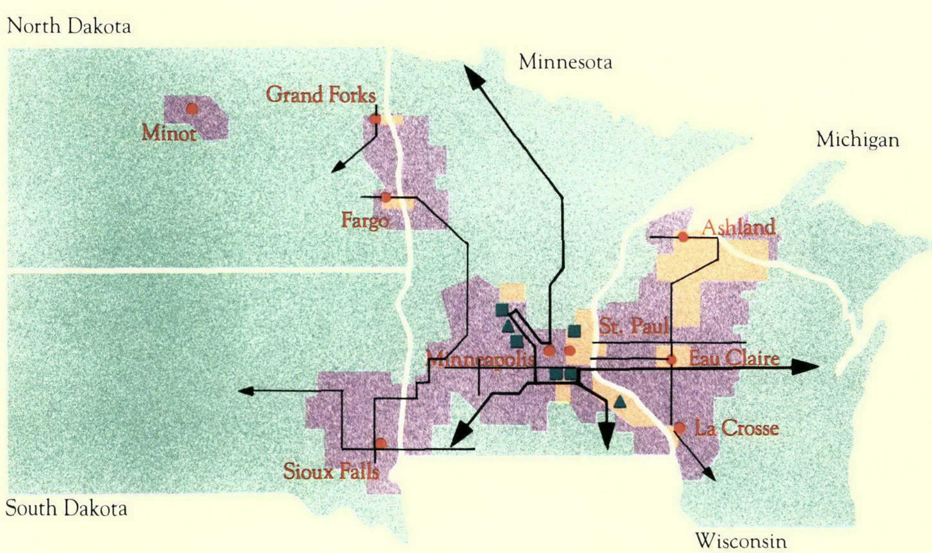
Northern States Power Company

1987 Annual Report

NSP –

The premier energy company

Contents



Electric Service Area

Electric and Gas Service Area

Major Cities

Major Generating Plants

Nuclear

Coal

Transmission Lines

500-& 345-kilovolt

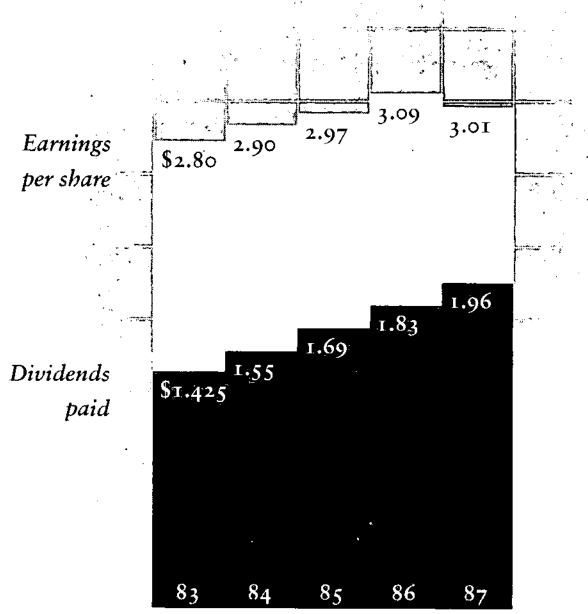
230-Kv

1987

Results

Highlights

Year ended Dec. 31	1987	1986	Percent Change
Earnings per share	$ 3.01	$ 3.09	(2.6)
Dividends paid	1.96	1.83	7.1
Revenues (millions)	1,770.3	1,781.6	(0.6)
Net Income (millions)	204.9	206.9	(1.0)
Return on Equity	14.1%	15.3%	
Assets (millions)	$4,401.2	$4,247.0	3.6
Customers (thousands)	1,603.7	1,566.3	2.4
Benefit employees	7,699	7,515	2.4



Company Description

Northern States Power Company (NSP) serves customers in parts of Minnesota, Wisconsin, North Dakota, South Dakota and Michigan's Upper Peninsula. The company generates, transmits and distributes electricity to more than 1.26 million customers and distributes natural gas to about 325,000 customers. We also supply telephone service in Minot, N.D.

NSP-Minnesota operates in Minnesota, North Dakota and South Dakota. Wholly owned subsidiary NSP-Wisconsin serves in Wisconsin and Michigan. NORENCO, a non-regulated subsidiary, provides energy services and business development.

James J. Howard, left, and Donald W. McCarthy at the Prairie Island nuclear plant training center.

Dear Shareholders,

1987 was a good year for your company, with few exceptions. Earnings per share were $3.01, down 8 cents from 1986. The earnings results, we believe, don't fully represent what your company achieved in the past year. Dividends increased 6.3 percent; our generating plants performed far better than industry averages; the Minnesota Supreme Court concurred with NSP's position, settling the 1985 gas rate case; our overall gas supply costs fell 22.5 percent; and our electric rates continue to be among the lowest in the nation.

One of the year's major accomplishments — the start-up of the new Sherco 3 coal-fired plant two months ahead of schedule — was a primary reason 1987 earnings were down, as the income statement reflects the cost of full operations. In 1988 rate increases take effect to begin covering the cost of the plant. NSP owns 59 percent of the $1 billion plant.

Our greatest disappointment was the performance of NORENCO, a non-regulated subsidiary. Its losses and write-offs were another reason for the earnings decrease. NORENCO has been reorganized and has refocused on proven technologies and businesses. We expect major improvements in NORENCO's results in 1988. We took a major step in that direction Feb. 12, 1988, signing an agreement settling a contract dispute over steam service to a paper plant. The agreement satisfies our claims. In addition, we signed a new 13-year contract for steam service to the plant.

Our core businesses, electric and natural gas service, performed well. The electric side turned in a strong performance. And although we controlled gas costs successfully, an unusually mild winter curtailed the gas market. Your company took steps to make these businesses even stronger and more competitive.

We accelerated our decentralization into business units. This gives the units the flexibility and accountability needed to make decisions in a competitive market.

The Power Supply business unit finished several projects that will provide economical, reliable energy for decades to come, including the 840-megawatt (Mw) Sherco 3 and a renovated Riverside unit whose capacity increased to 137 Mw. We upgraded the turbine generator to match the increased capacity of our fluidized bed unit at Black Dog, which uses a new technology to burn fuels very efficiently. NSP began processing municipal solid waste into refuse derived fuel (RDF) at facilities near St. Paul and La Crosse, Wis. We are building another RDF facility northwest of the Twin Cities. We modified our Red Wing, Mankato and French Island plants to burn the RDF.

In 1988 we expect to begin operations at the new Jim Falls plant, generating four times as much power as the original 12-Mw plant with a renewable resource — river water.

Electric Utility crews bested the weather last summer, repairing power lines and transformers knocked out by record-setting storms.

Our marketing programs continue to promote efficient energy use. NSP offers special rates to customers who shift their electric use to off-peak hours, when demand decreases. The individual customers benefit from lower energy costs; in the long run, all customers benefit from cost-effective use of our system. In 1987, through rate incentives and other programs, we reduced peak demand by more than 78 Mw, shifting much of that electric use to off-peak hours.

Firm gas sales were down 11.6 percent due to last winter's weather, the warmest in 110 years. However, NSP increased by 20 percent the volume of gas it delivered to interruptible customers that have the ability to use alternate suppliers or fuels.

NSP-Wisconsin offers among the lowest electric and natural gas rates in the state. Affordable, reliable energy is one of the reasons NSP-Wisconsin successfully attracts new businesses to its service territory.

Your company continuously seeks ways to maintain low rates and high quality service — the foundation for good electric and gas sales and what helps keep our business customers competitive in their industries. This enhances the overall economic strength of our service territory.

Since 1984, the cost of fuel has been flat. Our nuclear plants ranked among the lowest-cost power producers in the country. Prairie Island unit 2 had the world's fourth longest operating run — 406 days. Our coal-fired plants also performed significantly better than industry averages.

NSP's traditional emphasis on good service and low costs will continue to serve customers and investors well as we prepare for a more competitive industry.

To underscore the company's direction and to ensure that we get there, NSP developed a vision to guide its plans and actions. The vision, as outlined in this report, builds on NSP's past successes. It calls for NSP to continue to be the premier electric and natural gas supplier in the region by offering consumers the best value through low-cost, quality service and investors an attractive return in a financially sound company. While the principles behind the vision are not new for NSP employees, re-examining them in the light of a more competitive industry has renewed our vigor to sustain them.

The success of NSP, as with any company, depends heavily on its employees' commitment. We praise their efforts the past year as NSP began the difficult process of altering its corporate culture to prepare for a tougher marketplace. We especially want to recognize the years of service and achievements of the employees who retired during the year and the 422 others who elected early retirement January 1988 under a limited offer.

Your directors also applied their skills and insights as we began shaping the company for a changed utility environment. We regret that John Rollwagen will not stand for reelection in April. During his three years of service, he provided valuable guidance.

Your company is a utility ahead of the game. We serve an economically diverse and stable area. Our vitality hasn't been sapped by construction and regulatory distractions plaguing many utilities. We have concentrated on developing our core businesses to best meet our customers' needs. We will continue to be the premier electric and gas supplier in the region.

Sincerely,

Don McCarthy

Donald W. McCarthy
Chairman of the Board

James J. Howard

James J. Howard
President and Chief
Executive Officer

February 18, 1988

Chairman McCarthy Retires

Commenting that "the greatest pleasure in my career of almost 40 years has been my association with NSP employees and the public at large," Donald W. McCarthy retired Feb. 29 as an employee and chairman of the board. He remains an NSP director and will stand for re-election in April. James J. Howard was elected to the additional post of chairman effective March 1.

Don McCarthy guided NSP through perhaps the most tumultuous period for the company, as well as the electric utility industry, since its beginnings.

When he took the reins in 1976 as president and CEO, electric sales growth had dropped dramatically from the pre-oil-crisis days; utilities, including NSP, were still planning for the greater demand; and public and regulatory scrutiny had intensified.

McCarthy directed NSP's adjustment to this new business climate that emphasized conservation and environmental protection. While many utilities struggle with the results of decisions made during the 1970s, NSP is financially sound, increasing dividends annually the past 11 years. A step ahead of the pack again, McCarthy has pressed the company to prepare for competition.

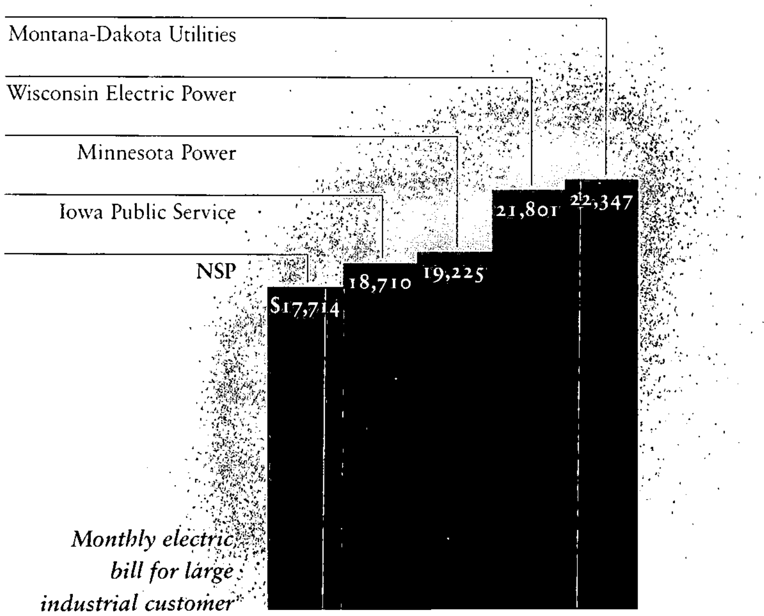
"Don has had a long, distinguished career at NSP," Howard says. "Our company, our customers, and our employees benefitted immensely from his wisdom and his strong, dedicated leadership."

In recognition of his contributions to the company, the board of directors conferred upon McCarthy the title of chairman emeritus.

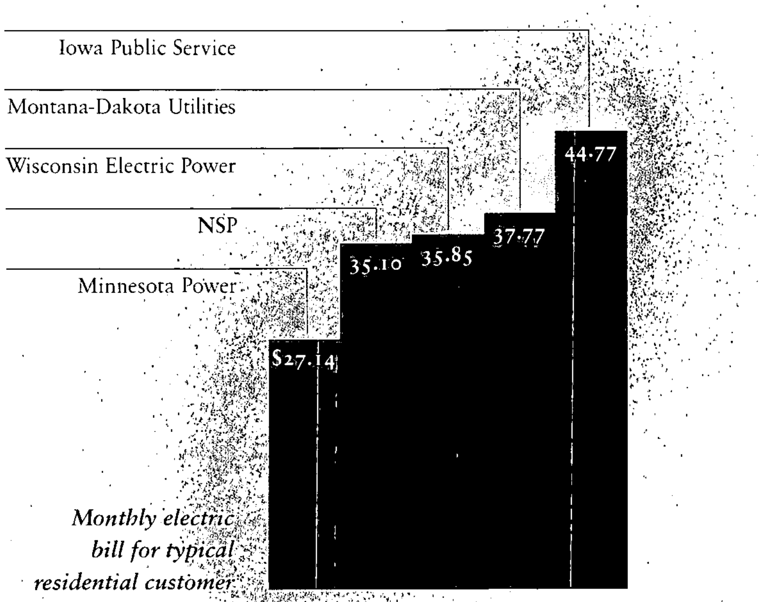
McCarthy's skills, insights and personal manner have touched not only NSP. He and his wife, Anne, also are active in business, civic, cultural and youth organizations.

NSP

must offer consumers the best value



*1 Mw, 400 Mwh
Rates as of February 1988



*500 kwh
Rates as of February 1988

Strategy for Success

Northern States Power Company's strategy is to provide the best value in the region to energy consumers and utility investors. We define "region" as the Upper Midwest. Our vision of success revolves around our core businesses — electric and natural gas service — in our service territory.

NSP can achieve its vision on a foundation of low costs, competitive prices, quality service and financial stability. NSP employees have a long tradition of successfully supplying these four elements. NSP will build on its strengths to succeed as changes in the electric utility industry lead to more competition.

The way to succeed is to give customers the best value for their energy dollars. It also requires knowing what services they want and need, and what they think is a fair price. NSP must understand its costs, its customers and its competition.

To facilitate this, the company in 1987 continued to refine its business unit structure, defining the separate electric generation, transmission and distribution functions. Many industry watchers believe that competitive changes will free large-volume customers to contract separately for these services. Our natural gas distribution business also operates as a distinct unit. Decentralization puts into practice the skills we will need in a more competitive environment.

The business units, Electric Utility, Gas Utility and Power Supply, reorganized to cut operating expenses, improve productivity and narrow the gap between company decision-makers and customers.

Goals: Greater Efficiency

Under Vice President Craig Blair, the Electric Utility, the distribution arm of NSP-Minnesota, consolidated its 14 division offices in Minnesota, North Dakota and South Dakota into six regions. Our telephone company in Minot, N.D., is part of the Electric Utility. The Gas Utility, reporting to Vice President Jim McIntyre, assumed responsibility for all NSP gas operations in Minnesota and North Dakota. Power Supply began the process of splitting into two functions — generation and transmission — although they will continue to report to one officer, Senior Vice President Roland Jensen.

Wholly owned subsidiaries, NSP-Wisconsin and Lake Superior District Power (LSDP), merged Dec. 31, 1986. NSP-Wisconsin President and Chief Executive Officer Ed Theisen in 1987 reorganized the merged operations for greater efficiency.

To ease reorganization and further reduce its payroll expenses, NSP offered an early retirement program to certain non-union employees. About 15 percent of NSP's non-union workforce was eligible; 422 employees, 77 percent of those eligible, accepted the offer. NSP expects its estimated annual $12 million savings in payroll and benefit expenses to more than offset the additional pension costs.

Sherco 3 In Service

NSP put Sherco 3 into commercial operation Nov. 1, two months ahead of schedule and $68 million under the original estimate. NSP built the unit to meet the growing demand for electricity and reduce the use of older, less efficient plants. NSP owns 59 percent of the $1 billion, 840-megawatt (Mw) plant. Putting the plant in service early will save customers approximately $12 million due to reduced use of less efficient plants and reduced investment costs.

However, putting it into service early in effect lowered 1987 earnings because NSP did not request electric rate increases to coincide with the plant's completion and resulting costs. NSP in July agreed with state regulatory commissions to delay rate increases until Jan. 1, 1988, the certified date for beginning operations at Sherco 3, in exchange for the company's ability to retain its 1987 income tax savings resulting from the Tax Reform Act of 1986.

To achieve economies of scale without burdening itself with excess capacity, NSP forged a partnership with the Southern Minnesota Municipal Power Agency (SMMPA) to own Sherco 3 jointly. NSP owns 496 Mw of the plant's output; SMMPA owns 344.

Another type of partnership helped NSP complete Sherco 3 ahead of schedule and under budget. The company developed the "Participation, Excellence, Performance" (PEP) program to foster communication and cooperation among NSP, contractors and craft workers. PEP has attracted attention and imitators at construction projects around the country.

Plant Life Extension

NSP is one of a few utilities in the country with an established plant life extension program. NSP studies indicate it is cost-effective to renovate or replace major equipment, rather than retire certain facilities. NSP also trades refurbished equipment between plants.

Life extension adds or retains capacity in the company's generating system with-

We will be the low-cost provider

out the investment risk of building a new plant. It also is a relatively low-cost way to ensure capacity to meet the peaks of electric demand.

At the Riverside plant in Minneapolis, NSP renovated two boilers and combined them with a new turbine-generator, increasing the output from 86 Mw to 137 Mw. The $61 million project gives NSP an essentially new unit with an expected operating life of 25 to 30 years.

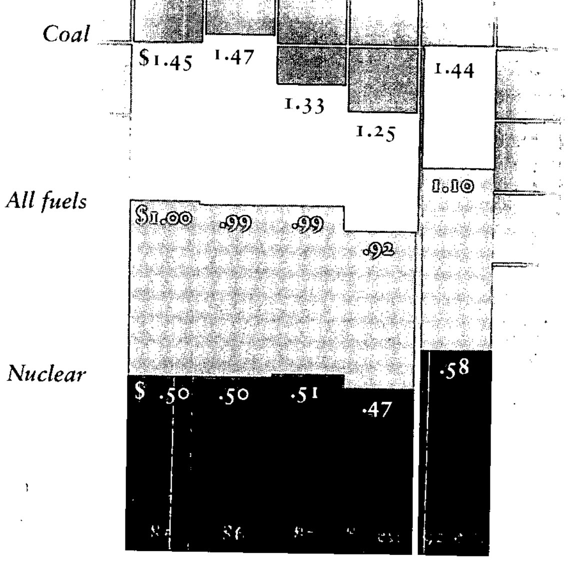
The company's most extensive redevelopment project is at Jim Falls on the Chippewa River in Wisconsin. A new powerhouse, spillway and substation will produce four times as much power as the original 12-Mw hydro plant. Innovative project management and engineering design and a productive labor force have controlled costs on the $92 million project. The plant should begin operations in late 1988.

NSP did demolish a generating plant near Sioux Falls that had not operated since 1977 — but not before removing a turbine generator. The refurbished equipment went to a NSP-Wisconsin plant.

Renovating its older plants also gives NSP the opportunity to test new technologies and fuels. Two fluidized bed boilers at NSP-Wisconsin's French Island plant burn waste wood and refuse derived fuel.

NSP completed modifications at Black Dog unit 2, the world's largest fluidized bed boiler. We upgraded the turbine generator, increasing its capacity to 118 Mw. NSP is fine-tuning the "new" unit, whose advanced design removes most pollutants in the boiler.

Generating fuel costs per million Btu



Low Cost

Low-cost Fuel Mix

An integral part of NSP's low-cost strategy is a balanced fuel mix. This protects the company, and customer rates, from dependence on any one fuel and its price fluctuations. In 1987, NSP nuclear plants generated 38 percent of our energy, coal-fired plants provided 51 percent, and other fuels produced 4 percent. Purchases from Manitoba Hydro-Electric Board provided another 7 percent of our energy. Low water conditions at Manitoba Hydro's plants reduced its sales to NSP. In the five-year period 1982-1986, NSP's purchases averaged 13.8 percent.

NSP has various power purchase agreements with Manitoba Hydro through 2004. We are one of few utilities with guaranteed power purchases from Canada, ensuring a reliable supply when we need it.

Subject to Federal Energy Regulatory Commission approval, we are proceeding with the purchase of a 214-Mw share of a neighboring utility's plant and additional capacity totaling 102 Mw by 1991.

In 1987, we began to see the effects of renegotiated coal and transportation contracts that will save more than $200 million over the next 14 years. Competition among suppliers and railroads enabled NSP to renegotiate the contracts, saving about $19 million in 1987 alone. NSP's efforts to negotiate the lowest possible fuel costs pays off. Reflecting the heat content of the various generating fuels, the average cost of fuel has remained flat since 1984.

Nuclear Waste Storage

Because the federal government has yet to develop a permanent repository for high-level nuclear wastes, NSP must use alternatives temporarily. In April, General Electric completed shipping 10 years worth of spent fuel from our Monticello nuclear plant to a storage facility in Illinois. NSP does not pay storage costs until 2003.

NSP is analyzing the results of a project at the Prairie Island nuclear plant that consolidated 36 spent fuel assemblies in specially designed containers that occupy space originally needed for 18 assemblies. The Prairie Island spent fuel pool could reach capacity in the mid-1990s if additional storage space is not created.

The nuclear plants are valuable assets to NSP's generating system, consistently generating low-cost power. In 1986, Prairie Island's two units combined were the 10th lowest-cost, steam-electric generator in the nation, acccording to a Utility Data Institute study. The Monticello plant ranked 35th. In a recent study that looked at a longer period — 1982-1986 — Prairie Island was the second lowest-cost producer in the nation.

Gas Utility Efforts

The Gas Utility knows first-hand the importance of containing costs while maintaining high quality service. It faces stiff competition from alternative fuels and other utilities.

We continue to diversify our supply sources to minimize gas costs — the major component of retail gas rates. Until 1986, we purchased our entire supply from one or two interstate pipelines. In 1987 the Gas Utility purchased 18 percent of its supplies from gas producers and brokers.

Wellhead prices nationwide declined in 1987. Add to that our aggressive

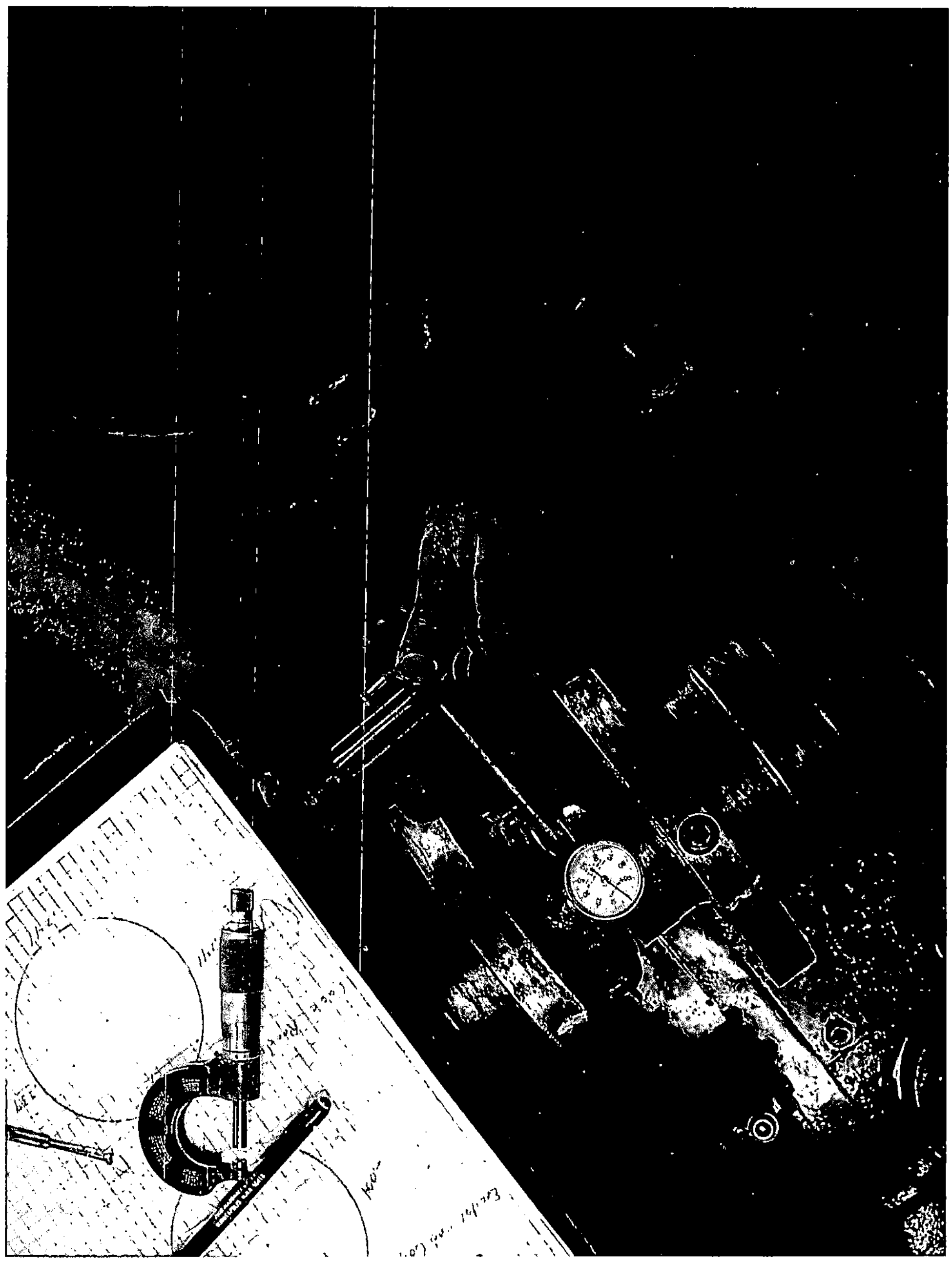
We

will

deliver

high quality

service



negotiations and diversified supply sources, and NSP's average cost of gas dropped 22.5 percent. NSP's gas supply costs, which it passes directly to customers, has fallen more than 40 percent since 1983.

The Gas Utility has successfully contained non-gas costs. Operating and maintenance costs were 7.7 percent less than in 1986. A major savings came in labor costs. We reduced the use of overtime and pared the work force by 5 percent, mostly through attrition.

The Gas Utility added 7,250 gas customers, the most since 1981. Crews cut costs and improved service by trimming the time to connect a new customer. The average cost to install new service dropped 9 percent.

Reliable Service

Summer 1987 was a stamina test. In July high winds, numerous tornadoes and almost a foot of rain combined forces to cut electric service at various times to more than 80,000 customers in the Twin Cities area. Only days later, another storm blew in, knocking out power to 40,000 homes and businesses. NSP employees worked through alternately humid and stormy weather around the clock to maintain the reliable service customers have come to expect.

The Electric Utility estimates its tree trimming program saved about $1 million that week alone, cutting repairs and related outage costs in half. Before NSP began an intensive tree-trimming program in 1984, trees accounted for 45 percent of the outages. Trees now cause only about 16 percent and outage restoration costs are down 60 percent. With a full trimming cycle complete in 1988, we will return to a moderate workload, reducing the use of contract crews by 27 percent.

Customers surpassed the electric peak demand record three times, finally topping out at 6,377 Mw July 31. The 1986 record was 6,012 Mw. Unlike some utilities in the Northeast that enacted brownouts during the summer, NSP dispatchers had arranged power purchases to meet potential demand without significant increases in fuel costs.

NSP-Wisconsin crews in October handled another storm — this one with a foot of blowing snow that knocked out service to 3,300 customers. Within a day, crews restored service throughout the heavily wooded area.

The efficiency with which we respond to special needs comes from everyday practice in high quality service. Customers recognize the effort. In a survey of residential customers, 98 percent said NSP electric service is "excellent" or "pretty good." The same percentage gave positive ratings to our gas service.

The Electric Utility in 1987 initiated programs to track its record and find ways to make the most of every customer contact. One of the programs is a survey of customers who dealt recently with NSP. In an initial survey, 91 percent gave NSP employees positive ratings.

Plant Reliability

An important measure of high quality service is reliability — from plants, equipment and employees. Reliable service means cost-effective service for the company and customers alike.

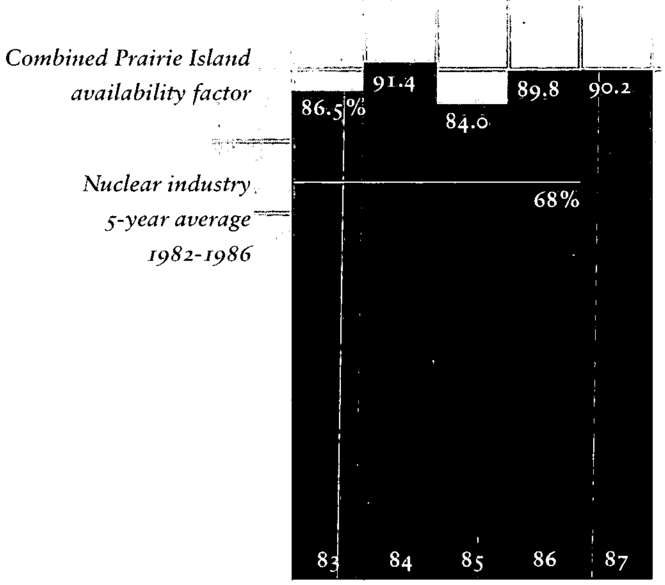
Unit 2 at the Prairie Island nuclear generating plant set an NSP record for continuous operation. It generated power 406 consecutive days before shutting down Jan. 6, 1988, for a scheduled refueling outage. It was the world's fourth longest run for similar units.

Westinghouse Electric Corp. in May honored Prairie Island unit 1 for having the highest availability factor of all nuclear plant systems the manufacturer built. Unit 1 was available for service 93.04 percent of the time from July 1985 to December 1986.

Since January 1985, when it returned to service after an extensive refurbishing, the Monticello nuclear plant's availability factor was 80.6 percent. The industry average during 1982-1986 was 68 percent.

NSP's coal-fired plants also operate above industry averages. Sherco units 1 and 2 in 1987 had a combined availability factor of 94.0 percent. Their five-year average (1983-1987) was 88 percent. The national five-year average (1982-1986) for similar-sized plants was 76 percent.

The number of lost-time injuries increased from 91 in 1986 to 146 in 1987. It was the first rise in the injury rate since 1983, when NSP began an aggressive safety program. Safety in many areas of the company excelled, however. For example, Minot employees celebrated one million workhours without a lost-time injury; as of January 1988, they were headed into their 65th injury-free month. Monticello plant employees have not recorded a lost-time injury since 1985.



Employee Participation

Teams of employees meet to pool ideas that improve productivity, cut costs and enhance customer service and satisfaction. The Electric Utility's several Quality Teams in two years made recommendations and changes worth $13 million in time savings and reduced expenses.

In Power Supply, an employee team redeveloped the company-wide plant performance reporting system, cutting by 96 percent the number of times workers handled the reports. The team did it without spending the estimated budget for computer programming changes.

A Gas Pride project team streamlined the process for customers ordering new gas service, speeding up NSP's response to customers and improving the use of employee time.

NSP-Wisconsin's suggestion program each year nets money- and time-saving ideas. In 1987, employees found ways to save annually more than $100,000.

Rate Jurisdictions

NSP in 1987 earned its electric, natural gas and telephone revenues from retail sales in these regulatory jurisdictions: Minnesota, 73.7 percent; Wisconsin, 14.2 percent; North Dakota, 5.9 percent; South Dakota, 2.9 percent; Michigan, 0.6 percent; and 2.7 percent from wholesale transactions under the Federal Energy Regulatory Commission (FERC).

Electric Rate Cases

NSP has requested electric rate increases due to the addition of Sherco 3 to NSP's operating system and to recover the cost of renovations at older generating plants.

NSP's electric rates remain among the lowest in the nation, even at the higher, requested rate levels. The company is committed to controlling its costs and, therefore, its rates. Providing that results in our current rate cases are fair and barring unforeseen adverse events, our goal is to avoid general rate increases for several years.

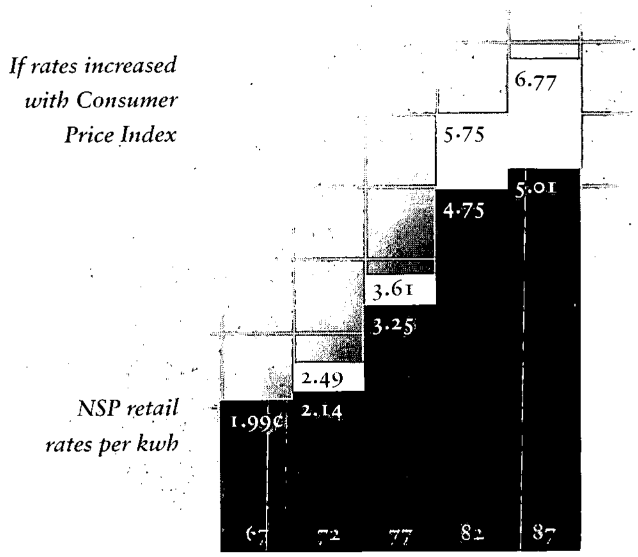
In Minnesota, the company in November requested a $99.3 million increase in annual retail electric rates, or an average 9.5 percent. The Minnesota Public Utilities Commission (MPUC) approved an overall interim rate increase of $95 million effective Jan. 1, 1988. In February 1988, the company reduced its overall request to $97.3 million, reflecting changes since the November filing. The MPUC must determine final rates by Sept. 2, 1988.

NSP has requested a $4.0 million increase in annual North Dakota electric rates. It is NSP's first request in North Dakota in more than six years.

NSP also asked for FERC approval to increase its Minnesota wholesale electric rates by $3.1 million, or 12.9 percent. Wholesale customers, usually municipalities, buy power from NSP for resale. The company asked that the rate go into effect Jan. 1, 1988. However, some customers filed a protest, delaying implementation. NSP-Wisconsin Jan. 3, 1988, increased wholesale electric rates $2.4 million, pending final FERC approval.

As a result of lower federal income tax rates due to the Tax Reform Act of 1986, the company reduced rates in several jurisdictions. Effective March 13, NSP-Wisconsin reduced retail electric rates $4.7 million. Effective July 1, we reduced annual telephone rates $359,000, 3.5 percent; North Dakota retail gas rates $271,000, 1 percent; and electric wheeling rates $100,000, 5.5 percent. NSP reduced Minnesota annual retail gas rates $1.6 million, or 0.6 percent, effective Jan. 1, 1988.

R*ate regulation will continue in the future, with changes*



1985 Minnesota Gas Case

The Minnesota Supreme Court in October ruled that the MPUC exceeded its authority when it dismissed NSP's 1985 Minnesota gas rate case because of allegations of impropriety. The commission acted when NSP acknowledged it had discussed job offers with a retiring commissioner. The court ordered the case back to the MPUC for redetermination.

As a result, the MPUC determined that in addition to a refund of $3.1 million in interim rates NSP collected related to the case, NSP must refund to customers $100,000, plus interest of about $600,000. The company will issue the refunds in March 1988. The effect of the commission's decision is immaterial to 1987 and 1988 earnings due to refund amounts previously accrued.

In related action, a Minnesota district court judge in April dismissed a shareholders' lawsuit that claimed damages from the commissioner's hiring.

NSP in 1986 filed a gas rate increase request to replace the 1985 case the MPUC had dismissed. The commission in January 1987 approved a $14.8 million annual increase.

Rate Case Issues

The Minnesota Court of Appeals in March ruled in favor of the company's appeal of a MPUC rate case decision. The court found that a proper standard of proof needed to establish the reasonableness of a proposed rate change is a fair preponderance of the evidence.

In further review of the appeal, the Minnesota Supreme Court in December ruled in favor of the MPUC and its use of a hypothetical capital structure to determine NSP's allowed overall rate of return in the 1985 electric rate case. In that rate case and subsequent cases, the commission imposed a hypothetical capital structure with a maximum 45 percent in common equity. The court also upheld the MPUC's disallowance of a return on the delay in payment for depreciation and income taxes.

NSP already has issued refunds to electric customers based on the commission's decision; therefore, they will not receive refunds as a result of the court's ruling. However, NSP and the MPUC agreed to apply the court's ruling to NSP's 1985 and 1986 Minnesota gas rate cases. As a result, NSP will refund to gas customers about $1 million, which includes interest.

NSP-Wisconsin Rates

NSP-Wisconsin received approval to increase electric rates August 1987 at an annual rate of $2.8 million due to higher fuel costs. An additional $2.6 million, or 1.3 percent, rate increase went into effect Jan. 1, 1988. NSP-Wisconsin and former Lake Superior District Power Co. (LSDP) customers now pay the same rates. (LSDP and NSP-Wisconsin merged Dec. 31, 1986.)

The Wisconsin commission also granted an overall natural gas rate increase of $275,000, or 0.6 percent. Some customers' bills will decrease in this final step to equalize rates among NSP-Wisconsin gas customers.

Future Capacity Plans

Utilities must plan and provide for future demand on a scale and timetable few other industries can imagine. To cut expensive lead time and construction schedules and narrow the gap between projected and actual demand, NSP is developing a "reference" plant.

With a standard plant design, the company can move quickly to site, permit and build when demand requires additional company-owned capacity. Plans are for a coal-fired plant in the 400-Mw range; we have not committed to a schedule or site. Although initial projections called for plant construction in the mid- to late-1990s, NSP is re-examining its options.

Electric Services

Competitive pressures for large-volume customers encourage more creative pricing packages and innovative uses of our resources.

NSP in 1988 continues to focus on filling the valleys and leveling the peaks of electric demand. NSP encourages customers to take advantage of the cheaper rates it offers during periods, usually at night, when demand is less than peak times. We also offer incentives to use energy-efficient products.

The Electric Utility's Cool Storage Rebate program gives rebates for equipment that allows a customer to chill water at night for the next day's cooling needs. The customer saves on overall energy costs, while NSP makes more efficient use of its system. NSP in 1988 will launch similar promotions for other electrical products.

We are promoting use of security and decorative spotlights, which use electricity during off-peak hours, efficiently increasing our electric sales.

Almost 200 NSP-Wisconsin residential customers have installed heat storage

C*ompetition*

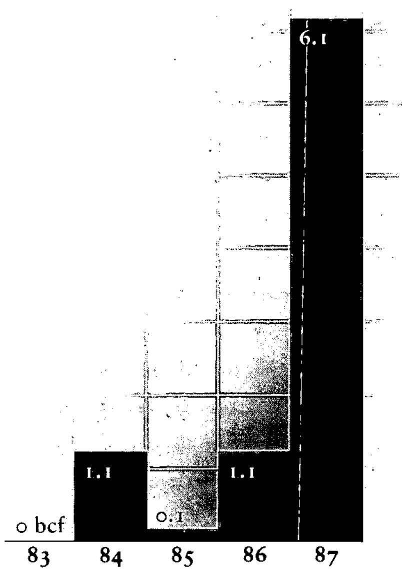
requires

creative pricing

and

marketing

Gas Utility agency and transportation deliveries



devices, replacing electric heating baseboards that consume much of their electricity during the day. The company promotes heat storage where it does not provide natural gas.

A popular NSP conservation program distributes rebates for purchases of energy-efficient home appliances and industrial equipment and lighting. In 1987, NSP disbursed 50,000 rebates totaling $3.1 million to residential customers; more than 2,000 rebates to commercial and industrial accounts totaled $1.5 million.

NSP regularly meets with groups of customers. From their insights, suggestions and complaints, we can develop programs and services that best meet their electric and natural gas needs.

We created a consulting service in response to customer requests for help in identifying power aberrations in their sensitive electronic equipment. NSP hunts for the cause, analyzes solutions and sells protective equipment.

To enhance customer service, our telephone company in Minot, N.D., in 1987 installed its first fiber optic cable and in 1988 will complete conversion of its switching functions to a digital system.

Gas Services

Minnesota and North Dakota regulators approved use of flexible rates for interruptible natural gas customers (those with alternate energy supplies). This enables NSP to compete with alternative fuels in the intensely competitive market. NSP also expanded its agency gas service — arranging the purchase and transportation of gas for individual large-volume customers.

Through agency and transportation service, the Gas Utility in 1987 delivered about 6.1 billion cubic feet (bcf) of gas to interruptible customers. In 1986 we delivered 1.1 bcf.

The more customers we serve on a gas main, the lower our average cost to serve them. NSP aggressively markets the gas cost-advantage for space and water heating to potential customers and developers building in our gas service area. Where cost-effective, NSP will extend gas mains to communities or subdivisons that do not have established utility gas service. We extended service to two communities in 1987 and plan to add more in 1988.

NORENCO Results

To expand the resourceful use of its facilities, experience and personnel and to meet its customers' changing energy needs, NSP in 1982 created NORENCO. It's been an uphill climb for the wholly owned subsidiary that provides non-regulated energy services. In 1987, NORENCO wrote off several investments. And because of a contract dispute about its steam service to a St. Paul paper manufacturing plant, NORENCO did not receive revenues to offset the annual expenses of the steam line to the plant.

NORENCO and the Waldorf Corporation Feb. 12, 1988, entered into an agreement to settle litigation concerning the steam service contract dispute. The settlement is sufficient to recover NORENCO's remaining net investment in the steam line and a portion of its expenses. In addition, the companies agreed to a new 13-year steam service contract.

NORENCO has refocused its strategies on energy-related businesses. Continuing NORENCO projects include process steam services to a window manufacturer and state prison near Stillwater, Minn., and two paper manufacturing plants in Wisconsin, and management of the energy system in a St. Paul industrial park.

Alternative Fuels

In its refuse derived fuel (RDF) projects, NSP gives communities an alternative to traditional trash disposal while we take advantage of an alternative generating fuel. NSP's new $32 million processing plant near St. Paul converts into RDF up to 1,000 tons per day of municipal solid waste from two area counties. We modified the Red Wing and Wilmarth generating plants to burn the RDF. We are building another Twin Cities area processing facility scheduled for completion in 1989.

NSP-Wisconsin burns RDF in modified boilers at its French Island plant. The company built a processing facility next to the plant that can handle up to 280 tons of waste daily.

Environmental Safeguards

NSP's vision for continued success retains the company's strong traditions of environmental awareness and community involvement.

Black Dog's fluidized bed boiler and RDF are two examples of NSP's commitment to developing cost-effective ways to generate reliable, environmentally acceptable energy. The company often leads the industry in such developments.

NSP

remains

committed

to

the

area's

well-being

Community Commitment

Power magazine gave NSP its 1987 Energy Conservation Award for efforts in new, environmentally sound technology. The industry magazine cited the fluidized bed boiler and the conversion of plant boilers to burn RDF.

NSP coal-fired generation since 1970 has increased significantly while sulfur dioxide emissions have dropped almost 80 percent. We achieved this record by burning low-sulfur Western coal at many of our plants and installing emissions control devices.

About one-third of Sherco 3's $1 billion cost is for environmental protection facilities, including a new technology that NSP pioneered in earlier small-scale tests at the Riverside plant. The combination dry scrubber and baghouse is designed to remove 90 percent of the sulfur dioxide and almost 100 percent of the dust particulates from emissions.

These moves have not come without cost, but NSP rates remain lower than most utilities — many that have not installed the expensive pollution controls. According to *Energy Users News,* our commercial rates are the 22nd lowest and industrial rates the 35th lowest in the country. NSP electric rates overall consistently rank nationally in the lower third.

A cost-effective solution for us at the Jim Falls hydro redevelopment also benefits fish — and people who fish in the area. NSP-Wisconsin used rock excavated for the project to create a fish habitat near an existing island. We save on rock disposal costs and fish get a still-water area to spawn.

NSP-Wisconsin also developed a park on the shoreline. Nearby, we are creating a handicapped-accessible fishing spot, a scenic overlook and nature trail.

From a new ash terminal at the Riverside plant in Minneapolis, a NSP subcontractor sells fly ash from NSP's four Twin Cities area coal-fired plants. Fly ash, a by-product of burning coal, can replace up to 20 percent of the cement in concrete mix. The central terminal provides easy access for contractors.

Education Programs

NSP offers curricula covering energy from safety to fuel exploration for all grades. We reach 90 percent of the elementary schools in our Minnesota, North Dakota and South Dakota communities. Almost 60 percent of the high schools study with our materials. More than 80 percent of the schools in NSP-Wisconsin's area use the programs.

A popular NSP educational tool is the annual electric safety poster contest. Students in kindergarten through sixth grade draw pictures of safety tips, giving teachers opportunities to discuss good and bad habits. The winning posters grace a calendar we send to schools, further reinforcing our safety messages. NSP in 1987 received more than 7,000 entries from 250 classes.

NSP also addresses special education needs. We offer programs about energy use, safety and conservation to senior citizens, non-English-speaking customers and other groups.

Economic Development

The five-state area we serve is economically stable and does not depend on any one or two industries. NSP provides abundant, affordable and reliable energy — requirements for a healthy economy. We also aid communities' economic development efforts and provide research and personnel. NSP employees get involved, too, volunteering for local activities.

NSP is a one-stop information source for companies thinking of relocating or expanding in the area. We provide labor statistics and information on state and local tax incentives or financial aid. And who better to analyze a company's energy needs than NSP?

NSP-Wisconsin, especially, has been active in promoting its communities. Its successes include a Japanese firm that makes veneer products in Stanley, Wis. The plant employs 100 people in a once-vacant building in the town of 2,100.

Community Concerns

NSP officers attend monthly breakfast meetings with social-service leaders in a setting that encourages frank communication. NSP also sponsors the Consumer Advisory Panel. The panel, whose members are nominated from human services and government agencies in the Twin Cities area, offers input from the low-income customer's perspective.

NSP-Wisconsin in 1987 began a one-year project to educate customers who have poor payment histories. Customers are required to make budgeted payments and attend special programs. In return, NSP gives a small incentive credit to the overdue account.

In Minot, the telephone company is participating in a national program to assist low-income families wanting to receive phone service.

We focus corporate contributions on programs that offer opportunity to disadvantaged people and enrich the quality of life in the communities we serve. We have funded neighborhood arts groups, job training programs, community-based clinics and food banks. NSP in 1987 received a national citation for our support of Camp Sunrise, a camp for disadvantaged youth.

Retirees developed "Pioneers in Public Service," or PIPS, taking their name from a former NSP logo. Through PIPS, retirees and their spouses keep in touch while providing community services.

PIPS is an extension of employees' community involvement. Employees are active in a variety of programs, including Junior Achievement teams that NSP sponsors, "adopting" senior citizens living in high-rise apartment buildings and serving on non-profit agencies' boards of directors.

In 1987, United Way employee contributions exceeded the ambitious 10 percent-increase goal.

Financial Review

N S P *offers investors an attractive return in a financially sound company*

1987 Results

• Earnings per share (EPS) were $3.01, compared with $3.09 a year ago. • Dividends increased 6.3 percent, to an annual rate of $2.02. • Return on equity (ROE) declined to 14.1 percent, but remained above the industry average.

NSP is working hard to improve the EPS level in 1988. The company has filed several rate cases to begin recovering its Sherco 3 costs. The largest filing, in Minnesota, requests a $97.3 million annual electric rate increase. The Minnesota Public Utilities Commission (MPUC) granted a $95 million interim rate increase effective Jan. 1, 1988.

In addition, retail electric sales remain strong. Electric sales grew 4.9 percent. The greatest increase was in the commercial and industrial sector, where sales were up 5.9 percent. The economy was the primary reason for the sales increase, although the unusually warm and humid summer also was a factor.

In order for the company to be the premier electric and natural gas supplier in the region, it must remain financially sound and continue to offer investors an attractive return. Good financial performance benefits customers through reasonable rates and a secure utility. NSP's financial objectives are designed to support this vision.

Financial Objectives

The company met its capital structure objectives. Our goal is to have 45-50 percent of our capital structure in common equity, 40-45 percent in short-and long-term debt and 7-12 percent in preferred stock. NSP's 1987 capital structure was 45.2 percent common equity, 44.9 percent debt and 9.9 percent preferred stock.

In recent rate cases, the MPUC imposed a hypothetical capital structure with a maximum common equity of 45 percent. NSP's 45-50 percent objective range is consistent with bond rating agencies' guidelines for double A-rated utilities, and we believe better serves both customers and shareholders. NSP appealed the MPUC's decisions. The state Supreme Court in December affirmed the commission's right to impose a hypothetical structure. We will continue to present our position to the commission.

NSP's pre-tax interest coverage was 3.5 times interest charges without Allowance for Funds Used During Construction (AFC). This is at the low end of our 3.5 to 5.0 times objective range.

NSP in 1987 internally generated 71 percent of its cash needs and over the next five years expects to generate internally virtually all of its cash needs.

NSP in 1988 expects its capital structure, interest coverage and internal cash generation measures to improve. The quality of earnings will improve as NSP's construction projects wind down and the level of non-cash AFC in net income is reduced. The completion in 1987 of several major construction and renovation projects reduces NSP's financing needs. Also, we plan to issue $50 million of preferred stock in 1988.

The major bond rating agencies, which closely monitor these credit measures, consistently rate NSP among the best. This

Results

enables the company to meet its financing needs at favorable rates in all kinds of market conditions. Our first mortgage bonds are rated as follows: Moody's, Aa1; Standard & Poor's, AA +; and Duff & Phelps, 2.

Industry Comparisons

The company also sets earnings and return objectives. To provide an overview of its performance, NSP uses five-year averages. Our objectives: EPS growth should exceed the electric utility industry's average growth rate; ROE should exceed the industry's; ROE should approximate the U.S. industrials average.

NSP's EPS grew an average 4.3 percent over the past five years; the electric utility industry's average growth rate was 1 percent. However, the median EPS growth rate for the electric utility industry was about 2 percent.

ROE also met our objectives. NSP's five-year average ROE is 15½ percent, compared with 13½ for the electric utility industry and 13 percent for U.S. industrials. In a 10-year comparison, a longer term that takes into account the effects of business cycles, inflation and interest rates, NSP's average ROE was 14½ percent. The electric utility industry's was 13 percent and U.S. industrials averaged 14 percent ROE.

The company's objectives for dividends include regular dividend increases and a payout ratio of 65-70 percent. In each of the last 11 years, the company has increased dividends. In 1987 dividends increased 6.3 percent and, with the decline in earnings, moved into the targeted payout ratio range.

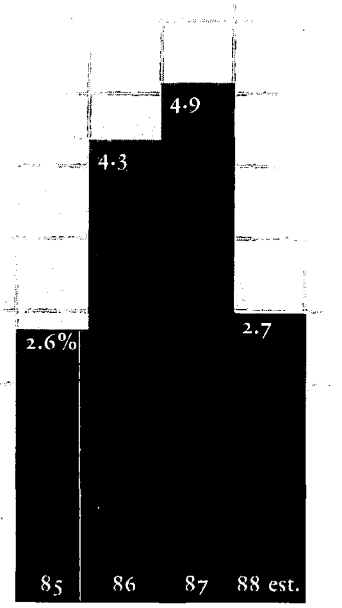
Stock Market Prices

Rising interest rates throughout 1987 affected electric utility stock prices, causing the S&P's index of 21 electric utilities to close out the year about 14.8 percent lower than in January 1987. NSP's stock price did slightly better, declining 14.1 percent from January to December. The average price of S&P 400 stocks rose 5.9 percent.

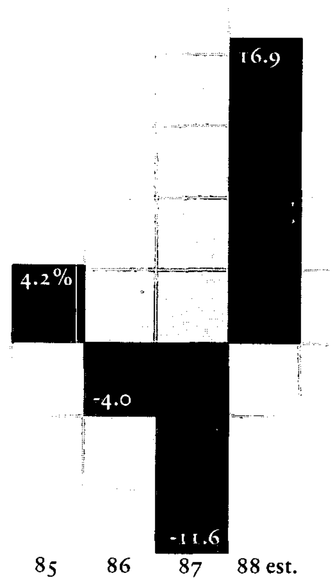
The Oct. 19 stock market "crash" did not affect the stock prices of NSP and the electric utility industry in general as severely as it did the S&P 400. Between August 1987, when stock prices in general peaked, and Dec. 31, 1987, NSP's common stock price declined 12.2 percent; the S&P 21 was down the same percentage. Compare that with an overall 27.1 percent drop in the S&P 400.

Taking a longer view — a common investment strategy for utility stockholders — NSP stock has outperformed the industry and was about even with U.S. industrials. Since the start of the bull market in August 1982 to Dec. 31, 1987, the average stock price of the S&P 21 rose 65 percent; the S&P 400 climbed 139 percent. Investors saw their NSP stock price rise 123 percent. Taking into account dividends received, an NSP investor's total return was greater than the total returns of the S&P 21 and S&P 400 indices.

Electric retail sales growth



Gas firm sales growth



NSP's 1987 earnings per share were $3.01, down 8 cents from $3.09 per share in 1986 and up 4 cents from the $2.97 per share earned in 1985. Expenses associated with full operation of the new Sherco 3 generating plant in November and December and losses by NORENCO, NSP's non-regulated subsidiary, were primary causes of the decrease. However, electric sales growth and reduced federal and state income tax rates partly offset those factors.

Electric Sales and Revenues

Retail sales in 1987 increased 4.9 percent over 1986, primarily because of increased use per customer. However, the addition of about 24,000 customers, a 1.9 percent increase, accounted for 40 percent of the sales increase.

On a weather-adjusted basis, sales to retail customers increased 4.7 percent in 1987, 4.2 percent in 1986 and 3.1 percent in 1985. Retail sales growth forecast for 1988 is 2.7 percent, or 3.2 percent over 1987 weather-adjusted sales. The table below identifies reasons for the past three years' electric revenue increases.

	1987/86	1986/85	1985/84
	(Millions of dollars)		
Sales Changes	$53	$44	$22
Rate Changes	(4)	31	15
Fuel Clauses & Other	21	(23)	(24)
Total	$70	$52	$13

NSP has requested retail and wholesale electric rate increases in most jurisdictions to recover costs associated with Sherco 3 and other additional expenses. A $95 million interim rate increase took effect Jan. 1, 1988, in Minnesota, NSP's largest jurisdiction.

Gas Sales and Revenues

NSP categorizes gas sales as firm (primarily to heating customers) and interruptible (to customers with an alternate energy supply). Firm sales in 1987 decreased 11.6 percent because of exceptionally warm weather last winter. This decline was offset partially by a 2.7 percent increase in firm customers. Firm sales decreased 4.0 percent in 1986 and increased 4.2 percent in 1985. On a weather-adjusted basis, firm sales in 1987 increased 2.9 percent, decreased 0.2 percent in 1986 and increased 3.2 percent in 1985. NSP forecasts 1988 firm gas sales to increase 16.9 percent over 1987, which is a decrease of 1.5 percent on a weather-adjusted basis.

Interruptible gas sales, including customer-owned gas for which NSP arranged the purchase and transportation, increased 20.1 percent. Sales increased as NSP improved its competitive position with flexible pricing and expanded supply options. The table below identifies factors in the past three years' gas revenue changes.

	1987/86	1986/85	1985/84
	(Millions of dollars)		
Sales Changes	$(29)	$(21)	$16
Rate Changes	(1)	8	7
Fuel Clauses & Other	(51)	(45)	(23)
Total	$(81)	$(58)	$ 0

Electric Production Expense

This expense increased 23.8 percent in 1987, compared with a 8.3 percent decrease in 1986 and a 4.5 percent increase in 1985. The large increase in 1987 was due to increased production to meet sales growth and offset a reduction in power purchases. Purchased and interchange power declined 21.7 percent principally because of reduced purchases from the Manitoba Hydro-Electric Board due to below-normal water conditions at its hydro plants. Through fuel clause adjustments, NSP passes to customers changes in the cost of fuel and purchased power in all jurisdictions except Wisconsin.

Gas Purchased For Resale

Gas purchased for resale decreased $70.4 million in 1987 principally because gas cost less. The average cost per million Btu was 22.5 percent lower in 1987 than 1986. Also, NSP purchased less gas due to reduced sales during the warm winter. NSP passes to customers changes in the cost of purchased gas through a purchased gas adjustment clause in all jurisdictions except Wisconsin.

Administrative and General, Other Operation and Maintenance

These expenses, in total, increased 1.8 percent in 1987 compared with increases of 12.7 percent in 1986 and 8.0 percent in 1985. The three years' increases are attributable to increased labor costs and increased operating and maintenance costs at generating plants. Excluding a write-off of mandated conservation expenses in 1986, the 1987 and 1986 increases would be 3.4 and 10.9 percent, respectively. Revenues from recent electric and gas rate cases offset the cost of those conservation expenses.

Depreciation and Amortization

Depreciation and amortization increased 8.0 percent in 1987 compared with increases of 1.4 percent in 1986 and 9.6 percent in 1985. The 1987 increase was due primarily to the Nov. 1 start-up of Sherco 3 and completed life extension projects at four generating plants.

1986 expenses were reduced about 6 percent when the Minnesota Public Utilities Commission (MPUC) approved NSP's recommendation for longer lives for certain electric generating plants. The 1985 increase was due primarily to increased nuclear plant investment; NSP in 1984 replaced reactor recirculation pipes and condenser tubing at the Monticello plant.

The MPUC in October approved a filing that forecast higher decommissioning costs for NSP's two nuclear plants. This will increase depreciation expense $13.2 million in 1988. NSP has included this item in recent rate increase requests.

Property and General Taxes

Property and general taxes increased $11.8 million in 1987 due to higher property taxes as a result of additional property and higher mill rates. Taxes in 1986 increased $10.4 million due to additional property. In 1985 taxes increased only $800,000.

Income Taxes

Income taxes decreased $17.0 million primarily as a result of lower federal and state tax rates. The statutory federal rate in 1987 was 40 percent compared with 46 percent in 1986. The Minnesota rate dropped to 9.5 percent from 12 percent. See Note 1 to the financial statements for discussion of the Statement of Financial Accounting Standards No. 96 — Accounting for Income Taxes.

Allowance for Funds Used During Construction (AFC)

AFC decreased $500,000 in 1987 due to Sherco 3 being placed in service November 1. The $9.9 million increase in 1986 and $7.5 million increase in 1985 were due mainly to continuing construction on Sherco 3.

Other Income and Deductions — Net

This item in 1987 decreased $9.8 million principally because of a $10.5 million increase in NORENCO net losses. This was due primarily to $3.8 million in losses related to the termination in June 1986 of steam service to a paper manufacturing plant, and $5.9 million of write-offs for other NORENCO projects. NORENCO in February 1988, settled the dispute concerning the termination of steam service. (See Note 10 to the financial statements.)

Impact of Inflation

Under the rate-making prescribed by the regulatory commissions, only the historical cost of plant is recoverable. While the rate-making process gives no recognition to the current cost of property, management believes it will be allowed to earn on the increased cost of its net investment when it replaces the facilities.

Capital Resources

Internally generated funds provided 71 percent of the $452 million construction expenditures for 1987 and 88 percent of the $2.3 billion construction expenditures for the five-year period 1983-1987. NSP estimates construction expenditures will be $370 million in 1988 and $1.8 billion for 1988-1992. NSP forecasts that internally generated funds will provid about 94 percent of 1988 construction expenditures and 98 percent of 1988-1992 construction expenditures. In addition to the construction program, NSP will need $118 million during the five-year period 1988-1992 to retire long-term debt and meet sinking fund requirements.

In May 1987, the Company issued $65 million of an adjustable rate series of cumulative preferred stock. The dividend rate is calculated quarterly based on a percentage of prevailing rates for certain taxable government debt securities.

Tax-benefit transfer leases purchased under the Safe Harbor Lease Provision of the Economic Recovery Tax Act of 1981 have enabled NSP to defer a total of $121 million of current income taxes through 1987. In 1987, deferred taxes began to reverse, causing additional current income tax payments over the remaining lives of the leases. During the five-year period 1988-1992, NSP expects to pay $32 million of current income taxes that had been deferred because of the leases.

Liquidity

Internal funds generation, access to long-term securities markets and the availability of long- and short-term credit line commitments provide liquidity. Access to securities markets can be correlated to credit quality. The Company's first mortgage bonds are rated Aa1 by Moody's, AA+ by Standard & Poor's and 2 by Duff & Phelps. Consequently, NSP expects to have access to long-term debt markets on better terms than the electric utility industry in general. At December 31, 1987, notes payable of $78 million represented about 3 percent of capitalization. As of December 31, 1987, commercial banks supplied the Company with credit lines of $168 million and $76 million of revolving long-term commitments.

Selected Financial Data

Northern States Power Company
Minnesota and Subsidiaries

(Millions of dollars)	1987	1986	1985	1984	1983	1977
Operating revenues	$1 770.3	$1 781.6	$1 788.7	$1 775.6	$1 695.8	$ 881.5
Operating expenses	$1 505.7	$1 527.8	$1 540.1	$1 532.4	$1 443.4	$ 725.9
Net income	$ 204.9	$ 206.9	$ 197.7	$ 192.1	$ 183.9	$ 98.6
Earnings available for common stock	$ 188.3	$ 193.3	$ 184.7	$ 178.8	$ 170.3	$ 84.1
Average shares of common stock outstanding (000 s)	62 541	62 541	62 274	61 663	60 863	58 778
Earnings per share on average shares	$ 3.01	$ 3.09	$ 2.97	$ 2.90	$ 2.80	$ 1.43
Dividends declared per share	$ 1.99	$ 1.865	$ 1.725	$ 1.585	$ 1.4525	$ 1.015
Total assets	$4 401.2	$4 247.0	$4 047.6	$3 741.7	$3 395.4	$2 407.4
Long-term debt	$1 248.5	$1 292.1	$1 252.5	$1 142.5	$1 086.2	$ 916.0
Mandatory redemption preferred stock (net of treasury shares)	—	—	$ 9.1	$ 9.1	$ 13.9	$ 25.0
Ratio of earnings to fixed charges	3.9	4.3	4.7	5.0	4.9	4.0

Financial Statistics

(Millions of dollars)	1987	1986	1985	1984	1983	1977
Earnings per share on average shares	$ 3.01	$ 3.09	$ 2.97	$ 2.90	$ 2.80	$ 1.43
Return on average common equity	14.1%	15.3%	15.6%	16.4%	17.1%	11.8%
Dividends in percent of earnings	66.1%	60.3%	58.2%	54.7%	52.0%	71.0%
Dividend in percent of book value	9.7%	9.6%	9.6%	9.5%	9.4%	8.6%
Five-year growth rates in earnings per share (1)	4.3%	9.0%	13.4%	13.3%	10.9%	2.2%
Construction expenditures (millions)	451.7	555.6	513.7	401.0	347.3	159.3
Percent of construction expenditures financed by internally generated funds (excluding AFC)	70.7%	77.5%	60.5%	100.0%	100.0%	100.0%
Cash dividend coverage	3.2	4.1	4.4	4.8	5.7	4.1
AFC percent of earnings per share	27.2%	26.7%	22.6%	19.2%	11.8%	8.4%
Effective tax rate	35.3%	40.1%	44.5%	44.8%	49.2%	51.5%
Capitalization (2)						
Common	45.2%	44.8%	44.5%	45.1%	43.5%	38.7%
Preferred	9.9%	8.1%	7.9%	8.6%	9.2%	12.2%
Debt	44.9%	47.1%	47.6%	46.3%	47.3%	49.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Embedded cost of long-term debt	8.19%	8.03%	8.08%	7.98%	7.96%	6.85%
Average plant investment per dollar of revenue	$ 3.27	$ 3.00	$ 2.71	$ 2.50	$ 2.45	$ 3.16
Depreciation reserve in percent of depreciable plant	31.5%	34.7%	33.9%	34.6%	34.1%	24.3%
Depreciation provision in percent of average depreciable plant	3.37%	3.48%	3.63%	3.55%	3.47%	3.43%
Benefit employees (at December 31)	7 699	7 515	7 414	7 347	7 207	6 694

AFC — Allowance for Funds Used During Construction

(1) Least squares method.

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

Northern States Power Company
Minnesota and Subsidiaries

Electric	1987	1986	1985	1984	1983	1977
Revenues (thousands)						
Residential						
With space heating	$ 56 115	$ 58 839	$ 58 309	$ 53 611	$ 48 573	$ 12 739
Without space heating	466 313	445 304	425 652	421 894	414 311	233 942
Small commercial and industrial	256 905	246 693	236 915	228 802	208 903	112 435
Large commercial and industrial	579 015	548 986	515 794	506 906	458 294	234 480
Street lighting and other	32 227	31 203	30 734	31 241	30 130	18 575
Total retail	1 390 575	1 331 025	1 267 404	1 242 454	1 160 211	612 171
Sales for resale	86 002	77 606	94 605	104 180	111 233	118 018
Miscellaneous	20 868	19 103	14 103	15 986	13 943	2 071
Total	$1 497 445	$1 427 734	$1 376 112	$1 362 620	$1 285 387	$ 732 260
Sales (millions of kwh)						
Residential						
With space heating	994	1 063	1 066	980	918	446
Without space heating	7 389	7 095	6 900	6 826	6 923	5 976
Small commercial and industrial	4 675	4 487	4 326	4 158	3 901	3 027
Large commercial and industrial	14 191	13 327	12 569	12 250	11 443	8 875
Street lighting and other	502	489	500	515	514	542
Total retail	27 751	26 461	25 361	24 729	23 699	18 866
Sales for resale	3 890	3 166	4 211	3 947	4 641	7 500
Total	31 641	29 627	29 572	28 676	28 340	26 366
Customer Accounts (at Dec. 31)						
Residential						
With space heating	71 118	69 376	66 668	62 706	58 426	25 878
Without space heating	1 044 992	1 022 872	1 010 194	996 997	981 729	875 892
Small commercial and industrial	131 797	127 780	125 992	123 783	120 875	99 556
Large commercial and industrial	6 565	6 364	6 049	5 816	5 647	4 634
Street lighting and other	5 300	5 291	5 245	5 170	5 058	6 262
Total retail	1 259 772	1 231 683	1 214 148	1 194 472	1 171 735	1 012 222
Sales for resale	74	77	81	79	78	83
Total	1 259 846	1 231 760	1 214 229	1 194 551	1 171 813	1 012 305
Residential With Space Heating						
Annual kwh per customer	14 177	15 581	16 522	16 203	16 475	19 654
Annual revenue per customer	$800.33	$862.29	$903.72	$886.10	$871.28	$561.83
Average revenue per kwh	5.65¢	5.53¢	5.47¢	5.47¢	5.29¢	2.86¢
Residential Without Space Heating						
Annual kwh per customer	7 157	6 998	6 887	6 909	7 114	6 858
Annual revenue per customer	$451.67	$439.22	$424.86	$427.05	$425.75	$268.48
Annual revenue per kwh	6.31¢	6.28¢	6.17¢	6.18¢	5.98¢	3.91¢
Kilowatt-hour Output (millions)						
Thermal	27 518	22 243	24 095	20 627	23 570	26 428
Hydro	665	1 112	1 200	1 062	1 199	771
Purchased and interchange	5 363	8 188	6 317	8 968	5 874	828
Total	33 546	31 543	31 612	30 657	30 643	28 027
Capability at Time of Maximum Demand (megawatts)						
Company owned	6 268	6 121	6 057	5 924	6 071	6 209
Purchases and sales — net	1 067	768	729	534	530	(644)
Total	7 335	6 889	6 786	6 458	6 601	5 565

Electric (continued)	1987	1986	1985	1984	1983	1977
Maximum Demand (megawatts)	6 377	6 012	5 205	5 544	5 389	4 503
Date of Maximum Demand	July 31	July 18	July 9	Aug. 6	July 21	July 19

Gas						
Revenues (thousands)						
Residential						
With space heating	$135 379	$173 920	$195 248	$191 793	$184 714	$68 756
Without space heating	2 722	3 383	3 838	4 274	3 921	2 890
Commercial and industrial						
Firm	78 452	103 275	118 760	120 088	116 079	35 108
Interruptible	42 258	60 990	81 501	82 829	92 094	32 556
Miscellaneous*	4 185	2 300	2 853	2 981	2 947	2 566
Total	$262 996	$343 869	$402 200	$401 965	$399 755	$141 866
Sales (thousands of mcf)						
Residential						
With space heating	27 818	31 518	32 850	31 281	29 805	30 044
Without space heating	372	431	464	513	469	856
Commercial and industrial						
Firm	18 809	21 199	22 042	21 314	20 270	16 535
Interruptible	16 626	17 891	19 986	19 279	21 224	20 577
Miscellaneous	606	195	114	116	79	85
Total	64 231	71 234	75 456	72 503	71 847	68 097
Agency & Transportation Deliveries (thousands of mcf)	6 151	1 081	106	1 119	0	0
Customer Accounts (at Dec. 31)						
Residential						
With space heating	271 111	262 223	255 154	248 335	243 313	193 581
Without space heating	23 140	23 737	24 420	25 210	25 555	36 356
Commercial and industrial	30 194	29 230	28 414	27 474	26 697	21 848
Total	324 445	315 190	307 988	301 019	295 565	251 785
Residential With Space Heating						
Annual mcf per customer	105	122	131	128	124	157
Annual revenue per customer	$509.06	$675.37	$779.75	$782.78	$768.85	$360.22
Average revenue per mcf	$4.87	$5.52	$5.94	$6.13	$6.20	$2.29
Gas Purchased for Resale						
Total cost (thousands)	$165 584	$236 013	$300 375	$303 985	$313 315	$ 94 466
Cost per mcf sold**	$2.58	$3.31	$3.98	$4.19	$4.36	$1.39
Maximum Sendout (mcf)	537 304	547 701	610 914	559 143	550 011	421 552
Date of Maximum Sendout	Jan. 22	Jan. 6	Jan. 19	Jan. 19	Dec. 18	Jan. 15

**Includes revenues for transportation services.*
***Mcf sold excludes transportation service volumes.*

Major Generating Plants

Coal			*Nuclear*		
Allen S. King	560 Mw	(1 unit)	Monticello	541 Mw	(1 unit)
Black Dog	440 Mw	(4 units)	Prairie Island	1,023 Mw	(2 units)
High Bridge	365 Mw	(4 units)			
Riverside	337 Mw	(2 units)			
Sherburne County (Sherco)	1,898 Mw*	(3 units)			

**Includes 496 Mw for NSP's share of the projected summer peak capacity of Sherco 3.*

Northern States Power Company
Minnesota and Subsidiaries

(Thousands of dollars)	Year Ended December 31 1987	1986	1985
Operating Revenues			
Electric	$1 497 445	$1 427 734	$1 376 112
Gas	262 996	343 869	402 200
Telephone	9 888	10 027	10 430
Total	1 770 329	1 781 630	1 788 742
Operating Expenses			
Fuel for electric generation	291 667	235 557	256 989
Purchased and interchange power	88 507	112 984	94 059
Gas purchased for resale	165 584	236 013	300 375
Administrative and general	140 616	154 544	126 682
Other operation	229 132	212 006	189 698
Maintenance	153 570	147 557	139 697
Depreciation and amortization	170 517	157 837	155 664
Property and general taxes	146 595	134 784	124 387
Income taxes	119 500	136 527	152 530
Total	1 505 688	1 527 809	1 540 081
Operating Income	264 641	253 821	248 661
Other Income and Expense			
Allowance for funds used during construction — equity	38 194	40 065	32 841
Other income and deductions — net	(2 329)	7 553	4 167
Total Other Income	35 865	47 618	37 008
Income Before Interest Charges	300 506	301 439	285 669
Interest Charges			
Interest on long-term debt	101 360	100 415	93 605
Other interest and amortization	7 190	5 753	3 283
Allowance for funds used during construction — debt	(12 958)	(11 611)	(8 944)
Total	95 592	94 557	87 944
Net Income	204 914	206 882	197 725
Preferred Stock Dividends	16 650	13 539	13 042
Earnings Available for Common Stock	$ 188 264	$ 193 343	$ 184 683
Average Shares of Common Stock Outstanding (000s)	62 541	62 541	62 274
Earnings per Share on Average Common Shares	$3.01	$3.09	$2.97
Common Dividends Declared per Share	$1.99	$1.865	$1.725

Statement of Retained Earnings

(Thousands of dollars)	Year Ended December 31 1987	1986	1985
Balance at Beginning of Year	$788 697	$713 024	$633 624
Net Income	204 914	206 882	197 725
Income Tax Savings on Dividends Paid on ESOP Shares	1 720		2 242
Capital Stock Expense and Other	(1 218)	(1 029)	(14)
Net additions	205 416	205 853	199 953
Dividends Declared			
Cumulative preferred stock at required rates	16 650	13 539	13 042
Common stock — per share: 1987, $1.99; 1986, $1.865; 1985, $1.725	124 457	116 641	107 511
Total dividends declared	141 107	130 180	120 553
Balance at End of Year	$853 006	$788 697	$713 024

See Notes to Financial Statements on pages 36 to 42.

Northern States Power Company
Minnesota and Subsidiaries

	Year Ended December 31		
(Thousands of dollars)	1987	1986	1985
Source of Funds			
Funds from operations			
Net income	$204 914	$206 882	$197 725
Depreciation and other amortization	193 538	178 185	173 381
Nuclear fuel amortization	50 525	49 602	50 924
Deferred income taxes (including tax-benefit transfers)	14 097	87 767	91 854
Investment tax credit adjustments — net	3 465	25 430	19 024
Allowance for funds used during construction	(51 152)	(51 676)	(41 785)
Total	415 387	496 190	491 123
Issuance of notes and securities			
Notes payable	12 350	16 721	24 029
Long-term debt	19 907	84 031	143 515
Preferred stock	65 000	30 000	
Common stock			13 577
Total	97 257	130 752	181 121
Construction fund withdrawals	61 041	63 301	52 260
Total Source of Funds	$573 685	$690 243	$724 504
Application of Funds			
Construction expenditures	$451 742	$555 625	$513 719
Allowance for funds used during construction	(51 152)	(51 676)	(41 785)
Construction funds held by trustee	3 179	23 917	36 804
Retirement of long-term debt	63 476	44 597	33 156
Redemption of outstanding preferred stock		12 263	
Preferred and common dividends	141 107	130 180	120 553
Increase (decrease) in working capital (excluding notes payable)	(25 465)	(28 303)	57 658
Other — net	(9 202)	3 640	4 399
Total Application of Funds	$573 685	$690 243	$724 504
Increase (Decrease) in Working Capital (excluding notes payable)			
Cash and temporary cash investments	$ (4 077)	$ 203	$ 3 210
Accounts receivable — net	13 752	(48 423)	42 107
Federal income tax refund receivable	(298)	924	(10 000)
Materials and supplies	(23 320)	2 667	(5 888)
Long-term debt due within one year	(22 590)	7 812	(14 942)
Accounts payable, salaries, wages, etc.	14 946	15 250	(37 615)
Income and other taxes accrued	(9 080)	1 083	(10 913)
Nuclear fuel disposal cost payable			94 579
Other current assets and liabilities — net	5 202	(7 819)	(2 880)
Total	$ (25 465)	$ (28 303)	$ 57 658

See Notes to Financial Statements on pages 36 to 42.

Northern States Power Company
Minnesota and Subsidiaries

(Thousands of dollars)	December 31 1987	1986
Assets		
Utility Plant		
Electric — including construction work in progress: 1987, $191,689; 1986, $698,696	$4 961 382	$4 634 825
Gas	341 432	325 009
Other	155 539	148 404
Total	5 458 353	5 108 238
Accumulated provision for depreciation	(1 718 428)	(1 599 040)
Nuclear fuel — including in process: 1987, $24,845; 1986, $40,505	511 313	486 081
Accumulated provision for amortization	(388 785)	(338 260)
Net utility plant	3 862 453	3 657 019
Construction Funds	36 600	94 462
Other Property and Investments	111 201	102 664
Current Assets		
Cash	5 305	5 449
Temporary cash investments	3 098	7 031
Accounts receivable	178 964	165 542
Accumulated provision for uncollectible accounts	(2 956)	(3 286)
Federal income tax refund receivable	7 626	7 924
Materials and supplies — at average cost		
Fuel	49 706	75 320
Other	59 524	57 230
Prepayments and other	38 173	27 557
Total current assets	339 440	342 767
Deferred Debits	51 539	50 051
Total	$4 401 233	$4 246 963

See Notes to Financial Statements on pages 36 to 42.

(Thousands of dollars)	December 31 1987	1986
Liabilities		
Capitalization (Pages 34 & 35)		
Common stock — authorized 80,000,000 shares of $2.50 par value; issued shares: 1987 and 1986, 64,080,836	$ 160 202	$ 160 202
Premium on common stock	379 011	379 011
Retained earnings	853 006	788 697
Employee Stock Ownership Plan shares purchased with debt — shares at cost: 1987, 123,379; 1986, 222,082	(4 444)	(8 000)
Treasury stock — shares at cost: 1987 and 1986, 1,539,432	(19 194)	(19 194)
Total common stock equity	1 368 581	1 300 716
Cumulative preferred stock — authorized 3,500,000 shares of $100 par value; outstanding shares: 1987, 3,000,000 and 1986, 2,350,000	300 000	235 000
Premium on preferred stock	509	509
Long-term debt	1 248 500	1 292 054
Total capitalization	2 917 590	2 828 279
Current Liabilities		
Notes payable	78 200	65 850
Long-term debt due within one year	30 500	7 910
Accounts payable	145 205	164 050
Salaries, wages, and vacation pay accrued	25 574	21 675
Federal income taxes accrued	1 112	775
Other taxes accrued	110 781	102 038
Interest accrued	22 931	22 666
Dividends declared on preferred and common stocks	36 312	33 135
Other	5 306	3 334
Total current liabilities	455 921	421 433
Deferred Credits		
Accumulated deferred income taxes	724 462	712 677
Accumulated deferred investment tax credits	270 284	266 819
Other	32 976	17 755
Total deferred credits	1 027 722	997 251
Commitments and Contingent Liabilities		
Total	$4 401 233	$4 246 963

See Notes to Financial Statements on pages 36 to 42.

Statement of Capitalization

Northern States Power Company
Minnesota and Subsidiaries

(Thousands of dollars)		December 31 1987	1986
Common Stock Equity			
Common stock-authorized 80,000,000 shares of $2.50 par value; issued shares: 1987 and 1986, 64,080,836		$ 160 202	$ 160 202
Premium on common stock		379 011	379 011
Retained earnings		853 006	788 697
Employee Stock Ownership Plan shares purchased with debt — shares at cost: 1987, 123,379; 1986, 222,082		(4 444)	(8 000)
Treasury stock — shares at cost: 1987 and 1986, 1,539,432		(19 194)	(19 194)
Total common stock equity		1 368 581	1 300 716
Cumulative Preferred Stock			
Minnesota Company			
$3.60 series, 275,000 shares	$ 27 500		
4.08 series, 150,000 shares	15 000		
4.10 series, 175,000 shares	17 500		
4.11 series, 200,000 shares	20 000		
4.16 series, 100,000 shares	10 000		
4.56 series, 150,000 shares	15 000		
6.80 series, 200,000 shares	20 000		
7.00 series, 200,000 shares	20 000		
8.80 series, 250,000 shares	25 000		
7.84 series, 350,000 shares	35 000		
Variable Rate series A, 300,000 shares	30 000		
Total	235 000		235 000
Variable Rate series B, 650,000 shares	65 000		
Total	$300 000	300 000	
Premium on preferred stock		509	509
Long-Term Debt			
First Mortgage Bonds Minnesota Company			
Series due:			

July 1, 1988, 4%	$30 000	Mar. 1, 2002, 7⅜%	50 000
Dec. 1, 1990, 5%	35 000	Feb. 1, 2003, 7½%	50 000
Aug. 1, 1991, 4⅞%	20 000	Jan. 1, 2004, 8⅜%	75 000
June 1, 1992, 4⅜%	15 000	Oct. 1, 1989-2004, 7.99%	35 000*
Sept. 1, 1993, 4⅜%	15 000	May 1, 1996-2005, 7⅝%	25 000*
June 1, 1995, 6⅛%	30 000	May 1, 2005, 9½%	80 000
Mar. 1, 1996, 6.2%	8 800*	Dec. 1, 1989-2006, 6.39%	27 700**
Aug. 1, 1996, 5⅞%	45 000	Mar. 1, 2011, Variable Rate	13 700*
Oct. 1, 1997, 6½%	30 000	May 1, 2013, 10⅞%	74 250
May 1, 1998, 6¾%	45 000	Dec. 1, 2013, 10⅜%	100 000*
Oct. 1, 1999, 8%	45 000	Oct. 1, 2014, Variable Rate	32 500*
Mar. 1, 2001, 8%	50 000	June 1, 2015, 11½%	99 000
June 1, 2001, 8¼%	50 000		

		1987	1986
Total	1 080 950		1 080 950
Less current maturities	30 000		
Less amounts redeemed May 1, 2013, 10⅞% series	750		
Less amounts redeemed June 1, 2015, 11½% series	1 000		
Net	$1 049 200	1 049 200	

* *Pollution control financing*
***Resource recovery financing*

(Thousands of dollars)	Annual Sinking Fund Requirement	1987	1986	December 31 1987	December 31 1986
Long-Term Debt — continued					
First Mortgage Bonds Wisconsin Company — (less reacquired bonds of $1,111 and $530 at Dec. 31, 1987 and 1986, respectively) Series due:					
June 1, 1987, 4⅝%			$ 7 150		
Aug. 1, 1994, 4½%	$ 150	$ 11 527	11 653		
Dec. 1, 1999, 9¼%	100	8 185	8 395		
Oct. 1, 2003, 7¾%	300	25 777	26 122		
Jul. 1, 2016, 9¼%	500	49 500	50 000		
Total	$ 1 050	94 989	103 320		
Less current maturities and sinking fund requirements not reacquired			7 267		
Net		$ 94 989	$ 96 053	94 989	96 053
Guaranty Agreements Minnesota Company Series due:*					
Feb. 1, 1989-2003, 5.40%		$ 7 600	$ 7 600		
May 1, 1987-2003, 5.68%		27 750	28 250		
Feb. 1, 2003, 7.40%		3 500	3 500		
Total		$ 38 850	$ 39 350	38 850	39 350
NORENCO — Long-term Bank Loans, Variable Rate			$ 6 135		6 135
Miscellaneous Long-Term Debt					
City of La Crosse, Resource Recovery Bond-Series due Nov. 1, 2011, 7¾%		$ 18 600**	$ 18 600**		
Employee Stock Ownership Bank Loan due 1987-1988, Variable Rate		4 444	8 000		
Anoka County Resource Recovery Bond-Series due Dec. 1, 1989-2008, Variable Rate		29 750**	29 750**		
Sioux Falls Ind. Development Bond-Series due 1976-1998, 5.74%		590	630		
Inver Grove Hgts Ind. Dev. Bond-Series due Feb. 1, 1995, 7.125%		1 000	1 000		
Becker Pollution Control Bond-Series due Dec. 1, 2005, 9.7%			9 000*		
Becker Pollution Control Bond-Series due Dec. 1, 2005, 7.25%		9 000*			
Other		3 020	3 544		
Total		$ 66 404	$ 70 524	66 404	70 524
Unamortized Discount on Long-Term Debt — Net				(943)	(958)
Total Long-Term Debt				1 248 500	1 292 054
Total Capitalization				$2 917 590	$2 828 279

* *Pollution control financing*
***Resource recovery financing*

See Notes to Financial Statements on pages 36 to 42.

Northern States Power Company
Minnesota and Subsidiaries

1. Summary of Accounting Policies

System of Accounts

Northern States Power Company, a Minnesota corporation (the Company), and Northern States Power Company, a Wisconsin corporation (the Wisconsin Company), maintain accounting records in accordance with either the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) or those prescribed by state regulatory commissions, which systems are the same in all material respects.

Principles of Consolidation

The consolidated financial statements include all significant subsidiary companies.

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 of units of property retired, plus net removal cost, is charged to the accumulated provision for depreciation and amortization. Maintenance and replacement 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 computed by applying a composite rate, representing the cost of capital for construction, to qualified Construction Work in Progress (CWIP) and to the balance of qualified construction funds on deposit with trustees. The AFC rate was 8.5% in 1987 and 1986, and 9% in 1985. Because of rate treatment in Minnesota, the net-of-tax AFC rate used approximates the rate that would be obtained if a gross rate were used and the income tax effect were recorded as deferred income taxes. AFC is included in net income and CWIP. The AFC included in CWIP is included in utility rate base for establishing utility service rates.

Construction Funds

Construction funds from pollution control and resource recovery financings are not available until approved expenditures have been made on the applicable facilities. Until the funds are available, they are invested by a trustee. Because AFC is calculated on the utility property trust fund balance during the period of construction, the associated earnings are credited to CWIP.

Depreciation

For financial reporting purposes, depreciation is computed by applying the straight-line method to the estimated useful lives of various classes of property. Depreciation provisions, as a percentage of the average balance of depreciable property in service, were 3.37% in 1987, 3.48% in 1986 and 3.63% in 1985. The provision for decommissioning costs for the nuclear plants has been calculated by using an internal sinking-fund method that is designed to provide for full recovery of the costs. The Company estimates that as of December 31, 1987, future decommissioning costs will approximate $498 million in current year dollars, for which the Company has collected $89 million for such decommissioning from ratepayers. This amount is recorded in accumulated provision for depreciation.

Nuclear Fuel Expense

The original cost of the fuel is amortized to fuel expense based on the energy expended. Nuclear fuel expense also includes estimated disposal costs of 0.1¢ per kilowatt-hour of nuclear generation, as required by the Nuclear Waste Policy Act of 1982. These expenses were $11.6 million, $9.6 million and $12.0 million for 1987, 1986, and 1985, respectively.

Income Taxes

Income taxes now are deferred for substantially all book and tax-timing differences. However, income tax expense is affected by the reversal of amounts previously accounted for by the flow-through method. Investment tax credits are deferred and amortized over the estimated lives of the related property.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96 (SFAS 96) – Accounting for Income Taxes. The statement becomes effective in 1989, but earlier application is permitted. The Company has not determined when it will adopt the statement.

The statement requires the use of the liability method of accounting for deferred income taxes. Management believes that adoption of SFAS 96 will not have a material impact on the financial position or results of operation of the Company because the benefit of any excess deferred taxes is expected to be passed on to ratepayers during future rate proceedings.

Revenues

Customers' meters are read and bills are rendered on a cycle basis. For financial reporting purposes, 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 (PSCW), accrues estimated unbilled revenues for services provided from the monthly meter-reading date to month-end.

Prior to 1986, the Companies' rate schedules, applicable to substantially all customers, included cost-of-energy adjustment clauses, under which rates are adjusted to reflect changes in average costs of fuels, purchased power and gas purchased for resale. Beginning in March 1986, the Wisconsin Company retail rate schedules, as ordered by the PSCW, do not include cost-of-energy adjustment clauses.

Purchased Tax Benefits

The Company and the Wisconsin Company have purchased tax-benefit transfer leases under the Safe Harbor Lease provisions of the Economic Recovery Tax Act of 1981. For both financial reporting and regulatory purposes, the Company is amortizing the difference between the cost of the purchased tax benefits and the amounts expected to be realized through reduced current income tax liabilities over the remaining terms of the leases after the initial investments have been recovered.

2. Gas Rate Case

On January 29, 1986, the Minnesota Public Utilities Commission (MPUC) voted to vacate its December 30, 1985, order granting the Company an annual $17.1 million natural gas rate increase. Because of the appearance of a conflict of interest when the Company discussed job openings with a retiring commissioner, the MPUC on February 19, 1986, ordered the Company to refund interim rates collected since April 29, 1985. The Company appealed the dismissal of the December 30, 1985, order to the Minnesota Supreme Court. On October 23, 1987, the Minnesota Supreme Court ruled that the MPUC had exceeded its authority by dismissing the Company's entire natural gas rate case. In December 1987, the MPUC accepted a stipulation agreement that requires the Company to refund $3.2 million plus accrued interest to the gas ratepayers. The impact on 1987 earnings was immaterial due to refund amounts previously accrued by the Company.

3. Cumulative Preferred Stock

The Company has two series of adjustable rate cumulative preferred stock. The dividend rates are calculated quarterly and are based on prevailing rates of certain taxable government debt securities. At December 31, 1987, the annual dividend rates were $7.20 and $7.39 for Series A and Series B, respectively.

At December 31, 1987, the various preferred stock series were callable at prices per share ranging from $102.00 to $106.80, plus accrued dividends.

4. Joint Plant Ownership

The Company jointly owns a 840-megawatt (MW) coal-fired electric generating unit called Sherburne County Generating Station Unit No. 3 (Sherco 3), which began commercial operation November 1, 1987. Undivided interests in Sherco 3 are owned by the Company (59%) and Southern Minnesota Municipal Power Agency (Southern Minnesota) (41%). Each participant in Sherco 3 provides its own financing. The Company is the operating agent under an agreement with Southern Minnesota. The Company's share of related expenses for Sherco 3 since commercial operations began are included in Operating Expenses. The Company's share of the cost recorded in Plant in Service and the related accumulated provision for depreciation were $573,024,000 and $3,022,000, respectively, at December 31, 1987. At December 31, 1986, the Company's share of the cost of construction was $452,123,000, which was recorded in CWIP.

5. Income Tax Expense

Total income tax expense differs from the amount computed by applying the federal income tax statutory rate (40% in 1987 and 46% in 1986 and 1985) to net income before income tax expense. The reasons for the difference are as follows:

(Thousands of dollars)	1987	1986	1985
Tax computed at statutory rate	$126 502	$158 909	$164 000
Increases (decreases) in tax from:			
State income taxes net of federal income tax benefit	13 171	16 862	19 170
Allowance for funds used during construction (AFC)	(20 435)	(23 771)	(19 221)
AFC included in book depreciation	3 927	3 676	3 733
Investment tax credit on plant additions	(21 820)	(45 090)	(37 101)
Investment tax credit adjustments — net	8 263	31 534	25 033
Reduced tax depreciation resulting from use of the flow-through method in prior years	7 570	5 917	6 054
Other — net	(5 442)	(9 465)	(2 871)
Total income tax expense	$111 736	$138 572	$158 797
Effective income tax rate	35.3%	40.1%	44.5%
Composite statutory tax rate	45.3%	52.0%	52.0%
Income tax expense is comprised of the following:			
Included in income taxes:			
Current federal tax expense	$ 72 098	$ 40 885	$ 64 803
Current state tax expense	24 379	25 029	30 133
Deferred federal tax expense	15 725	33 742	28 174
Deferred state tax expense	(947)	6 310	4 023
Investment tax credit adjustments — net	8 245	30 561	25 397
Total	119 500	136 527	152 530
Included in depreciation expense:			
Deferred federal tax expense	2 023	4 133	3 081
Deferred state tax expense	60	52	480
Included in income deductions:			
Current federal tax expense	(4 907)	(44 931)	(46 232)
Current state tax expense	(4 922)	(6 918)	(6 055)
Deferred federal tax expense	(3 400)	41 982	48 438
Deferred state tax expense	3 364	6 754	6 919
Investment tax credit adjustments — net	18	973	(364)
Total income tax expense	$111 736	$138 572	$158 797
Deferred income tax expense is comprised of the following:			
Excess of tax over book depreciation — net	$ 39 124	$ 47 266	$ 31 289
Unbilled revenue	(10 531)		
Tax-benefit transfer leases	(3 817)	45 686	53 227
ADR repair allowance	1 934	4 102	3 173
Overhead costs	(960)	7 967	7 687
Nuclear fuel disposal costs	(1 134)	(1 199)	(1 121)
Other	(7 791)	(10 849)	(3 140)
Total	$ 16 825	$ 92 973	$ 91 115

6. Common Stock

(Thousands of dollars)	Common Stock			Treasury Stock	
	Shares	Par Value	Premium	Shares	Cost
Balance at January 1, 1985	63 488 592	$158 721	$366 929	1 539 432	$(19 194)
Dividend Reinvestment and Stock Purchase Plan	592 244	1 481	12 096		
Balance at December 31, 1985	64 080 836	160 202	379 025	1 539 432	(19 194)
Other			(14)		
Balance at December 31, 1986 and December 31, 1987	64 080 836	$160 202	$379 011	1 539 432	$(19 194)

The Company's Articles of Incorporation and First Mortgage Bond Trust Indenture provide for certain restrictions on the payment of cash dividends on common stock. At December 31, 1987, the payment of cash dividends on common stock was not restricted.

7. Pension Plans and Other Post-Retirement Benefits

The Company has a noncontributory, defined benefit pension plan that covers substantially all employees. Benefits are based on years of service, the employee's highest average pay for 48 consecutive months and Social Security benefits. Pension costs are determined and funded under the aggregate-cost method, using market value of assets of the trust fund. Annual pension costs were $23,620,000 for 1987, $26,360,000 for 1986 and $27,633,000 for 1985. The actuarial present value at December 31, 1986, of vested benefit obligations, accumulated benefit obligations and plan assets were $409.9, $442.3 and $636.4 million, respectively.

During 1987, the Statement of Financial Accounting Standards No. 87 (SFAS 87) — Employers' Accounting for Pensions was adopted. For financial reporting and regulatory purposes, the Company's pension expense is determined and funded under the aggregate-cost method. For financial reporting purposes, SFAS 87 provides that pension expense be determined using the same methods as used for regulatory purposes, with any difference between such amounts and the amounts determined under SFAS 87 being recorded as an asset or liability on the balance sheet.

Net periodic pension cost for 1987 under SFAS 87 includes the following components:

Service cost — benefits earned during the period	$ 16 280 000
Interest cost on projected benefit obligation	51 050 000
Actual return on assets	(46 387 000)
Net amortization and deferral	3 330 000
Net periodic pension cost determined under SFAS 87	24 273 000
Asset recorded due to actions of regulators	(653 000)
Net periodic pension cost recognized	$ 23 620 000

The following table sets forth the funded status of the plan and amounts recognized on the balance sheet at December 31, 1987:

Actuarial present value of benefit obligation:	
Vested Benefits	$445 450 000
Nonvested benefits	34 400 000
Accumulated benefit obligation	$479 850 000
Projected benefit obligation	$676 179 000
Plan assets at fair value	678 385 000
Plan assets in excess of projected benefit obligation	2 206 000
Unrecognized net gain	(1 354 000)
Unrecognized net transitional asset	(1 505 000)
Net pension liability	$ 653 000

The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected obligation were 8% and 6%, respectively. The assumed long-term rate of return on assets was 8%. Plan assets consist principally of common stock of public companies and U.S. government securities.

The Company in 1987 offered a one-time, early retirement program for employees who had reached age 55 and completed 10 years of service as of January 31, 1988. The estimated cost of $20,200,000 associated with this early retirement program will be deferred for expected recovery during future rate proceedings.

In addition to providing pension benefits, health care and death benefits are provided for retired employees. Substantially all employees become eligible for these benefits upon reaching retirement age. The costs of these benefits are recognized as an expense when paid. For 1987, 1986 and 1985, costs attributable to retired employees were $4,900,000, $4,652,000 and $4,174,000 for medical benefits and $313,000, $305,500 and $269,000 for death benefits, respectively.

8. Long-term Debt

The annual sinking-fund requirements of the Company's and the Wisconsin Company's First Mortgage Indentures are the amounts necessary to redeem 1% of the highest principal amount of each series of first mortgage bonds at any time outstanding, excluding those series issued for pollution control and resource recovery financings. Property additions may be applied in lieu of cash, as permitted by the Company's First Mortgage Indenture.

Except for minor exclusions, all real and personal property is subject to the liens of the First Mortgage Bond Trust Indentures.

The variable rate First Mortgage Bonds Series due October 1, 2014, and March 1, 2011, and the variable rate Anoka County Resource Recovery Bond Series due December 1, 1989-2008, are redeemable at the option of the holder of the bonds upon seven days' notice. The tax-exempt interest rates are subject to change, weekly or monthly, and are based on prevailing rates for similar issues. The weighted average interest rates applicable to these issues during 1987 were 5.1%, 4.9% and 4.8%, respectively. These variable rate bonds are supported by $76,000,000 of long-term credit facilities that expire in 1993.

Maturities and sinking-fund requirements on long-term debt are as follows: 1988, $30,500,000; 1989, $7,089,000; 1990, $38,300,000; 1991, $23,500,000 and 1992, $18,550,000.

9. Short-term Borrowings and Compensating Balances

Exclusive of the long-term credit facilities listed in Note 8, the Companies have $168 million of commercial bank credit lines. These lines involve differing compensating balances and/or commitment fee arrangements. Substantially all cash is considered compensating balances. There are no withdrawal restrictions on any bank balances. These additional credit lines make short-term financing available by providing bank loans and support for commercial paper.

10. Commitments, Contingent Liabilities and Litigation

Commitments and Contingent Liabilities

The Company presently estimates construction expenditures, including acquisitions of nuclear fuel, will be $370 million in 1988 and $1.8 billion for 1988-92. There also are contracts for the disposal of spent nuclear fuel and for the purchase and delivery of coal and natural gas.

Rentals under operating leases were approximately $11.8, $11.8 and $10.7 million for 1987, 1986 and 1985, respectively.

Subject to MPUC and FERC approval, the Company has entered into an agreement with Minnesota Power (MP) to purchase a 214-MW share of MP's 535-MW Clay Boswell Unit 4 Generating Station and to purchase 102 MW of capacity and associated energy from MP for a period of 17 years. The agreement requires the Company to purchase increments of approximately 71 MW of the Clay Boswell unit and 34 MW of additional capacity from MP for each of three successive years, beginning May 1, 1989. The total purchase price of the proposed share of the Clay Boswell unit and transmission rights is approximately $180 million. For the 102 MW of capacity and related energy, the Company will pay capacity, fuel, operation and maintenance expenses based on operation costs at the Square Butte plant in North Dakota. The MPUC approved the agreement June 23, 1987.

The Company has various agreements with the Manitoba Hydro-Electric Board. The agreements provide additional capacity to the Company's total system capability. These agreements provide the following: 300 MW of capacity (which is less than 5% of the Company's system capability) through 1992; 200 MW of additional capacity through 1992 with a minimum annual cost of $2,400,000; 500 MW of capacity and 3,285,000 megawatt-hours of energy annually from 1993 through 2004, the cost of which is based upon 80% of the cost of owning and operating Sherco 3; and 200 MW of capacity from 1993 through 1996 with an annual price of $2,400,000 escalated to reflect increased costs of new plant construction.

Nuclear Insurance

The Company's public liability for claims resulting from any nuclear incident is limited to $720 million under the Price-Anderson amendment to the Atomic Energy Act of 1954. The Company has placed $160 million of coverage for its public liability exposure with a pool of insurance companies. The remaining $560 million of exposure is funded by the Secondary Financial Protection Fund, a fund sponsored through assessments by the Federal government in the event of nuclear incidents. The Company is subject to an assessment of $5 million for each of its three licensed reactors, to be applied for public liability arising from a nuclear incident at any licensed nuclear facility in the United States, with a maximum assessment of $10 million per reactor for any one year.

In addition, the Company purchases insurance for property damage, decontamination and net clean-up costs with coverage limits of $1,395 million, the maximum available. This insurance is arranged in two layers. The first layer, $620 million, is placed with American Nuclear Insurers and Mutual Atomic Energy Liability Underwriters. The second layer, $775 million, is insured by Nuclear Electric Insurance Limited (NEIL). Under the insuring agreement with NEIL, the Company is subject to assessments up to $15.3 million in each calendar year, 7.5 times the amount of its annual premium.

NEIL also provides insurance coverage for increased costs of generation and purchased power resulting from an accidental outage of a nuclear generating unit. Under the policy, the Company is subject to assessments up to $6.9 million in each calendar year, 5 times the amount of its annual premium.

Litigation

Under terms of a contract between the Company and Champion International Corporation (Champion), NORENCO Corporation (NORENCO), a wholly owned, non-regulated subsidiary of the Company, had been providing steam service to a paper plant operated by Waldorf Corporation (Waldorf) in St. Paul, Minn. Waldorf served notice on NORENCO that it would refuse to receive or pay for steam service after June 30, 1986. Waldorf is the assignee of Champion and NORENCO is the assignee of the Company with respect to the agreement for the steam service. The respective obligations under the agreement were the subject of litigation between the various parties, with the Company and NORENCO seeking damages for improper repudiation of the agreement by Waldorf. The Company and NORENCO sought termination charges provided for under the steam service agreement in an amount of $27.5 million, which would be sufficient to recover the remaining net investment in the steam line, plus other damages. Waldorf sought a determination that the Company and NORENCO breached the agreement, justifying the repudiation and claimed damages in excess of $20 million.

On February 12, 1988, NORENCO and Waldorf entered into an agreement under which the parties settled the above-mentioned litigation. Under the agreement, NORENCO will receive approximately $28 million in satisfaction of all its claims. Because they are parties to the lawsuit, the Company, Champion and the City of St. Paul must execute releases. In addition, Waldorf and NORENCO entered into a new 13-year steam service contract. Such amounts are sufficient to recover NORENCO's remaining net investment in the steam line and a portion of the costs expensed by NORENCO during the period June 30, 1986, through May 1988. Management has not yet determined the amount of recovery of prior costs and believes that the effect of such recoveries will not be material to the Company's results of operations.

11. Segment Information

(Thousands of dollars)	Year Ended December 31 1987	1986	1985
Operating revenues			
Electric	$1 497 445	$1 427 734	$1 376 112
Gas	262 996	343 869	402 200
Other	9 888	10 027	10 430
Total operating revenues	$1 770 329	$1 781 630	$1 788 742
Operating income before income taxes			
Electric	$ 353 303	$ 351 920	$ 367 913
Gas	27 609	34 724	29 955
Other	3 229	3 704	3 323
Total operating income before income taxes	$ 384 141	$ 390 348	$ 401 191
Depreciation and amortization			
Electric	$ 155 608	$ 143 993	$ 142 431
Gas	12 648	12 013	11 289
Other	2 261	1 831	1 944
Total depreciation and amortization	$ 170 517	$ 157 837	$ 155 664
Construction expenditures			
Electric	$ 407 513	$ 505 709	$ 480 427
Gas	21 443	21 205	22 636
Other	22 786	28 711	10 656
Total construction expenditures	$ 451 742	$ 555 625	$ 513 719
Net utility plant			
Electric	$3 626 311	$3 428 977	$3 119 902
Gas	219 368	213 481	207 028
Other	16 774	14 561	15 647
Total net utility plant	3 862 453	3 657 019	3 342 577
Other corporate assets	538 780	589 944	705 052
Total assets	$4 401 233	$4 246 963	$4 047 629

12. Summarized Quarterly Financial Data (Unaudited)

(Thousands of dollars)	Quarter Ended March 31, 1987	June 30, 1987	September 30, 1987	December 31, 1987
Operating revenues	$472 496	$398 627	$470 282	$428 924
Operating income	75 078	47 462	89 497	52 604
Net income	62 960	35 082	78 030	28 842*
Earnings available for common stock	59 554	31 154	73 444	24 112
Earnings per common share	$.95	$.50	$1.17	$.39
Dividends declared per common share	$.475	$.505	$.505	$.505
Stock prices — high	$39¾	$34	$34	$33½
— low	$32⅝	$29½	$30⅛	$26¼

(Thousands of dollars)	Quarter Ended March 31, 1986	June 30, 1986	September 30, 1986	December 31, 1986
Operating revenues	$540 640	$387 211	$432 688	$421 091
Operating income	85 132	43 686	76 961	48 042
Net income	73 332	30 182	63 127	40 241
Earnings available for common stock	70 072	26 855	59 641	36 775
Earnings per common share	$1.12	$.43	$.95	$.59
Dividends declared per common share	$.44	$.475	$.475	$.475
Stock prices — high	$31½	$35⅜	$40⅛	$37¼
— low	$25	$29⅝	$31	$33¼

**Fourth quarter decline in earnings is due primarily to the start up of Sherco 3 (the commencement of depreciation expense and discontinuation of AFC), as well as losses and write-offs by NORENCO, a non-regulated subsidiary.*

Management's Report

Management is responsible for the preparation and integrity of the financial statements and representations in this annual report. We believe the financial statements were prepared in accordance with generally accepted accounting principles. Where necessary, management made informed judgments and estimates of the expected results of events and transactions. The financial information throughout this report is consistent with the audited financial statements.

Management depends on the Company's internal accounting control system for accurate financial reporting. This system reasonably assures us that we protected all assets and executed and reported transactions in accordance with our authorizations. We believe the Company's accounting policies and controls prevent material errors and irregularities, and they allow employees in the normal course of their duties to detect inaccuracies within a timely period.

Directors who are not officers or employees make up the Finance-Audit Committee of the Board of Directors. The Committee meets regularly with management, internal auditors and independent certified public accountants to examine and evaluate the Company's internal accounting controls and financial reports. Internal and independent auditors have free access to the Committee, without management's presence, to discuss the results of their audits.

NORTHERN STATES POWER COMPANY

Minneapolis, Minnesota
February 16, 1988

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, 1987 and 1986, 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, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the Companies at December 31, 1987 and 1986, 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, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

DELOITTE HASKINS & SELLS

Minneapolis, Minnesota
February 16, 1988

	1987	1986	1985	1984	1983	1977
Shareholders at year-end	79,503	79,921	82,234	85,784	90,642	100,253
Book value	$21.88	$20.80	$19.72	$18.40	$17.08	$12.37
Market prices						
High	39 3/4	40 1/8	27 3/8	22 1/8	20 3/8	15 1/4
Low	26 1/4	25	20 5/8	16 7/8	14 7/8	13 1/4
Year-end closing	29 5/8	34 1/2	26 1/2	20 7/8	19	14 1/8
Dividends declared	1.99	1.865	1.725	1.585	1.453	1.015
Earnings per share	3.01	3.09	2.97	2.90	2.80	1.43

Adjusted for June 1986 two-for-one stock split.

Stock Exchange Listings and Ticker Symbol

Common stock is listed for trading on the New York, Midwest and Pacific stock exchanges. NYSE also lists some preferred stock. NSP's ticker symbol: NSP. Most newspaper market summaries list NSP as NoStPw.

Headquarters

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

Dividend Reinvestment And Stock Purchase Plan

Under NSP's Dividend Reinvestment and Stock Purchase Plan, individual shareholders may reinvest common and preferred dividends to purchase shares of NSP common stock. Participants also may make cash payments to buy additional common shares. NSP does not charge a brokerage fee. An information booklet and authorization forms are available from the Shareholders Department.

Dividend Payment Dates

NSP paid dividends on common stock the 20th of January, April, July and October and preferred stock dividends on the 15th of the same months.

Stock Information

Address written questions to the Shareholders Department or call toll-free (800) 328-8226. From within the Minneapolis-St. Paul area, call 330-5560. Minnesota residents outside the Twin Cities may call toll-free at (800) 292-4149.

Form 10-K

For copies of the Form 10-K, the annual report to the Securities and Exchange Commission, write to the General Accounting and Financial Reports Department. A complete statistical supplement to the annual report also is available from this department.

Annual Meeting

Wednesday, April 27, 1988, 10 a.m., at the World Theater, 10 E. Exchange St., in downtown St. Paul.

Fiscal Agents

Northern States Power Company (Minnesota)
Registrar, Common and Preferred Stocks
Norwest Bank Minnesota, N.A.
8th and Marquette
Minneapolis, MN 55479

Transfer Agent, Common and Preferred Stocks
Northern States Power Company

Dividend Distribution
Northern States Power Company

Forwarding Agent
Norwest Trust Company, New York
40 Wall St.
New York, NY 10005

Trustee — Bonds
Harris Trust and Savings Bank
111 W. Monroe
Chicago, IL 60690

Coupon-Paying Agents — Bonds
Harris Trust and Savings Bank, Chicago

Irving Trust Company
1 Wall St.
New York, NY 10015

Northern States Power Company (Wisconsin)
Trustee — Bonds
First Wisconsin Trust Company
777 E. Wisconsin Ave.
Milwaukee, WI 53202

Coupon-Paying Agents — Bonds
First Wisconsin Trust Company, Milwaukee
Harris Trust and Savings Bank, Chicago
Irving Trust Company, New York

This information is not an offer nor the solicitation of an offer to buy any securities.

As of December 31, 1987

Directors of the Minnesota Company

David A. Christensen (52) 1,4
President and CEO
Raven Industries, Inc.
Manufactures plastics, sportswear and electronic equipment
(elected December 1976)
W. John Driscoll (58) 1,4
President, Rock Island Company
Private investment firm
(elected November 1974)
N. Bud Grossman (66) 1,3
CEO, Cogel Management Co.
Private investment and business development firm
(elected January 1979)
Dale L. Haakenstad (59) 1,4
President and CEO
Western States Life Insurance Company
(elected February 1978)
James J. Howard (52) †
President and CEO
Northern States Power Company
(effective Feb. 1, 1987)
Chairman
effective March 1, 1988
Allen F. Jacobson (61) 1,4
Chairman and CEO, 3M Company
Manufactures films, adhesives and health-care products
(elected January 1983)
Donald W. McCarthy (65)†
Chairman
Northern States Power Company
(elected June 1975)
Chairman emeritus
effective March 1, 1988
John E. Pearson (60) 1,3
Chairman and CEO
Northwestern National Life Insurance Co.
(elected December 1983)
William G. Phillips (67) 2,3
Retired Chairman
International Multifoods
(elected March 1979)
G.M. Pieschel (60) 2,3
President, Farmers and Merchants State Bank
Springfield, Minnesota
(elected February 1978)
Dr. Margaret R. Preska (49) 1,4
President
Mankato State University
(elected January 1980)
D.B. (Rhiny) Reinhart (67) 2,3
Chairman, Gateway Foods, Inc.
Wholesale food distributor
(elected November 1976)
John A. Rollwagen (47) 2,4
Chairman and CEO
Cray Research, Inc.
Manufactures supercomputers
(elected May 1985)
A. Patricia Sampson (39) 2,3
Executive Director
Greater Minneapolis Area Chapter
American Red Cross
(elected January 1985)

Board Committees
1 Corporate Management
2 Employee Retirement Income Security Act Compliance
3 Finance - Audit
4 Power Supply
† D.W. McCarthy and J.J. Howard were ex officio members of all committees.

Principal Officers of the Minnesota Company

A. W. Benkusky (61)
Vice President-Energy Planning
(VP-Transmission and Inter-Utility Services, effective Jan. 1, 1988)
Craig J. Blair (44)
Vice President-Electric Utility
Arland D. Brusven (55)
Secretary and Financial Counsel
Joseph A. Cascalenda (57)
Vice President-Public Affairs
James O. Cox (60)
Vice President and Treasurer
Dennis E. Gilberts (56)
Senior Vice President-Power Supply
(retired Feb. 29, 1988)
James J. Howard (52)
President and CEO
(Chairman effective March 1, 1988)
Roland J. Jensen (58)
Vice President-Engineering and Construction
(Sr. VP-Power Supply, effective Jan. 1, 1988)
Charles E. Larson (51)
Vice President-Nuclear Generation
William J. Lynch (57)
Vice President-Rates and Corporate Strategy
David G. McGannon (55)
Vice President-Law
Donald W. McCarthy (65)
Chairman
(retired Feb. 29, 1988)
Edward J. McIntyre (36)
Vice President-Gas Utility
Jerald E. McKinney (50)
Vice President-Personnel
Gerald S. Pettersen (56)
Controller
Harry W. Spell (64)
Senior Vice President-Finance
James R. Tacheny (55)
Vice President-System Production, Operation and Maintenance
(VP-Combustion and Hydro Operations, effective Jan. 1, 1988)

Directors of the Wisconsin Company

H. Lyman (Tad) Bretting (51)
President and CEO
C.G. Bretting Manufacturing Co.
Manufactures napkin and paper towel folding machines
(elected Nov. 11, 1987)
Chauncey H. Cooke (68)*
Farmer
(elected May 1975)
Jean Gitz Bassett (63)*
(elected February 1984)
Ray A. Larson Jr. (58)*
President, Wissota Sand and Gravel Company
(elected November 1979)
D.B. (Rhiny) Reinhart (67)*
Chairman, Gateway Foods, Inc.
Wholesale food distributor
(elected May 1973)
Harry W. Spell (64)
Senior Vice President-Finance
NSP-Minnesota
(elected November 1980)
Edwin M. Theisen (57)
President and CEO
Northern States Power Company (Wisconsin)
(elected January 1980)

*Audit Committee Members

Principal Officers of the Wisconsin Company

Vincent E. Beacom (58)
Vice President-Commercial and Division Operations
Donald P. Jolstad (58)
Secretary and Assistant Treasurer
(retired Jan. 31, 1988)
John L. Koplin (54)
Treasurer
Anthony G. Schuster (43)
Vice President-Power Supply
Edwin M. Theisen (57)
President and CEO
Glenn B. Thorsen (53)
Vice President-Finance
Patrick Watkins (47)
Vice President-Administrative Services

Northern States Power Company
414 Nicollet Mall
Minneapolis, MN 55401
(612) 330-5500

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