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1989 ANNUAL REPORT

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-NOTICE-

NSP has the

strength and determination to

succeed as a premier energy

company in the 1990s. We will

be the best at what we do.

COMPANY DESCRIPTION

Northern States Power Company (NSP) is headquartered in Minneapolis, Minn. We serve customers in Minnesota, Wisconsin, North Dakota, South Dakota and Michigan's Upper Peninsula. We generate, transmit and distribute electricity to about 1.3 million customers and distribute natural gas to about 345,000 customers. We also supply telephone service in Minot, N.D.

NSP-Minnesota operates in Minnesota, North Dakota and South Dakota. NSP-Wisconsin is a wholly owned subsidiary operating in parts of Wisconsin and Michigan.

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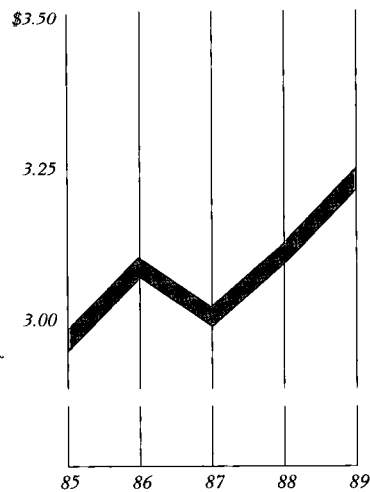
1989 RESULTS

Highlights

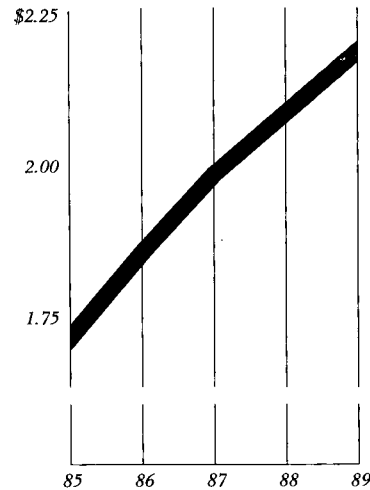
Year ended Dec. 31

	1989	1988	% Change
Earnings per share	\$ 3.24	\$ 3.11	4.2
Dividends declared per share	\$ 2.195	\$ 2.095	4.8
Revenues (millions)	\$1,989.7	\$2,006.5	-0.8
Net income (millions)	\$ 221.9	\$ 214.8	3.3
Return on equity	13.9%	13.9%	—
Assets (millions)	\$4,592.8	\$4,495.5	2.2
Customers (thousands)	1,665.2	1,634.2	1.9
Peak electric demand (megawatts)	6,534	6,923	-5.6
Electric energy sales (millions of kilowatt-hours)	34,747	34,796	-0.1
Benefit employees	7,580	7,504	1.0

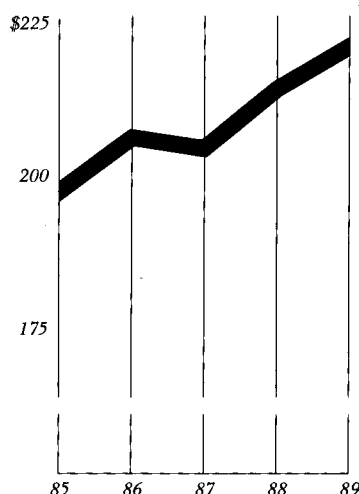
Earnings Per Share
Dollars



Dividends Declared Per Share



Net Income
Millions of dollars



Dear Shareholders

We closed the decade demonstrating once again that you have invested in a premier energy company.

In 1989 we maximized our opportunities, controlled expenses and managed our challenges. These challenges were tough – low sales growth coming on top of 1988's exceptionally hot summer, a substantial property tax increase and the rising cost of doing business. But we managed them well to bring earnings up to \$3.24 per share, match 1988's 13.9 overall return on equity (ROE) and raise dividends to an annual rate of \$2.22 per share.

At the same time, NSP met customer expectations for reliable, competitively priced, high quality service in all areas of operations.

As they do consistently, our coal-fired and nuclear generating plants performed above industry averages.

The Electric Utility marketed energy advice and special rates to help customers get the most for their energy dollars. In the process we shaved peak electric demand, shifted some of it to off-peak time and used our generation and transmission system more cost-effectively.

NSP-Wisconsin improved reliability and expanded capacity, completing a four-year project to upgrade its transmission system. The company's service and prices attracted 2,300 new gas customers to its system.

The Gas Utility demonstrated that NSP can succeed in a competitive environment as we vied with other suppliers for the privilege to serve a number of Minnesota communities, and won. Overall, a record number of new gas customers signed on with NSP in Minnesota and Wisconsin.

Our non-regulated businesses, refuse derived fuel processing and our NORENCO subsidiary, which supplies steam service, did especially well, improving productivity and controlling costs to contribute the bulk of our earnings gain.

We also formed two new subsidiaries to continue putting our energy expertise to profitable use. NRG Energy Inc., which is non-regulated, gets NSP's foot in the door of the growing independent power producer industry. NRG is marketing our reputable plant construction and environmental protection knowledge and skill outside the NSP service territory. Graystone Corp., with several other companies, is studying the possibility of building a uranium enrichment plant.

NSP employees worked hard to achieve these results. NSP rewarded their efforts with the first of what we hope will become annual incentive pay checks. NSP is one of few utilities that recognize initiative and responsibility among all employees in a pay-for-performance program.

1989 was a good year. However, to continue providing quality service and competitive rates, we need to sustain our financial strength. That is why NSP has requested a \$121 million Minnesota electric rate increase.

The request represents only a 3.5 percent average annual increase since our last rate case. It seeks to cover increased expenses and renovation of our generating facilities. We also are asking for a higher authorized ROE of 13.25 percent on our Minnesota electric operations.

The cost of a higher ROE to customers is small – about 3 cents a day for the typical residential user – while the benefits would safeguard NSP's financial integrity and flexibility to remain a quality energy provider.

NSP's performance over the years deserves an "A" for rates, customer responsiveness, environmental protection, plant operations, citizenship and innovation. Of the rate cases decided last year across the country, the average authorized ROE was 13 percent. Our current authorized ROE in Minnesota is 11.7 percent. We believe that NSP, as an above average utility, deserves an above average return.

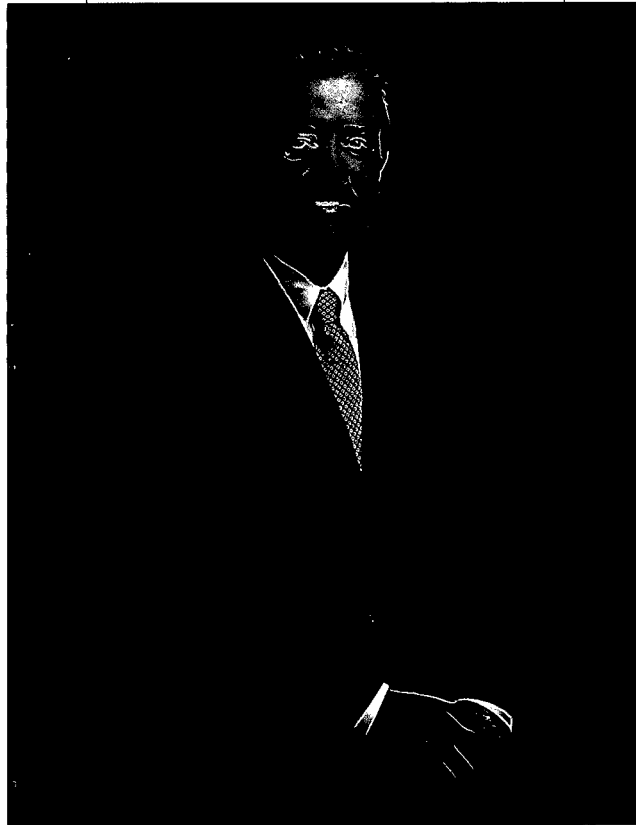
In 1989 NSP fine-tuned its planning process, formulating strategies that will help us engineer our future. We determined NSP must actively manage electric demand and the use of its assets for continued success.

We are doing this three ways. NSP is significantly expanding its demand side management efforts; it's good customer service, plus it enables us to run our plants as cost-effectively as possible. NSP also continues to pursue power purchases from other utilities and is maximizing existing plants' capacity through aggressive renovation and maintenance.

These strategies provide NSP with

sound, flexible options to meet demand at an economical price.

As we enter the 1990s and prepare for the 21st century, the challenges NSP encounters will only get tougher. Utilities face increased competitive pressures, greater demands for individualized service and higher environmental protection expectations. I have full confidence that NSP is "positioned for success."



Just what does that mean? It means essentially the same thing in the energy business as it does in a running race.

NSP's on the inside lane with top-performing generating plants, long-term, low-cost fuel and purchased energy contracts, a balanced fuel mix, competitive electric and gas rates, well placed transmission facilities and coal-fired plant emissions far lower than any proposed in acid rain-control legislation.

We know the energy business inside and out. We also know the future will require some different skills. Employees are preparing for it in training programs that emphasize customer service, productivity, innovation and accountability.

A positive work environment fosters productive employees, so NSP initiated management training courses that nurture leadership skills.

And we're committed to an affirmative action program that ensures equal opportunity to women and minority employees and applicants.

Your company won't stumble in a competitive environment. We're focusing our efforts on NSP's core electric and gas businesses, with limited diversification in energy-related ventures where we will put our knowledge to good use. And we move forward with the valuable guidance and direction of our board of directors.

When it comes down to it, NSP has the strength and determination to succeed as a premier energy company in the 1990s. It will be a more competitive age. NSP's mission remains the same: To provide

quality service at a competitive price, while providing an attractive return to you, our investors.

Simply, we will be the best at what we do.

Sincerely,

James J. Howard
Chairman of the Board & CEO
Feb. 12, 1990

Positioned for SUCCESS in the '00s

The electric utility industry will encounter the same challenges in the 1990s that have dramatically changed our natural gas business and other U.S. industries. We face increased competition, a resurgence of environmental concerns, changing regulation, a renewed emphasis on price and a demand for quality service. We are meeting these challenges head on, managing our future to succeed as a premier energy company.

In 1989 NSP continued major efforts to ensure that it is positioned for success in the decade ahead. With a corporate vision, strategies and values in place, we set out to build upon our strengths and continue our tradition of providing quality service at competitive prices.

Despite growing electric demand, the company is determined to delay the need for costly new generating capacity. We will help customers

manage their demand for electricity, increase power purchases from other utilities and refurbish older plants. We will keep all of our options open for supplying our customers' future needs.

We also determined in 1989 to advocate changes in the way our rates are decided. We believe that regulation should recognize long-term financial strength, and that superior company performance should be rewarded. As part of our current

Minnesota electric rate case, we asked the state regulatory commission to tie our rate of return to our performance.

In the pages that follow, we outline our commitment to a successful future for your company, with emphasis on customer service, meeting competition in our industry, improved management of all our assets, fair rates and regulation, and protecting the environment.

CUSTOMER SERVICE IS A TOP PRIORITY

Never has it been more important for NSP to remember we are in business to serve customers. We are taking a more competitive, market-oriented approach, improving operations to serve customers better.

In 1989 we consolidated our Twin Cities area customer business operations in one building, Centre Pointe, resulting in improved efficiency and effectiveness. We standardized records and procedures, allowing us to reduce the number of supervisors, while implementing new flexible, high-tech communications. It all adds up to better service for customers.

We reinforced the customer service policy with training for all Electric Utility employees. Whether they work directly with customers or as staff support, all employees learned ways to provide better service.

NSP Quality Teams, employee groups that focus on improving the quality of electric service, identify ways to serve our customers better and cut costs. By revising overhead and underground construction methods and materials standards, one Quality Team found a way to increase safety and productivity, while saving \$500,000 annually.

Customers Give High Marks to NSP Service

Ninety percent of our customers rate NSP's service excellent or good, according to a 1989 survey designed to measure residential customer satisfaction.

NSP's corporate credibility is at its highest level in 10 years, according to

a separate survey. Twin Cities area electric and gas customers rated NSP 7.5 on a scale from 1 to 10, a rating that tied the company for first place with the top major corporations in Minnesota. NSP's rating was a full point higher than the average for the 12 major companies rated.

Our higher ratings are the result of improved customer service and low rates, according to the survey. Cus-

tomers to add value and meet customer energy needs effectively.

Through a utility-customer partnership, we are finding ways to change customer use patterns. This helps customers manage their use and cost of service and allows the company to postpone major new generating units.

Our Electric Marketing department offers a variety of programs: Energy audits help customers find ways to use energy more efficiently. Load management rates and other programs offer business customers incentives to shift their use from times of high demand to times of lower demand.

Five years ago, only 14 NSP customers were on load management rates. Today, more than 600 customers participate.

One load management program saved Champion International Corporation in Sartell, Minn., \$890,000 between January 1987 and October 1989.

The new Minnesota Department of Revenue building in St. Paul will save \$30,000 annually with peak controlled rates; energy efficient lighting earned an additional \$15,000 in rebates.

Lighting rebate incentives for a Honeywell plant in suburban Minneapolis have totaled \$10,000. And Northwestern National Life Insurance Company in Minneapolis receives annual discounts of almost \$33,000 for relying occasionally on its own back-up generators for power.

Based on our successful record with these programs, the company



Minneapolis is the corporate home of Northern States Power Co.

tomers also told us that "maintaining reliable service" should be one of the company's top priorities. We are determined to meet that expectation.

Electric Utility Stresses Demand Side Management

One way to maintain reliable service in the 1990s is with an increased commitment to demand side management (DSM) – the process of modifying electricity use



set an ambitious goal to reduce the 1995 summer peak by 1,000 megawatts (Mw) – a 50 percent increase from our original goal.

In 1989 our Electric Utility achieved a peak load reduction of 140.5 Mw – up from the 107 Mw reduction achieved in 1988 – by marketing various DSM programs.

We plan to reduce the summer peak by 1,245 Mw by 1998. These targets play an important role in our strategy to delay new power plants.

Company Supports Economic Development

NSP can be only as healthy as the economy it serves. We're working to strengthen existing businesses and attract selected new businesses that complement our existing industrial base.

NSP-Wisconsin joined the city of Menomonie and the University of Wisconsin-Stout in developing a 112-acre technology park in Menomonie. The park targets businesses involved in high technology, research and development or light industry that relate to university programs. The company also participated with the city of Eau Claire in a 110-acre industrial park designed to accommodate distribution, light manufacturing and service industries.

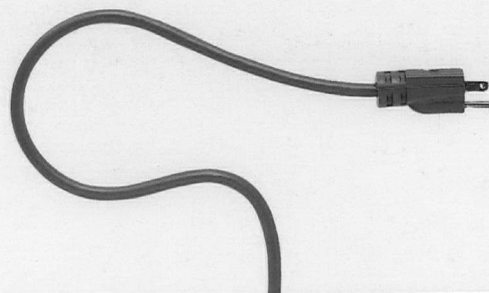
Late in the year, NSP asked the Minnesota Public Utilities Commission (MPUC) for authority to offer an "area development rate." The special rate would be a two-year pilot program to promote light industrial redevelopment in St. Paul and Minneapolis. It would offer a rate discount

to new or expanding manufacturing and wholesale trade customers locating in one of four specific zones in the Twin Cities.

In addition, NSP took the lead private-sector role in helping the Minnesota Department of Trade and Economic Development offer a package proposal to Northwest Airlines. Northwest is looking for a location for a major maintenance facility for its

CUSTOMER SERVICE

We must never forget that we are in business to serve our customers. We will seek new ways to help them manage their energy use and costs. We will constantly work to improve the quality of NSP service.



new fleet of aircraft. NSP identified businesses whose services would complement the state's effort, coordinated activities and submitted the private-sector support package to the state.

NSP participates in a number of organizations that promote the growth of small companies. We help small entrepreneurial customers obtain federal funds. We also offer site location assistance, energy price comparisons and technical and managerial support from NSP staff.

Wisconsin Company Stresses Teamwork

Teamwork helped the Wisconsin Company meet growing customer needs for electric and gas service.

Six employee task forces took an active role in shaping company policies, improving procedures and recommending internal changes.

In addition, the company expanded and improved a number of facilities. Major projects included rural electric distribution line construction, conversions to higher voltage and substation and power plant improvements. NSP-Wisconsin installed 25 miles of new gas mains and added 2,270 new residential and commercial gas space heating customers in 1989.

We also completed a \$17 million series of projects begun in 1986 to strengthen the transmission and substation system in the Dunn County, Wis., area.

The Bay Front plant in Ashland, Wis., consumed a record 165,000 tons of waste wood, while major construction and refurbishing were in progress at the plant.

In addition, the Jim Falls hydro plant on the Chippewa River won two awards from the American Society of Civil Engineers for outstanding achievement on the plant's hydro redevelopment project, completed in late 1988.

During December's cold snap, NSP-Wisconsin met record high demand for both gas and electricity.

NSP provides a variety of energy services to customers, such as the Twin Cities-based Northwest Airlines.



The Dec. 21 electric load of 978 Mw topped not only the previous winter peak but also the summer peak of 955 Mw hit in August 1988.

NSP FACES INCREASING COMPETITION

Competition is heating up for electric and natural gas utilities. Large customers are shopping around for the best energy value.

Independent power producers (IPPs) and non-regulated power brokers already are calling on utilities' municipal and major commercial and industrial customers.

Some utilities are forming their own IPPs. In 1989, NSP created NRG Energy Inc., a wholly owned subsidiary to market our expertise in power plant design and construction. NRG has submitted proposals to utilities in the eastern United States to build, own and operate coal-fired power plants.

NRG provides the potential to earn a higher return on our investment through non-regulated business ventures, complementing our core energy service business.

NSP Competes in Bulk Power Market

Among electric utilities, increasing competition is leading to more opportunities for buying and selling power, and we are positioning NSP to compete in this market. One of our business strategies is to seek opportunities to sell transmission service to other utilities.

NSP-Minnesota expanded gas service to Ham Lake, Minn., and eight other communities in 1989.

We are actively seeking federal transmission policies that recognize operational constraints, protect system reliability and permit market-based rates.

We have an agreement with Wisconsin Public Power Inc. (WPPI) of Sun Prairie, Wis., to transmit 100 Mw from generation in northern Minnesota to WPPI customers in Wisconsin.

In January 1990, NSP-Minnesota

COMPETITION

As competition increases in our industry, quality service and good price are more important than ever. We will provide all customers high value through quality, competitively priced service, and we will be viewed as their best energy option.



and NSP-Wisconsin signed a 35-year contract with WPPI for NSP to transmit 72 Mw of power.

We have always bought and sold power on an as-needed basis, but we are now dealing more in longer-term contracts. For example, in 1989 we signed a 20-year agreement with Madison Gas & Electric (MG&E) of Madison, Wis., to expand our bulk power market opportunities.

The contract provides for a variety of buying and selling arrangements.

The first allows NSP a five-year sale of 15-25 Mw to MG&E annually, beginning in 1990. The agreement awaits action from the Federal Energy Regulatory Commission.

NSP and Minnesota Power (MP) of Duluth, Minn., settled a contract dispute involving NSP's interest in a 535-Mw generating unit owned by MP. NSP agreed to purchase up to 200 Mw of peak load electricity from MP between May 1990 and October 1993.

Gas Utility Meets Competition Head On

Competition is a reality for natural gas distribution companies. Our Gas Utility employees face marketplace pressures daily and regularly win battles for new customers.

In 1989 NSP added nine new communities to the Minnesota Company's gas service area and achieved an impressive 3.3 percent growth rate for firm customers, despite a flattening of the economy that saw housing starts decline in our service territory. More than 30 percent of our new customers resulted from extensions to communities where NSP faced strong competition from other utilities.

NSP-Minnesota and NSP-Wisconsin together added a record 11,398 firm gas customers (primarily heating customers). Firm sales in 1989 increased 6.4 percent, primarily due to slightly colder weather than in 1988 and the addition of new customers.



The success we experienced in 1989 not only adds to our existing customer base but helps position the Gas Utility for future growth as new development occurs.

NSP worked with the United States Air Force to design and construct a high temperature water system to heat facilities at the Grand Forks, N.D., Air Force Base. NSP will maintain the system, scheduled for completion in mid-1990. The Air Force estimates the system will save more than \$10 million in energy costs over the life of the contract.

In St. Cloud, Minn., the new Civic Center opened in 1989, heated by natural gas from NSP. It annually adds 8,500 mcf (thousand cubic feet) to sales, producing \$34,300 of additional revenue.

Despite tough competition in St. Paul, NSP signed up two major new downtown buildings for gas service: a 33-story apartment tower and the Minnesota History Center.

Containing Costs Pays Off

The Gas Utility's competitive edge comes from several years of stringent cost containment programs. The results are improved productivity and lower installation costs, particularly for gas main extensions and new customer hook-ups, and improved quality. Containing costs and adding new customers help us maintain adequate earnings for shareholders without raising customers' rates.

The Gas Utility has taken advantage of industry deregulation and access to direct purchases from

producers to improve its competitive position. Holding the line on purchased gas expenses also benefits existing customers with low prices. About 67 percent of NSP's retail gas price is the cost of gas.

We began an appliance service program, Advantage Service, in the St. Paul area in late 1989. For a low monthly fee, residential customers receive basic coverage for most parts

We cut \$6.1 million from our power plant operating budget in 1989 by finding more efficient ways to run our plants and manage our maintenance schedules.

We also recognize that our greatest asset is our employees, and we are implementing new programs to encourage and reward their creativity and innovation.

ASSET MANAGEMENT

The urgency of our competitive business environment demands that we manage all of our assets – from equipment to people – better than ever before. We will maintain all of our options for supplying customers' future energy needs.



NSP Will Maintain and Upgrade Existing Plants

In 1989 we strengthened our long-standing commitment to get the most out of existing facilities, thereby delaying the need for costly new power plants.

We will keep all of our options open for supplying customers' future needs.

We have revitalized the Riverside plant in Minneapolis and the Black Dog plant in Burnsville, Minn. We are considering replacing two turbine-generators at our High Bridge plant in St. Paul with a single 100-Mw unit at a cost of \$50 million.

Gradually over the coming decade, the company also will boost the coal deliveries at the Black Dog plant from 624,000 tons a year to about 1.8 million tons, in order to get greater use out of the plant.

The \$15 million renovation at our Bay Front plant in Ashland, Wis., will be complete in 1991. New equipment and modifications will enable us to extend the 75-Mw plant's life an additional 20 years.

and labor on major gas and electric appliances.

We offer the service to meet customers' needs and to compete with gas distribution companies offering similar services.

WE'RE MAKING THE MOST OF ALL OUR ASSETS

NSP is discovering more effective ways of managing its assets to reduce costs, improve service and maintain reliability.

Coal accounted for about 60 percent of NSP's generation in 1989.

Nuclear Plants Updated

Nuclear power has been an important part of NSP's generation mix for nearly 20 years, and that will continue in the 1990s. In 1989 our nuclear plants supplied 34 percent of NSP's generation.

Projects undertaken at our two nuclear plants in 1989 will help ensure that they continue to be recognized among the best plants in the industry. Training centers at both plants provide space for the extensive training required by the federal Nuclear Regulatory Commission (NRC). In 1989, employees at both the Monticello and Prairie Island nuclear plants began using expanded, 20,000 square-foot training centers. The centers include libraries and space for increased security functions and drug testing that the NRC now requires.

U.S. nuclear plants must establish interim storage facilities for spent (used) fuel until the Department of Energy develops a permanent disposal facility, which is not expected to be available before 2010 at the earliest.

NSP now stores spent fuel in water-filled pools at both nuclear plants. We have storage at the Monticello plant to last until 2005, but we will run out of space at Prairie Island in 1994.

So we are proceeding with plans for a "dry-storage" facility for spent fuel at the Prairie Island plant site, near Red Wing, Minn. We will file in 1990 for approval from the NRC and the Minnesota Public Utilities Commission.

Dry storage is a proven method of temporarily storing spent fuel in steel casks. Our plans call for the project to begin in early 1992, with actual transfer of fuel to the dry-storage facility in early 1993.

We also are continuing to decommission our Pathfinder plant, an experimental nuclear plant near Sioux Falls, S.D., that we shut down in 1967. A license amendment to allow the

of building and operating a uranium enrichment plant. (Uranium enrichment is a stage in fabricating fuel for nuclear plants.)

Computer Alarm System Improves Service

To improve system reliability and customer service, NSP's System Control Center now boasts an "Intelligent Alarm Processor," a computer-based tool to help survey the electrical system.

By integrating human knowledge with a computer system, operators save critical time in responding to equipment failures and problems throughout our generation and transmission system.

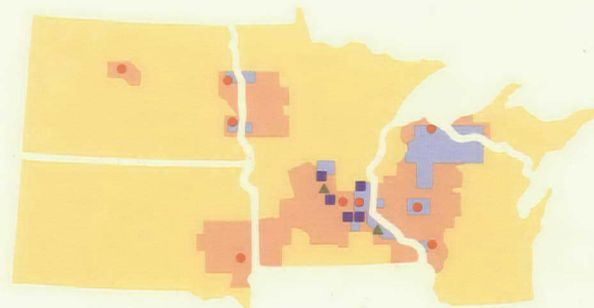
Canadian Power Helps Fill NSP Needs

Through the 1980s, NSP has "exchanged" power with the Manitoba Hydro-Electric Board of Winnipeg. We send excess power to Canada in the winter, when Canada needs it; Manitoba Hydro sends us excess hydro power in the summer, when we need it most.

This arrangement helps us maintain an economical, balanced mix of generation sources, while using an environmentally sound, renewable energy source. About 16 percent of the power we purchased from other utilities in 1989 came from Manitoba Hydro.

In 1989 we joined United Power Association (UPA) of Elk River, Minn., in an agreement for additional seasonal exchange of electricity with Manitoba Hydro to begin in 1995.

NSP SERVICE TERRITORY



■ Electric and Gas Service Area

■ Electric Service Area

● Major Cities

Major Generating Plants:

▲ Nuclear

■ Coal

decommissioning is pending before the NRC.

If the project is approved, we will be the first utility in the country to decommission our own nuclear plant. We gained valuable experience operating Pathfinder, and the decommissioning experience will prove equally valuable.

To help ensure access to reasonably priced nuclear fuel, we formed Graystone Corp., a wholly owned subsidiary. Graystone, along with several other companies, is studying the feasibility

Manitoba Hydro will supply 150 Mw of electrical capacity to each of the two U.S. utilities during the summer months. In turn, NSP and UPA will each supply 150 Mw to Manitoba Hydro in the winter.

The agreement also calls for new transmission facilities to transport the electricity. We plan to study our options in 1990 and file for necessary state and federal permits in early 1991.

Employees Are Our Greatest Asset

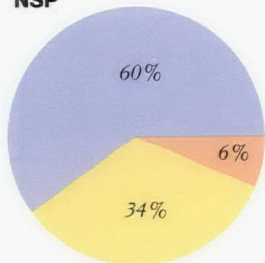
1989 was a year of significant change in how the company manages and rewards its employees.

NSP adopted the Performance Management and Review (PMR) System in 1989. Designed to align employee performance with company goals, it also provides for better evaluation of employee performance.

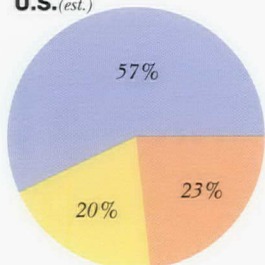
We are one of five utilities in the country to establish an incentive pay program, the "Power of Performance," for all full-time employees.

1989 Energy Sources for Electric Generation

NSP



U.S. (est.)



Coal
Nuclear
Other

It began in 1989, with payment of incentive awards tied to achievement of company goals and employee performance.

We are determined to have a work force that reflects the diversity of our communities and uses the potential of all employees.

Employee task forces identified ways we could strengthen our commitment to Affirmative Action and Equal Employment Opportunity. NSP implemented all recommendations with specific action plans and major corporate goals.

We began a succession planning system for NSP management, to ensure that employees are prepared to lead the company into the future. We also are identifying ways to use our information systems for competitive advantage.

We are implementing a multi-phased program that will systematically evaluate the functions, services and organization of five corporate support areas. With the recommendations that result, we will implement changes to increase the efficiency and value of corporate support services.

Employees Also Are an Asset To the Community

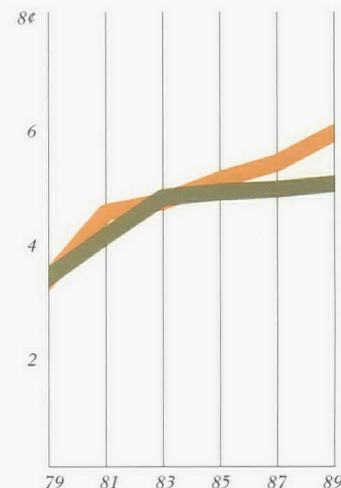
NSP's active and retired employees reach out to the community in many ways. Their contributions in NSP-Minnesota's 1989 United Way drive totaled \$713,000, substantially exceeding the company's \$650,000 goal.

Our employees and retirees also participate in numerous community programs, including Meals on Wheels, Junior Achievement, Food Share and many others.

NSP Retail Electric Rates

Cents per kwh

■ NSP Rate
■ Rate if increased with Consumer Price Index

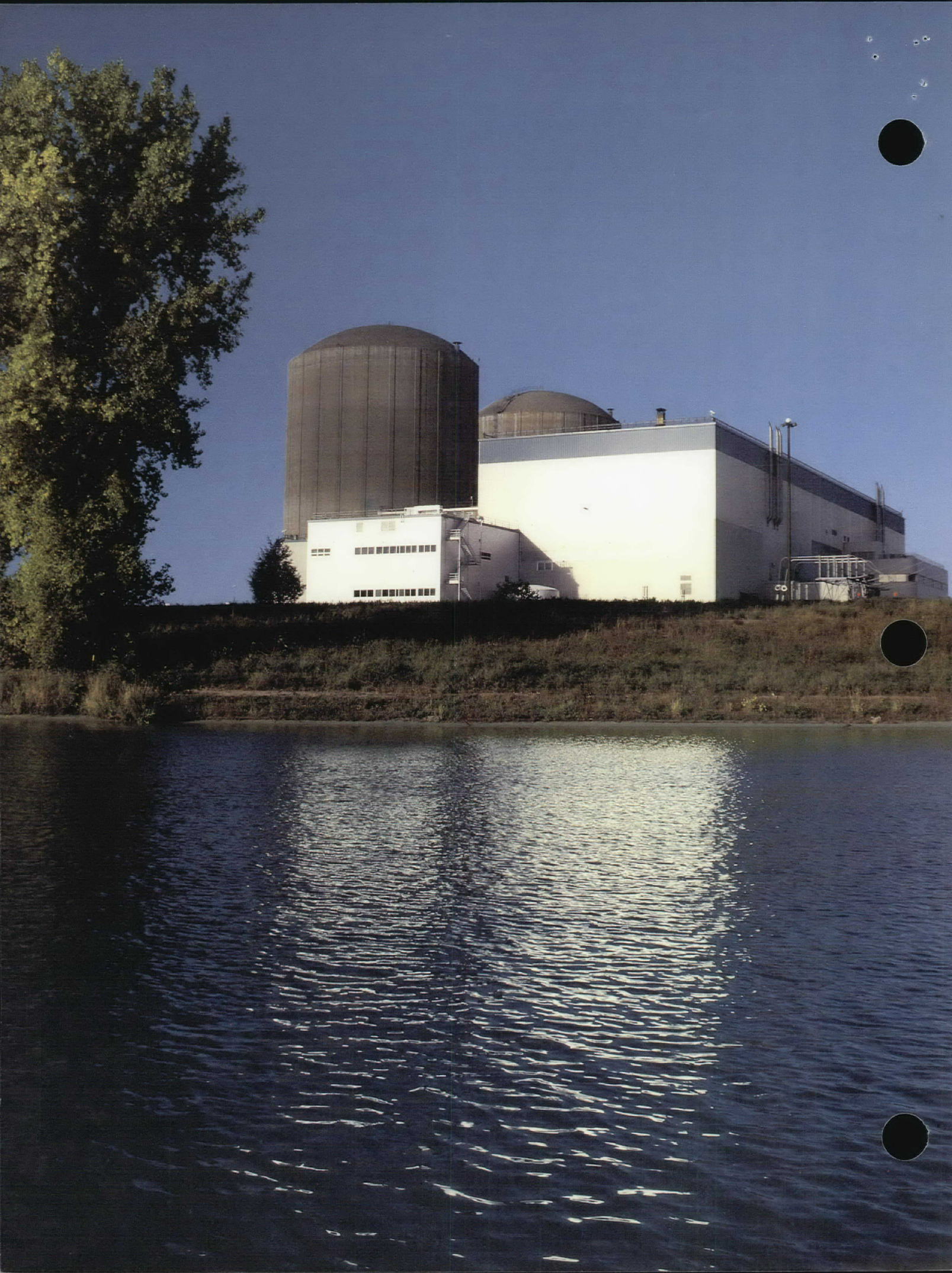


COMPETITIVE RATES ARE ESSENTIAL FOR THE '90s

NSP must continue its tradition of reasonable rates as it operates in a more competitive environment. We intend to do just that, despite necessary price adjustments below the inflation rate.

The company's electric rates compare favorably to those of neighboring utilities. Our average retail rate is consistently below the average of 15 neighboring utilities.

In addition, NSP's electric price increases have stayed below the inflation rate. The average retail electric price has increased at an annual rate of 3.8 percent during the past decade. The consumer price index has increased at an annual rate of 5.5 percent during the same period.



This tradition continues, even with the electric rate case filed with the Minnesota commission last November. We filed for an overall annual rate increase of \$121 million, or 10.2 percent. If approved, effective in November 1990, the increase would be equivalent to an average annual increase of about 3.5 percent since NSP's last rate increase.

We filed an update of the case in February 1990 to reflect both increases and decreases in the cost of providing service since the original filing. The net effect is an increase of \$14 million, but by law NSP cannot receive more than the initial \$121 million request.

In late 1989 the MPUC granted the company an interim increase of \$81.5 million, or 6.9 percent, effective Jan. 1, 1990. We had sought a \$91 million, or 7.7 percent, interim increase. Minnesota law allows interim rates that are subject to refund, while the commission considers the entire case.

The Minnesota rate case is essential for NSP to continue meeting customer energy needs while postponing costly new plant construction.

We plan extensive investment to maintain and upgrade existing plants; economical power purchases; and added emphasis on customer conservation and load management. In addition, increased capital investment at our nuclear plants is necessary to meet new federal requirements.

The NRC in early 1990 named Prairie Island one of the four best-run nuclear plants in the U.S. Modifications at nuclear plants, one factor in our need for a Minnesota electric rate increase, help keep our facilities among the best in the nation.

Higher Rate of Return Needed

NSP also seeks a higher return on its shareholders' investment from the MPUC. We are asking for a 13.25 percent rate of return on equity, which is near the national average. We must remain financially strong to attract and retain the necessary capital for system improvements at favorable rates.

We also are asking the commission

operational areas. This higher return would provide an incentive for continued superior performance and allow shareholders to benefit from our performance as well.

We also propose reimbursing shareholders for our aggressive pursuit of conservation and demand side management activities. The proposal seeks to recover program costs and a share of lost revenues, while providing NSP a strong incentive to implement such activities.

Although NSP did not file rate cases in North or South Dakota in 1989, we did brief the regulatory commissions in both states on the concept of tying rate of return to company performance.

Gas Rates Remain Low

NSP's Gas Utility has successfully met the challenge to keep rates low. A typical residential customer pays about 9 percent, or \$75 a year, less today than in 1984. Our gas rates are among the lowest one-third in the nation.

One reason we've been able to maintain low rates over the last five years is that the cost of gas has declined. In addition, the Gas Utility has aggressively controlled costs and improved productivity. As a result, we have not filed for a gas rate increase in Minnesota or North Dakota since 1986.

RATES AND REGULATION

NSP's performance,

detailed in our Minnesota electric rate filing, supports high grades:

Customer Service	A
Demand Side Management	B +
Plant Operations	A
Rates	A
Environment	A



to step away from the traditional cost-plus rate-making system, to a program that recognizes superior company performance. We submitted testimony detailing our outstanding performance and how it benefits our shareholders and customers.

We are asking the MPUC to grant a higher return on shareholders' investment because of our superior performance in key customer and



NSP-Wisconsin Implements New Rates

New rates for NSP's Wisconsin electric and natural gas customers went into effect Jan. 1, 1990. The Wisconsin Public Service Commission authorized an overall electric rate increase of \$8 million, or 3.5 percent, and a natural gas decrease of \$477,000, or 0.9 percent. The commission authorized a 12.5 percent return on shareholder equity in a capital structure with a 56.61 percent common equity ratio.

NSP IS COMMITTED TO A CLEAN ENVIRONMENT

NSP will further its tradition of environmental protection as we enter what could well be the "decade of the environment."

Acid rain, solid wastes, hazardous materials and global warming pose significant challenges to policy makers. NSP is taking steps in these areas to help protect our natural resources.

Since the first Earth Day in 1970, we have accomplished much to maintain the quality of our environment. Our customers expect us to find ways to protect the environment while producing the electricity they need. In addition, by making these environmental commitments early we avoid even more costly retrofits.

We have spent more than \$600 million to install pollution control equipment at our power plants and shifted to low-sulfur coal. These actions have enabled us to reduce sulfur dioxide emissions by 70 percent, while raising coal-fired generation by 50 percent.

In 1989 NSP went beyond controlling its own emissions. We intensified our federal lobbying efforts, advo-

ENVIRONMENT

Protecting the environment is a major public concern. At NSP, maintaining a clean environment has been a top priority for more than 20 years, and we reaffirm our commitment as we enter the new decade.



cating effective national clean-air legislation. We believe others should take the steps we have taken to minimize power plant emissions – but at the expense of their customers, not ours. Our customers have already paid, and continue to pay, for environmental protection.

Three RDF Plants Now Operating

No longer are landfills the only solution to society's growing need to dispose of household refuse. In 1989 NSP opened its second refuse derived fuel (RDF) facility in Minnesota to process solid waste into a material that can safely burn in power plants. A third RDF facility processes waste into fuel in Wisconsin.

We also are considering accepting yard waste and recyclable materials at one of our processing plants.

Global Warming Is Debated

The decade also will see increased world-wide concern about potential global warming from "greenhouse" gases, such as carbon dioxide, methane, ozone and nitrous oxide.

Scientists generally agree that the concentration of heat-trapping gases in the atmosphere is increasing, although the impact and severity of global warming is the subject of intense debate.

We support research to increase understanding of greenhouse gases and their effect on climate change. We also reaffirm our commitment to conservation and increased efficiency in power plants to reduce the emission of greenhouse gases.

NSP's environmental monitoring program includes regular fish studies in the Mississippi River near the Monticello nuclear plant.

BOARD OF DIRECTORS



Left to right: N. Bud Grossman, A. Patricia Sampson, John E. Pearson, James J. Howard.



Left to right: D.B. (Rhiny) Reinhart, Donald W. McCarthy, G.M. Pieschel, William G. Phillips.



Left to right: W. John Driscoll, Dale L. Haakenstad, Allen F. Jacobson, Margaret R. Preska, David A. Christensen.

DIRECTORS AND OFFICERS

As of December 31, 1989

Directors of the Minnesota Company

David A. Christensen (54) 1,4
President and CEO
Raven Industries, Inc.
Manufacturers of reinforced plastics,
sportswear and electronic equipment
(elected December 1976)

W. John Driscoll (60) 1,4
President, Rock Island Company
Private investment firm
(elected November 1974)

N. Bud Grossman (68) 1,3
CEO, Cogel Management Co.
Private investment and business
development firm
(elected January 1979)

Dale L. Haakenstad (61) 1,4
Vice Chairman
Western States Life Insurance Company
(elected February 1978)

James J. Howard (54)*
Chairman, President and CEO
Northern States Power Company
(elected January 1987)

Allen F. Jacobson (63) 1,4
Chairman and CEO, 3M
Manufacturer of films, adhesives
and health-care products
(elected January 1983)

Donald W. McCarthy (67) 3,4
Chairman Emeritus
Northern States Power Company
(elected June 1975)

John E. Pearson (62) 1,3
Chairman and CEO
The NWNL Companies, Inc.
Holding company for insurance and
other financial services subsidiaries
(elected December 1983)

William G. Phillips (69) 2,3
Retired Chairman, International
Multifoods
Food processing and marketing
company
(elected March 1979)

G.M. Pieschel (62) 2,3
President, Farmers and Merchants
State Bank
(elected February 1978)

Dr. Margaret R. Preska (51) 1,4
President, Mankato State University
(elected January 1980)

D.B. (Rhiny) Reinhart (69) 2,3
President, Reinhart Companies
A service company
(elected November 1976)

A. Patricia Sampson (41) 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

*J.J. Howard is ex officio member of all committees.

OFFICERS AND DIRECTORS

Principal Officers of the Minnesota Company

A.W. Benkusky (63)⁺
Vice President

Craig J. Blair (46)
Sr. Vice President - Electric Utility

Arland D. Brusven (57)
Secretary and Financial Counsel

Joseph A. Cascalenda (59)⁺
Vice President - Public Affairs

Ronald H. Clough (54)
Vice President - Electric Utility
Operations

James O. Cox (62)
Vice President and Treasurer

James T. Doudiet (44)
Sr. Vice President - Finance and Chief
Financial Officer

James J. Howard (54)
Chairman, President and CEO

Roland J. Jensen (60)
Sr. Vice President - Power Supply

Gary R. Johnson (43)
Vice President - Law

Charles E. Larson (53)
Vice President - Nuclear Generation

William J. Lynch (59)
Vice President - Rates and
Corporate Strategy

Edward J. McIntyre (38)
Vice President - Gas Utility

John A. Noer (43)
Vice President - Human Resources

⁺ retired January 31, 1990

Hazel R. O'Leary (52)
Sr. Vice President -
Corporate Affairs

David H. Peterson (48)
Vice President - Unregulated Generation

Roger D. Sandeen (44)
Vice President and Controller

James R. Tacheny (57)
Vice President - Combustion and
Hydro Operations

Loren L. Taylor (43)
Vice President - Transmission
and Inter-Utility Services

Keith H. Wieteki (40)
Vice President - Marketing and
Customer Service

Directors of the Wisconsin Company

Jean Gitz Bassett (65)*
Retired President
WLCX and WLXR Radio
(elected February 1984)

H. Lyman (Tad) Bretting (53)
President and CEO
C.G. Bretting Manufacturing Co.
Manufacturer of napkin and paper
towel folding machines
(elected November 1987)

Chauncey H. Cooke (70)*
Farmer
(elected May 1975)

Roland J. Jensen (60)
Sr. Vice President - Power Supply
Northern States Power Company
(Minnesota)
(elected August 1988)

Ray A. Larson Jr. (60)*
President, Wissota Sand and
Gravel Company
(elected November 1979)

D.B. (Rhiny) Reinhart (69)*
President
Reinhart Companies
A service company
(elected May 1973)

Larry G. Schnack (52)
Chancellor
University of Wisconsin-Eau Claire
(elected May 1988)

Edwin M. Theisen (59)
President and CEO
Northern States Power Company
(Wisconsin)
(elected January 1980)

*Audit Committee Members

Principal Officers of the Wisconsin Company

Vincent E. Beacom (60)
Vice President - Commercial and
Division Operations

John L. Koplin (56)
Treasurer

John P. Moore Jr. (42)
Secretary and General Counsel

Anthony G. Schuster (45)
Vice President - Power Supply

Neal A. Siikarla (42)
Controller

Edwin M. Theisen (59)
President and CEO

Glenn B. Thorsen (55)
Vice President - Finance

Patrick D. Watkins (49)
Vice President - Administrative Services

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FINANCIAL RESULTS AND OBJECTIVES

Northern States Power Company, Minnesota and Subsidiaries

Results

■ Earnings per share were \$3.24 compared with \$3.11 a year ago.

■ Dividends per share were increased from an annual rate of \$2.12 to \$2.22, up 4.7 percent.

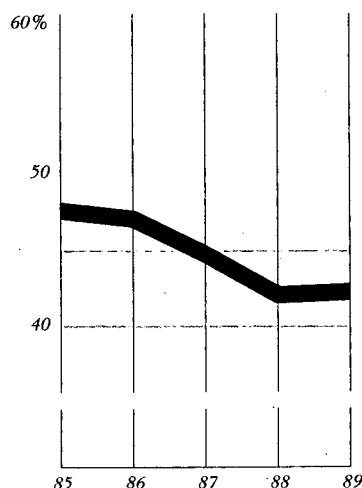
The 1989 earnings increase was primarily due to improvements in the performance of NSP's non-regulated subsidiary NORENCO and the company's non-regulated refuse derived fuel operations.

The company was able to meet an extremely difficult challenge in 1989; we made every effort to hold expenses in check, and we succeeded. As a result, despite low sales growth and a substantial property tax increase, we achieved a \$3.5 million increase in operating income for the year. But to sustain our financial strength, we need the electric rate increase we've requested of the Minnesota Public Utilities Commission (MPUC).

Capital Structure

Total debt

□ Objective range 40-45%



Objectives

NSP's objective is to provide shareholders a reasonable return on their investment and keep the cost of money at a minimum while maintaining a flexible financial position. This in turn benefits customers through favorable rates and a company with the financial integrity to maintain excellent customer service. In 1989, the price of electricity for the average NSP retail customer was among the lowest in the country. NSP's rates were lower than 75 percent of utilities in the United States.

NSP met all of its financial objectives in 1989.

Return on Equity Objective

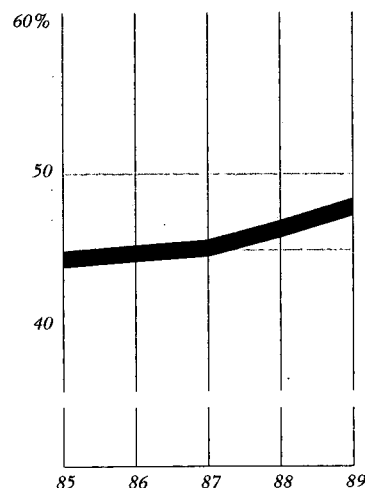
The return on equity (ROE) objective for the company is that ROE, based on a three-year average, should be equal to or greater than the ROE of electric utilities in the top third of our industry. If we meet our objective, earnings and dividend growth also will be in the top third of the industry over the long term. This objective is consistent with NSP's performance in recent years and is consistent with our intention to remain a premier energy company.

For the most recent three-year period, ending in 1989, the company had an average ROE of 14.0 percent compared with an estimated 13.7 percent for utilities in the top third.

Capital Structure

Common equity

□ Objective range 45-50%



Dividend Policy and Objective

The company has an objective of increasing dividends on as regular and predictable a basis as possible. At the same time, the payout objective is 65 to 70 percent. For 1989, quarterly dividends were increased to 55.5¢, an increase of 4.7 percent, bringing the payout ratio to 68 percent, which is within the objective range.

Dividends have been paid, without interruption, for the past 41 years. Additionally, dividends have been increased during the second quarter of each year for the past 13 years.

Credit Quality Objectives

Bond ratings are a reflection of credit quality, and NSP has top quality ratings from three of the major bond rating agencies. Our secured debt is rated Aa1 by Moody's, AA by Standard & Poor's and AA+ by Duff and Phelps.

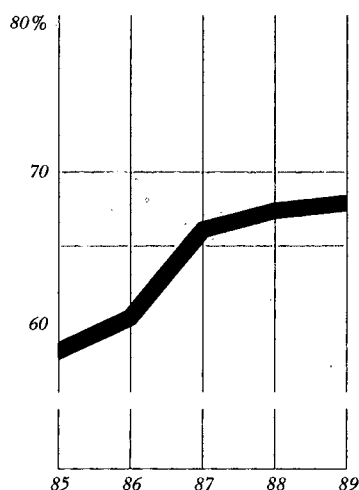
Capital structure, bond interest coverage and internal cash generation are three criteria that greatly influence bond rating agencies' decisions as to the credit quality of electric utilities. The company's objectives are consistent with the criteria of the bond rating agencies for double-A ratings.

NSP's capital structure for 1989 was within our objective ranges. Our objective for common equity was 45-50 percent, and our actual equity ratio was 48 percent. The average for double-A companies for 1989 is also estimated at 48 percent. Our objective for total debt is 40-45 percent, with the actual coming in at 42 percent.

Dividend Payout Ratio

Based on dividends declared

□ Objective range 65 to 70%



Capital structure and ROE certainly will be issues in the Minnesota rate case that is being heard in 1990. The Minnesota Public Utilities Commission (MPUC) has questioned NSP's equity level in the past, and our last authorized return on equity from them is below average. We believe we have made a strong case in the pending proceeding that a higher ROE on our full equity component is necessary to maintain NSP's financial integrity. We are hopeful the MPUC will recognize that continued financial strength is critical for our customers as well as for our shareholders.

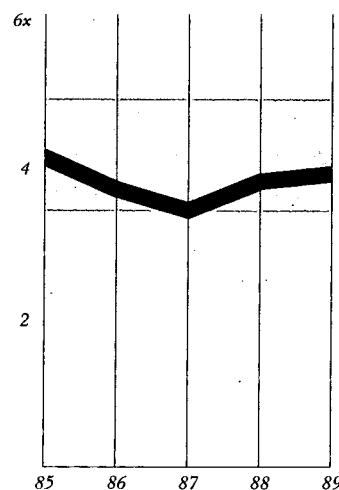
The bond interest coverage objective also was met. Our objective range for pre-tax interest coverage is 3.5-5.0 times interest charges without allowance for funds used during construction. Our actual coverage in 1989 was 4.0 times. While our results were within the objective range, we should achieve coverages in the upper part of the objective range to assure continuance of bond ratings which, on average, are strong double-A. These strong ratings have enabled the company to save millions of dollars in interest costs by borrowing money on favorable terms.

About 87 percent of the funds for construction programs over the next five years are expected to come from operations (internal funds). This relatively large amount of internal funds also is a favorable factor from a credit quality standpoint.

Pre-Tax Interest Coverage

Excluding AFC

□ Objective range 3.5 to 5.0x



Northern States Power Company, Minnesota and Subsidiaries

Financial Condition

NSP's financial position remained strong during 1989. NSP's long-range financial objectives reflect a planned capital structure of approximately 45-50 percent common equity, 40-45 percent long-term debt and 7-12 percent preferred stock.

In April 1989, NSP redeemed its \$50 million of outstanding auction rate preferred stock at par using current operating funds. In July 1989, NSP issued \$100 million of first mortgage bonds, having an annual interest cost to NSP of 9.29 percent. NSP used part of the proceeds of this financing to redeem \$72,750,000 of its 10-7/8 percent first mortgage bonds. Also in July 1989, \$60 million of pollution control revenue bonds were issued on behalf of NSP with an annual interest cost of 7.08 percent per annum. NSP used the proceeds from the sale of these bonds to redeem two series of pollution control revenue bonds. NSP's financing and securities redemption activities during 1989 were undertaken in order to reduce NSP's long-term cost of capital.

Construction Expenditures

Construction expenditures were \$313 million in 1989. Of that amount, \$267 million related to replacements and improvements of NSP's electric system and \$37 million involved construction of natural gas facilities. Internally generated funds provided 100 percent of the construction expenditures for 1989 and 81 percent of the \$2.1 billion construction expenditures incurred for the five year period 1985-1989. NSP estimates that its construction expenditures will be \$380 million in 1990. Of that amount, \$320 million is scheduled for electric facilities; gas system expenditures are estimated at \$35 million. Internally generated funds are expected to provide 78 percent of NSP's 1990 construction expenditures and 87 percent of the \$2.0 billion in forecasted construction expenditures for the five-year period 1990-1994.

Financing Requirements

In addition to construction funds, forecasted capital requirements for the 1990-1994 period include \$132 million to retire long-term debt and meet first mortgage bond sinking fund requirements.

NSP expects to obtain external capital through the issuance of long-term debt and preferred stock. No common stock offerings are planned through 1994.

Financing requirements for the 1990-1994 period also may be affected by such factors as availability and cost of capital, load growth, changes in construction expenditures, allowed price increases by regulatory agencies, changes in environmental regulations and other regulatory activities. Because of prior expenditures for pollu-

tion control equipment, NSP does not expect that the adoption of proposed "acid rain" legislation will have significant impact on NSP's construction program or financing requirements.

Financing Flexibility and Liquidity

NSP's ability to finance its construction program at a reasonable cost and to provide for other capital needs is dependent on its ability to earn a fair return on investors' capital. Financing flexibility is enhanced by providing a high percentage of total capital requirements from internal sources and having the ability, if necessary, to issue long-term securities and to obtain short-term credit. Access to securities markets is determined in large part by credit quality.

NSP's first mortgage indenture places limits on the amount of first mortgage bonds that may be issued and the Minnesota Public Utilities Commission (MPUC) has jurisdiction over securities issuance. At December 31, 1989, NSP could have issued about \$1 billion of additional first mortgage bonds under the indenture, assuming an annual interest rate of 12 percent. NSP's first mortgage bonds are rated Aa1 by Moody's Investors Service, AA by Standard & Poor's and AA+ by Duff and Phelps. Consequently, NSP expects to have access to long-term debt markets on better terms than the electric industry in general.

At December 31, 1989, NSP had no short-term debt outstanding. Commercial banks presently provide NSP with credit lines of \$167 million and \$47 million of revolving long-term loan commitments.

NSP's Articles of Incorporation limit the amount of preferred stock that it may issue. NSP could have issued all of the \$400 million of authorized and unissued preferred stock remaining at December 31, 1989 and been in compliance with all income and coverage requirements.

Total authorized shares of common stock, under NSP's Articles of Incorporation, are 160 million. At December 31, 1989, the number of shares outstanding was 62,541,404.

Results of Operations

NSP's business is the sale of electricity and natural gas to its customers. Customer usage varies with weather conditions, general business conditions, the state of the economy and the cost of energy services, which is determined by the rates NSP is permitted to charge its customers by various regulatory authorities.

As discussed below, in late 1989 NSP requested a 10.2 percent increase in its retail electric rates in Minnesota. The rates charged by NSP to retail customers in Wisconsin are established annually. NSP's rates are approved by state commissions to recover plant and operating costs for

The annual period for which rate cases are filed. Since rates are not filed annually in Minnesota, which is our primary jurisdiction, inflation continues to be a factor affecting NSP's operations, earnings, shareholders' equity and other financial results. Changes in the cost of fuel for electric generation and purchased gas are generally reflected in billings to customers on a timely basis through fuel and purchased gas adjustment clauses, except in Wisconsin.

1989 Compared to 1988 and 1987

NSP's 1989 earnings per share were \$3.24, up 13 cents from the \$3.11 earned in 1988 and up 23 cents from the \$3.01 earned in 1987. The 1989 increase was primarily due to improvements in the performance of NSP's non-regulated subsidiary NORENCO and NSP's non-regulated refuse derived fuel operation. The number of common shares outstanding during these periods remained the same.

Electric Sales and Revenues

Retail sales in 1989 increased by 0.3 percent over 1988. This low sales growth was due primarily to the record hot weather in the summer of 1988. During 1989 the addition of 19,354 retail customers, a 1.5 percent increase, was offset by the return to a somewhat more normal weather pattern. Retail sales in 1988 increased 6.6 percent over 1987, primarily because of extremely favorable weather conditions, a strong economy within NSP's service areas and an increased customer base. Retail electric sales increased 4.9 percent in 1987.

The \$27.4 million reduction in 1989 retail electric revenue resulted from a change agreed to by Minnesota and other regulators concerning the accounting treatment of spare parts. This reduction was completely offset by a reduction in other operation expenses.

On a weather-adjusted basis, sales to retail customers increased 2.1 percent in 1989, 3.3 percent in 1988 and 4.7 percent in 1987. Retail sales growth for 1990 is forecast to be 2.0 percent, or an increase of 3.9 percent over 1989 weather-adjusted sales. The table below identifies the reasons for the electric revenue changes during the past three years.

(Millions of Dollars)	1989/88	1988/87	1987/86
Sales Growth	\$ (2)	\$ 83	\$ 53
Rate Changes	6	84	(4)
Regulatory Change	(27)		
Fuel Clauses & Other	(4)	17	21
Total	\$(27)	\$184	\$ 70

In November 1989, NSP filed for a retail electric rate increase of \$120.8 million or 10.2 percent in Minnesota. On December 29, 1989, the MPUC approved an interim rate increase of \$81.5 million or 6.91 percent. The interim rates will be collected by NSP, subject to refund with interest, while the MPUC considers NSP's request. The interim rates will be in effect from January 1, 1990 until the MPUC determines final rates. The MPUC is required to issue its final order no later than September 1990. On February 5, 1990, NSP supplemented its original request with updated data. The net effect was an increase of \$14.3 million, but by law NSP cannot receive more than its initial request of \$120.8 million.

Gas Sales and Revenues

NSP categorizes gas sales as firm (primarily heating customers) and interruptible (customers with an alternate energy supply). Firm sales in 1989 increased 6.4 percent, primarily due to slightly colder weather than in 1988 and the addition of 11,398 customers, a 3.4 percent increase. Firm sales in 1988 increased 20.9 percent because of exceptionally warm weather in 1987. Firm sales decreased 11.6 percent in 1987 due to warm winter weather.

On a weather-adjusted basis, firm sales increased 1.3 percent in 1989, 4.3 percent in 1988 and 2.9 percent in 1987. NSP forecasts 1990 firm gas sales to increase by 1.4 percent over 1989, which would be a weather-adjusted increase of 4.0 percent.

Interruptible gas sales, including customer-owned gas which NSP transported, decreased 1.8 percent in 1989, compared to a 0.1 percent decrease in 1988 and a 20.1 percent increase in 1987.

The table below identifies the reasons for changes in gas revenue over the past three years.

(Millions of Dollars)	1989/88	1988/87	1987/86
Sales Growth	\$ 16	\$ 47	\$(40)
Rate Changes	0	0	(1)
Purchased Gas Adjustment & Other	(6)	5	(40)
Total	\$ 10	\$ 52	\$(81)

Operating Expenses and Other Factors

Electric Production Fuel costs for electric generation increased \$11.8 million or 3.9 percent in 1989, compared with a 2.9 percent increase in 1988 and a 23.8 percent increase in 1987. The relatively small increase in 1989 was due to low sales growth and relatively stable fuel costs.

The modest increase in 1988 was due to an 11.1 percent increase in total generation which was partially offset by lower coal prices. The large increase in 1987 was due principally to increased production to meet sales growth offset by a reduction in power purchases.

Purchased and interchange costs in 1989 declined by \$9.1 million or 8.6 percent, primarily due to fewer purchases required to meet NSP's requirements and lower cost of purchases. In 1988 purchased power costs increased 19.7 percent principally because of reduced availability of lower cost purchases from the Manitoba Hydro-Electric Board due to below normal water conditions at its hydro plants.

Gas Gas purchased for resale increased by \$6.7 million or 3.2 percent in 1989 because of increased sendout. This increase was partially offset by a reduced cost per Mcf. The average cost per million Btu of gas was 3.3 percent lower in 1989 than 1988. Gas purchased for resale increased \$44.6 million in 1988 because of increased sendout and increased cost per Mcf. The average cost per million Btu of gas was 8.7 percent higher in 1988 than 1987. Gas purchased for resale decreased \$70.4 million in 1987, primarily due to lower cost per Mcf.

Administrative and General, Other Operation and Maintenance These expenses, in total, declined by \$36.5 million or 6.1 percent compared with increases of 14.2 percent in 1988 and 1.8 percent in 1987. The 1989 decrease is primarily attributable to the change agreed to by the MPUC and other regulators in the accounting for spare parts, which reduced expenses by \$27.4 million. As discussed above, this change was offset by a reduction in electric revenue and had no impact on net income. During 1989 NSP continued significant cost control efforts, which also contributed to the 1989 decrease. The 1988 increase was due to increased maintenance costs at generating plants, a full year's operation of the Sherco 3 generating plant, expensing one-half of the 1988 early retirement program cost and a contribution to the Employee Stock Ownership Plan (which was offset by reduced income taxes).

Depreciation and Amortization Depreciation and amortization increased 0.6 percent in 1989, compared with increases of 22.4 percent in 1988 and 8.0 percent in 1987. The increase in 1989 is extremely modest because increases due to normal plant additions were virtually offset by a \$9.0 million reduction in depreciation resulting from

the increase in the estimated remaining lives of NSP's three nuclear units to coincide with the expiration date of their Nuclear Regulatory Commission operating licenses and minor life adjustments to various generating units. The 1988 increase was due primarily to an increase in nuclear decommissioning expense of \$13.2 million and a full year's depreciation associated with the November 1, 1987 start-up of the Sherco 3 generating plant. The 1987 increase was due primarily to the start-up of Sherco 3 and life extension projects at four generating plants which were completed in 1987.

Property and General Taxes Property and general taxes increased \$14.1 million or 8.6 percent primarily as a result of new property tax legislation in Minnesota. Increased property valuations due mainly to property additions and increased tax rates were also factors in the increase. In 1988 property and general taxes increased \$16.8 million primarily as a result of property additions and tax rate increases. Taxes in 1987 increased \$11.8 million due to additional property and higher tax rates.

Income Taxes Despite higher total earnings, income taxes decreased \$8.6 million or 7.3 percent primarily due to lower utility operating income before tax. See Note 2 to Financial Statements which details the income tax expense. Income taxes decreased \$2.4 million in 1988 primarily as a result of lower federal tax rates and the impact of the adoption of Statement of Financial Accounting Standards No 96, Accounting for Income Taxes. The statutory federal rate in 1988 and 1989 was 34 percent compared to 40 percent in 1987.

Allowance for Funds Used During Construction (AFC) AFC decreased \$6.2 million in 1989 primarily due to fewer large construction projects. In 1988 AFC decreased \$37.7 million due primarily to the Sherco 3 generating plant being placed in service on November 1, 1987.

Other Income and Deductions - Net NSP's other income increased \$9.1 million in 1989 primarily due to improved profit performance from NORENCO and NSP's refuse derived fuel business. In 1988, this item increased \$10.7 million primarily due to a sale of land on the Chippewa Reservoir in Wisconsin and NORENCO net losses in 1987. NORENCO had virtually no impact on income in 1988 because increased earnings from operations and a \$9.2 million gain from a litigation settlement were offset by \$12.2 million in estimated expenses and write-downs of NORENCO assets in December 1988.

FINANCIAL STATISTICS

Northern States Power Company, Minnesota and Subsidiaries

Selected Financial Data

Millions of dollars, except per share data)	1989	1988	1987	1986	1985	1979
Operating revenues	\$1 989.7	\$2 006.5	\$1 770.3	\$1 781.6	\$1 788.7	\$1 048.2
Operating expenses	\$1 683.0	\$1 703.3	\$1 505.7	\$1 527.8	\$1 540.1	\$876.6
Net income	\$221.9	\$214.8	\$204.9	\$206.9	\$197.7	\$120.7
Earnings available for common stock	\$202.6	\$194.5	\$188.3	\$193.3	\$184.7	\$106.3
Average shares of common stock outstanding (000's)	62 541	62 541	62 541	62 541	62 274	60 540
Earnings per share on average shares	\$3.24	\$3.11	\$3.01	\$3.09	\$2.97	\$1.76
Dividends declared per share	\$2.195	\$2.095	\$1.99	\$1.865	\$1.725	\$1.125
Total assets	\$4 592.8	\$4 495.5	\$4 401.2	\$4 247.0	\$4 047.6	\$2 619.9
Long-term debt	\$1 262.7	\$1 275.7	\$1 248.5	\$1 292.1	\$1 252.5	\$891.5
Mandatory redemption of preferred stock (net of treasury shares)	—	—	—	—	9.1	20.0
Ratio of earnings to fixed charges	4.1	4.0	3.9	4.3	4.7	4.4

Financial Statistics

	1989	1988	1987	1986	1985	1979
Earnings per share on average shares	\$3.24	\$3.11	\$3.01	\$3.09	\$2.97	\$1.76
Return on average common equity	13.9%	13.9%	14.1%	15.3%	15.6%	13.2%
Dividends in percent of earnings	67.8%	67.4%	66.1%	60.3%	58.2%	64.3%
Dividend in percent of book value	9.7%	9.7%	9.7%	9.6%	9.6%	8.8%
Five-year growth rate in earnings per share (1)	1.9%	2.0%	4.3%	9.0%	13.4%	6.8%
Construction expenditures (millions)	\$313.4	\$300.7	\$451.7	\$555.6	\$513.7	\$231.3
Percent of construction expenditures financed by internally generated funds (excluding AFC)	100.0%	100.0%	70.7%	77.5%	60.5%	76.8%
Cash dividend coverage	3.4	3.4	3.2	4.1	4.4	4.6
AFC percent of earnings per share	3.5%	6.9%	27.2%	26.7%	22.6%	12.0%
Effective tax rate	34.3%	35.2%	35.3%	40.1%	44.5%	47.9%
Capitalization (2)						
Common	48.0%	46.5%	45.2%	44.8%	44.5%	42.2%
Preferred	9.7%	11.4%	9.9%	8.1%	7.9%	11.6%
Debt	42.3%	42.1%	44.9%	47.1%	47.6%	46.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Embedded cost of long-term debt	8.22%	8.32%	8.19%	8.03%	8.08%	7.00%
Average plant investment per dollar of revenue	\$3.19	\$3.04	\$3.27	\$3.00	\$2.71	\$2.99
Depreciation reserve in percent of depreciable plant	35.2%	33.4%	31.5%	34.7%	33.9%	27.9%
Depreciation provision in percent of average depreciable plant	3.44%	3.58%	3.37%	3.48%	3.63%	3.44%
Benefit employees (at Dec. 31)	7 580	7 504	7 699	7 515	7 414	6 700

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

OPERATING STATISTICS

Northern States Power Company, Minnesota and Subsidiaries

Operating Statistics

	1989	1988	1987	1986	1985	1979
Electric Revenues (thousands)						
Residential						
With space heating	\$ 65 338	\$ 64 504	\$ 56 115	\$ 58 839	\$ 58 309	\$ 23 607
Without space heating	507 359	527 819	466 313	445 304	425 652	260 567
Small commercial and industrial	286 996	285 094	256 905	246 693	236 915	131 872
Large commercial and industrial	634 239	634 125	579 015	548 986	515 794	289 202
Street lighting and other	30 913	34 947	32 227	31 203	30 734	20 061
Total retail	1 524 845	1 546 489	1 390 575	1 331 025	1 267 404	725 309
Sales for resale	116 050	115 319	86 002	77 606	94 605	102 378
Miscellaneous	13 568	20 117	20 868	19 103	14 103	4 976
Total	\$1 654 463	\$1 681 925	\$1 497 445	\$1 427 734	\$1 376 112	\$832 663
Sales (millions of kilowatt-hours)						
Residential						
With space heating	1 151	1 126	994	1 063	1 066	721
Without space heating	7 733	7 975	7 389	7 095	6 900	6 177
Small commercial and industrial	5 046	4 982	4 675	4 487	4 326	3 284
Large commercial and industrial	15 301	14 982	14 191	13 327	12 569	9 854
Street lighting and other	441	522	502	489	500	539
Total retail	29 672	29 587	27 751	26 461	25 361	20 575
Sales for resale	5 075	5 209	3 890	3 166	4 211	5 041
Total	34 747	34 796	31 641	29 627	29 572	25 616
Customer Accounts (Dec. 31)						
Residential						
With space heating	74 070	72 836	71 118	69 376	66 668	39 393
Without space heating	1 077 097	1 061 691	1 044 992	1 022 872	1 010 194	910 106
Small commercial and industrial	136 435	134 007	131 797	127 780	125 992	103 831
Large commercial and industrial	7 020	6 808	6 565	6 364	6 049	5 107
Street lighting and other	5 419	5 345	5 300	5 291	5 245	6 641
Total retail	1 300 041	1 280 687	1 259 772	1 231 683	1 214 148	1 065 078
Sales for resale	78	76	74	77	81	76
Total	1 300 119	1 280 763	1 259 846	1 231 760	1 214 229	1 065 154
Residential with Space Heating						
Annual kwh per customer	15 737	15 668	14 177	15 581	16 522	19 986
Annual revenue per customer	\$893.30	\$897.58	\$800.33	\$862.29	\$903.72	\$654.90
Average revenue per kwh	5.68¢	5.73¢	5.65¢	5.53¢	5.47¢	3.28¢
Residential without Space Heating						
Annual kwh per customer	7 236	7 577	7 157	6 998	6 887	6 858
Annual revenue per customer	\$474.72	\$501.48	\$451.67	\$439.22	\$424.86	\$289.27
Average revenue per kwh	6.56¢	6.62¢	6.31¢	6.28¢	6.17¢	4.22¢
Kilowatt-hour Output millions						
Thermal	30 966	30 739	27 518	22 243	24 095	24 381
Hydro	665	565	665	1 112	1 200	924
Purchased and interchange	5 362	5 688	5 363	8 188	6 317	1 856
Total	36 993	36 992	33 546	31 543	31 612	27 161

	1989	1988	1987	1986	1985	1979
Electric – continued						
Capability at Time of Maximum Demand (megawatts)						
Company owned	6 848	6 753	6 268	6 121	6 057	6 108
Purchases and sales–net (with reserve)	1 071	1 222	1 172	807	810	(264)
Total	7 919	7 975	7 440	6 928	6 867	5 844
Maximum Demand (megawatts)	6 534	6 923	6 377	6 012	5 205	4 247
Date of Maximum Demand	Aug. 3	Aug. 16	July 31	July 18	July 9	Aug. 7
Gas						
Revenues (thousands)						
Residential						
With space heating	\$170 704	\$163 489	\$135 379	\$173 921	\$195 248	\$100 810
Without space heating	2 842	2 959	2 722	3 383	3 838	3 434
Commercial and industrial						
Firm	99 434	96 567	78 452	103 275	118 760	54 971
Interruptible	45 731	44 529	42 258	60 990	81 501	43 253
Miscellaneous*	6 006	7 211	4 185	2 300	2 853	3 155
Total	\$324 717	\$314 755	\$262 996	\$343 869	\$402 200	\$205 623
Sales (thousands of mcf)						
Residential						
With space heating	36 007	33 740	27 818	31 518	32 850	33 616
Without space heating	395	404	372	431	464	807
Commercial and industrial						
Firm	24 075	22 681	18 809	21 199	22 042	18 788
Interruptible	16 711	16 211	16 626	17 891	19 986	19 949
Miscellaneous	449	856	606	195	114	54
Total	77 637	73 892	64 231	71 234	75 456	73 214
Agency & Transportation Deliveries (thousands of mcf)						
	5 639	6 542	6 151	1 081	106	0
Customer Accounts (at Dec. 31)						
Residential						
With space heating	290 951	280 205	271 111	262 223	255 154	206 195
Without space heating	21 819	22 435	23 140	23 737	24 420	33 488
Commercial and industrial	32 463	31 222	30 194	29 230	28 414	22 762
Total	345 233	333 862	324 445	315 190	307 988	262 445
Residential with Space Heating						
Annual mcf per customer	127	123	105	122	131	167
Annual revenue per customer	\$600.37	\$594.96	\$509.06	\$675.37	\$779.75	\$499.53
Average revenue per mcf	\$4.74	\$4.85	\$4.87	\$5.52	\$5.94	\$3.00
Gas Purchased for Resale						
Total cost (thousands)	\$216 922	\$210 214	\$165 584	\$236 013	\$300 375	\$142 606
Cost per mcf sold**	\$2.79	\$2.84	\$2.58	\$3.31	\$3.98	\$1.95
Maximum Sendout (mcf)	510 824	568 354	537 304	547 701	610 914	346 866
Date of Maximum Sendout	Feb. 2	Jan. 4	Jan. 22	Jan. 6	Jan. 19	Jan. 14

*Includes revenues for transportation services

**mcf sold excludes transportation service volumes

FINANCIAL STATEMENTS

Northern States Power Company, Minnesota and Subsidiaries

Statement of Income

Year Ended December 31

(Thousands of dollars)	1989	1988	1987
Operating Revenues			
Electric	\$1 654 463	\$1 681 925	\$1 497 445
Gas	324 717	314 755	262 996
Telephone	10 534	9 778	9 888
Total	1 989 714	2 006 458	1 770 329
Operating Expenses			
Fuel for electric generation	312 105	300 269	291 667
Purchased and interchange power	96 888	105 960	88 507
Gas purchased for resale	216 922	210 214	165 584
Administrative and general	175 068	171 814	140 616
Other operation	235 016	253 631	229 132
Maintenance	151 114	172 280	153 570
Depreciation and amortization	209 872	208 629	170 517
Property and general taxes	177 516	163 436	146 595
Income taxes	108 518	117 073	119 500
Total	1 683 019	1 703 306	1 505 688
Operating income	306 695	303 152	264 641
Other Income and Expense			
Allowance for funds used during construction—equity	3 733	5 968	38 194
Other income and deductions—net	17 509	8 377	(2 329)
Total	21 242	14 345	35 865
Income Before Interest Charges	327 937	317 497	300 506
Interest Charges			
Interest on long-term debt	106 406	103 769	101 360
Other interest and amortization	3 060	6 424	7 190
Allowance for funds used during construction—debt	(3 486)	(7 476)	(12 958)
Total	105 980	102 717	95 592
Net income	221 957	214 780	204 914
Preferred Stock Dividends	19 338	20 273	16 650
Earnings Available for Common Stock	\$ 202 619	\$ 194 507	\$ 188 264
Average Shares of Common Stock Outstanding (000s)	62 541	62 541	62 541
Earnings per Share on Average Common Shares	\$3.24	\$3.11	\$3.01
Common Dividends Declared per Share	\$2.195	\$2.095	\$1.99

Statement of Retained Earnings

Year Ended December 31

(Thousands of dollars)	1989	1988	1987
Balance at Beginning of Year	\$914 802	\$853 006	\$788 697
Net Income	221 957	214 780	204 914
Income Tax Savings on Dividends Paid on ESOP Shares			1 720
Capital Stock Expense and Other	794	(1 697)	(1 218)
Net additions	222 751	213 083	205 416
Dividends Declared			
Cumulative preferred stock at required rates	19 349	20 263	16 650
Common stock—per share: 1989, \$2.195; 1988, \$2.095; 1987, \$1.99	137 278	131 024	124 457
Total dividends declared	156 627	151 287	141 107
Balance at End of Year	\$980 926	\$914 802	\$853 006

See Notes to Financial Statements on pages 36 to 42.

Year Ended December 31

Statement of Cash Flows

Thousands of dollars)	1989	1988	1987
Cash Flows from Operating Activities:			
Net Income	\$221 957	\$214 780	\$204 914
Adjustments to reconcile net income to cash from operating activities:			
Depreciation and amortization	232 408	230 502	193 538
Nuclear fuel amortization	46 715	51 447	50 525
Deferred income taxes	7 442	(4 126)	14 097
Investment tax credit adjustments	(15 475)	(14 796)	3 465
Allowance for funds used during construction—equity	(3 733)	(5 968)	(38 194)
Other	8 845	34 878	(385)
Cash provided by (used for) changes in certain working capital items	(7 868)	34 058	15 024
Net Cash Provided by Operating Activities	490 291	540 775	442 984
Cash Flows from Financing Activities:			
Proceeds from issuance of long-term debt	172 986	54 094	19 907
Proceeds from issuance of preferred stock		50 000	65 000
Proceeds from issuance of notes payable			12 350
Construction funds withdrawals	11 173	26 978	61 041
Construction funds held by trustee	(373)	(1 186)	(3 179)
Repayment from ESOP	8 052	9 914	3 556
Payment to ESOP to purchase shares	(15 000)	(13 500)	
Repayment of short-term debt		(78 200)	
Redemption of long-term debt	(163 261)	(43 550)	(40 886)
Redemption of preferred stock	(50 000)		
Dividends paid	(155 222)	(149 809)	(137 929)
Net Cash Used for Financing Activities	(191 645)	(145 259)	(20 140)
Cash Flows from Investing Activities:			
Construction expenditures capitalized	(313 388)	(300 703)	(451 742)
Increase (decrease) in construction payables	4 160	(12 532)	(19 403)
Allowance for funds used during construction—equity	3 733	5 968	38 194
Sale (purchase) of short-term investments—net	23 829	(51 950)	6 231
Other	(8 506)	(10 284)	6 030
Net Cash Used for Investing Activities	(290 172)	(369 501)	(420 690)
Net Increase in Cash and Cash Equivalents	8 474	26 015	2 154
Cash and Cash Equivalents at Beginning of Period	33 618	7 603	5 449
Cash and Cash Equivalents at End of Period	\$ 42 092	\$ 33 618	\$ 7 603
Cash Provided by (Used for) Changes in Certain Working Capital items:			
Accounts receivable—net	\$(35 340)	\$ 1 140	\$(13 752)
Federal income tax refund receivable	1 500	989	298
Materials and supplies	(24 893)	3 300	23 320
Accounts payable	25 272	12 283	4 457
Income and other taxes accrued	27 730	13 097	9 080
Other	(2 137)	3 249	(8 379)
Net	\$ (7 868)	\$ 34 058	\$ 15 024
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest (net of amount capitalized)	\$102 885	\$100 092	\$ 93 481
Income taxes	106 453	130 974	95 337

See Notes to Financial Statements on pages 36 to 42.

Balance Sheet

December 31

(Thousands of dollars)

1989

1988

Assets**Utility Plant**

Electric—including construction work in progress:

1989, \$115,734; 1988, \$123,828

\$5 330 755

\$5 156 712

Gas

391 714

362 457

Other

169 420

156 165

Total

5 891 889

5 675 334

Accumulated provision for depreciation

(2 092 545)

(1 911 437)

Nuclear fuel—including amounts in process:

1989, \$8,239; 1988, \$27,272

583 763

535 170

Accumulated provision for amortization

(486 948)

(440 233)

Net utility plant

3 896 159

3 858 834

Other Property and Investments

121 121

128 890

Current Assets

Cash and cash equivalents

42 092

33 618

Short-term investments—at cost, which approximates market

28 921

52 750

Accounts receivable—net of accumulated provision for

uncollectible accounts: 1989, \$3,141; 1988, \$3,254

210 208

174 868

Federal income tax refund receivable

5 137

6 637

Materials and supplies—at average cost

Fuel

34 057

42 462

Other

96 766

63 468

Deferred tax asset

41 256

29 797

Prepayments and other

36 836

31 767

Total current assets

495 273

435 362

Deferred Debits

80 258

72 414

Total

\$4 592 811

\$4 495 500

See Notes to Financial Statements on pages 36 to 42.

December 31

(Thousands of dollars)

1989

1988

Liabilities**Capitalization**Common stock—authorized 160,000,000 shares of \$2.50 par value;
issued shares: 1989 and 1988, 64,080,836

\$ 160 202 \$ 160 202

Premium on common stock

379 011 379 011

Retained earnings

980 926 914 802

Employee Stock Ownership Plan shares purchased with debt—shares
at cost: 1989, 443,238; 1988, 250,226

(14 978) (8 031)

Treasury stock—shares at cost: 1989 and 1988, 1,539,432

(19 194) (19 194)

Total common stock equity

1 485 967 1 426 790

Cumulative preferred stock—authorized 7,000,000 shares of \$100 par value;
outstanding shares: 1989, 3,000,000; 1988, 3,500,000

300 000 350 000

Premium on preferred stock

509 509

Long-term debt

1 262 667 1 275 718

Total capitalization

3 049 143 3 053 017

Current Liabilities

Long-term debt due within one year

46 123 13 396

Accounts payable

162 565 145 600

Salaries, wages, and vacation pay accrued

37 397 24 930

Federal income taxes accrued

15 291 2 078

Other taxes accrued

137 429 122 912

Interest accrued

26 805 23 710

Dividends declared on preferred and common stocks

39 195 37 790

Other

1 208 1 367

Total current liabilities

466 013 371 783

Deferred Credits

Accumulated deferred income taxes

666 371 702 972

Accumulated deferred investment tax credits

240 013 255 488

Net deferred regulatory liability

96 325 44 389

Other

74 946 67 851

Total deferred credits

1 077 655 1 070 700

Commitments and Contingent Liabilities

Total

\$4 592 811 \$4 495 500

See Notes to Financial Statements on pages 36 to 42.

Statement of Capitalization

December 31

(Thousands of dollars)

1989

1988

Common Stock Equity

Common stock—authorized 160,000,000 shares of \$2.50 par value;

issued shares: 1989 and 1988, 64,080,836

\$ 160 202 \$ 160 202

Premium on common stock

379 011 379 011

Retained earnings

980 926 914 802

Employee Stock Ownership Plan shares purchased with debt

—shares at cost: 1989, 443,238; 1988, 250,226

(14 978) (8 031)

Treasury stock—shares at cost: 1989 and 1988, 1,539,432

(19 194) (19 194)

Total common stock equity

1 485 967 1 426 790

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

Variable Rate series B, 650,000 shares 65 000

Auction series C, 500,000 shares 50 000

Total 350 000

350 000

Less redeemed Auction series C (50 000)

Total \$300 000

300 000

Premium on preferred stock

509

509

Long-Term Debt

First Mortgage Bonds Minnesota Company

Series due:

Dec. 1, 1990, 5% \$35 000 Mar. 1, 2002, 7¾% 50 000

Aug. 1, 1991, 4¾% 20 000 Feb. 1, 2003, 7½% 50 000

June 1, 1992, 4¾% 15 000 Jan. 1, 2004, 8¾% 75 000

Sept. 1, 1993, 4¾% 15 000 Oct. 1, 1989-2004, 7.99% 31 000*

June 1, 1995, 6½% 30 000 May 1, 1996-2005, 7¾% 25 000*

Mar. 1, 1996, 6.2% 8 800* May 1, 2005, 9½% 80 000

Aug. 1, 1996, 5¾% 45 000 Dec. 1, 1989-2006, 6.41% 27 000**

Oct. 1, 1997, 6½% 30 000 Mar. 1, 2011, Variable Rate 13 700*

May 1, 1998, 6¾% 45 000 May 1, 2013, 10¾% 72 750

Oct. 1, 1999, 8% 45 000 Dec. 1, 2013, 10¾% 100 000*

Mar. 1, 2001, 8% 50 000 Oct. 1, 2014, Variable Rate 32 500*

June 1, 2001, 8¼% 50 000 June 1, 2015, 11½% 97 000

Total 1 042 750

1 042 750

July 1, 2019, 9½% 100 000

Less current maturities (38 100)

Less amounts redeemed Oct. 1, 1989-2004, 7.99% (31 000)*

Less amounts redeemed May 1, 1996-2005, 7¾% (25 000)*

Less amounts redeemed May 1, 2013, 10¾% (72 750)

Less amounts redeemed Oct. 1, 2014, Variable Rate (2 300)*

Less amounts redeemed June 1, 2015, 11½% (1 000)

Less amounts retired June 1, 2015, 11½% (5 840)

Net \$ 966 760

966 760

*Pollution control financing

**Resource recovery financing

(Thousands of dollars)

1989

1988

Long-Term Debt – continued

First Mortgage Bonds Wisconsin Company –

(less reacquired bonds of \$1,133 and \$915 at Dec. 31, 1989 and 1988, respectively)

Series due:	Annual Sinking Fund Requirements	1989	1988
Aug. 1, 1994, 4½%	\$ 150	\$ 11 229	\$ 11 389
Dec. 1, 1999, 9¼%	100	7 971	8 185
Oct. 1, 2003 7¾%	300	25 197	25 661
Jul. 1, 2016, 9¼%	500	48 470	49 000
Mar. 1, 2018, 9¾%	400	39 600	39 900
Total	\$1 450	132 467	134 135

Less sinking fund requirements not reacquired (400) (546)

Net \$132 067 \$133 589 132 067 133 589

Guaranty Agreements Minnesota Company

Series due:*

Feb. 1, 1989-2003, 5.41%	\$ 7 000	\$ 7 300
May 1, 1987-2003, 5.68%	26 750	27 250
Feb. 1, 2003, 7.40%	3 500	3 500

Total \$ 37 250 \$ 38 050 37 250 38 050

Miscellaneous Long-Term Debt

City of Becker, Pollution Control Revenue

Refunding Bonds due Apr. 1, 2007, 6.80% \$ 60 000*

City of La Crosse, Resource Recovery Bond–Series

due Nov. 1, 2011, 7¾% 18 600** \$ 18 600**

Employee Stock Ownership Bank Loan

due 1987-1992, Variable Rate 8 750 1 281

Anoka County Resource Recovery Bond–Series

due Dec. 1, 1989-2008, 7.00% 28 500** 29 150**

Sioux Falls Ind. Development Bond–Series

due 1976-1998, 5.75% 465 550

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, 7.25% 9 000* 9 000*

Other 2 637 2 676

Total \$128 952 \$ 62 257 128 952 62 257

Unamortized discount on long-term debt–net (2 362) (928)

Total long-term debt 1 262 667 1 275 718

Total capitalization \$3 049 143 \$3 053 017

*Pollution control financing

**Resource recovery financing

See Notes to Financial Statements on pages 36 to 42.

NOTES TO FINANCIAL STATEMENTS

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), a wholly owned subsidiary of the 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, whose 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.

Change in Accounting Principle During the fourth quarter of 1988, the Company adopted Statement of Financial Accounting Standards No. 96 (SFAS 96) – Accounting for Income Taxes. SFAS 96 requires the use of the liability method of accounting for deferred income taxes.

Adoption of SFAS 96 resulted in the establishment of a Net Deferred Regulatory Liability because it is probable that future rates and revenue requirements will be reduced to flow back previously collected excess deferred taxes. This regulatory liability will change each year as the related deferred taxes reverse.

The net effect of adopting SFAS 96 was an increase in 1988 net income of \$2,665,000 (\$.04 per share), of which \$507,000 (\$.01 per share) relates to prior years. Additionally, due to transactions related to the Employee Stock Ownership Plan (ESOP) in 1988, there was an increase in net income of \$4,133,000 (\$.07 per share), which was offset by a required contribution to the ESOP equal to the same amount after taxes. This eliminated any impact on net income or earnings per share. The effect of applying SFAS 96 as of the beginning of 1988 has not been reported as a cumulative effect of a change in accounting principle, and interim periods have not been restated, due to immateriality.

Income Taxes Income taxes are deferred for all temporary differences between pretax financial and taxable income, and between the book and tax bases of assets and liabilities. Deferred taxes are recorded using the tax rates scheduled by tax law to be in effect when the temporary differences reverse. Due to the effects of regulation, current income tax expense is provided for the reversal of some temporary differences previously accounted for by the flow-through method.

Investment tax credits are deferred and amortized over the estimated lives of the related property.

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). In 1988, the Company began using the gross AFC rate in accordance with the requirements of SFAS 96. The rates were 9.9% in 1989 and 9.0% in 1988. Prior to 1988, because of rate treatment in Minnesota, the net of tax AFC rate was used. It approximated the rate that would be obtained if a gross rate was used and the income tax effect was recorded as deferred income taxes. The rate used was 8.5% for 1987. AFC is included in net income and CWIP. The AFC included in CWIP is included in utility rate base for establishing utility service rates.

Depreciation For financial reporting purposes, depreciation computed by applying the straight-line method to the estimated useful lives of various classes of property. During 1989 the Company filed with the Minnesota Public Utilities Commission (MPUC) an annual review of remaining lives for the electric and gas production properties. The study recommended a decrease in annual depreciation accruals of approximately \$9.0 million. MPUC approval was issued in September and the depreciation accrual was adjusted to reflect the lower amount effective January 1, 1989. Depreciation provisions, as a percentage of the average balance of depreciable property in service, were 3.44% in 1989, 3.58% in 1988 and 3.37% in 1987.

The provision for decommissioning costs for the Company's nuclear plants has been calculated by using an internal sinking-fund method that is designed to provide for full recovery of the costs. Based on a 1986 study, the Company estimates that decommissioning costs will approximate \$498 million in 1986 dollars, for which the Company has collected \$144 million from rate payers. This amount is recorded in the accumulated provision for depreciation.

Nuclear Fuel Expense The original cost of nuclear fuel is amortized to fuel expense on the basis of energy expended. Nuclear fuel expense also includes a disposal cost of 0.1¢ per kilowatt-hour of nuclear generation, as required by the Nuclear Waste Policy Act of 1982. Disposal expenses were \$10.9 million, \$12.0 million and \$11.6 million for 1989, 1988 and 1987, respectively.

Revenues Customers' meters are read on a cycle basis. For financial reporting purposes, revenues of the Company are recorded in the accounting period during which the bills are rendered. 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.

The Company's rate schedules, applicable to substantially all its customers, include 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. As ordered by the PSCW, Wisconsin Company retail rate schedules 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.

Cash Equivalents The Company considers any debt instrument with a remaining maturity of three months or less, at the time of purchase, to be a cash equivalent.

Regulatory Actions As a result of regulatory actions in 1989, the recovery period for certain of the Company's materials and supplies inventories was deferred to future periods in all of the Company's operating jurisdictions. The accounting adjustment to recognize the impact of these regulatory actions has increased other inventories by \$23 million, increased net utility plant by \$4 million and resulted in refunds to customers of \$27 million as of December 31, 1989. The adjustments had no effect on net income.

2. Income Tax Expense

Total income tax expense differs from the amount computed by applying the federal income tax statutory rate (34% in 1989 and 1988, 40% in 1987) to net income before income tax expense. The reasons for the difference are as follows:

<i>(Thousands of dollars)</i>	<i>1989</i>	<i>1988</i>	<i>1987</i>
Tax computed at federal statutory rate	\$114 806	\$112 604	\$126 502
Increases (decreases) in tax from:			
State income taxes net of federal income tax benefit	17 970	18 775	13 171
Allowance for funds used during construction (AFC)	(1 269)	(2 029)	(20 435)
AFC included in book depreciation	4 649	4 826	3 927
Investment tax credit – net	(12 550)	(13 724)	(13 557)
Use of the flow-through method for depreciation in prior years	7 584	7 261	7 570
Effect of tax rate changes for plant related items	(8 434)	(5 665)	(4 090)
Dividends paid on ESOP shares	(3 359)	(4 133)	
Other – net	(3 689)	(1 506)	(1 352)
Total income tax expense	\$115 708	\$116 409	\$111 736
Effective federal and state income tax rate	34.3%	35.2%	35.3%
Composite federal and state statutory tax rate	39.4%	39.6%	45.3%
Income tax expense is comprised of the following:			
Included in income taxes:			
Current federal tax expense	\$ 88 249	\$ 92 317	\$ 72 098
Current state tax expense	24 802	27 248	24 379
Deferred federal tax expense	5 505	7 732	15 725
Deferred state tax expense	862	711	(947)
Investment tax credit adjustments – net	(10 900)	(10 935)	8 245
Total	108 518	117 073	119 500
Included in depreciation expense:			
Deferred federal tax expense	4 356	3 307	2 023
Deferred state tax expense	635	357	60
Included in other income and deductions:			
Current federal tax expense	5 198	10 520	(4 907)
Current state tax expense	1 023	577	(4 922)
Deferred federal tax expense	(3 822)	(15 787)	(3 400)
Deferred state tax expense	(94)	(446)	3 364
Investment tax credit adjustments – net	(106)	808	18
Total income tax expense	\$115 708	\$116 409	\$111 736
Deferred income tax expense is comprised of the following:			
Excess of tax over book depreciation – net	\$ 30 340	\$ 27 984	\$ 39 124
Unbilled revenue	(8 746)	(9 935)	(10 531)
Tax-benefit transfer leases	(8 574)	(4 807)	(3 817)
Overhead costs	(6 486)	(7 214)	(960)
Materials and supplies inventories	8 257		
NORENCO write-downs	5 222	(5 531)	
NORENCO litigation settlement	546	(6 824)	
Other	(13 117)	2 201	(6 991)
Total	\$ 7 442	\$ (4 126)	\$ 16 825

3. Common Stock

The Company's Articles of Incorporation and First Mortgage Indenture provide for certain restrictions on the payment of cash dividends on common stock. At December 31, 1989, the payment of cash dividends on common stock was not restricted.

The Company has an Executive Long-Term Incentive Award Stock Plan that permits the granting of nonqualified stock options. At December 31, 1989, no stock options have been granted under the plan.

4. Cumulative Preferred Stock

The Company has two series of adjustable rate preferred stock. The dividend rates are calculated quarterly and are based upon prevailing rates of certain taxable government debt securities indices. At December 31, 1989, the annual dividend rates were \$6.20 for Series A and \$6.36 for Series B.

At December 31, 1989, the various preferred stock series were callable at prices per share ranging from \$102.00 to \$106.80, plus accrued dividends.

5. 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. The Company may, and has, applied property additions in lieu of cash, as permitted by its First Mortgage Indenture, except for the \$1,000,000 cash redemption of the 11½% series due June 1, 2015.

Except for minor exclusions, all real and personal property is subject to the liens of the first mortgage indentures.

The variable rate First Mortgage Bonds Series due Oct. 1, 2014 and March 1, 2011, are redeemable at the option of the holder of the bonds upon seven days' notice. Their 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 1989 were 6.7% and 6.4%, respectively. These variable rate bonds are supported by \$47,000,000 of long-term credit facilities that expire in 1995.

Maturities and sinking-fund requirements on long-term debt are as follows: 1990, \$46,123,000; 1991, \$30,867,000; 1992, \$20,750,000; 1993, \$19,155,000; and 1994, \$14,905,000.

6. Short-Term Credit Lines

Exclusive of the long-term credit facilities listed in Note 5, the Companies have \$167 million of commercial bank credit lines under commitment fee arrangements. These additional credit lines make short-term financing available in the form of bank loans and support for commercial paper sales.

7. Benefit 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 wage base. Pension costs are determined and funded under the aggregate-cost method, using market value of assets of the trust fund. Annual pension contributions were \$22,154,000 for 1989, \$22,584,000 for 1988 and \$23,620,000 for 1987.

For financial reporting and regulatory purposes, the Company's pension expense is determined and funded under the aggregate-cost method. For financial reporting purposes, the Statement of Financial Accounting Standards No. 87 (SFAS 87) – Employers' Accounting for Pensions provides that pension expense be determined by 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 assets or liabilities on the balance sheet.

Northern States Power Company, Minnesota and Subsidiaries

Net periodic pension cost under SFAS 87 include the following components:

<i>(Thousands of dollars)</i>	<i>1989</i>	<i>1988</i>	<i>1987</i>
Service Cost-benefits earned during the period	\$ 18 588	\$ 17 561	\$ 16 280
Interest cost on projected benefit obligation	58 791	55 525	51 050
Actual return on assets	(186 345)	(81 872)	(46 387)
Net amortization and deferral	130 344	31 125	3 330
Net periodic pension cost determined under SFAS 87	21 378	22 339	24 273
Cost of early retirement program		20 208	
Expenses recognized (deferred) due to actions of regulators	8 035	(10 396)	(653)
Pension expense recorded during the period	29 413	32 151	23 620
Portion of expense recognized for early retirement program	(8 702)	(11 010)	
Net periodic pension cost recognized	\$ 20 711	\$ 21 141	\$ 23 620
Actuarial present value of benefit obligation:			
Vested	\$(535 094)	\$(491 519)	\$(445 450)
Nonvested	(64 890)	(44 933)	(34 400)
Accumulated benefit obligation	\$(599 984)	\$(536 452)	\$(479 850)
Projected benefit obligation	\$(770 967)	\$(729 576)	\$(676 179)
Plan assets at fair value	908 757	742 810	678 385
Plan assets in excess of projected benefit obligation	137 790	13 234	2 206
Unrecognized net (gain)	(156 559)	(32 703)	(1 354)
Unrecognized net transitional (asset)	(1 071)	(1 147)	(1 505)
Net pension asset (liability)	\$(19 840)	\$(20 616)	\$ (653)

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 used for cost determinations under SFAS 87 was 8.5% in 1989 and 1988 and 8% in 1987. The effect of the change in the assumed rate of return was a reduction in the estimated SFAS 87 net periodic pension cost of \$3,009,000 for 1988. Plan assets consist principally of common stock of public companies and U.S. Government Securities.

The Company 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 \$20,208,000 cost associated with this program is being amortized over the rate recovery period of approximately two years.

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 1989, 1988 and 1987, costs attributable to retired employees were \$7,168,000, \$6,987,000 and \$4,900,000 for medical benefits and \$252,500, \$263,500 and \$313,000 for death benefits, respectively.

The Company also has an ESOP plan that covers substantially all employees. Company contributions to this plan are required to the extent the Company realizes a tax savings on its income statement from dividends paid to ESOP stockholders. Contributions to the ESOP in 1989, 1988 and 1987 were \$5,563,000, \$6,841,000 and \$58,000, respectively.

8. Joint Plant Ownership

The Company is a participant in a jointly owned 855-mega-watt 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%). 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 at December 31, 1989 and 1988 were \$576,307,000 and \$576,076,000, respectively. The corresponding accumulated provisions for depreciation were \$39,820,000 and \$21,421,000.

2. Commitments, Contingent Liabilities and Litigation

The Company presently estimates construction expenditures, including acquisitions of nuclear fuel, will be \$380 million in 1990 and \$2.0 billion for 1990-94. 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 \$13.4, \$11.7 and \$11.8 million for 1989, 1988 and 1987.

The Company has executed several agreements with the Manitoba Hydro-Electric Board (MH) for hydro electricity. Under these agreements, MH will provide (i) 300 megawatts (MW) of summer season capacity in exchange for the Company providing a like amount of capacity during winter seasons through 1992; and (ii) 200 MW of summer season capacity, through 1992 with an annual cost of \$2.4 million. These two commitments account for approximately 7% of the Company's system capability. Other agreements also provide (iii) 500 MW of capacity and 3,285,000 megawatt-hours of energy annually, beginning in 1993 and ending in 2004, with the annual cost based on 80% of the costs of owning and operating Sherco 3; (iv) 200 MW of capacity, beginning in 1993 and ending in 1996, with an annual price of \$2.4 million, escalated to reflect increased costs of new plant construction; and (v) 200 MW of summer season capacity, in exchange for the Company providing a like amount of capacity during winter seasons, beginning 1997 and ending in 2016.

The Company and United Power Association (UPA), have entered into an agreement for a seasonal-diversity exchange of electricity with MH beginning in 1995 and continuing through 2015. The agreement calls for the Company and UPA each to receive 150 MW of electrical capacity from MH during the summer months. In turn, the Company and UPA will supply 150 megawatts each of electrical capacity to MH in the winter months. The agreement also calls for new transmission facilities to carry the electricity back and forth from Canada. Construction of the new facilities is expected to begin in 1994. The utilities will work on permit and siting options during 1990 and expect to file for necessary state and federal permits in early 1991.

The Company has an agreement for the purchase of summer season capacity based on operational costs of Coyote Generating Station Unit I which is owned and operated by the Minnkota Power Cooperative. From 1992 through 2001, 150 MW of capacity will be purchased at an annual cost of \$12.4 million. From 2002 through 2015, 100 MW of capacity will be purchased at an annual cost of \$10 million.

Revenue Subject to Refund During the fourth quarter 1987, the Wisconsin Company filed with the FERC a requested increase in wholesale rates of \$2.4 million. Approval was received for increased rates subject to refund beginning January 1988. The final order from the FERC is still pending. Wholesale electric revenues for the 12 months ended December 31, 1989 and 1988 include

\$2,065,000 and \$2,076,000 that is subject to refund. These revenues increased net income by \$1,251,000 (\$.02 per share) and \$1,256,000 (\$.02 per share), respectively. The earnings impact is less than \$.01 per share in any individual quarter during this period. Cumulative revenues collected subject to refund related to this requested increase are \$4,141,000 at December 31, 1989.

Nuclear Insurance The Company's public liability for claims resulting from any nuclear incident is limited to \$7.8 billion under the Price-Anderson amendment to the Atomic Energy Act of 1954. The Company has secured \$200 million of coverage for its public liability exposure with a pool of insurance companies. The remaining \$7.6 billion of exposure is funded by the Secondary Financial Protection Fund, a fund available from assessments by the Federal government in the event of nuclear incidents. The Company is subject to an assessment of \$66 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 funding requirement of \$10 million per reactor during any one year.

In addition, the Company purchases insurance for property damage and decontamination clean up costs with coverage limits of \$1.9 billion, the maximum available. This insurance is arranged in two layers. The first layer, \$900 million, is placed with American Nuclear Insurers and Mutual Atomic Energy Liability Underwriters. The second layer, \$975 million, is insured by Nuclear Electric Insurance Limited (NEIL). Under the insuring agreement with NEIL, the Company is subject to assessments of up to \$12.7 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 \$6.0 million in each calendar year, 5 times the amount of its annual premium.

Litigation The Company and Minnesota Power have agreed to settle out of court a contract interpretation disagreement between the companies. The disagreement concerned the Company's 1986 proposed purchase of a 40 percent interest in generating unit 4 of Minnesota Power's Clay Boswell plant near Grand Rapids, Minnesota. To resolve the issue, the two companies agreed the 1986 contract is null and void. The settlement also calls for the Company to purchase up to 200 MW of peak load electricity from Minnesota Power between May 1990 and October 1993. The settlement culminates about 1-1/2 years of litigation over the original contract between the Company and Minnesota Power. As part of the settlement, the Company also has agreed to "use reasonable efforts" to enter into a mutually satisfactory contract with Wisconsin Public Power Incorporated (WPPI), which would call for the Company to transmit, across its system, 100 MW of electricity from the Clay Boswell plant to WPPI's system.

10. Segment Information

Year Ended December 31

(Thousands of dollars)	1989	1988	1987
Operating revenues			
Electric	\$1 654 463	\$1 681 925	\$1 497 445
Gas	324 717	314 755	262 996
Other	10 534	9 778	9 888
Total operating revenues	\$1 989 714	\$2 006 458	\$1 770 329
Operating income before income taxes			
Electric	\$ 380 472	\$ 385 314	\$ 353 303
Gas	31 079	32 502	27 609
Other	3 662	2 409	3 229
Total operating income before income taxes	\$ 415 213	\$ 420 225	\$ 384 141
Depreciation and amortization			
Electric	\$ 193 396	\$ 192 520	\$ 155 608
Gas	13 871	13 086	12 648
Other	2 605	3 023	2 261
Total depreciation and amortization	\$ 209 872	\$ 208 629	\$ 170 517
Construction expenditures			
Electric	\$ 267 474	\$ 252 619	\$ 407 513
Gas	36 957	25 703	21 443
Other	8 957	22 381	22 786
Total construction expenditures	\$ 313 388	\$ 300 703	\$ 451 742
Net utility plant			
Electric	\$3 633 301	\$3 613 997	\$3 626 311
Gas	246 714	228 812	219 368
Other	16 144	16 025	16 770
Total net utility plant	3 896 159	3 858 834	3 862 453
Other corporate assets	696 652	636 666	538 780
Total assets	\$4 592 811	\$4 495 500	\$4 401 233

11. Summarized Quarterly Financial Data (Unaudited)

Quarter Ended*

(Thousands of dollars)	March 31, 1989	June 30, 1989	Sept. 30, 1989	Dec. 31, 1989
Operating revenues	\$560 589	\$446 551	\$483 059	\$499 515
Operating income	91 693	60 143	94 939	59 920
Net income	71 022	36 913	73 325	40 697
Earnings available for common stock	65 467	32 118	68 821	36 213
Earnings per common share	\$1.05	\$.51	\$1.10	\$.58
Dividends declared per common share	\$.53	\$.555	\$.555	\$.555
Stock prices – high	\$33-1/8	\$37-1/2	\$38-3/8	\$40
– low	\$30-1/4	\$30-3/4	\$35-3/8	\$33-7/8

Quarter Ended*

(Thousands of dollars)	March 31, 1988	June 30, 1988	Sept. 30, 1988	Dec. 31, 1988
Operating revenues	\$549 451	\$442 833	\$530 267	\$483 907
Operating income	88 940	61 240	103 727	49 245
Net income	63 886	43 956	84 642	22 296
Earnings available for common stock	59 202	39 276	79 240	16 789
Earnings per common share	\$.95	\$.63	\$1.27	\$.27**
Dividends declared per common share	\$.505	\$.53	\$.53	\$.53
Stock prices – high	\$33-3/8	\$33	\$32-7/8	\$34-1/4
– low	\$29-1/2	\$29-1/4	\$30	\$31-7/8

*See Note 9 regarding revenue subject to refund.

**After adjustment for \$.16 in write-offs and write-downs.

REPORTS OF MANAGEMENT AND INDEPENDENT AUDITORS

Northern States Power Company, Minnesota and Subsidiaries

Report of Management to Shareholders

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 12, 1990

Independent Auditors' Report

To the Shareholders of Northern States Power Company:

We have audited the balance sheets and statements of capitalization of Northern States Power Company (Minnesota) and its subsidiaries as of December 31, 1989 and 1988, and the related statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1989. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Companies at December 31, 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1989, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE

Minneapolis, Minnesota

February 12, 1990

SHAREHOLDER INFORMATION

Northern States Power Company, Minnesota and Subsidiaries

Shareholder Information

	1989	1988	1987	1986	1985	1979
Common stock shareholders at year-end	75,396	78,001	79,503	79,921	82,234	100,857
Book value	\$23.76	\$22.81	\$21.88	\$20.80	\$19.72	\$13.58
Market prices						
High	40	34 $\frac{1}{4}$	39 $\frac{3}{4}$	40 $\frac{1}{8}$	27 $\frac{3}{8}$	13
Low	30 $\frac{1}{4}$	29 $\frac{1}{4}$	26 $\frac{1}{4}$	25	20 $\frac{5}{8}$	10 $\frac{3}{4}$
Year-end closing	39 $\frac{3}{4}$	32 $\frac{3}{4}$	29 $\frac{5}{8}$	34 $\frac{1}{2}$	26 $\frac{1}{2}$	11 $\frac{1}{4}$
Dividends declared	2.195	2.095	1.99	1.865	1.725	1.125
Earnings per share	3.24	3.11	3.01	3.09	2.97	1.76

Adjusted for June 1986 two-for-one stock split

Headquarters

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

Stock Information

Effective April 1, 1990, the Shareholders Department will have a new, direct toll-free telephone number. For stock information, call (800) 527-4677, Monday through Friday, 8 a.m. to 5 p.m. From the Minneapolis-St. Paul area, call 330-5560.

Direct Dividend Deposit

NSP offers direct deposit of dividends to shareholders' checking or savings accounts. To sign up for this free service, contact the Shareholders Department for information and authorization forms.

Stock Exchange Listings and Ticker Symbol

Common stock is traded on New York, Midwest and Pacific exchanges. NYSE lists some preferred stock. Ticker symbol: NSP. Newspaper market summaries list NSP as NoStPw.

Stock Purchase Plan and Dividend Reinvestment

Individual shareholders may reinvest common and preferred dividends or make cash payments to purchase shares of NSP common stock through NSP without paying a brokerage fee. Contact the Shareholders Department for informational booklets and authorization forms.

Annual Meeting

Wednesday, April 25, 1990, 10 a.m., at O'Shaughnessy Auditorium in St. Paul.

Dividend Payment Dates

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

Form 10-K

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

Street-Name Shareholders and Beneficial Owners

If you do not already receive NSP's quarterly reports to shareholders and would like to, contact the General Accounting and Financial Reports Department.

Fiscal Agents:

Northern States Power Company (Minnesota)

Transfer Agent, Common and Preferred Stocks
Northern States Power Company

Registrar, Common and Preferred Stocks
Norwest Bank Minnesota, N.A.
Sixth and Marquette
Minneapolis, MN 55479

Dividend Distribution, Common and Preferred Stocks

Northern States Power Company

Forwarding Agent - Stock
Norwest Trust Company,
New York
2 Wall St.
New York, NY 10005

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

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

Bank of New York
101 Barclay St.
New York, NY 10007

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

Bank of New York, New York

GLOSSARY

acid rain: Precipitation with a pH of less than 5.0. The term "pH" is a measure of acidity and alkalinity on a scale of 0 to 14. A liquid that is neither acid nor base has a pH of 7. Natural rainfall usually has a pH of about 5, making it acidic.

authorized return on equity: the percentage of rate of return a utility commission determines a utility may earn; NSP is proposing that commissions consider utility performance, as well as revenue requirements (the cost of running its business) and sales projections, when setting the authorized return level.

decommission: to retire a power generating plant from active use. For a nuclear plant, the process involves storage or disposal of radioactive components.

demand side management (DSM): the process of modifying electricity use patterns to add value and meet customer energy needs effectively. Examples of DSM include conservation, load management and incentive rate programs.

dry storage: a temporary method of storing spent (used) nuclear fuel in which the used fuel assemblies are placed in steel or concrete casks and placed on pads; or the assemblies can be stored in a free-standing concrete building. Fuel would be stored in the casks until the federal government establishes a permanent storage facility.

Federal Energy Regulatory Commission (FERC): a federal regulatory agency within the Department of Energy, which regulates prices and conditions of interstate transmission and sales of electricity and natural gas.

global warming (also called the global climate change or the greenhouse effect): a theory suggesting that average global temperatures will increase due to heat trapped in the atmosphere by greenhouse gases.

greenhouse gases: methane, carbon dioxide, water vapor, nitrous oxide, chlorofluorocarbons (CFCs) and other gases that may trap heat in the atmosphere.

incentive rates: lower rates offered to electric customers who shift their electrical use from times of high demand to times of lower demand.

independent power producer (IPP): a non-regulated power producer from whom utilities purchase power.

mcf: thousand cubic feet, a standard measure of natural gas.

megawatt (Mw): a measure of electric power equal to one million watts. One megawatt is enough electricity to serve about 1,000 homes.

Minnesota Public Utilities Commission (MPUC): an appointed government body that regulates electric, gas and telephone rates in Minnesota. The MPUC is also responsible for issuing Certificates of Need for major utility facilities.

Nuclear Regulatory Commission (NRC): the federal agency responsible for licensing and monitoring operations of nuclear power plants.

peak: the highest customer demand for electricity or natural gas during a specified period of time.

refuse derived fuel (RDF): solid municipal waste (household trash), processed to burn in specially equipped power plants to generate electricity.

spent nuclear fuel: nuclear fuel that has been used to the extent it can no longer effectively sustain a chain reaction.

substation: equipment that switches, changes or regulates the voltage of electricity.

transmission: the process of transporting bulk electric energy from a supply source to other principal parts of the system or to other utility systems.

turbine-generator: a turbine is a machine with fan-like blades on a shaft. Steam pushes against the blades to turn the shaft, which turns electromagnets in the generator to make electricity.

uranium: a mineral that, when enriched, fuels nuclear power plants.

Financial Review pages of this year's annual report are printed on recycled paper.



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