.6	31.3	31.7	34.7	39.6
109.1	63.0	8.7	8.7	9.6	16.3	16.4	16.9	19.8
214.1	100.5	10.0	11.3	14.0	36.4	36.1	33.3	31.6
19.2	10.8	15.1	5.8	8.4	2.6	2.4	3.0	3.4
575.4	303.2	9.2	9.4	11.6	89.8	89.7	89.4	95.4
61.5	11.5	3.3	2.3	28.0	9.0	9.5	9.5	3.6
6.9	3.2	72.8	22.4	9.8	1.2	.8	1.1	1.0
<u>\$643.8</u>	<u>\$317.9</u>	9.1	8.6	12.7	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
.4	.2	.1%	16.9%	16.8%	3.0%	3.0%	1.7%	1.2%
6.0	5.1	(1.7)	.8	1.9	24.0	24.8	27.2	32.1
3.0	2.2	.7	3.1	4.3	13.2	13.3	13.3	14.1
8.5	6.8	1.7	3.8	4.1	39.5	39.6	38.4	42.5
.6	.5	5.2	.3	(.1)	2.2	2.2	2.6	3.4
18.5	14.8	.6	3.0	3.5	81.9	82.9	83.2	93.3
3.7	1.1	7.2	(2.3)	18.0	18.1	17.1	16.8	6.7
<u>22.2</u>	<u>15.9</u>	1.7	1.7	5.4	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
\$ 58.7	\$ 35.0	10.9%	16.1%	14.2%	44.4%	46.6%	49.3%	54.2%
2.6	2.2	18.6	4.9	4.7	1.3	1.2	2.2	3.5
29.1	14.8	20.1	21.1	18.4	27.4	26.6	24.5	22.9
90.4	52.0	14.3	17.5	15.3	73.1	74.4	76.0	80.6
27.0	12.3	23.3	21.3	18.6	25.9	24.4	22.7	19.1
1.5	.2	(.1)	10.4	41.0	1.0	1.2	1.3	.3
<u>\$118.9</u>	<u>\$ 64.5</u>	16.3	18.3	16.2	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
31.8	30.1	(7.3)%	(1.3)%	(.1)%	41.8%	43.0%	44.1%	42.2%
.9	1.1	(17.6)	(7.4)	(5.4)	.9	1.0	1.2	1.5
17.4	15.0	(2.5)	1.3	1.8	26.1	25.5	24.1	21.2
50.1	46.2	(5.7)	(.5)	.5	68.8	69.5	69.4	64.9
22.0	24.9	(2.8)	—	(2.9)	31.1	30.4	30.5	35.0
.1	.1	8.5	(8.3)	(5.3)	.1	.1	.1	.1
<u>72.2</u>	<u>71.2</u>	(4.8)	(.3)	(.6)	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

**DIVERSIFICATION OF REVENUES FROM
LARGE COMMERCIAL AND INDUSTRIAL CUSTOMERS**

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

CLASSIFICATION	1981		1980		1976	
	Amount (Millions)	Percent of Total*	Amount (Millions)	Percent of Total*	Amount (Millions)	Percent of Total*
MANUFACTURING						
Durable Goods						
Stone, Clay and Glass Products	\$ 4.4	1.2%	\$ 4.1	1.2%	\$ 2.7	1.3%
Primary Metal Industries	14.1	3.9	14.4	4.4	9.1	4.3
Fabricated Metal Products	15.6	4.2	14.3	4.4	7.8	3.6
Machinery (Nonelectric)	19.5	5.4	17.3	5.2	14.2	6.6
Electrical Machinery and Scientific Instruments . .	19.3	5.3	16.3	4.9	8.6	4.0
Miscellaneous	6.4	1.8	5.9	1.8	4.2	2.0
Total Durable Goods	79.3	21.8	72.3	21.9	46.6	21.8
Nondurable Goods						
Food and Kindred Products						
Meat Products	4.0	1.1	3.3	1.0	3.6	1.7
Dairy Products	7.5	2.1	6.5	2.0	4.7	2.2
Grain Mill Products	9.5	2.6	8.1	2.4	4.6	2.2
Beverage Industries	4.5	1.3	3.8	1.2	2.5	1.2
Other Food Products	7.7	2.1	6.9	2.1	5.1	2.4
Total Food and Kindred Products	33.2	9.2	28.6	8.7	20.5	9.7
Paper and Allied Products	19.8	5.4	16.9	5.1	11.9	5.6
Printing and Publishing	7.8	2.2	7.1	2.1	4.6	2.1
Chemical and Allied Products	4.4	1.2	3.8	1.2	2.1	1.0
Petroleum Products	13.0	3.6	10.8	3.3	6.7	3.1
Plastic Products	1.6	.4	1.5	.4	4.5	2.1
Rubber Products	10.0	2.7	9.0	2.7	2.4	1.1
Textiles	1.7	.5	1.6	.5	1.2	.5
Total Nondurable Goods	91.5	25.2	79.3	24.0	53.9	25.2
Total Manufacturing	170.8	47.0	151.6	45.9	100.5	47.0
NONMANUFACTURING						
Quarrying and Mining	4.6	1.3	4.0	1.2	2.3	1.0
Utility Services	16.6	4.6	14.8	4.5	9.0	4.1
Wholesale and Retail Trade	54.2	14.9	49.4	15.0	31.1	14.6
Office and Business Buildings	33.3	9.1	29.6	8.9	19.6	9.1
Services	67.6	18.6	60.4	18.3	24.5	11.4
Government	15.9	4.4	16.1	4.9	25.1	11.8
Miscellaneous . . . . .	.3	.1	4.4	1.3	2.0	1.0
Total Nonmanufacturing	192.5	53.0	178.7	54.1	113.6	53.0
Total Large Commercial and Industrial**	\$363.3	100.0%	\$330.3	100.0%	\$214.1	100.0%

* Calculated on unrounded numbers.

** See note on CONTENTS page.

The diversification of business among the 5387 customers in the large commercial and industrial revenue classification is further indicated by the fact that there were only 214 customers whose billings exceeded \$250,000 in 1981. Of these only 95 were over \$500,000.

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

American Hoist & Derrick Company
Andersen Corporation
Applebaum's Food Market Inc.
Archer Daniels Midland Company
Ashland Petroleum Company

Burlington Northern Inc.
Cargill Inc.
Champion International Company
Control Data Corporation
Country Club Market Inc.

The Dayton Company
Equitable Life Assurance Society
FMC Corp., Northern Ordnance Division
G. Heilman Brewing Company
Holiday Inn

General Mills, Inc.
Honeymead Products Company
Honeywell, Inc.
J.C. Penney Co. Inc.
Jackson County Iron Company

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

Midland Glass Company, Inc.
Minneapolis Electric Steel Castings Company
Minnesota Mining & Manufacturing Company
Montgomery Ward and Company, Inc.
N Ren Corporation

North Star Steel Company
Northwest Airlines, Inc.
Northwestern Bell Telephone Company
Onan Div. of Onan Corporation
Oxford Development Inc.

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

Sears, Roebuck and Company
St. Regis Paper Company
Target Stores Inc.
The Trane Company
Union Carbide Corp. — Linde

UniRoyal, Inc.
Univac, Div. of Sperry Rand Corp.
West Publishing Company
Whirlpool Corporation
Williams Brothers Pipeline Company

ENERGY SOURCES AND PRODUCTION COSTS

Source	Requirements			
	1981		1980	
	Kwh (Millions)	Percent of Total*	Kwh (Millions)	Percent of Total*
Thermal generation				
Coal	12 825.8	46.4%	13 573.9	50.1%
Nuclear	10 186.8	36.9	10 026.9	37.0
Oil	2.9		38.5	.1
Other	25.7	.1	67.1	.3
Total Thermal	23 041.2	83.4	23 706.4	87.5
Hydro generation	875.1	3.2	826.5	3.0
Manitoba Hydro Electric Board	2 932.6	10.6	1 426.0	5.3
Purchased and interchange	778.3	2.8	1 135.0	4.2
Total	<u>27 627.2</u>	<u>100.0%</u>	<u>27 093.9</u>	<u>100.0%</u>

The seven largest generating plants in the NSP system (Sherburne County, Prairie Island, Allen S. King, Monticello, Black Dog, Riverside, and High Bridge) produced approximately 96 percent of the total NSP generation in 1981.

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

Year	Btu per Kwh Output	Cost of Fuel Cents per Million Btu				Production Costs Cents per Kwh Output			
		Coal	Nuclear	Natural Gas	All Fuels	Thermal			Total Output
						Fuel Only	Total	Hydro	
1981	10 835	112.1	46.5		83.3	.903	1.334	.481	1.303
1980	10 895	103.8	43.5		79.0	.860	1.253	.448	1.226
1979	10 825	94.8	34.7		67.8	.734	1.032	.395	1.009
1978	10 833	76.2	30.6		60.2	.652	.903	.302	.882
1977	10 787	71.1	26.6	135.4	54.5	.588	.837	.306	.823
1976	11 057	71.9	23.9	83.9	53.5	.592	.849	.400	.833
1975	11 089	65.8	23.8	61.8	47.5	.527	.744	.235	.723
1974	11 138	50.2	19.8	47.3	45.6	.507	.698	.234	.676
1973	11 092	43.4	16.5	38.5	39.2	.435	.605	.188	.580
1972	11 040	41.1	16.6	31.6	35.3	.390	.532	.186	.511
1971	11 169	37.8	15.7	28.3	34.4	.382	.535	.210	.516

*Calculated on unrounded numbers.

GENERATING STATION STATISTICS

	Date Installed	Summer Capability (Mw)	Output Kwh (Millions)		Btu per Kwh Output	
			1981	1980	1981	1980
STEAM THERMAL PLANTS						
Fossil Fuel						
Sherburne County — Becker						
Unit #1	5-1-76	702.0	4 264.5	4 192.0	10 476	10 321
Unit #2	4-1-77	<u>700.0</u>	<u>4 352.9</u>	<u>4 148.0</u>	10 493	10 381
Total		1 402.0	8 617.4	8 340.0	10 485	10 355
Allen S. King — Stillwater	1-31-68	560.0	2 004.7	2 395.8	10 206	10 083
Black Dog — Burnsville	1952-60	416.0	509.6	797.7	12 875	12 133
High Bridge — St. Paul	1942-59	339.0	348.1	967.6	13 354	12 289
Riverside — Minneapolis	1931-64	277.0	1 375.3	1 072.5	11 133	11 690
Five Other Plants		<u>160.0</u>	<u>6.5</u>	<u>81.2</u>	4 863	16 319
Total fossil fuel		<u>3 154.0</u>	<u>12 861.6</u>	<u>13 654.8</u>	10 728	10 689
Nuclear Fuel						
Prairie Island — Red Wing						
Unit #1	12-16-73	503.0	3 838.8	3 103.9	11 108	11 698
Unit #2	12-21-74	<u>500.0</u>	<u>3 090.5</u>	<u>3 469.2</u>	11 204	11 238
Total		1 003.0	6 929.3	6 573.1	11 151	11 456
Monticello — Monticello	6-30-71	<u>536.0</u>	<u>3 257.5</u>	<u>3 453.8</u>	10 540	10 554
Total nuclear fuel		<u>1 539.0</u>	<u>10 186.8</u>	<u>10 026.9</u>	10 955	11 145
Total steam thermal — 12 plants		<u>4 693.0</u>	<u>23 048.4</u>	<u>23 681.7</u>	10 828	10 882
OTHER THERMAL PLANTS — 20 plants . .		<u>1 098.8</u>	<u>(7.2)</u>	<u>24.7</u>	(1)	23 606
HYDRO PLANTS — 15 plants		<u>203.7</u>	<u>875.1</u>	<u>826.5</u>		
TOTAL 47 Plants		<u>5 995.5</u>	<u>23 916.3</u>	<u>24 532.9</u>		

(1) Denotes either negative Kwh or that the Btu per Kwh has little or no meaning.

COMMON STOCK DATA

Year	Shareholders End of Year	Average Shares Outstanding (Thousands)	Earnings Per Average Share	Dividends Declared	Market Prices*		
					High	Low	Close
1948	34 856	9 505	\$.91	\$.70	9¼	7¾	8⅞
1949	49 959	9 625	1.19	.70	11⅞	8⅞	10⅞
1950	53 557	11 084	.94	.70	13	9½	10¼
1951	56 644	11 090	.85	.70	10⅞	9¾	10⅞
1952	59 432	11 669	1.06	.70	13¼	10⅞	12⅞
1953	59 858	12 199	1.10	.725	14¼	11⅞	13¾
1954	63 651	13 006	1.10	.80	16⅞	13¾	16⅞
1955	64 046	13 418	1.16	.825	18¼	16	17¾
1956	67 467	13 949	1.22	.90	18¼	16½	17⅞
1957	69 471	14 119	1.25	.90	17¾	13½	17
1958	69 658	14 269	1.30	1.00	22½	16⅞	22
1959	74 377	14 646	1.47	1.10	25¾	22⅞	24¼
1960	75 323	15 399	1.49	1.12	29¼	22⅞	28⅞
1961	74 938	15 422	1.55	1.18	38⅞	27½	34
1962	74 383	15 422	1.71	1.255	37¾	25⅞	35½
1963	73 829	15 422	1.79	1.34	38⅞	33½	36⅞
1964	73 245	15 437	1.90	1.40	41¼	33½	40⅞
1965	75 824	15 724	1.94	1.44	40¼	34⅞	35
1966	76 477	16 209	2.05	1.50	35⅞	27¾	33⅞
1967	76 050	16 212	2.11	1.56	34¾	28½	28¾
1968	77 110	16 212	2.13	1.60	33¾	27	30
1969	81 565	17 158	2.24	1.60	30⅞	22⅞	22⅞
1970	88 937	17 544	2.41	1.675	27⅞	21¾	26¾
1971	90 612	19 020	2.54	1.70	29¼	25	27¼
1972	93 166	19 751	2.75	1.768	31⅞	24½	30½
1973	96 138	21 289	2.61	1.836	31⅞	22½	25¼
1974	103 454	23 233	2.40	1.836	26⅞	15¼	16
1975	101 839	25 964	2.95	1.862	27¼	15⅞	26⅞
1976	102 333	28 319	2.93	1.94	30¼	23½	29½
1977	100 253	29 389	2.86	2.03	30½	26½	28¼
1978	101 389	29 712	3.39	2.135	28¼	23¼	23½
1979	100 857	30 270	3.51	2.25	25⅞	21⅞	22⅞
1980	98 821	30 087	3.23**	2.385	25⅞	18	21½
1981	94 453	29 334	3.89**	2.525	27	20	24⅞

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

** See note on CONTENTS page.

REGULATION AND RATE INCREASES

REGULATION

The Company and the Wisconsin Company are subject to the jurisdiction of the Federal Energy Regulatory Commission, under the Federal Power Act, as to certain activities including wholesale rates for electric energy sold in interstate commerce. The Company is subject to the jurisdiction of the Public Utilities Commissions of the States of Minnesota and South Dakota and the Public Service Commission of North Dakota as to rates for retail sales within those states. The Minnesota and North Dakota Commissions also have jurisdiction as to activities to the issuance of certain securities. The Wisconsin Company is subject to regulation by the Public Service Commission of Wisconsin.

NSP's 1981 revenues, excluding non-firm sales to other utilities, were subject to regulatory jurisdiction as follows:

	<u>Percentage of 1981 Revenues</u>
Retail:	
Minnesota Public Utilities Commission (MPUC)	75.9%
Public Service Commission of Wisconsin (PSCW)	12.3
Public Service Commission of North Dakota (PSCND)	7.0
Public Utilities Commission of South Dakota (PUCSD)	2.5
Sales for Resale — Wholesale:	
Federal Energy Regulatory Commission (FERC)	<u>2.3</u>
Total	<u>100.0%</u>

RATE INCREASES

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

<u>Year</u>	<u>Requested</u> (Millions of dollars)	<u>Granted</u>
1977	\$ 92.4	\$56.4
1978	1.9	1.3
1979	7.4	4.8
1980	125.6	96.0

The following table summarizes the status of the 1981 rate increase program.

	<u>Annual Increase</u>			<u>Effect on 1981 Revenues</u>	<u>Status (See Tyrone Abandonment)</u>
	<u>Requested</u>	<u>Allowed</u>	<u>Pending</u>		
	(Millions of dollars)				
Electric — Retail					
Minnesota	\$115.6		\$115.6	\$18.3(I)(1)	Order Expected 6-30-82
North Dakota	11.4	\$10.2(F)		1.0	Order Issued 1-11-82
South Dakota	6.2	5.2(F)		.1	Order Issued 12-15-81 Appealed to Hughes County Circuit Court
Wisconsin	12.5		12.5		Order Expected 5-22-82
Electric — Wholesale					
Minnesota	4.8		4.8	1.2(I)	Order Expected in April, 1982
Wisconsin	1.6		1.6	.4(I)	Order Expected 6-30-82
Gas — Retail					
Minnesota	16.6		16.6		Order Expected 9-30-82(2)
North Dakota	1.1		1.1		Order Expected 6-1-82
Wisconsin	1.2	.9(F)			Order Issued 12-22-81
1981 Totals	<u>\$171.0</u>	<u>\$16.3</u>	<u>\$152.2</u>	<u>\$21.0</u>	

(I) Denotes Interim Rates Subject to Refund

(F) Denotes Final Rates

(1) Interim rates at \$94.4 million level reflects 14.5% return on common equity effective 9-29-81

(2) Interim rates at \$14.6 million level reflects 14.5% return on common equity effective 12-31-81

In 1981, NSP filed for rate increases totaling \$171 million on an annual basis. In the 1981 filings the Company has requested a 16% return on its common equity.

In its application for an electric rate increase before the MPUC, the Company requested an interim increase of \$94,362,000 (13.69%) and a permanent increase of \$115,555,000 (16.77%). The interim rates became effective on September 29, 1981. The MPUC final order is due on June 30, 1982.

TYRONE ABANDONMENT

In each of its 1980 and 1981 electric rate increase filings NSP included, as a cost of service, each jurisdiction's share of the Tyrone abandonment costs. The costs were based on NSP's application to FERC and the Wisconsin Company's application to PSCW to amortize Tyrone costs over a five-year period beginning March 1979.

The FERC order of December 3, 1981, approved NSP's filing with the exception that the amortization period was changed from a five-year period to a nine-year period.

The PSCW has allowed the collection in retail rates of the abandonment costs allocable to Wisconsin retail customers.

The MPUC in its April 30, 1981, order disallowed the amortization expense. The Company appealed the MPUC decision on the Tyrone issue and was granted a stay order. This order stays the refund of revenues collected for the Tyrone amortization and allows the Company to continue to collect revenues for Tyrone, pending final decision on the appeal.

The PSCND in its December 31, 1980, order disallowed the Tyrone amortization expense. The Company appealed the order on the Tyrone issue to the Burleigh County District Court and the North Dakota Supreme Court. The Supreme Court upheld the Company and remanded the issue back to the Commission. The Commission allowed the inclusion of the Tyrone amortization expense in retail rates effective January 18, 1982.

The PUCSD deferred ruling on the Tyrone issue. The Company challenged in court the Commission's authority to defer recovery of the Tyrone amortization expense. The Circuit Court ordered the Commission to allow recovery subject to refund. The Commission appealed this order to the South Dakota Supreme Court and its effect is automatically stayed.

The Tyrone amortization expense is included in FERC jurisdictional rates to our wholesale customers.

ROLLED IN RATES

There are significant differences between the price of natural gas purchased from Northern Natural Gas Company and Midwestern Gas Transmission Company. Because of these differences, the MPUC and the PSCND held hearings to determine whether the Company should be required to average (roll-in) its natural gas purchase costs from both pipelines when determining rates.

The MPUC ordered that the rates should not be averaged in the Minnesota jurisdiction.

On March 2, 1981, the PSCND issued an order with an effective date of April 1, 1981, ordering that the cost of gas be averaged in determining rates for North Dakota customers. The Company appealed the order to the Burleigh County District Court and the North Dakota Supreme Court. The Supreme Court upheld the Company ordering that the cost of gas should not be averaged in determining rates for North Dakota customers. The Cities of Fargo, Grand Forks and the PSCND asked the Supreme Court for reconsideration. The Supreme Court denied the appeals and refused to reconsider their decision.

NUCLEAR PLANT DECOMMISSIONING AND FUEL DISPOSAL COSTS

The Company, at the request of the MPUC, submitted recommended changes in the estimated cost of decommissioning its nuclear plants at the end of their useful life. The proposal also included a recommended change in the method of recovering these costs. Depreciation expense, calculated on a sinking fund basis, would increase about \$8.6 million per year on a Company-wide basis. In its February 26, 1981 order the MPUC approved the filing and allowed the recovery of the additional expense for future nuclear plant

decommissioning beginning August 1, 1981. In North Dakota the additional expense was allowed beginning September 8, 1981, in South Dakota beginning December 15, 1981, and in Wisconsin beginning April 22, 1981.

By order dated July 14, 1981, the MPUC approved the Company's petition that an internal sinking fund be used for recovery of nuclear fuel disposal costs commencing August 1, 1981. This will result in a decrease in rates of approximately \$14.5 million on a Company-wide basis. The use of the sinking fund methodology for nuclear fuel disposal costs is consistent with the MPUC February 26, 1981 order for the recovery of future nuclear plant decommissioning expenses. This change to a sinking fund methodology was approved by the PSCND and PUCSD in their most recent electric orders.

GENERAL

Since the MPUC assumed jurisdiction of Minnesota electric and gas rates in 1975, several significant regulatory precedents have evolved. The MPUC has accepted the use of a forecast test year that corresponds to the period when the rates are put into effect subject to refund. This minimizes the regulatory lag that often results when this is not permitted.

Current Minnesota law requires a 90-day notice to the MPUC before a new schedule of rates may go into effect subject to refund. The MPUC has an additional period of nine months to make its final decision on a rate increase application.

In each legislative session since 1975, including the 1982 session, bills have been introduced in the legislature of the state of Minnesota to affect the right of utilities to collect increased rates subject to refund before approval by the MPUC.

The MPUC may allow Construction Work in Progress (CWIP) in a utility's rate base without including an offset for AFC in revenues. It has exercised this option to a limited extent. The Company's AFC provision is based upon the FERC formula (net-of-tax-basis). Because CWIP is included in the rate base and AFC is added to revenues, the net-of-tax-base-rate effectively permits inter-period allocation of the tax effect of interest and allows cash earnings on small and short-term projects that are not subject to AFC.

The MPUC accepts the normalization of income taxes due to accelerated depreciation and investment credit and tax deferral accounting for overhead costs capitalized for corporate accounting purposes but expensed currently for income tax purposes.

In all recent cases the MPUC has accepted the Company's lead-lag study in determining working capital. However, the MPUC has not permitted a rate base reinstatement for the payment delays of depreciation and deferred taxes that are deducted from the rate base. The Company believes this creates an unwarranted reduction in working capital requirements, and has again requested rate base consideration of these payment delays. The Company has also appealed this issue to the Ramsey County District Court.

Although the returns on common equity granted by the regulatory agencies with jurisdiction over the Company have been moving upward, they are still below the levels the Company believes is necessary. The MPUC granted a 13.5% return on common equity in its April 30, 1981 order on the 1980 electric filing and a return of 13.77% in its July 24, 1981 order for the Company's 1980 gas utility filing. In the last North Dakota electric case order the PSCND granted a return of 14.5%. The December 15, 1981 order of the PUCSD granted a return of 14%.

In Wisconsin, CWIP up to 10% of the rate base is permitted in rate base without including a corresponding AFC offset in revenues. The PSCW has also allowed a "forward looking" test year corresponding to the time that the rates are to be put into effect.

The Public Utility Regulatory Policy Act (PURPA) has established national standards for consideration by state regulatory agencies in determining utility rates and imposes other requirements on operations of utilities including NSP. State regulatory agencies are required to hold hearings with respect to the desirability of implementing various rate structures, the use of automatic rate adjustment clauses, the pricing of natural gas by producers, and other matters. Because of the complexity of the legislation and the uncertainties in its interpretation and implementation, the effect of the legislation on NSP, including the pricing and availability of natural gas, cannot be predicted.

