EL 95-021

DOCKET NO. EL 95-021

IN THE MATTER OF THE FILING BY NORTHERN STATES POWER COMPANY FOR A PROPOSED MERGER BETWEEN NSP AND WISCONSIN ENERGY CORPORATION

Public Utilities Commission of the State of South Dakota

DATE

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EL95-021

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August 11, 1995

RECEIVED
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SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

William Bullard, Jr.
Executive Director
South Dakota Public Utilities Commission
500 East Capitol
Pierre, South Dakota 57501

RE: Proposed Merger of Northern States Power Company and Wisconsin Energy Corporation

Dear Mr. Bullard:

Enclosed for your information are copies of filings made on August 4, 1995 in all NSP and WEC retail jurisdictions other than South Dakota. Also included are the work papers associated with the filings made with the FERC on July 10, 1995.

Very truly yours,

David A. Lawrence

:mlp

Enclosures

Before the
MN Public Utilities Commission

Northern States Power Company (NSP) Petition For Approval of Merger With Wisconsin Energy Corporation (WEC)

Docket No. E,G002/PA-95-500

August 1995

Northern States Power Company

Northern States Power Company

414 Nicollet Mall
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August 4, 1995

Dr. Burl Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: In the Matter of a Request for Approval
of the Merger of Northern States Power Company
Wisconsin Energy Corporation and Related Petitions
Docket No. E,G002/PA-95-500

Dear Dr. Haar:

Pursuant to Minnesota Statute Sections 216B.50 and related regulations, Northern States Power Company (NSP) hereby submits for filing and Commission approval the proposed merger of NSP and Wisconsin Energy Corporation (WEC). As discussed in greater detail in the attached Petition and related documents, under the Restated Merger Agreement and Plan of Merger the two entities will combine into Primergy Corporation. The headquarters of Primergy will be located in Minneapolis, Minnesota. As noted herein, NSP requests approval as soon as is reasonably practicable. We hope to receive all required state and federal regulatory approvals of the transaction during 1996.

In the attached petition we describe the significant benefits which will accrue to our respective customers and region as a result of the merger. Key to these benefits are the substantial cost savings associated with combining the operations of the two companies. NSP's Petition accordingly includes a proposed 1.5 percent electric rate reduction followed by a four-year rate freeze, with limited exceptions. In addition to the proposed rate decrease, NSP requests the Commission approve deferred accounting treatment of costs related to accomplishing the merger and the acquisition by NSP of certain gas utility distribution facilities in the areas of the Wisconsin cities of Hudson and La Crosse. The latter request along with the incorporation of NSP in the State of Wisconsin are necessary for Primergy Corporation and its various subsidiaries to comply with Wisconsin law.

Included in this filing are the attached petition and documents required by relevant Minnesota statutes and Commission rules. NSP also is attaching a single copy of its related filings made with the Federal Energy Regulatory Commission (FERC) on July 10, 1995. Copies of the FERC filing were supplied previously to the Commission, the Department of Public Service and the Office of the Attorney General, as well as other entities who may also have an interest in this filing. Due to the voluminous size of the FERC filing NSP is not enclosing additional copies of it with this petition. NSP also has enclosed one copy of all workpapers filed with FERC for the same reason. The workpapers also have been served on the DPS and OAG. The Company is, of course, willing to supply additional copies of the FERC filing and other related filings which are referenced in the petition upon request.

NSP appreciates the Commission's consideration and review of our petition. Please direct any questions you may have regarding this filing to the undersigned or the individuals listed below:

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Very truly yours,

David M. Sparby

cc: Service List

Northern States Power Company
Petition For Approval of Merger With
Wisconsin Energy Corporation
Docket No. E,G002/PA-95-500

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AFFIDAVIT OF SERVICE

I, Rachel Jones, hereby certify that I have this day served copies of the foregoing document on the attached list of persons by delivery by hand or by placing in the U.S. mail at Minneapolis, Minnesota.

Dated this 4th day of August, 1995.

Rachel Jones

Subscribed and sworn to before me
this 4th day of August, 1995.

Pamela C Wilson
Notary Public

BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Northern States Power Company (Minnesota) — Docket No. E, G002/PA-95-500

VERIFICATION PURSUANT TO MINN. RULE 7825.1400

STATE OF MINNESOTA)
) ss..
COUNTY OF HENNEPIN)

NOW, BEFORE ME, the undersigned authority, personally came and appeared,

EDWARD J. MCINTYRE

who, after first being duly sworn by me, did depose and say:

That he is VP and Chief Financial Officer for Northern States Power Company, Petitioner in the above proceedings; that he has the authority to verify the foregoing Petition on behalf of Northern States Power Company; that he has read said Petition and knows the contents thereof; and that all of the statements contained in said Petition are true and correct to the best of his knowledge and belief.

Edward J. McIntyre

Subscribed and sworn to before me, this 4th day of August, 1995.

Notary Public

My Commission Expires: 1/31/2000
County of Residence: Ramsey

MARK L. PELTO
NOTARY PUBLIC-MINNESOTA
RAMSEY COUNTY
My Commission Expires 1/31/2000

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TABLE OF CONTENTS

I. MISCELLANEOUS FILING REQUIREMENTS INFORMATION (Minnesota Rule 7829.1300) 2

II. REQUESTED APPROVALS 3

III. APPROVAL OF THE MERGER 6

- A. Description of Merger Transaction 7
- B. Benefits of the Merger 15
- C. Costs of the Merger 27
- D. Allocation Process 32
- E. Impacts of the Merger 35
- F. Rate Plan 45

IV. APPROVAL OF DEFERRED ACCOUNTING 51

V. APPROVAL OF GAS PROPERTY TRANSFER 57

VI. CONCLUSION 69

VII. ATTACHMENTS

- A. Primergy Organization Chart
- B. Service Territory Map
- C. Rate Plan Schedules
- D. Exhibits Required of Capital Structure Petitions (Minn. Rule 7825.1400-1500)
- E. Exhibits Required of Petitions to Acquire Property (Minn. Rule 7825.1800)
- F. Accounting Journal Entries
- G. Summary of Filing (Minn. Rule 7829.1300, subp. 2)

STATE OF MINNESOTA

BEFORE THE

MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of a Request for Approval
of the Merger of Northern States Power Co.
and Wisconsin Energy Corporation and
Related Petitions

Docket No. E,G002/PA-95-500

PETITION FOR APPROVAL OF MERGER AND RELATED REQUESTS

The proposed merger between Northern States Power Company (NSP) and Wisconsin Energy Corporation (WEC) to form Primergy Corporation will create an enterprise well-positioned to serve customers in an increasingly competitive energy industry. NSP and WEC's utility subsidiaries offer electric and gas rates that are among the lowest in the country in comparison to other investor-owned utilities. The merger will achieve continued competitive energy rates for residential and business customers, strengthening the communities we serve and the regional economy.

I. MISCELLANEOUS FILING REQUIREMENTS INFORMATION

Pursuant to Minn. Rules 7829.1300, subp. 4, 7825.3200, subp. B, 7825.3500, 7825.1800, and 7825.1400 NSP provides the following information:

A. Name and Address and Telephone Number of Utility

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(612) 330-5500

B. Name, Address and Telephone Number of Utility Attorney

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C. Date of Filing and Date Proposed Rates Take Effect

The date of this filing is August 4, 1995. NSP requests approval of the merger as soon as reasonably practicable. To allow for timely implementation of the savings and benefits to be realized from the merger, NSP hopes to receive all necessary state and federal regulatory approvals during 1996.

D. Statute Controlling Time Frame for Processing Filing

Minn. Stat. Sects. 216B.50 and 216B.10 are the primary statutes which control this petition. NSP does not assert these statutes set forth a time limit for regulatory approval.

E. Utility Employee Responsible for Filing

David M. Sparby
General Manager, Regulatory Services
Northern States Power Co.
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(612) 330-7752

Minn. Rule 7829.1300, subp. 2, requires that a one-paragraph summary of the filing be served upon the general service list. The summary can be found at Attachment G.

II. REQUESTED APPROVALS

Northern States Power Company "(NSP") hereby requests authorization from the Minnesota Public Utilities Commission ("Commission" or "MPUC") to complete the merger transaction with Wisconsin Energy Corporation ("WEC"). All necessary approvals required under Minn. Stat. Chapter 216B are requested as soon as is reasonably possible consistent with the Commission's duties and responsibilities, including the particular approvals set forth below.

Under Minn. Stat. Sec. 216B.50 and regulations thereunder, NSP requests authorization for the merger transactions that are required to achieve the corporate structure contemplated by the Amended and Restated Agreement and Plan of Merger ("Agreement") found at Attachment D, Exhibit P. NSP, a Minnesota corporation, will

As part of the merger authorization, NSP also requests Commission approval

merge with a newly formed Wisconsin corporation temporarily named Northern Power Wisconsin Corporation ("New NSP"), with New NSP being the surviving corporation. New NSP will then merge with a newly formed subsidiary of WEC called WEC Sub, with New NSP being the surviving corporation, renamed Northern States Power Company. WEC will be renamed Primergy Corporation ("Primergy"). The net result of the merger transactions is that NSP will become a Wisconsin corporation and a wholly-owned subsidiary of Primergy, also a Wisconsin corporation. The merger transaction is described in detail beginning on page A-8 of the Agreement.

As part of the merger authorization, NSP also requests Commission approval, under Minn. Stat. Sec. 216B.50 and regulations thereunder, of an average reduction in jurisdictional electric rates for all customer classes of 1.5 percent, or about $22.4 million in annual revenues, as described more fully in the Rate Plan section. In connection with the merger authorization and approval of the rate reduction, NSP also is willing to commit to a base rate moratorium for a period of four years, subject to certain exceptions related to major costs and events beyond the Company's control. Because it is not possible at this time to develop a projected test year for the annual period following the merger with the reliability normally required for rate case adjudication under Minn. Stat. Sec. 216B.16, NSP requests that the rate decrease be allowed as a condition of the merger authorization without the filing of the financial and other information required for a traditional rate case.

III. APPROVAL OF THE MERGER

As part of the merger authorization, NSP also requests Commission approval under Minn. Stat. Sec. 216B.10 and regulations thereunder to defer and accumulate in a special account all costs related to accomplishing the merger and to achieving the cost savings which are identified as a result of the merger, and to amortize those accumulated costs on a straight line basis over a four year period beginning on the first day of the first month following the closing of the merger transaction. This will ensure that all merger-related costs are amortized during the period when base rates will not be increased.

Finally, as part of the merger authorization, NSP also requests Commission approval, under Minn. Stat. Sec. 216B.50 and regulations thereunder, of the acquisition by NSP from its wholly-owned operating subsidiary, NSP-Wisconsin, of certain gas utility distribution facilities serving the areas of Hudson and La Crosse, Wisconsin under the terms described herein the petition at Section V. These acquisitions, along with the incorporation of NSP in the State of Wisconsin, are necessary in order for Primergy Corporation and its various subsidiaries to comply with Wisconsin law, particularly Wis. Stat. Sec. 196.795. This property acquisition is not expected to materially affect NSP's gas rates or services in Minnesota.

III. APPROVAL OF THE MERGER

The merger offers significant benefits.

NSP and WEC believe the merger offers significant benefits in the form of:

Maintenance of Competitive Rates: The merger should create benefits through lower retail prices, better service, financial flexibility and greater financial strength, and enable the companies to meet the challenges of the increasingly competitive utility environment.

Integration of Corporate and Administrative Functions: Primergy should be able to eliminate duplicative positions, reduce non-labor expenses and limit or avoid capital expenditures by consolidating certain corporate and administrative functions of NSP and WEC.

Expanded Management Resources: In combination WEC and NSP should be able to draw on a larger and more diverse employee and management pool to lead Primergy forward in an increasingly competitive environment and should be better able to attract and retain the most qualified employees. The employees of Primergy also should benefit from expanded opportunities in the new organization.

Integration of Nuclear Operations: By centralizing the management, supervision and operation of the nuclear generating facilities, NSP and WEC should avoid duplication and enhance effectiveness in making and implementing decisions affecting nuclear operations without compromising public safety.

Purchasing Economies and Streamlining Inventories: The combination of the two companies should result in greater purchasing power for items such as fuel and transportation services and reduced inventories for materials and supplies.

More Diverse Service Territory: The combined service territory has a larger and more diverse economic base, reducing the exposure to changes in economic, competitive or climatic conditions in any given sector of the served areas.

Community Involvement: Primergy will continue to play a strong role in the communities NSP and WEC now serve with an ongoing commitment to civic participation, economic development and charitable donations.

A. Description of Merger Transaction

Meetings, analysis, synergies led to the merger agreement.

In September 1994, Mr. Edwin Theisen, then-President and Chief Operating Officer of NSP, raised the concept of a combination of NSP and WEC with Mr. Richard A. Abdoo, Chairman, President and Chief Executive Officer of WEC at the suggestion of Mr. James J. Howard, Chairman and Chief Executive Officer of NSP. That led to a series of discussions and meetings among representatives of the companies concerning a possible merger of equals.

The NSP and WEC Boards of Directors met separately on merger related topics several times in the January through April time frame. On April 28, 1995, each of the

boards met with their respective counsel and investment bankers to review the terms and conditions of the Merger Agreement, Stock Option Agreements, fairness of the proposed exchange ratio to the WEC and NSP common stockholders and the significant potential benefits from the combination. At the conclusion of these discussions, the Boards unanimously approved the Merger Agreement and the Stock Option Agreement and authorized their execution.

The merger brings together two healthy energy companies.

WEC is a holding company under the Wisconsin Public Utility Holding Company Act and an exempt holding company under the federal Public Utility Holding Company Act of 1935 ("Act of 1935") whose principal utility subsidiaries are Wisconsin Electric Power Company (WEPCO) and Wisconsin Natural Gas Company (Wisconsin Natural). These two subsidiaries are in the process of being merged in a transaction separate from this petition.

WEPCO generates, transmits, distributes and sells electric energy in a territory of approximately 12,000 square miles in southeastern, east central and northern Wisconsin and in the Upper Peninsula of Michigan. It serves a population estimated at more than 2.2 million, the majority of which is concentrated in the Southeast and East Central area of Wisconsin. As of December 31, 1994, WEPCO had approximately 945,000 customers. Sales to wholesale customers generate about 6

percent of electric revenues. Retail sales to commercial and industrial customers generate about 57 percent of electric revenues, residential customers 35 percent, with the remainder from street lighting and other miscellaneous tariffs.

Wisconsin Natural purchases, distributes and sells natural gas to retail customers and transports customer-owned gas largely within WEPCO's Wisconsin service territory. Wisconsin Natural's service territory has an estimated population of more than 1.1 million. At December 31, 1994, Wisconsin Natural served approximately 350,000 customers. Retail sales to natural gas customers generate about 98 percent of gas revenues; agency service and other non-traditional sales provide about 2 percent.

WEC's non-utility subsidiaries are devoted primarily to stimulating economic growth in the utilities' service territories and to capitalizing on diversified investment opportunities for WEC shareholders. For the year ended December 31, 1994, approximately 81 percent of WEC's gross utility revenues were derived from electric sales and 19 percent from gas sales. At year-end 1994, WEC had 4,777 employees. WEC's principal executive offices are at 231 West Michigan Street, Milwaukee, Wisconsin 53203.

NSP is predominantly an operating public utility that generates, transmits and distributes electricity and distributes natural gas in Minnesota, North Dakota and South Dakota. NSP's most significant subsidiary, NSP-Wisconsin, also is an operating

public utility and serves customers in Wisconsin and the Upper Peninsula of Michigan. Together, NSP and NSP-Wisconsin serve a 49,000 square mile area with a population estimated at 3 million, the majority of which is concentrated in the Minneapolis-St. Paul metropolitan area. At December 31, 1994, NSP and its public utility subsidiaries served almost 1.4 million retail electric customers and about 400,000 retail natural gas customers.

Sales to wholesale customers generate about 7 percent of electric revenues. Retail sales to electric commercial and industrial customers generate about 57 percent of electric revenues; residential customers generate 33 percent; and the remainder is provided from street lighting and other miscellaneous tariffs. Retail sales to natural gas customers generate about 90 percent of gas revenues; agency service and other non-traditional sales provide about 10 percent. For the year ended December 31, 1994, approximately 83 percent of NSP and NSP-Wisconsin gross utility operating revenues were derived from the sale of electricity and 17 percent from natural gas. At year-end 1994, the company had 7,032 employees.

NSP's other regulated business, which is regulated by the Federal Energy Regulatory Commission (FERC), is Viking Gas Transmission Company ("Viking") Viking owns and operates a 500-mile interstate natural gas pipeline serving portions of Minnesota, Wisconsin and North Dakota. NSP's nonregulated businesses include NRG Energy Inc., Cenergy Inc. and Eloigne Company.

Several steps will create Primergy, a public utility holding company.

The merger transaction is fully described in the Agreement. NSP will reincorporate in the State of Wisconsin and become a public utility incorporated in Wisconsin. NSP will purchase certain gas property assets from NSP-Wisconsin (a description of those gas utility assets and a request for approval to acquire them from NSP-Wisconsin is included in Section V). Following this purchase transaction, NSP-Wisconsin will be merged into WEPCO. WEC will be renamed Primergy Corporation, and WEPCO will be renamed Wisconsin Energy Company ("Wisconsin Energy"). The "new" NSP and Wisconsin Energy will be wholly owned subsidiaries of Primergy, which will be a registered holding company under the Act of 1935. In its application to the SEC in connection with this registration, Primergy will seek a determination that it may retain gas operations based, in part, upon the Commission's approval of this petition.

Holders of NSP common stock will receive 1.626 shares of Primergy common stock for each share of NSP common stock. Each share of WEC common stock will remain outstanding and become a share of Primergy common stock.

Primergy will have a combined market capitalization of approximately $6.0 billion and assets of about $10 billion. For the year ended December 31, 1994, the combined utility revenues of WEC and NSP were $4.2 billion, 82 percent from electric and 18 percent from gas. Primergy's retail utility subsidiaries will serve approximately

Wispark, Wisvest and Cenergy. The basic organizational structure of Primergy is

2.3 million electric and 750,000 natural gas customers. Their service territory will include portions of Minnesota, Wisconsin, North Dakota, South Dakota and the Upper Peninsula of Michigan. A map of the retail service territory is of the Primergy utility subsidiaries is found in Attachment B.

NSP and WEC July 10, 1995, filed their joint application for approval of the merger with the FERC, Docket No. ER95-16-000. They concurrently filed petitions for approval of an Amended and Restated Interchange Agreement (Docket No.ER95-1375-000) and two open access transmission tariffs for network integration service and point-to-point service (Docket No. ER95-1358-000). Required filings to the Securities and Exchange Commission and the Federal Trade Commission will be made later this year, as well as certain certificate transfer requests before FERC and the Nuclear Regulatory Commission. It is expected the regulatory approval processes will be complete in 12 to 18 months. NSP and WEC will hold their shareholder meetings in the Fall of 1995, seeking approval of the merger.

Primergy will have utility and non-utility subsidiaries.

The business of Primergy will consist of owning utility operations and various non-utility enterprises, including independent power projects. Primergy will have two wholly-owned utility subsidiaries, NSP and Wisconsin Energy, an interstate natural gas company (Viking), as well as a number of non-utility subsidiaries, including NRG.

Wispark, Wisvest and Cenergy. The basic organizational structure of Primergy is shown on Attachment A.

The headquarters of Primergy will be in Minneapolis, Minnesota. The Board of Directors of Primergy initially will be composed of six directors determined by NSP and six directors determined by WEC. Following completion of the merger, Mr. James J. Howard, currently NSP chairman and chief executive officer, will serve as chairman and chief executive officer of Primergy. Mr. Richard A. Abdoo, currently WEC chairman, president and chief executive officer, will become vice chairman, president and chief operating officer of Primergy.

NSP will be incorporated in Wisconsin and headquartered in Minneapolis, Minnesota. It will operate as a combination electric and gas utility in Minnesota and North Dakota. It will provide electric only utility service in South Dakota and only gas utility service in the areas of La Crosse and Hudson, Wisconsin.

Wisconsin Energy Company will operate as a combination electric and gas utility in Wisconsin and the Upper Peninsula of Michigan. It will be headquartered in Milwaukee, Wisconsin.

It is anticipated a service corporation also will be a wholly owned subsidiary of Primergy. The service corporation would provide certain corporate and common functions, and may include accounting, shareholder services and law. NSP in a later filing will submit to the Commission a proposed service agreement. The service

agreement will be consistent with principles of existing affiliated interest service agreements approved by the Commission.

Applicants will use the "pooling" method of accounting.

Under Generally Accepted Accounting Principles (GAAP), the accounting rules for a business combination are prescribed in Accounting Principles Board (APB) Opinion No. 16, Business Combinations. The accounting treatment required in a business combination is either the pooling-of-interest (pooling) method or the purchase method depending on the facts and circumstances of the transaction. The methodology used is a function of the terms of the transaction and is not elective. The main difference between the two methods is that a pooling results in a retroactive merger of companies as if they had always been combined, while a purchase is a prospective acquisition of one company by another.

Under GAAP, the proposed merger would be accounted for as a pooling-of-interests. Pooling accounting is required since the merger meets all of the criteria prescribed for a pooling. We will request our independent accountants to issue an accounting opinion prior to the consummation of the merger indicating that the pooling method is appropriate. A copy of the opinion will be provided when available.

The combined entity will report results of operations for the period in which the combination occurs as though WEC and NSP had been combined as of the beginning

of the period. Financial statements presented for prior periods will be restated on a combined basis as if WEC and NSP had always been one enterprise. This accounting treatment will begin as of the date the merger is consummated. A more complete description of the accounting is included in the testimony of Scott L. Weatherby in the FERC Joint Application Vol. 2, Tab 4. A description of the accounting and journal entries for the merger and gas property transfer is at Attachment F.

B. Benefits of the Merger

The merger creates substantial cost savings.

The merger of NSP and WEC is expected to create substantial cost savings that should permit the reduction of future rates of each company below the level that could be realized on a stand-alone basis. The approximate $2.2 billion of gross estimated cost savings (before approximately $122 million of out-of-pocket costs to achieve these savings, $30 million in transaction costs and an adjustment of $96 million to avoid double-counting internal company cost reduction efforts) provides a unique opportunity to benefit customers in all jurisdictions and will result in a more competitive company.

These savings are identified in Table 1:

Table 1

Savings Category	Total Savings 1997 - 2006 ($ Millions)
Corporate and Operations Labor	$1,205
Facilities Consolidation	46
Corporate and Administrative Programs	313
Purchasing Economies (Nonfuel)	263
Nuclear	113
Fuel Procurement	100
Production Dispatch	42
Gas Supply	102
Total Savings	2,185
Less: Costs to Achieve	(122)
Pre-merger Initiatives	(96)
Transaction Costs(1)	(30)
Net Savings	$1,937

(1) Does not include the effect of the non-deductibility of these costs on income taxes.

Attachment C, Schedule 1 provides a summary of the estimated cost savings that will be created from the merger of the two companies. For the first year, 1997, the system-wide savings are estimated to be $133.9 million, and the Minnesota jurisdiction cost savings are estimated to be $51.1 million ($44.7 electric, $6.4 gas).

The 1997 savings allocated to Minnesota customers are identified in Table 2.

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Table 2

Savings Category ($Millions)	1997 Minnesota Electric Jurisdiction Savings	1997 Minnesota Gas Jurisdiction Savings
Corporate & Operations Labor	$29.2	$3.8
Facilities Consolidation	1.5	.1
Corporate and Administrative Programs	12.3	1.2
Purchasing Economies (Nonfuel)	5.5	.5
Nuclear	3.9	0
Fuel Procurement	0	0
Production Dispatch	.3	0
Gas Operations	0	1.7
Wisconsin direct savings included in above	(8.1)	(.9)
Total Savings	44.7	6.4
Less: Costs to Achieve	(10.7)	(1.2)
Pre-merger Initiatives	(2.3)	(.2)
Transaction Costs	(3.2)	(.3)
Taxes on Transaction Costs	(2.2)	(.2)
Interchange Agreement Impact	5.4	0
Net Savings	$31.7	$4.4

The estimated cost savings reflect the revenue requirements savings created by or attributable to the merger, including capital deferrals and avoidance related to the merger. To capture these capital deferrals and avoidance savings, a fixed charge for each year over the forecasted period (1997-2006) was determined on each year's capital expenditure reductions. The factors used to calculate the fixed charges are a composite of both companies' cost of capital, depreciation, insurance and taxes.

These cost savings reflect cost reduction or cost avoidance opportunities created through the ability to consolidate stand-alone operations into a single entity.

This consolidation and integration will enable duplicative functions and positions to be eliminated. Estimates of cost savings were developed on a nominal cost basis for the 10-year period from 1997 to 2006 to provide a long-term view of attainable savings.

The majority of the identified savings components generate benefits that will continue beyond the 1997 to 2006 period. For example, positions that are reduced through the merger will be permanently eliminated since they relate to duplicative functions. Likewise, procurement benefits that are realized will continue indefinitely as the costs of materials and supplies will be reduced per unit. Consequently, customers will continue to benefit from the merger past the 2006 time frame.

As the above tables illustrate, there are nine primary categories of cost savings. These are discussed below and in greater detail in the testimony of Tom Flaherty in the FERC joint application, Vol. 3, Tab 11.

Corporate and Operations Labor: This analysis evaluated how the companies might operate on an integrated basis. The analysis was done in two steps.

The first step quantified the cost savings opportunities created by combining NSP-Wisconsin with Wisconsin Energy. This combination reflected the logical integration of two Wisconsin-based companies. The second stage of the analysis evaluated the effects of combining NSP-Minnesota with Wisconsin Energy, integrating operations and combining common functions.

The combined number of corporate and administrative employees is 1,760, or 15 percent of total combined employees of 11,927. Of this amount, 465 reductions were identified, constituting 26 percent of corporate and administrative staff, or 4 percent of combined total personnel. The combined companies also have 10,167 personnel in field, production and technical support functions. Of this amount, 758 reductions were identified, which comprises 7 percent of personnel in these categories, or 6 percent of total personnel. Total personnel reductions from the combination of NSP and WEC are estimated at 1,223, or approximately 10 percent of total combined company personnel. Reductions will begin to occur immediately through attrition and strictly controlled hiring. It was assumed that reductions not achieved through those means generally would occur on the effective date of the merger or shortly thereafter.

Cost savings from these personnel reductions were quantified using the average salary level for each functional area within NSP and WEC, including benefits costs. Total average compensation by function was then applied to the personnel reductions for each functional area. The total Minnesota jurisdictional labor savings, including nuclear and gas labor, corresponding to these reductions are $33 million ($29.2 electric, $3.8 gas) in 1997. Total combined company labor savings for the 10-year period 1997 to 2006 are $1,205 million.

Facilities Consolidation: With reduced numbers of employees and consolidation of certain functions, the merger should enable the companies to consolidate facilities. Examples of potential consolidations are as follows:

Dispatch Center: The merger would allow the two companies to eventually have only one primary Energy Management System in the Minneapolis or Milwaukee area with a secondary backup system at the other location. Savings would result from eliminating the maintenance and upgrade of two primary systems and establishing separate backup systems. The approximate Minnesota electric jurisdiction savings amount to $0.2 million in 1997. The combined company total savings amount to $12.2 million for the 10-year period 1997 to 2006.

Eau Claire Back-up: The Eau Claire savings were based on the reduced requirements for space and facilities with the elimination of the need for a back-up dispatch center in Eau Claire. Savings for the Minnesota jurisdiction's electric utility total $0.2 million in 1997, and the combined company total savings are $5.1 million for the 10-year period.

Miscellaneous Office Facilities: Savings were based on avoided nonlabor operating expenses with the reduction in employee levels and the attendant need for space. Minnesota jurisdiction savings in this category amount to approximately $1.2 million ($1.1 electric, $0.1 gas) in 1997, and the combined company total is $29.1 million through 2006.

Corporate and Administrative Programs and Services: The consolidation of corporate and administrative programs offers significant potential for merger savings. The nonlabor savings are realized through the consolidation of duplicative programs, by spreading expenses over greater asset or customer bases, and through increased purchasing volumes and power. Cost savings quantified in this area include the following:

Information Systems ("IS"): Savings were projected to be generated from the reduction in system expenditures for leases, maintenance, disaster recovery and various software/hardware packages. The capital savings generated from the avoidance of duplicative system development for the Minnesota jurisdiction equate to $4.3 million ($3.9 electric, $0.4 gas). Corresponding operating and maintenance (O&M) savings are $2.5 million ($2.3 electric, $0.2 gas). The capital and O&M components combine to produce total IS savings of $6.8 million ($6.2 electric, $0.6 gas) for the Minnesota jurisdiction in 1997. Combined company IS savings total $141.2 million through 2006.

Professional Services: The savings calculations reflect a reduction in audit fees, legal fees and general consulting services reflecting the consolidated structure of Primergy. The total Minnesota jurisdiction savings resulting from these reductions are $1.9 million ($1.7 electric, $0.2 gas) in 1997, and the combined company total is $48.2 million for the 10-year period.

Demand-Side Management (DSM) Administration: In this analysis, the merger does not affect the level of direct spending on DSM programs (rebates, financing and other products); however, redundant program administration and promotional campaign costs were identified. The Minnesota jurisdiction savings allocated to the electric utility for 1997 are estimated to be $1.3 million. The combined company savings are $31.9 million for the 10-year period.

Administrative and General (A&G) Overhead Expense: These expenses include telecommunications, transportation and office supplies and are driven primarily by the number of employees. As the number of employees is reduced through the merger, A&G overhead expenses also are reduced. The merger savings identified for the Minnesota jurisdiction are $1.1 million ($1.0 electric, $0.1 gas) in 1997, and the combined company savings are $28.6 through 2006.

Benefits Administration: Savings in this area should be realized as a result of greater purchasing power for the combined entity when negotiating costs and fees with benefit providers and third-party administrators. Estimated savings equate to $0.9 million in the Minnesota jurisdiction ($0.8 electric and $0.1 gas) in 1997 and $30.5 for the combined company through 2006.

Insurance: A combined company will have a reduced risk profile because of its broader and more diverse asset base, which translates into lower rates. Further savings possibly could be attained through the ability to carry higher deductibles. The total

1997 Minnesota jurisdiction savings for insurance are $0.9 million ($0.8 electric, $0.1 gas), and the combined company savings through 2006 are $21.4 million.

Regulatory Expenses: The combined company should be able to reduce regulatory filing expenses at the federal level as well as in the shared jurisdictions of Wisconsin and Michigan. The portion of the applicable savings estimated for the Minnesota jurisdiction for 1997 are $0.2 million and mostly allocated to the electric utility, and $4.4 million for the combined company for the 10-year period.

Advertising: The combined company should be able to reduce agency expenses and media buys in the abutting service territories in Wisconsin, as well as realize savings from elimination of duplicative fixed production costs for advertising expenses related to conservation and safety as allowed in rates. The Minnesota jurisdiction savings in the area of advertising for 1997 are $0.1 million and mostly attributable to the electric utility. The 10-year total for the combined company is $3.7 million.

Shareholder Services: Cost savings should result through the combination of transfer agents, the elimination of duplicative investor relations activities and a reduction in the total cost of processing transactions. The total Minnesota jurisdiction savings in the area of shareholder services for 1997 are approximately $0.1 million and mostly allocated to the electric utility. The combined company total is $3.1 million through 2006.

Purchasing Economies (Nonfuel): By centralizing purchasing and inventory functions the companies should have greater purchasing power and may realize reductions in the costs associated with maintaining inventory levels. Cost savings will be achieved in the following areas:

Procurement: Expenditures could be consolidated and contracted from fewer sources. Cost savings are realized by a lower per unit cost for the service provided due to a broader contract or the repackaging of work. Savings were estimated based on previous transactions and represent an estimated 3 percent reduction in materials costs across a broad range of commodity categories. Total Minnesota jurisdiction savings from procurement amount to approximately $3.9 million ($3.5 electric, $0.4 gas) in 1997, and total combined company savings amount to approximately $195.2 million through 2006.

Inventory: Similarities in distribution, transmission and generation hardware offer the potential for inventory reduction from standardization and limited sharing of parts and components. The 1997 total inventory savings for the Minnesota electric jurisdiction are $0.5 million. The 10-year inventory savings for the combined company are $10.7 million.

Contract Services: The combined company should be able to gain economies of scale from the aggregation of related work activities and increased purchasing power. The total savings from contract services in 1997 for the Minnesota jurisdiction

are $1.7 million ($1.5 electric, $0.2 gas), and the total savings for the combined company are $56.8 million through 2006.

Nuclear: Nuclear operating costs for both companies could be reduced through standardization, shift schedule coordination and economies of scale. These types of savings will occur in seven primary categories including licensing, maintenance, fuels, health physics, purchasing, planning and engineering.

Cost savings from integrated nuclear operations, excluding fuel savings, are estimated to be $3.9 million in 1997 for the Minnesota jurisdiction and total $112.5 million for the 10-year period for the combined company.

Fuel Procurement: Purchasing economies should be obtained in fuel for generation and gas supply through aggregation of supply volumes. Higher supply volume enables a company to take advantage of increased deliveries or throughput and improve transportation capacity utilization. Electric fuel procurement savings are estimated to be approximately $100.0 million over the 10-year period, with savings spread equally over the period 2000-2006. As discussed in the Rate Plan, the companies propose to continue to flow directly to retail customers any benefits realized in fuel costs.

Production Dispatch: The annual production cost benefit attributed to the combined operation of the two companies' generation and transmission system is less than 1 percent of the total production costs for the two systems over this period. The

savings are discussed in greater detail below in Section E, Impacts of the Merger. The total production dispatch savings for the Minnesota jurisdiction in 1997 are $0.3 million with a 10-year total of $42.0 million for the combined company.

Gas Operations: The major savings available will result from the optimization of transportation capacity on various pipelines, and improving utilization of no-notice service resulting from additional load diversity. Additional savings can be generated by shortening the storage withdrawal period to provide greater combined peak day delivery and better using transport capacity to meet shoulder month requirements. Finally, the two companies can avoid the need for duplicate reserve margins through supply integration. The total possible savings in 1997 are approximately $1.7 million for the Minnesota jurisdiction with a 10-year total of approximately $102.4 million for the combined company. These savings are based upon the assumption the two companies will be able to integrate supply portfolios and work successfully with pipeline transporters. As discussed in the Rate Plan, these savings automatically flow to customers through the purchase gas adjustment.

C. Costs of the Merger

<u>There are several costs associated with the savings identified.</u>

There are several categories of costs related to achieving the savings that have been identified. "Costs-to-achieve" reflect out-of-pocket expenditures necessary to achieve the cost savings identified from the merger. In addition, transaction costs, such as investment banking, legal and consulting fees, will be incurred. An adjustment to the total estimated savings level also has been made for stand-alone cost reduction initiatives previously planned by NSP and WEC.

Costs-to-achieve: These costs are estimated at $121.7 million over 10 years with the majority of the costs to be amortized over four years beginning in 1997 (the request for deferred accounting is addressed in section III). Of that amount, approximately $118 million is to be amortized over four years. The remaining expenses, which will most likely be incurred after the amortization period, are associated with continuing expenditures on nuclear fuel core design, personnel reduction phase-in, and other miscellaneous systems conversions. The primary components used to estimate costs to achieve are:

Table 3

Costs-to-Achieve Categories	($Millions)
Employee separation packages	$61.4
Systems integration and telecommunications	30.0
Employee relocation	10.0
Nuclear consolidation	8.9
Employee retraining	3.0
Facilities consolidation	3.0
Communications	2.0
Transition	2.0
Directors/officers insurance	1.4
Total	$121.7

The total costs-to-achieve allocated to the Minnesota jurisdiction in 1997 (based on a four-year amortization period) are $10.7 million for the electric utility and $1.2 million for the gas utility.

A description of the costs follows:

Employee Separation Packages: A major component of the merger cost savings is the reduction in work force. These reductions are expected to first be achieved through attrition and strictly controlled hiring, and then affected employees would be offered a separation package. As contemplated in this analysis, the separation packages offer employees a lump-sum payment with continuing medical coverage over a defined period, based on years of service. The actual approach to achieve personnel reductions has not been determined at this time and will be refined through the transition process.

Systems Integration and Telecommunications Networking: Significant efforts will be expended to integrate systems and services and link data bases. Furthermore, integration will require expanded telecommunications capabilities. These costs were estimated at $30 million. No costs or benefits have been estimated for the abandonment of large information systems.

Employee Relocation: Certain functional areas will be centralized in either Minneapolis or Milwaukee, requiring some employees to relocate. The components of a relocation program could include moving expenses, house hunting costs and closing costs. Based on the functional analysis, it was determined that 250 positions possibly would be relocated. Relocation expenses were estimated at $40,000 per move. The actual package and its cost to be offered to eligible employees have not yet been determined.

Nuclear: Costs for the consolidation of nuclear areas reflect the activities necessary to combine and integrate the technical support functions maintained for the Point Beach, Prairie Island and Monticello nuclear stations. These costs relate to the effort to standardize related practices, revise technical specifications and licensing response actions and optimize existing internal and external resources in various areas such as core design. The costs are estimated at $8.9 million and extend over the full 10-year period 1997 - 2006. The bulk of these costs are incurred through the period and relate to costs associated with alternatively conducting core design analysis.

Other Costs: Other costs that were estimated to be attributed to the merger are employee retraining, facilities consolidation, communications, transition activities and directors' and officers' liability coverage. Retraining costs will be incurred as employees adapt to the integrated systems or accept different positions within the new organization. Facilities consolidation costs would include retrofitting facilities, moving costs, and exit costs from vacated facilities. The specifics of the merger must be communicated to employees, shareholders and bond rating agencies at an estimated cost of $2 million. Transition costs would include the use of outside firms to assist in the integration of the combined company after the merger is approved. Directors' and officers' liability coverage relates to residual director liability for the period prior to the combination.

Transaction Costs: Transaction costs of $30 million will be incurred to complete the merger. In the first year, $3.2 million is allocated to the Minnesota electric jurisdiction and $0.3 with the gas jurisdiction (based on a four-year amortization period). This estimate includes investment banking fees as well as legal and consulting fees incurred through the regulatory approval process. These types of fees are normally incurred as part of corporate combinations. NSP proposes to adjust these costs to reflect their tax effect. The transaction taxes total $20.6 million for the combined company and $2.4 million for the Minnesota jurisdiction ($2.2 electric, $0.2 gas) in the first year (based on a four-year amortization period).

Pre-merger Initiatives: Both NSP and WEC had identified cost control initiatives before the announcement of the merger and continue to pursue them. These cost control efforts are being accomplished through process improvement, reengineering, outsourcing and contractor management. Review of the stand-alone forecasts for each company for the period 1995-1999 indicates the overall impact of these efforts was to reduce budgeted O&M expense by approximately $388 million over this period on a real basis. That is, the pre-merger forecasted total combined O&M expense in 1999 will be $388 million lower than the level that would be expected with normal inflation applied to the 1994 level.

These internal cost reduction efforts were anticipated to be realized company-wide rather than from any individual areas exclusively. Since these pre-merger initiatives will precede and carry through the period over which merger-related savings are expected to occur, it is likely that there would be some overlap between the quantified merger cost savings and these internal efforts. Therefore, the quantified merger cost savings have been adjusted downward to reflect these stand-alone impacts to future costs and avoid double counting any of these savings.

Of the approximate $388 million in anticipated O&M expense reduction over the 10-year period, approximately $96 million, or 25 percent, of this amount would potentially be attributable to the same categories that were quantified as merger cost savings in both labor and nonlabor areas. The anticipated expense reduction allocated

to the Minnesota jurisdiction in the first year is $2.5 million ($2.3 electric, $0.2 gas). Thus, the gross merger cost savings were adjusted by these amounts to avoid any potential double counting.

D. Allocation Process

The allocation process is fair and based on accepted principles.

The primary objective in the development of the cost savings allocation process was to apply a consistent and equitable approach that properly assigns the projected benefits resulting from combining the companies. In general, the projected cost savings were first allocated by category (as identified in Table 1) between the two combining companies. Each company was then assigned a respective share of the allocated savings to its gas and electric utility operations in a manner consistent with its traditional method for distributing similar types of costs. Finally, the amounts applicable to each utility operation were distributed jurisdictionally, based on the same regulatory policies and principles underlying existing service rates.

As a general rule, cost savings that were directly attributable to one company were assigned to that company. Cost savings that could not be directly assigned, but were closely related to a set of underlying costs, were allocated in the same manner as those costs, on a causative basis. Where savings could neither be assigned directly nor allocated reflecting cost causation, they were distributed on the basis of a more general

allocator consistent with the objectives previously stated. This is consistent with the Company cost allocation principles reviewed by the Commission in Docket No. G,E999/CI-90-1008.

Attachment C, Schedule 4 is a summary of the factors used for allocating projected merger savings and costs to the jurisdictional level. Such factors have been computed based on data projected by the companies for the year 1997 -- the first year of the proposed Rate Sharing Plan. Specifically the manner in which the cost savings were distributed includes the following:

Electric Operations: Cost savings in this area were jurisdictionally allocated in the same way the related costs are distributed in establishing rates.

Fuel Procurement and Production Dispatch: Savings were assigned on the basis of an energy allocator reflecting projected sales to the companies' native load customers in each jurisdiction.

Demand Side Management: Savings were directly assigned by company, utility operation and jurisdiction.

Nuclear: Labor and other cost savings were allocated based on factors reflecting a composite weighting of relative energy and demand levels projected by NSP and WEC for 1997. This is consistent with the manner by which such costs were distributed in the most recent rate cases in which the current service rates were established.

Eau Claire Facilities: Cancellation of plans for a back-up control system in Eau Claire produces savings that were allocated based on factors reflecting a composite weighting of relative energy and demand levels projected by the companies for 1997.

Gas Operations: Cost savings in these areas were, for the most part, directly assigned to the companies based on existing arrangements with gas suppliers and forecasts of system needs after the combination. Each company's portion of total savings was then jurisdictionally assigned based on factors reflecting the relative portions of design day system capacity. Labor cost savings were allocated based on factors reflecting the relative number of gas customers.

Administrative and General: Cost savings in this area mostly reflect the effect of eliminating duplicate activities and professional services. A portion of the cost savings was assigned directly to NSP-Wisconsin, and the remaining savings were allocated between the companies based on labor factors reflecting total forecasted functionalized labor for 1997. The amounts distributed to each company were then allocated by utility operation and jurisdiction using factors based on the same 1997 forecasted labor costs.

Capital Costs: The projected savings were allocated based on the same principles used for distributing operating cost savings. Savings associated with the capitalized portion of nuclear labor and with the cancellation of the backup center

plans were allocated between companies on the basis of a 36-month average of coincident peak (CP) demand. The company amounts were then jurisdictionalized on the basis of the 12-month CP data projected for 1997. This is consistent with the procedure used to develop the demand allocators implicit in existing service rates.

Capital savings associated with gas operations labor were jurisdictionally allocated based on the relative amounts of gas plant in service projected for 1997.

Savings in capitalized administrative and general costs were allocated in a manner similar to their operating cost counterpart. The amount applicable to the company's Eau Claire operations was directly assigned to NSP-Wisconsin. The remaining cost savings were allocated between the companies, their utility operations, and regulatory jurisdiction using factors based on the relative amounts of electric and gas plant in service projected for 1997.

E. Impacts of the Merger

NSP and WEC have strong records for reliable, efficient and cost-effective power plant operations and distribution service. The companies each have facilities that rank among the best nationally. The companies also have achieved strong records in safety and environmental protection. It is anticipated the merger will enable the companies to build upon these achievements to improve further operations and

customer service. There will be no degradation of operations, reliability or service as a result of the merger.

The focus on customer service will remain high.

NSP and WEC currently strive to achieve high customer satisfaction levels. It is the companies' intent to maintain and even improve service to customers during the implementation phase and going forward.

The bulk of the merger consolidation activities and resulting savings will occur at the corporate and administrative levels, therefore direct customer service will not be affected adversely. It is not anticipated any Minnesota direct customer service functions will be eliminated or reduced as a result of the merger. The companies believe that combining their strengths will enable them to offer improved service and lower prices to customers in the long run.

Plant operations will remain top performers.

Both companies have plants that rank near the top of a number of industry listings. NSP's Prairie Island and Monticello nuclear plants and WEPCO's Point Beach nuclear plant each have received the highest performance rating given by the Institute of Nuclear Power Operations. The Utility Data Institute reported Point Beach and two-unit Prairie Island as two of the three lowest-cost nuclear electric producers in

the U.S. from 1989-1993. Another publication listed Monticello as having the lowest cost fuel among all boiling water reactors.

The companies' coal-fired generating plants have performed equally well. For example, WEPCO's two-unit Pleasant Prairie plant, with a 76 percent capacity factor, had a recorded availability rating of 92.3 percent in 1994, while NSP's three-unit Sherburne County (Sherco) plant recorded an availability rating of 88 percent in 1994, compared with the industry five-year average of 82 percent.

The Primergy utility operating companies will be economically dispatched on a single system basis. As quantified earlier, the production cost savings as a result of combining the operations of the two companies' generation and transmission system is estimated to be about $42 million over the 10-year period. This benefit is less than 1 percent of the total production costs for the two systems, mainly because the energy transactions between the two stand-alone companies already occur when it is economic to do so. Primarily, these savings are the result of the elimination of the cost differential "trigger" associated with inter-utility transactions (transactions now typically occur when the generating cost difference between the companies is approximately 10 percent or greater).

Because the companies have similar, balanced generation portfolios, the consolidation of the companies' resource plans does not create savings from lower

reserves or greater load diversity. No capacity deferral benefits result from the merger in the period 1997-2006.

NSP is a member of MAPP (Mid-continent Area Power Pool), while WEC is a member of MAIN (Mid-American Interconnected Network). At this time, no decision has been made about the long-term regional reliability council affiliation of the Primergy operating companies. The companies will continue to maintain adequate reserve margins as required by their respective regional councils.

The companies' environmental leadership will continue.

NSP and WEC individually are committed to being leaders in the protection of the environment. The merger will leverage the complementary environmental expertise and leadership of both companies.

NSP by 1982 was meeting the stringent federal sulfur dioxide (SO2) emissions requirements that are required for the year 2000 under the Clean Air Act amendments of 1990. WEPCO has made similar reductions in SO2 emissions and is an active participant in the emissions allowances trading market, reducing the cost of emissions compliance.

The resource portfolios of NSP and WEC each feature a mix of renewable energy sources, including hydropower and wind. WEPCO is partnering with several other state utilities, Electric Power Research Institute and a wind turbine manufacturer

in a demonstration tailored for Wisconsin wind conditions. NSP currently purchases 25 MW of wind; and by 2002 will meet Minnesota statutory requirements to generate, buy or contract a total of 425 MW of wind-powered electricity.

NSP and WEPCO were two of only 30 U.S. electric utilities to sign the global climate challenge participation accord with the U.S. Department of Energy to pursue presidential goals for global greenhouse emissions. In addition, WEPCO included in its participation accord joint implementation efforts in Belize and the Czech city of Decin. Such leadership on the part of the separate companies is expected to continue through the merged corporation.

Synergies will benefit gas customers in gas costs and services.

The merger will result in a reduction in gas costs for retail gas customers. These savings will be flowed directly to customers through the purchase gas adjustments. In addition, the companies' retail gas operations will work to identify areas in which they can build from each other's experience and knowledge to improve customer service.

In a merger-related transaction, NSP will acquire certain gas distribution property assets from NSP-Wisconsin in the La Crosse and Hudson, Wisconsin areas. This transaction will not affect Minnesota service levels or rates. This transaction and petition for approval is addressed in Section V.

NSP and WEC will use "best practices" to improve service.

As the merger initiatives are implemented, the companies will continue to improve the level of service customers have come to expect. The merger will provide the two companies the opportunity to share knowledge and expertise of each other's best practices and develop methods for managing and improving service. Blending the strengths of each company should benefit customers.

As described in greater detail below, customers will receive benefits as a result of the merger in the form of an adjustment to electric rates and the full benefits of any savings in the cost of fuel for generation and purchased gas.

Companies pledge to sustain community commitment.

NSP and WEC each have long maintained a corporate philosophy of active civic involvement in the communities they serve. Both companies have provided service to large and small communities and appreciate the importance of utility participation in local affairs and economic development. Recognizing this, the companies plan to continue their commitment to the communities they serve. In addition, the merger will result in a number of economic benefits to the combined service area. By ensuring continued competitive electric and gas rates over the long term for the customers of both companies, we will help make existing businesses more competitive and make the

areas more attractive to new business, thereby increasing the tax base, adding jobs and strengthening the regional economy. Although in the short-term there may be some job losses as the merged companies consolidate certain job functions, in the long run the local economies will benefit from the improved competitive position and financial strength of the utilities.

State regulation will continue to have effective oversight.

As described more fully in the testimony of David Porter in the FERC Joint Application, Vol. 2, Tab 2, the merger will not prevent the general ability of federal and state regulators to review the companies' costs, operations and resource plans. The level of responsiveness to state regulators and their access to company books and records and management will not change as a result of the merger and NSP's reincorporation in the State of Wisconsin.

The merged companies should retain their financial ratings.

The financial profiles of WEC and NSP on a stand alone basis are fairly similar and are representative of a AA rated company under Standard & Poor's (S&P) guidelines. Currently, S&P and Duff & Phelps Inc. both assign AA+ credit ratings to the senior debt of WEPCO and AA- to the senior debt of NSP. Fitch Investors Service, Inc. assigns AA+ ratings to WEPCO's senior debt, and AA ratings to NSP's

senior debt. Moody's Investors Service assigns Aa2 credit ratings to WEPCO's senior debt, and A1 to NSP's senior debt. The senior debt of Wisconsin Natural is assigned AA credit ratings by S&P and Aa2 ratings by Moody's. The senior debt of NSP-Wisconsin carries similar ratings as that of NSP, although S&P assigns AA credit ratings to NSP-Wisconsin. The resulting key financial ratios for each company after the proposed merger should also reflect a AA rating.

Reactions by rating agencies at the announcement of the merger support this contention. For instance, Duff & Phelps stated "the merger would be a positive from a competitive standpoint." Fitch indicated the utilities "will be well positioned to compete in the Mid-Western electric marketplace." Moody's stated, "Both NSP and WEPCO exhibit favorable cost positions, excellent nuclear operating records and above average service territory economic fundamentals. Moody's expects cost savings ....to relieve upward pressure on production costs..."

From an investors perspective, Primergy should be more attractive than WEC or NSP on a stand-alone basis. The broader asset base, with a more diverse mix of customers and economic conditions driving revenues, will enhance financial flexibility and improve access to capital. The projected savings should permit the combined companies to minimize future rate increases, and give investors greater confidence in future earnings and dividend streams. In the long term, the benefits of combined cash flow and a reduction of duplicate operating expenses would allow a reduction in the

amount of additional debt to be issued, improving the debt ratio, enhancing interest coverages, and improving internal cash flow.

NSP's dividend currently is $2.70 per share annually and WEC pays $1.47 per share. It is anticipated Primergy will adopt NSP's dividend payment rate, adjusted for the exchange ratio. Primergy's dividend payout ratio approximately will equal the blended ratios of the current NSP and WEC. Future dividends will be a business decision of Primergy's Board of Directors, based on operating results, financial condition and other business considerations.

WEPCO and NSP each have several series of preferred stock outstanding. Essentially, all of the existing preferred securities will remain outstanding as preferred stock of the Wisconsin Energy and Northern States Power subsidiaries of Primergy after the merger is complete.

All debt currently issued and outstanding by the Companies will remain outstanding after the merger. Wisconsin Energy will retain all of WEPCO's debt and other obligations and will assume the debt, liabilities and other obligations of NSP-Wisconsin. The "new" NSP will assume all debt, liabilities and other obligations of the existing NSP, excluding that of NSP-Wisconsin and NSP's existing nonregulated companies. Under the proposed merger agreement bondholders will continue to have their preexisting rights after the merger. The first lien on the properties subject to the indentures immediately prior to the merger will remain in place.

Similarly, with respect to unsecured debt, the new NSP will assume the unsecured debt of the existing NSP and, after the merger, Wisconsin Energy will retain the then-outstanding unsecured debt of WEPCO and Wisconsin Natural and assume that of NSP-Wisconsin. NSP and Wisconsin Energy, as separate independent operating subsidiaries of Primergy, will maintain their own lines of credit. Some reduction of existing lines of credit is expected to occur from the merger.

The present external financing needs of both WEC and NSP, are expected to be significant in the near term, although they have declined from historical levels. Both improved internal cash generation and reductions in external financing requirements are expected to help reduce financing needs. The net effect of these changes will be an improvement in the ratio of cash coverage to capital expenditures. The post-merger utility operations are expected to generate internal funds to cover about 80 to 100 percent of ongoing construction requirements. Primergy expects to issue about $100 million of common equity in 1997. The proceeds will be used to maintain NSP's regulated common equity ratio at its current level. Any such plans will be reflected in the company's annual capital structure filing made typically in October for the subsequent calendar year.

F. Rate Plan

Retail electric rate proposal calls for reduction, then freeze.

A key direct benefit of the merger for customers is the ability to offer a retail electric rate reduction, then a rate freeze through the year 2000, subject to the limited exceptions described below. NSP proposes an average retail rate reduction of 1.5 percent and a rate freeze through year-end 2000 in each of its retail electric jurisdictions. The electric rate reduction of 1.5 percent would be implemented as soon as reasonably possible following receipt of the necessary approvals and closing of the merger transaction. This proposed rate reduction is made in conjunction with the proposal to recover merger costs in the fashion presented in the request for deferred accounting in Section IV.

NSP proposes to accomplish the rate reduction through the use of an adjustment mechanism on customers' bills. This "Merger Savings Adjustment" would function much like the interim rate adjustment currently used during traditional rate cases. The adjustment would appear on each customer's bill and reduce the individual customer's actual bill by the proposed 1.5 percent for the four-year period through 2000.

We view this type of adjustment mechanism as the most beneficial for Minnesota customers because it represents the most administratively efficient way of ensuring all customers obtain the full benefits of the cost savings associated with the merger. The adjustment preserves the rate design principles approved by the

Commission in NSP's most recent electric general rate case (Docket No. E002/GR-92-1185) and implemented in Spring 1994.

A second possible method for achieving the rate reduction is to reduce each rate schedule by 1.5 percent. Though NSP is not opposed to implementing the reduction in this fashion, we do not prefer this methodology. Due to the various rates we offer, this method may deprive some customers of the full reduction. Moreover, in practice it will be exceedingly difficult to achieve a perfect 1.5 percent reduction in each rate component. Further, from the perspective of administrative ease, the company would be required to modify, refile and reprogram our billing system for each of our rate schedules.

NSP proposes to submit the appropriate tariff pages in a compliance filing following the Commission's decision regarding the rate plan.

Customers will receive directly the benefit of any fuel savings through the fuel clause adjustment (FCA). The company proposes to reset the base cost of fuel at zero during the first year of operation of the merged companies. The absolute value of the base cost is not critical because customers pay only for the actual cost of fuel. However, consistent with the Company's and Commission's philosophy of minimizing the variations in the FCA, NSP proposes to reset the base cost of fuel in 1997.

At this time it is premature to develop the new base cost of fuel for the 1997 calendar year. NSP proposes to submit a base cost of fuel filing in late 1996 for Commission review and approval.

Risk of achieving savings resides with shareholders.

The total savings identified as a result of the merger are aggressive goals which the companies intend to achieve, yet the risk of realizing them resides with the shareholders within the rate freeze time period. The combination of the immediate rate reduction followed by the rate freeze allows the companies to offer the intended benefits of the merger to customers in a fair and equitable manner. As can be expected, there is some uncertainty relative to the timing and precise levels of the savings and costs associated with the merger. For example, if all benefits are timely received in 1997, the companies can achieve a 2.1 percent cost savings. Conversely, if there is a delay of as little as three months in the achievement of benefits, the rate reduction benefit of 1.5 percent will be 94.1 percent of the benefits available in 1997 (Attachment C, Schedule 3). A six-month delay in achievement of benefits means the rate reduction benefits of 1.5 percent will be 141.1 percent of the benefits available in 1997 (Attachment C, Schedule 3).

Our proposal to unilaterally reduce rates and institute a rate freeze shields customers from these uncertainties. This proposal permits customers the opportunity

to immediately begin realizing the benefits of the merger notwithstanding these uncertainties. Further, the four-year moratorium, with limited exceptions, permits the companies a reasonable time period to implement the changes necessary to achieve the contemplated savings.

The electric rate freeze offered by the company will provide customers rate benefits as well as rate stability. During the four-year period over which NSP will freeze prices, the company expects to make more than $2 billion in capital investments. During this same four-year period the Consumer Price Index (CPI) is expected to increase by approximately 14 percent and the Gross Domestic Product - Implicit Price Deflator by approximately 11 percent. Even by historic standards, electric rates could reasonably be expected to increase as much as two percent each year. The four-year rate freeze could provide customers an 11 to 14 percent real price reduction relative to expected inflation which is in addition to the initial 1.5 percent rate reduction.

Most of the gas benefits will flow directly through the PGA.

NSP does not propose a general rate reduction or rate freeze for retail natural gas rates. However, 38 percent of the NSP net gas savings available in 1997 are forecasted to be in the purchased cost of gas and would be reflected automatically in the purchased gas adjustment (PGA). The remaining benefit will offset a portion of

the rising gas utility non-gas revenue requirements in that time period. NSP's Minnesota gas jurisdiction may or may not need general rate relief prior to 2001, depending upon merger savings achieved, cost factors beyond NSP's control and customer sales growth.

Revenue neutral tariff changes, existing clauses will continue.

The commitment not to increase electric rates does not prohibit tariff amendments and rate design changes not increasing electric net income during the moratorium. NSP also proposes to continue to apply the Conservation Investment Program Annual Tracker Mechanism to recover conservation program costs.

Finally, as part of this proposal, Primergy's operating utility subsidiaries will work with regulatory commissions to develop a plan for managing merger benefits for the year 2001 and beyond. This plan may be structured to utilize a performance based regulation model for those portions of the business that continue to be regulated at that time.

NSP proposes annual reporting on merger costs

NSP's proposal to freeze electric general rates includes periodic reporting which would allow the MPUC to monitor the costs associated with achieving the savings as outlined in the petition for deferred accounting. NSP currently provides the

MPUC with normalized historical and forecast operating results on an annual basis. NSP proposes to continue this reporting and to identify separately the deferred merger costs either in the same report or a separate filing. This would allow the MPUC to be informed as to the estimated and actual costs during the rate plan period. NSP would provide the report to the MPUC to cover the rate plan period from the closing date of the merger through the end of the year 2000.

Certain unanticipated cost increase categories should be excepted.

NSP recognizes that during the four-year rate freeze period, it may experience certain significant but uncontrollable events which necessitate rate changes. Accordingly, as part of the rate plan proposal, NSP has identified these events which it believes should be excepted from the rate freeze. The following exceptions are proposed as part of the company's electric rate freeze proposal:

1. An increase in local, state or federal tax expenses greater than 10 percent or $15 million dollars over the previous year;
2. Costs ordered or made effective by state or federal agencies (10 percent or $15 million dollar increase or more from the previous year); and,
3. Extraordinary events including, but not limited to, major changes in facility ownership, major loss of load, externally required change of

accounting or a dramatic increase in cost of money (an increase in the expense or decrease in the revenue of 10 percent or more or $15 million dollars).

The exceptions are necessary in order to protect NSP from major costs or events which are beyond its control. It is important to note that although there are many costs which, to some degree, are beyond NSP's control, the focus here is on uncontrollable events which could potentially have a significant impact on NSP.

NSP proposes that for these uncontrollable events it be allowed to file with the Commission during the rate freeze period for recovery of the costs related to these events. NSP would bear the burden of proof to demonstrate recovery of the costs is warranted.

IV. APPROVAL OF DEFERRED ACCOUNTING

A. Introduction

Pursuant to Minnesota State Statutes 216B.10 and 216B.11 and Minnesota Rules Part 7825.0300, Subpart 4, NSP requests the Commission to grant approval of deferred accounting procedures for the merger-related transaction costs and certain costs to achieve savings associated with the proposed merger of NSP and WEC.

The deferral of the merger costs is appropriate since the costs are significant and unusual, and the merger costs are necessary to allow utility related savings to occur. NSP proposes to defer the merger costs in a deferred debit account, FERC account number 182.3. NSP seeks to recover these costs through a four-year amortization period beginning on January 1, 1997, or as close as reasonably possible following the close of the merger, whichever is later. The proposed accounting procedure will allow thorough review of the expenditures prior to recovery and/or recognition in NSP retail rates and result in the proper cost recovery of these unusual and non-recurring expenditures. NSP's proposed recovery period also coincides with the period customers will benefit from the proposed rate reduction and freeze and thereby provides a more accurate matching of merger costs with benefits.

NSP requests that the Commission allow deferred accounting treatment for all transaction costs (including approximately $4 million incurred in 1995 to date) and for all costs incurred to achieve savings as a result of the merger.

B. Background

The request for deferred accounting treatment is being made for two specific types of costs relative to the proposed merger. These costs are (a) merger-related transaction costs and (b) costs that will be incurred so that savings can be realized subsequent to the merger. These costs will be incurred primarily in the years 1995,

1996 and 1997. The merger savings, however, are expected to occur primarily over a 10-year period beginning January 1, 1997, with various categories of savings thereafter.

As described previously, transaction costs are the professional and other services and expenses required to complete the merger. These include (a) outside services such as investment bankers, lawyers, consultants, and accountants, (b) other costs such as leasing of office space, office equipment, (c) incremental employee expenses for NSP personnel assisting in the merger process, and (d) other miscellaneous costs. The current estimate for these costs is $30 million for both NSP and WEC. Of this amount, $10 million is expected to be spent in 1995 and $20 million in 1996. Table 4 shows the expected breakdown for various types of transaction costs.

The costs to achieve the expected savings as a result of the merger occur primarily in 1996 and 1997. These costs are a necessary part of preparing the organization to operate with less resources, fewer corporate locations, less management and achieve a coordinated operation. In addition, areas such as generation, fuel procurement, purchasing of materials and supplies, and corporate and administrative programs will be modified to take advantage of operating and administrative economies and synergies resulting from the merger.

These costs fall into the following main areas:

- Employee separation packages
- Combining information systems
- Employee relocation
- Combining various operations
- Facilities consolidation
- Employee retraining
- Communications to shareholders and employees

Costs to achieve savings are expected to total $121.7 million. This is the investment necessary to achieve an estimated $1.9 billion in savings over the 10-year period January 1, 1997 to December 31, 2006. Table 5 details the specific areas and the expected costs to achieve the forecasted savings. The costs and benefits of abandonment of large information systems has not yet been determined.

C. Proposed Accounting Procedures

NSP submits this petition pursuant to Minnesota Rules, part 7825.0300, Subpart 4, which states that:

> A public utility may petition the commission for approval of an exception to a provision of the system of accounts. Such exception shall be granted to the public utility for good cause shown.

NSP proposes to accumulate the costs associated with the company's merger with WEC in FERC account number 182.3 (Other Regulatory Assets) beginning January 1, 1995.

NSP believes it would be inappropriate to expense these costs as they are incurred due to the nature of the transaction. These costs represent an investment in a

transaction that will benefit NSP customers subsequent to the merger. These costs should be matched with a majority of the savings resulting from the merger. The Company realizes, however, that 10 years is an unusually long period over which to recognize these types of expenses. Therefore, we are requesting that the deferred merger-related costs be amortized over a four-year period to coincide with the proposed electric rate reduction and moratorium. Deferral and subsequent amortization of these costs will result in the proper recovery of these costs from ratepayers who also will be receiving cost savings from the merger.

Table 4

Estimate of Transaction Costs and Fees To Be Incurred in Connection with the Merger of NSP/WEC*

	(Millions of Dollars)
Financial Advisors Fees	$ 18.5
Legal Counsel Fees	7.5
SEC, NYSE, Printing and Other Filing Fees and Costs Related to the Registration/Listing of Additional Primergy Common Stock	2.5
Consultants and Independent Accountants Fees	1.0
Miscellaneous Expenses	0.5
Total Transaction Costs	$ 30.0

* Reflects WEC and NSP transaction costs excluding internal labor and related overhead costs.

Table 5

Estimated Costs To Achieve $1.9 Billion Savings Over 10 year Period
January 1, 1997 - December 31, 2006

Basis for Calculation:	($Millions)
Separation - 4% of average base salary plus 4% per year of employee service plus extended medical benefits. Estimated 14 average years of service. Executive severance estimated at three years of average salary plus extended medical benefits	$61.4
Systems - Integration of systems, services and linking data bases	25.0
Relocation - 250 personnel relocations at $40,000 per employee.	10.0
Nuclear Operations - Consolidation of nuclear operating areas.	8.9
Telecommunications - Integration of phone, data, facsimile communication.	5.0
Facilities - To integrate corporate headquarters.	3.0
Retraining - To retrain employees in new positions.	3.0
Internal/External Communication - To educate shareholders and employees regarding combination.	2.0
Transition - For external assistance to facilitate integration of individual entities.	2.0
Directors and Officers Insurance - Liability coverage	1.4
TOTAL	$121.70

V. PETITION FOR APPROVAL OF GAS PROPERTY TRANSFER

A. Requested Approvals

Pursuant to Minn. Stat. 216B.50 and Commission Rule 7825.1800 (Subp. B), NSP respectfully requests Commission approval to acquire certain natural gas distribution properties (the "Gas Assets") owned by its affiliate NSP-Wisconsin as a part of the merger of NSP and WEC.

This request is an integral component of the NSP petition seeking Commission approval of the various aspects of the merger of NSP and WEC. The acquisition, along with the incorporation of NSP in the State of Wisconsin, enables Primergy and its subsidiaries to comply with Wisconsin law.

As described below, the purchase by NSP of the Gas Assets is consistent with the public interest and should be approved as part of the Commission's overall approval of the merger petition.

B. Description of The Proposed Transaction

Background Information

The facts applicable to this property purchase petition are as follows. The NSP Gas Utility ("NSP Gas") serves approximately 315,000 retail natural gas customers in Minnesota under the jurisdiction of the MPUC, and 30,000 customers in North Dakota under the jurisdiction of the North Dakota Public Service Commission.

1. All Information Required in Part 7825.1400, Items A to J

NSP Gas also provides certain wholesale services subject to the jurisdiction of the FERC. NSP Gas currently has no Wisconsin utility operations.

NSP-Wisconsin is a combination electric and gas utility and a wholly-owned subsidiary of NSP. NSP-Wisconsin serves approximately 69,000 retail gas customers in Wisconsin and the Michigan Upper Peninsula.

As part of the merger transactions, as described earlier, NSP-Wisconsin will sell the Gas Assets it owns in the Hudson and La Crosse areas to New NSP.

After approval by the MPUC and the Public Service Commission of Wisconsin (PSCW), New NSP will own and operate the natural gas distribution properties in and around (i) Hudson, Wisconsin, located near the existing NSP Metro East Region, and (ii) La Crosse, Wisconsin, located near the existing NSP Southeast Region. New NSP will serve approximately 29,000 gas customers in the State of Wisconsin: 26,000 residential, 3,000 small commercial and industrial (C&I), and 11 large C&I. The rates and tariffs of New NSP for retail service to these customers will be under the jurisdiction of the PSCW. In 1994, NSP-Wisconsin delivered approximately 5.8 Bcf of natural gas to customers in the Hudson and La Crosse areas, with revenues of approximately $28 million.

C. Information Required by Rule 7825.1800

As required by Rule 7825.1800, NSP submits the following information in support of the proposed Gas Asset purchase:

All revenues arising from the Gas Assets and billed prior to the closing of the

1. All Information Required in Part 7825.1400, Items A to J

The information required by items A through I is included in Attachments D and F. A pro forma income statement portion of Item J is being prepared and will be submitted shortly as a supplement to this petition.

2. The Agreed Upon Purchase Price and Terms for Payment and Other Consideration

The Gas Assets will be purchased by New NSP for cash at net book value as of the date of the acquisition. NSP-Wisconsin and Wisconsin Energy will experience no financial gain for ratemaking purposes as a result of the property sale. The New NSP gas rate base in Wisconsin for the Hudson and La Crosse service territories will be the same as the NSP-Wisconsin rate base in these service areas. The 1994 year end net book value of the Gas Assets was $18 million, which compares to the $213 million of NSP Minnesota jurisdiction rate base supporting the final NSP Gas rates approved in Docket No. G002/GR-92-1186.

The Gas Assets will be transferred by bill of sale and deeds at book value as of the date of closing. NSP-Wisconsin does not expect to incur in 1995 or 1996 (the period prior to the proposed merger effective date) any capital expenditures with respect to the Hudson and La Crosse distribution systems, other than in the course of normal customer additions and maintenance or replacement of existing facilities.

All revenues arising from the Gas Assets and billed prior to the closing of the sale of the Gas Assets shall belong to NSP-Wisconsin; those billed after closing of the sale shall belong to New NSP.

Except for liabilities and debt incurred in the ordinary course of business, NSP-Wisconsin is not aware of any material liabilities, other than the potential environmental liability associated with a closed coal gas plant in Ashland, Wisconsin. The cost of that clean-up and NSP-Wisconsin's share of that cost is not known at this time. Any clean-up cost allocated to the former customers of NSP-Wisconsin (e.g., in the Hudson and La Crosse service territories of New NSP) will be subject to PSCW jurisdiction and will not be borne by Minnesota gas ratepayers.

3. A Description of the Property Involved in the Transaction

Attachment E.2.2 contains a map showing the NSP-Wisconsin distribution systems to be transferred to New NSP. The property consists of roughly 457 miles of gas distribution facilities, plus one liquified natural gas ("LNG") peak shaving plant and one propane-air ("LPG") peak shaving plant, both located in La Crosse. The LPG plant has a peak day capacity of 6,000 Dkt/day. The LNG plant is not currently operational, but would have a potential delivery capability of 12,000 Dkt/day. Attachment E.2.3 provides a more detailed listing of the Gas Assets.

In addition to the Gas Assets, certain franchises, rights under contracts and other intangible assets will be assigned to New NSP. NSP-Wisconsin has natural gas franchises with twelve (12) cities, towns or villages in the Hudson and La Crosse areas. Attachment E.2.4 provides a list of these communities. These franchises contain succession clauses which allow the franchise rights to be transferred to New NSP. Wis. Stat. 196.54 defines the statutory rights and obligations of franchised utilities in the State of Wisconsin. In addition, NSP-Wisconsin has certain natural gas supply, transportation and storage contracts which will be assigned to New NSP (see more detailed discussion below).

NSP-Wisconsin also has certain land and environmental permit rights in the Hudson and La Crosse areas which will be transferred to New NSP as a result of the Gas Asset transfer. As part of the merger transaction, NSP and WEC will be reviewing the various permits to determine those to be transferred to New NSP.

4. The original cost of such property, and depreciation and amortization reserves.

See Attachment F.

5. Other pertinent facts or additional information the commission may require.

NSP believes the following information is pertinent and supports Commission approval of the proposed Gas Asset transfer as consistent with the public interest:

A. Gas Supply and Transportation Arrangements

1. Wholesale Gas Supplies

In order to serve its retail natural gas customers in Hudson and La Crosse, NSP-Wisconsin has contracted for certain gas supply, pipeline transportation and storage arrangements to deliver gas to the Hudson and La Crosse town border stations of Northern Natural Gas Company ("Northern"). As part of the property transfer, NSP and WEC will be negotiating with wholesale suppliers for the division and/or assignment of delivered gas supply contracts from NSP-Wisconsin to Wisconsin Energy and New NSP.

For example, NSP-Wisconsin currently contracts with Northern for 47,064 Dkt/day of firm pipeline transportation service to the Hudson and La Crosse town border stations. These contract demand entitlements will be transferred to New NSP effective with the date of the merger. The assigned contracts are expected to allow New NSP to place its Northern transportation entitlements for the Tomah and Hudson laterals under a single contract, improving the opportunities for managing the gas supply needs of the various communities. The Gas Asset transfer will not affect NSP Gas contract demand entitlements with Viking Gas Transmission Company, an affiliated interstate natural gas pipeline company.

NSP Gas will continue to file annual changes in contract demand entitlements pursuant to Rule 7825.2910 to reflect adjustments to its firm supply and transportation portfolio to serve its existing Minnesota and North Dakota integrated gas distribution system. The costs associated with the various contract demand entitlements will continue to be reflected in the monthly NSP purchase gas adjustment ("PGA") clause filings.

At this time, NSP does not seek authorization to roll-in the cost of the wholesale supply costs in a single, integrated PGA for all New NSP gas jurisdictions. Instead, NSP plans to initially maintain separate PGA calculations for (i) the existing integrated Minnesota and North Dakota gas service territories, and (ii) the New NSP service territory in Wisconsin. Based on an initial allocation of current NSP-Wisconsin contract quantities, a PGA roll-in at this time would raise natural gas rates for New NSP gas customers in Minnesota and North Dakota. However, as costs are reduced as New NSP adjusts contract quantities with suppliers over time to reflect the integration of the Hudson and La Crosse regions, New NSP will consider a rolled-in PGA for all three retail jurisdictions.

2. FERC Jurisdictional LNG Peaking Services

NSP Gas currently contracts with NSP-Wisconsin for certain wholesale LNG peaking services pursuant to certificates of public convenience and necessity issued by FERC at rates approved by FERC. NSP Gas purchases 4,000 Dkt/day of

LNG peaking service from the NSP-Wisconsin LNG plant at Eau Claire, Wisconsin, to serve peak day system supply requirements. NSP Gas sells certain off-peak LNG liquefaction and delivery services to NSP-Wisconsin at the Wescott LNG plant. The test year costs and revenues associated with these services were reflected in the final rates approved by the Commission in Docket No. G002/GR-92-1186.

After the merger, the Wescott and Eau Claire LNG plants will be owned by New NSP and Wisconsin Energy, respectively. The FERC certificate authority for the Wescott wholesale LNG service will be transferred to New NSP, and the certificate authority for the Eau Claire wholesale LNG service will be transferred to Wisconsin Energy. The Eau Claire LNG plant would be part of the system supply portfolio of Wisconsin Energy, and the Wescott LNG plant and other NSP Gas peaking plants would be part of the system supply portfolio used to serve all New NSP customers, including those in the Hudson and La Crosse areas.

The operational aspects and contract quantities for the wholesale LNG services will not change at this time. Like all gas system supply arrangements, however, these LNG service agreements will be subject to periodic review. Any changes would be subject to Commission review in contract demand entitlement proceedings under Rule 7825.2910 and New NSP gas general rate cases.

3. Other Peaking Capability

As part of the Gas Asset transfer, New NSP would acquire the NSP-Wisconsin LPG and LNG peaking plants located at La Crosse, Wisconsin. The capacity of the La Crosse LPG plant is approximately 6,000 Dkt/day. With the addition of certain compressor facilities at a cost of $0.5 million, the LPG plant could be fully operational for use to meet the system supply requirements of retail gas customers throughout the three state New NSP gas service territory. The 1994 year end net book value of the LPG plant is approximately $0.5 million.

The La Crosse LNG plant consists of a storage tank and vaporizer. The plant is not in service today. The plant could be brought up to full operational capability -- 12,000 Dkt/day of peaking capacity -- with an investment of approximately $3 million.

LNG and LPG peaking capacity could avoid the need for New NSP to contract for incremental firm pipeline transportation and/or underground storage service to meet growing peak day customer gas supply demands in its extremely weather sensitive market. New NSP would make such investments if cost effective compared to other supply options available, in the same manner NSP Gas recently invested to upgrade the capability of the Maplewood, Minnesota LPG plant. The Commission approved inclusion of the Maplewood LPG plant upgrade costs in the final rates established in Docket No. G002/GR-92-1186.

The rate base and operating costs associated with the La Crosse LPG plant, plus any investment to upgrade LNG or LPG plant capability, would not be reflected in

New NSP's retail gas rates in Minnesota until the next gas general rate case. Any peaking capacity increase also would be reviewed as part of New NSP's total system supply portfolio in future contract demand entitlement filings under Rule 7825.2910.

B. Impact of Transfer on NSP Gas Customers

Most day-to-day operational issues related to the Hudson and La Crosse gas property transfer remain under review by NSP and WEC. However, gas customers of New NSP in Minnesota will see minimal direct service effects from the transfer. The base retail gas rates approved by the Commission in Docket No. G002/GR-92-1186 will not be changed as a result of the property transfer, and will remain in effect until the next New NSP gas general rate case. Any savings in delivered gas costs as a result of the merger and the integration of the Hudson and La Crosse areas will flow through the New NSP PGA clause to retail gas customers. Any savings in non-gas costs as a result of the property transfer and operational consolidation allocated to the Minnesota jurisdiction would be reflected in the next New NSP Minnesota gas rate case. NSP and WEC are committed to maintaining low gas rates and quality service for their gas customers in all jurisdictions.

D. Benefits of The Proposed Property Transfer

As set forth herein, the proposed Gas Asset transfer will serve the public interest by facilitating the merger of NSP and WEC, and should be approved.

The sale price between NSP-Wisconsin and New NSP for the Gas Assets is the net book value (original cost less accumulated depreciation) shown on the books and records of NSP-Wisconsin as of the date of the transaction. For ratemaking purposes, the net book value is unaffected and neither ratepayers or shareholders will be affected by the purchase price. The rate base and associated earning potential will not be changed by the transfer.

The principle benefit of the merger, and thus the property transfer, is the ability of NSP and WEC to consolidate operations, reduce duplicative functions, and thus reduce the cost to provide utility service to customers. The Gas Asset transfer will make possible certain savings in both gas costs and non-gas costs which will directly benefit gas customers of New NSP. For example, Hudson is adjacent to the existing NSP Gas Metro East service area, while La Crosse is adjacent to NSP's Winona service area in the Southeast Region. NSP Gas can consolidate the Hudson and La Crosse operations into the Metro East and Southeast regions, and reduce duplicative functions. Combining the gas operations from a common headquarters allows for more efficient utilization of gas personnel, vehicles, inventory and support staff. The additional 29,000 customers will spread NSP Gas overhead costs over a larger

customer base. As these costs are managed, New NSP can avoid or minimize increases in non-gas rates in all jurisdictions.

In addition, as gas supply operations are integrated and delivered gas cost savings are achieved, all cost savings will flow through the PGA clauses of New NSP, reducing retail gas rates in Minnesota and other states. For example, aggregation of markets served off common Northern Natural laterals (e.g., Stillwater and Hudson) creates the opportunity to more effectively manage customer growth and more reliably serve customers in these rapidly growing regions.

In sum, all New NSP customers in all jurisdictions will significantly benefit from purchase of the NSP-Wisconsin Gas Assets by New NSP. The Gas Asset purchase thus will serve the public interest and should be approved.

VI. CONCLUSION

Based on the foregoing, NSP submits the proposed merger transaction with Wisconsin Electric Corporation is in the public interest and requests Commission authorization to complete the transaction. NSP further requests Commission approval of the proposed 1.5 percent decrease in retail electric rates followed by the four year moratorium, subject to the identified exceptions. Finally, NSP requests approval of the proposed amortization of merger-related expenses and acquisition by NSP of the specified gas distribution assets located in the State of Wisconsin from NSP's wholly-owned subsidiary, NSP-Wisconsin.

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Before the
MN Public Utilities Commission

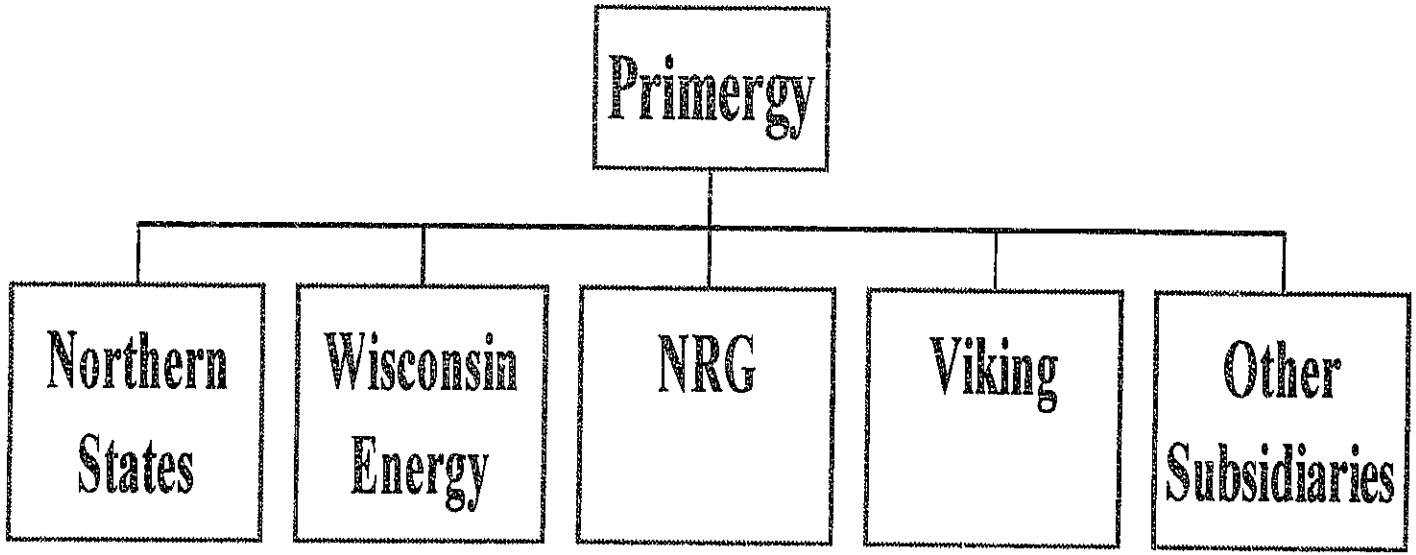
Northern States Power Company (NSP)
Petition For Approval of Merger With
Wisconsin Energy Corporation (WEC)

Docket No. E,G002/PA-95-500

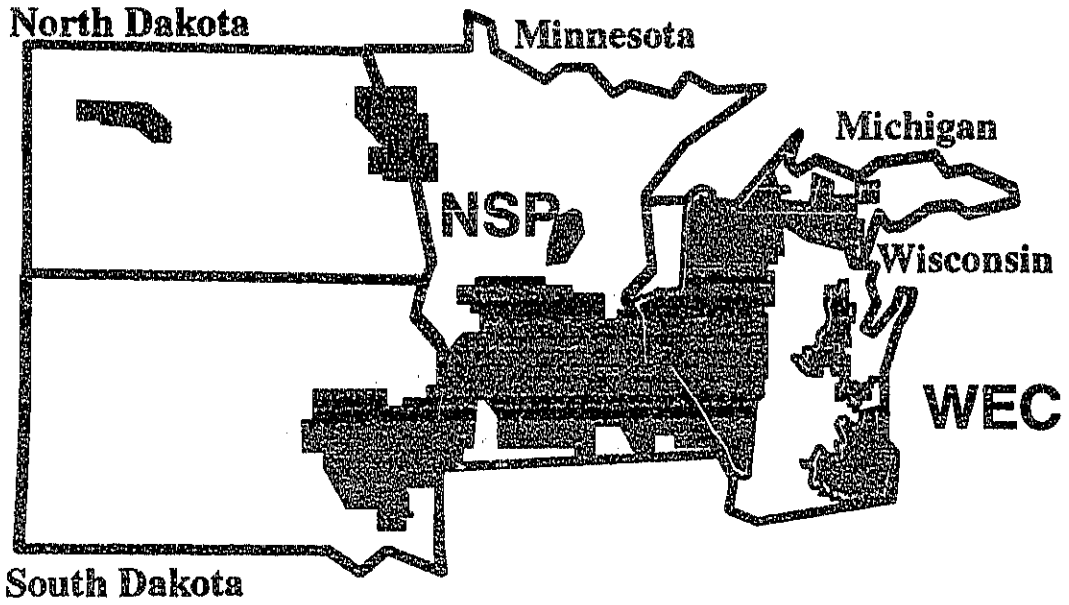
Attachment

August 1995

Attachment A



ATTACHMENT B



Rate Plan Schedules

Schedule 1 (3 pages) Shows summaries of the ten year (1997-2006) Primergy merger savings and costs with capital expenditures converted to revenue requirements and the first year (1997) total expanded operating and capital revenue requirements for electric and for gas.

Schedule 2 (4 pages) Shows the 1997 expected merger savings and merger costs. Pages 1 and 2 are the electric utility savings and costs for the total company and the Minnesota Jurisdiction. Pages 3 and 4 are the gas utility savings and costs for the total company and the Minnesota Jurisdiction.

Schedule 3 (1 page) Shows the percent of net merger savings reflected in rates in 1997 under the company's 1.5% rate reduction proposal with a three month delay and a six month delay in achieving the first year savings.

Schedule 4 (2 pages) Shows the percents used to allocate the functional categories of savings and costs between Northern States Power Company (NSP) and Wisconsin Energy Company and to NSP electric and gas utilities and to the Minnesota Jurisdiction.

Schedule 5 (3 pages) Describes the allocation methods used to allocate the various categories of merger savings and costs to company, utility and state jurisdiction.

Schedule 6 (4 pages) Shows the 1997 through 2000 expected merger savings and merger costs. Pages 1 and 2 are the electric utility savings and costs for the total company and the Minnesota Jurisdiction. Pages 3 and 4 are the gas utility savings and costs for the total company and the Minnesota Jurisdiction.

Northern States Power Company
Primergy - 10 Year Summary
Merger Savings and Costs (Revenue Requirements)
Dollars in Thousands

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total	
Corporate & Operations Labor	70,749	93,078	100,741	108,633	116,766	125,160	133,827	142,782	152,048	161,632	1,205,416	55.2%
Operations & Facilities Consolidation												
Dispatch Center	500	518	536	554	2,137	1,982	1,665	1,769	1,675	681	12,217	0.6%
Miscellaneous Facilities	2,918	3,020	3,126	3,235	3,348	3,468	3,587	3,713	3,842	3,977	34,232	1.6%
Total	3,418	3,538	3,662	3,789	5,485	5,448	5,452	5,482	5,517	4,658	46,449	2.1%
Corporate & Administrative Programs												
Information Services	14,673	15,665	16,153	16,643	17,073	11,920	12,171	12,198	12,352	12,339	141,186	6.5%
Professional Services	4,109	4,253	4,402	4,556	4,715	4,880	5,051	5,228	5,411	5,600	48,203	2.2%
DSM Administration	2,722	2,817	2,916	3,018	3,124	3,233	3,346	3,463	3,584	3,710	31,933	1.5%
Administrative & General Overhead	2,438	2,523	2,612	2,703	2,798	2,896	2,997	3,102	3,210	3,323	28,602	1.3%
Benefits Administration	1,992	2,198	2,413	2,640	2,877	3,127	3,389	3,667	3,959	4,267	30,529	1.4%
Insurance	1,821	1,885	1,951	2,019	2,090	2,163	2,238	2,317	2,398	2,482	21,364	1.0%
Regulatory Expenses	379	392	406	420	435	450	466	482	499	517	4,446	0.2%
Advertising	312	323	334	346	358	371	384	397	411	425	3,661	0.2%
Shareholder Services	268	277	287	297	308	319	329	341	353	365	3,144	0.1%
	28,714	30,333	31,474	32,642	33,778	29,358	30,371	31,195	32,177	33,027	313,067	14.3%
Purchasing Economies (Non-fuel)												
Procurement	8,258	10,711	13,176	15,659	18,160	20,684	23,235	25,816	28,428	31,072	195,199	8.9%
Inventory Reduction	1,074	1,074	1,074	1,074	1,074	1,074	1,074	1,074	1,074	1,074	10,740	0.5%
Contract Services	3,513	3,980	4,452	4,928	5,412	5,900	6,398	6,902	7,415	7,937	56,837	2.6%
	12,845	15,765	18,702	21,661	24,646	27,658	30,707	33,792	36,917	40,083	262,776	12.0%
Nuclear	8,656	8,896	9,527	10,171	10,826	11,495	12,178	12,874	13,587	14,315	112,525	5.2%
Fuel Procurement	0	0	0	14,286	14,286	14,286	14,286	14,286	14,286	14,286	100,002	4.6%
Production Dispatch	772	42	3,629	5,847	11,518	4,992	5,466	6,664	671	2,422	42,023	1.9%
Gas Supply	8,725	9,030	9,346	9,674	10,012	10,363	10,725	11,101	11,489	11,891	102,356	4.7%
Total Savings	133,879	160,682	177,081	206,703	227,317	228,760	243,012	258,176	266,692	282,314	2,184,614	100.0%
Less:												
Costs to Achieve (1)	32,578	37,984	38,271	38,865	615	636	658	681	705	730	151,723	
Premerger Initiatives	5,383	6,854	8,446	9,439	9,838	10,253	10,687	11,139	11,610	12,102	95,751	
Net Savings	95,918	115,844	130,364	158,399	216,864	217,871	231,667	246,356	254,377	269,482	1,937,140	

(1) Includes $30.0 million of Transaction Costs and $121.7 million of other Costs to Achieve.

Schedule 1
Page 1 of 3

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Northern States Power Company
1997 Expanded Operating & Capital Revenue Requirement Summary
Dollars in Thousands

	Primergy Total	NSP Total	Electric Utility	Electric Minnesota
Merger Related Savings (1)				
Labor				
Corporate & Technical	58,670	31,084	27,840	24,962
Nuclear	9,497	4,766	4,766	4,282
Gas	2,582	1,263	-	-
Total	70,748	37,113	32,606	29,245
Operations & Facilities Consolidation				
Dispatch Center	500	251	251	225
Eau Claire Backup Dispatch	438	220	220	197
Miscellaneous Facilities	2,480	1,315	1,178	1,056
Total	3,418	1,786	1,648	1,479
Corporate & Administrative Programs:				
Professional Services	4,109	2,179	1,951	1,749
Information Services	14,673	7,656	6,898	6,197
Insurance	1,821	966	865	775
Benefits	1,992	1,055	945	848
Administrative & General Overhead	2,438	1,293	1,158	1,038
Shareholder Services	268	142	127	114
Regulatory Expenses	379	201	180	161
DSM Expenditures	2,722	1,293	1,293	1,293
Advertising	312	165	148	133
Total	28,714	14,951	13,565	12,307
Purchasing Economies (Nonfuel):				
Procurement	8,256	4,348	3,904	3,503
Contract Services	3,513	1,859	1,666	1,494
Inventory Reduction	1,074	554	554	498
Total	12,843	6,761	6,123	5,494
Nuclear Operations	8,656	4,344	4,344	3,903
Fuel Expense				
Electric Fuel Procurement	-	-	-	-
Production Dispatch	772	377	377	337
Gas Operations	8,725	2,080	-	-
Total	9,497	2,456	377	337
Wisconsin Direct Savings Included Above	-	(9,921)	(9,038)	(8,104)
Total Merger Related Savings	133,877	57,491	49,625	44,661
Merger Related Costs				
Costs to Achieve	(25,078)	(13,301)	(11,908)	(10,676)
Premerger Initiatives (Labor)	(3,035)	(1,610)	(1,441)	(1,292)
Premerger Initiatives (Non-labor)	(2,348)	(1,245)	(1,115)	(1,000)
Transaction Costs	(7,500)	(3,978)	(3,561)	(3,193)
Taxes on Transaction Costs	(5,148)	(2,730)	(2,444)	(2,191)
Total Merger Related Costs	(43,109)	(22,864)	(20,469)	(18,351)
Interchange Agreement Impact	(224)	5,794	5,794	5,384
Net Merger Related Savings	90,544	40,421	34,951	31,694

(1) Includes both Operating and Capital Revenue Requirement Savings

(1) Includes both Operating and Capital Revenue Requirement Savings

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Northern States Power Company
1997 Expanded Operating & Capital Revenue Requirement Summary
Dollars in Thousands

	Primergy Total	NSP Total	Gas Utility	Gas Minnesota
Merger Related Savings (1)				
Labor				
Corporate & Technical	58,670	31,084	3,244	2,704
Nuclear	9,497	4,766	-	-
Gas	2,582	1,263	1,263	1,062
Total	70,748	37,113	4,508	3,765
Operations & Facilities Consolidation				
Dispatch Center	500	251	-	-
Eau Claire Backup Dispatch	438	220	-	-
Miscellaneous Facilities	2,480	1,315	138	115
Total	3,418	1,786	138	115
Corporate & Administrative Programs:				
Professional Services	4,109	2,179	228	190
Information Services	14,673	7,656	757	644
Insurance	1,821	966	101	84
Benefits	1,992	1,055	110	92
Administrative & General Overhead	2,438	1,293	135	113
Shareholder Services	268	142	15	12
Regulatory Expenses	379	201	21	18
DSM Expenditures	2,722	1,293	-	-
Advertising	312	165	17	14
Total	28,714	14,951	1,386	1,167
Purchasing Economies (Nonfuel):				
Procurement	8,256	4,348	445	374
Contract Services	3,513	1,859	193	161
Inventory Reduction	1,074	554	-	-
Total	12,843	6,761	638	535
Nuclear Operations	8,656	4,344	-	-
Fuel Expense				
Electric Fuel Procurement	-	-	-	-
Production Dispatch	772	377	-	-
Gas Operations	8,725	2,080	2,080	1,670
Total	9,497	2,456	2,080	1,670
Wisconsin Direct Savings Included Above	-	(9,921)	(883)	(878)
Total Merger Related Savings	133,877	57,491	7,866	6,374
Merger Related Costs				
Costs to Achieve	(25,078)	(13,301)	(1,393)	(1,160)
Premerger Initiatives (Labor)	(3,035)	(1,610)	(169)	(140)
Premerger Initiatives (Non-labor)	(2,348)	(1,245)	(130)	(109)
Transaction Costs	(7,500)	(3,978)	(417)	(347)
Taxes on Transaction Costs	(5,148)	(2,730)	(286)	(238)
Total Merger Related Costs	(43,109)	(22,864)	(2,395)	(1,993)
Interchange Agreement Impact	(224)	5,794	-	-
Net Merger Related Savings	90,544	40,421	5,471	4,381

(1) Includes both Operating and Capital Revenue Requirement Savings

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Northern States Power Company
1997 Merger Savings and Costs (Revenue Requirements)
Dollars in Thousands

Schedule 2
Page 1 of 4

	Primergy Total	NSP Total	ELECTRIC Utility	ELECTRIC Minnesota
Operating Expenses				
Fuel Expense Savings				
Electric Fuel & Purchased Power				
Electric Fuel Procurement	-	-	-	-
Production Dispatch	772	377	377	337
Total Electric Fuel & Purchased Power	772	377	377	337
DSM Expenditures Included in Clause (State of Minnesota Only)	1,293	1,293	1,293	1,293
Gas Purchased for Resale				
Gas Operations	8,725	2,080	-	-
Total Gas Purchased for Resale	8,725	2,080	-	-
Subtotal Fuel Expense and DSM Savings	10,790	3,749	1,670	1,630
O & M Expense Savings				
Electric Production & Transmission				
Nuclear Labor	9,093	4,562	4,562	4,099
Nuclear Operations	8,294	4,161	4,161	3,739
DSM Expenditures in O&M (Wi & Mi)	1,429	-	-	-
Dispatch Center	500	251	251	225
Eau Claire Backup Dispatch	438	220	220	197
Total Electric Production & Transmission	19,754	9,194	9,194	8,261
Gas Production, Storage & Transp.				
Gas Labor	2,472	1,206	-	-
Total Gas Production, Storage & Transp	2,472	1,206	-	-
System O & M				
Corporate & Technical Labor	56,171	29,792	26,671	23,912
Miscellaneous Facilities	2,480	1,315	1,178	1,056
Professional Services	4,109	2,179	1,951	1,749
Information Services	5,301	2,812	2,517	2,257
Insurance	1,821	966	865	775
Benefits	1,907	1,011	905	812
Administrative & General Overhead	2,438	1,293	1,158	1,038
Shareholder Services	268	142	127	114
Regulatory Expenses	379	201	180	161
Advertising	312	165	148	133
Procurement	6,013	3,189	2,855	2,560
Contract Services	3,157	1,674	1,499	1,344
Less Wisconsin Direct O&M Savings	-	(9,507)	(8,659)	(7,763)
Total System O & M	84,356	35,234	31,395	28,147
Subtotal O & M Expense Savings	106,582	45,634	40,589	36,407
Merger Related Costs				
Less Premerger Initiatives (Labor)	(3,035)	(1,610)	(1,441)	(1,292)
Less Premerger Initiatives (Non-labor)	(2,348)	(1,245)	(1,115)	(1,000)
Less Costs to Achieve	(25,078)	(13,301)	(11,908)	(10,676)
Less Transaction Costs	(7,500)	(3,978)	(3,561)	(3,193)
Less Taxes on Transaction Costs	(5,148)	(2,730)	(2,444)	(2,191)
Subtotal Merger Related Costs	(43,109)	(22,864)	(20,469)	(18,351)
Net Operating Expense Savings	74,263	26,519	21,790	19,686

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Northern States Power Company
1997 Merger Savings and Costs (Revenue Requirements)
Dollars in Thousands

Schedule 2
Page 2 of 4

	Primergy Total	NSP Total	ELECTRIC Utility	ELECTRIC Minnesota
Capital Revenue Requirement Savings				
Electric Production & Transmission				
Nuclear Labor	404	204	204	183
Nuclear Operations	362	183	183	164
Dispatch Center	-	-	-	-
Total Production & Transmission	765	387	387	348
Gas Production, Storage & Transp.				
Gas Capitalized Labor	110	58	-	-
Total Gas Production, Storage & Transp.	110	58	-	-
Distribution & Other				
Inventory Reduction	1,074	554	554	498
Total Distribution & Other	1,074	554	554	498
System Capital Expenditures				
Corporate & Technical Capitalized Labor	2,499	1,292	1,168	1,051
Procurement	2,243	1,159	1,048	943
Contract Services	356	184	167	150
Professional Services	-	-	-	-
Information Services	9,372	4,844	4,381	3,940
Benefits	85	44	40	36
Less Wisconsin Direct Savings	-	(413)	(378)	(340)
Total System Capital Expenditures	14,556	7,110	6,426	5,779
Total Capital Revenue Requirement Savings	16,505	8,108	7,366	6,624
Total O & M and Capital Rev Req Savings	90,768	34,627	29,156	26,310
Interchange Impact				
Production				
Demand	362	23,739	23,739	21,350
Decommissioning	21	(3,416)	(3,416)	(3,073)
Energy	10	(34,286)	(34,286)	(30,663)
Total Production	393	(13,963)	(13,963)	(12,386)
Transmission	(617)	19,758	19,758	17,770
Total Interchange Impact	(224)	5,794	5,794	5,384
Total Savings and Interchange	90,544	40,421	34,951	31,694

Northern States Power Company
1997 Merger Savings and Costs (Revenue Requirements)
Dollars in Thousands

Schedule 2
Page 3 of 4

	Primergy Total	NSP Total	GAS Utility	GAS Minnesota
Operating Expenses				
Fuel Expense Savings				
Electric Fuel & Purchased Power				
Electric Fuel Procurement	-	-	-	-
Production Dispatch	772	377	-	-
Total Electric Fuel & Purchased Power	772	377	-	-
DSM Expenditures Included in Clause (State of Minnesota Only)	1,293	1,293	-	-
Gas Purchased for Resale				
Gas Operations	8,725	2,080	2,080	1,670
Total Gas Purchased for Resale	8,725	2,080	2,080	1,670
Subtotal Fuel Expense and DSM Savings	10,790	3,749	2,080	1,670
O & M Expense Savings				
Electric Production & Transmission				
Nuclear Labor	9,093	4,562	-	-
Nuclear Operations	8,294	4,161	-	-
DSM Expenditures in O&M (Wi & Mi)	1,429	-	-	-
Dispatch Center	500	251	-	-
Eau Claire Backup Dispatch	438	220	-	-
Total Electric Production & Transmission	19,754	9,194	-	-
Gas Production, Storage & Transp.				
Gas Labor	2,472	1,206	1,206	1,011
Total Gas Production, Storage & Transp.	2,472	1,206	1,206	1,011
System O & M				
Corporate & Technical Labor	56,171	29,792	3,121	2,597
Miscellaneous Facilities	2,480	1,315	138	115
Professional Services	4,109	2,179	228	190
Information Services	5,301	2,812	295	245
Insurance	1,821	966	101	84
Benefits	1,907	1,011	106	88
Administrative & General Overhead	2,438	1,293	135	113
Shareholder Services	268	142	15	12
Regulatory Expenses	379	201	21	18
Advertising	312	165	17	14
Procurement	6,013	3,189	334	278
Contract Services	3,157	1,674	175	146
Less Wisconsin Direct O&M Savings	-	(9,507)	(848)	(843)
Total System O & M	84,356	35,234	3,839	3,058
Subtotal O & M Expense Savings	106,582	45,634	5,045	4,069
Merger Related Costs				
Less Premerger Initiatives (Labor)	(3,035)	(1,610)	(169)	(140)
Less Premerger Initiatives (Non-labor)	(2,348)	(1,245)	(130)	(109)
Less Costs to Achieve	(25,078)	(13,301)	(1,393)	(1,160)
Less Transaction Costs	(7,500)	(3,978)	(417)	(347)
Less Taxes on Transaction Costs	(5,148)	(2,730)	(286)	(238)
Subtotal Merger Related Costs	(43,109)	(22,864)	(2,395)	(1,993)
Net Operating Expense Savings	74,263	26,519	4,729	3,746

Northern States Power Company
1997 Merger Savings and Costs (Revenue Requirements)
Dollars in Thousands

Schedule 2
Page 4 of 4

	Primergy Total	NSP Total	GAS Utility	GAS Minnesota
Capital Revenue Requirement Savings				
Electric Production & Transmission				
Nuclear Labor	404	204	-	-
Nuclear Operations	362	183	-	-
Dispatch Center	-	-	-	-
Total Production & Transmission	765	387	-	-
Gas Production, Storage & Transp.				
Gas Capitalized Labor	110	58	58	50
Total Gas Production, Storage & Transp.	110	58	58	50
Distribution & Other				
Inventory Reduction	1,074	554	-	-
Total Distribution & Other	1,074	554	-	-
System Capital Expenditures				
Corporate & Technical Capitalized Labor	2,499	1,292	123	106
Procurement	2,243	1,159	111	95
Contract Services	356	184	18	15
Professional Services	-	-	-	-
Information Services	9,372	4,844	463	399
Benefits	85	44	4	4
Less Wisconsin Direct Savings	-	(413)	(35)	(34)
Total System Capital Expenditures	14,556	7,110	684	585
Total Capital Revenue Requirement Savings	16,505	8,108	741	635
Total O & M and Capital Rev Req Savings	90,768	34,627	5,471	4,381
Interchange Impact				
Production				
Demand	362	23,739	-	-
Decommissioning	21	(3,415)	-	-
Energy	10	(34,286)	-	-
Total Production	393	(13,963)	-	-
Transmission	(617)	19,758	-	-
Total Interchange Impact	(224)	5,794	-	-
Total Savings and Interchange	90,544	40,421	5,471	4,381

Norther States Power Company
Electric Utility - State of Minnesota
1997 Rate Reduction Risk Analysis
With 3 Month & 6 Month Delay in Savings
Dollars in Thousands

Savings Implementation Date	Total Retail Revenue	1.6% Rate Reduction	Total MN Electric Savings	1.6% Rate Reduction as a % of Total Savings
1/1/97	$ 1,490,568	$ 22,359	$ 31,694	70.5%
4/1/1997 (3 month delay)	$ 1,490,568	$ 22,359	$ 23,771	94.1%
7/1/1997 (6 month delay)	$ 1,490,568	$ 22,359	$ 15,847	141.1%

Schedule 3
Page 1 of 1

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Northern States Power Company
Merger Savings and Costs (Revenue Requirements)
Allocation Percentages

	Allocation Method	Primergy Allocation		NSP Utility Allocation		NSP Jurisdictional Allocation					
						Electric Utility			Gas Utility		
		WEC	NSP	Electric	Gas	MN	ND	SD	MN	ND	WI
Operating Expenses											
Fuel Expense Savings											
Electric Fuel & Purchased Power											
Electric Fuel Procurement	Energy Allocator	51.2133%	48.7867%	100.000%		89.4340%	6.1944%	4.3716%			
Production Dispatch	Energy Allocator	51.2133%	48.7867%	100.000%		89.4340%	6.1944%	4.3716%			
DSM Expenditures Included in Clause (State of Minnesota Only)	100% State of MN		100.000%	100.000%		100.000%					
Gas Purchased for Resale											
Gas Operations	Direct Assignment	76.1627%	23.8373%		100.000%				80.3024%	8.6480%	11.0496%
O & M Expense Savings											
Electric Production & Transmission											
Nuclear Labor	Composite Demand/Energy	49.8267%	50.1733%	100.000%		89.8445%	5.7539%	4.4016%			
Nuclear Operations	Composite Demand/Energy	49.8267%	50.1733%	100.000%		89.8445%	5.7539%	4.4016%			
DSM Expenditures in O&M (WI & MI)	Composite Dmd/Engy-WEC	100.000%									
Dispatch Center	Composite Demand/Energy	49.8267%	50.1733%	100.000%		89.8445%	5.7539%	4.4016%			
Eau Claire Backup Dispatch	Composite Demand/Energy	49.8267%	50.1733%	100.000%		89.8445%	5.7539%	4.4016%			
Gas Production, Storage & Transp.											
Gas Labor	Gas Customers	51.2323%	48.7677%		100.000%				83.8931%	7.9873%	8.1196%
System O & M											
Corporate & Technical Labor	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Miscellaneous Facilities	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Professional Services	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Information Services	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Insurance	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Benefits	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Administrative & General Overhead	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Shareholder Services	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Regulatory Expenses	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Advertising	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Procurement	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Contract Services	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Less Wisconsin Direct O&M Savings	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Wisconsin Direct System O&M Savings	Labor Without A&G - (WI & MI)	99.0935%	0.9065%		100.000%						100.000%
Less Premerger Initiatives	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Less Premerger Initiatives (Labor)	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Less Costs to Achieve	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%
Less Transaction Costs	Labor Without A&G	46.9612%	53.0388%	89.5239%	10.4761%	89.6539%	6.0754%	4.2707%	83.2239%	9.0449%	7.7312%

Northern States Power Company
Merger Savings and Costs (Revenue Requirements)
Allocation Percentages

	Allocation Method	Primergy Allocation		NSP Utility Allocation		NSP Jurisdictional Allocation					
						Electric Utility			Gas Utility		
		WEC	NSP	Electric	Gas	MN	ND	SD	MN	ND	WI
Capital Revenue Requirement Savings											
Electric Production & Transmission											
Nuclear Capitalized Labor	Demand Allocator - NSP & WEC	49.5014%	50.4986%	100.000%		89.9376%	5.6540%	4.4084%			
Dispatch Center	Demand Allocator - NSP & WEC	49.5014%	50.4986%	100.000%		89.9376%	5.6540%	4.4084%			
Gas Production, Storage & Transp.											
Gas Capitalized Labor	Gas Net Dist Plant in Service	47.3244%	52.6756%		100.000%				86.8273%	7.0390%	6.1337%
Distribution & Other											
System Capital Expenditures											
Corporate & Technical Capitalized Labor	Elec/Gas Net Plant in Service	48.3163%	51.6837%	90.4488%	9.5512%	89.9255%	5.3072%	4.7673%	86.2403%	7.6232%	6.1365%
Procurement	Elec/Gas Net Plant in Service	48.3163%	51.6837%	90.4488%	9.5512%	89.9255%	5.3072%	4.7673%	86.2403%	7.6232%	6.1365%
Contract Services	Elec/Gas Net Plant in Service	48.3163%	51.6837%	90.4488%	9.5512%	89.9255%	5.3072%	4.7673%	86.2403%	7.6232%	6.1365%
Professional Services	Elec/Gas Net Plant in Service	48.3163%	51.6837%	90.4488%	9.5512%	89.9255%	5.3072%	4.7673%	86.2403%	7.6232%	6.1365%
Information Services	Elec/Gas Net Plant in Service	48.3163%	51.6837%	90.4488%	9.5512%	89.9255%	5.3072%	4.7673%	86.2403%	7.6232%	6.1365%
Benefits	Elec/Gas Net Plant in Service	48.3163%	51.6837%	90.4488%	9.5512%	89.9255%	5.3072%	4.7673%	86.2403%	7.6232%	6.1365%
Less Wisconsin Direct Savings	Elec/Gas Net Plant in Service	48.3163%	51.6837%	90.4488%	9.5512%	89.9255%	5.3072%	4.7673%	86.2403%	7.6232%	6.1365%
Wisconsin Direct Capital Savings	Elec/Gas Net Pit in Srv - (WI & MI)	99.3769%	0.6231%		100.000%						100.000%
Interchange Impact											
Production											
Demand	Demand Allocator - NSP & WEC	49.5014%	50.4986%	100.000%		89.9376%	5.6540%	4.4084%			
Decommissioning	Demand Allocator - NSP & WEC	49.5014%	50.4986%	100.000%		89.9376%	5.6540%	4.4084%			
Energy	Energy Allocator - NSP & WEC	51.2133%	48.7867%	100.000%		89.4340%	6.1944%	4.3716%			
Transmission	Demand Allocator - NSP & WEC	49.5014%	50.4986%	100.000%		89.9376%	5.6540%	4.4084%			

Schedule 4
Page 2 of 2

Northern States Power Company
Electric and Gas Utility
Descriptions of Allocation Methods
Used for Merger Savings and Costs

Energy Allocator

The Fuel and Fuel-related items listed below are allocated on Energy, i.e. Sales. The Energy allocator is used because of the direct correlation of customer sales and the level of fuel consumed. The consolidation of Production Dispatch optimizes the use of the combined generating plants, thus reduces fuel expense or energy purchases. Allocation of fuel expense or purchased energy based on Energy is consistent with the rate-making process in Minnesota, Wisconsin and FERC.

Electric Fuel Procurement
Electric Production Dispatch
Interchange Production Energy

Demand - 12CP (Coincident Peak) Allocator

The Electric Production & Transmission capital savings and portions of the Interchange items listed below are allocated on the Demand Allocator. The allocation of these functions using Demand is consistent with the current rate-making process in Minnesota and Wisconsin.

Nuclear Labor Capitalized Savings
Electric Dispatch Center Capital Savings
Interchange Production Demand
Interchange Production Decommissioning
Interchange Transmission

Composite Demand & Energy Allocator

The Electric Production & Transmission O&M items listed below use a composite Energy and Demand Allocator (weighted 81% Demand and 19% Energy). The weighting is based on 1994 actual Production and Transmission expenses excluding Fuel and Purchased Power.

Nuclear Operations (Including Labor) O&M Savings
Dispatch Center O&M Savings

Northern States Power Company
Electric and Gas Utility
Descriptions of Allocation Methods
Used for Merger Savings and Costs

Labor Expense Allocator Without A&G Labor

The Corporate System O&M savings items (which consist primarily of labor), the Premerger initiatives, Cost to Achieve and Transaction Costs are allocated on the Labor Expense Allocator Without A&G Labor. Corporate System expenses are expenses which support all functions. Therefore, it is appropriate to allocate the savings included in this category based on the labor allocator . Use of the Labor allocator is consistent with the FERC method of allocation of A&G expenses.

Corporate & Technical Labor	Administrative & General Overhead
Miscellaneous Facilities	Shareholder Services
Professional Services	Regulatory Expenses
Information Services	Advertising
Insurance	Procurement
Benefits	Contract Services

Gas Customer Allocator

The Gas Labor expense savings item which is allocated on Gas customers consists of the labor for the Gas Designers and Engineers. These people are primarily the designers of the Gas Distribution system. The customer allocator was used because of the direct relationship of the distribution system to customer levels.

Gas Direct Assignment

The Gas Purchased for Resale expense savings were directly assigned to the Company where the savings are expected occur and then allocated to state jurisdictions within that Company based on a design day allocator. Analysis was completed as to the impact of specific purchase contracts that would change due to the merger.

Design Day Allocator

The Gas Purchased for Resale expense savings were directly assigned to Company, then allocated to state jurisdictions within that Company based on a design day allocator. The design day allocator was developed using the maximum volume of gas possible during a 24-hour day period necessary to meet firm customer requirements for a jurisdiction.

Electric/Gas Net Plant In Service Allocator

The Corporate System capital savings items which consist primarily of labor are allocated on the composite Electric & Gas Net Plant In Service. The Corporate System savings apply to all capital functions.

Corporate & Technical Labor	Professional Services
Procurement	Information Services
Contract Services	Benefits

Gas Distribution Net Plant In Service Allocator

The capitalized portion of Gas Labor expense savings item consists of the labor for the Gas Designers and Engineers. These people work primarily on the design of the Gas Distribution system. The Gas Distribution Net Plant In Service Allocator was used because of the direct relationship of the distribution system to customer levels.

Schedule 6
Page 1 of 4

Northern States Power Company
Electric Utility - State of Minnesota
1997 - 2000 Merger Savings and Costs (Revenue Requirements)
Dollars in Thousands

	1997	1998	1999	2000
Operating Expenses				
Fuel Expense Savings				
Electric Fuel & Purchased Power				
Electric Fuel Procurement	-	-	-	6,233
Production Dispatch	337	18	1,583	2,551
Total Electric Fuel & Purchased Power	337	18	1,583	8,784
DSM Expenditures Included in Clause (State of Minnesota Only)	1,293	1,338	1,385	1,433
Gas Purchased for Resale				
Gas Operations	-	-	-	-
Total Gas Purchased for Resale	-	-	-	-
Subtotal Fuel Expense and DSM Savings	**1,630**	**1,356**	**2,968**	**10,218**
O & M Expense Savings				
Electric Production & Transmission				
Nuclear Operations (Including Labor)	7,838	12,259	12,773	13,309
DSM Expenditures in O&M (Wi & Mi)	-	-	-	-
Dispatch Center	225	233	241	250
Eau Claire Backup Dispatch	197	204	211	219
Total Electric Production & Transmission	8,261	12,696	13,226	13,778
Gas Production, Storage & Transp.				
Gas Labor	-	-	-	-
Total Gas Production, Storage & Transp.	-	-	-	-
System O & M				
Corporate & Technical Labor	23,912	27,561	28,801	30,097
Miscellaneous Facilities	1,056	1,093	1,131	1,171
Professional Services	1,749	1,810	1,874	1,939
Information Services	2,257	2,562	2,570	2,577
Insurance	775	802	831	859
Benefits	812	862	916	973
Administrative & General Overhead	1,038	1,074	1,112	1,151
Shareholder Services	114	118	122	126
Regulatory Expenses	161	167	173	179
Advertising	133	138	142	147
Procurement	2,560	2,649	2,742	2,836
Contract Services	1,344	1,391	1,440	1,490
Less Wisconsin Direct O&M Savings	(7,763)	(8,113)	(8,478)	(8,860)
Total System O & M	28,147	32,114	33,374	34,688
Subtotal O & M Expense Savings	**36,407**	**44,810**	**46,600**	**48,467**
Total Operating Expense Savings	**38,037**	**46,167**	**49,568**	**58,685**
Less Premerger Initiatives (Labor)	(1,292)	(1,883)	(2,525)	(2,910)
Less Premerger Initiatives (Non-labor)	(1,000)	(1,034)	(1,071)	(1,108)
Less Costs to Achieve	(10,676)	(12,977)	(13,099)	(13,352)
Less Transaction Costs	(5,384)	(5,384)	(5,384)	(5,384)
Total Costs	**(18,351)**	**(21,278)**	**(22,079)**	**(22,754)**
Net Non-fuel/DSM Clause Expense Savings	**18,056**	**23,532**	**24,521**	**25,712**
Net Operating Expense Savings	**19,686**	**24,888**	**27,490**	**35,930**

Northern States Power Company
Electric Utility - State of Minnesota
1997 - 2000 Merger Savings and Costs (Revenue Requirements)
Dollars in Thousands

	1997	1998	1999	2000
Capital Revenue Requirement Savings				
Electric Production & Transmission				
Nuclear Operations (including Labor)	348	881	1,419	1,962
Dispatch Center	-	-	-	-
Total Production & Transmission	348	881	1,419	1,962
Gas Production, Storage & Transp.				
Gas Capitalized Labor	-	-	-	-
Total Gas Production, Storage & Transp.	-	-	-	-
Distribution & Other				
Inventory Reduction	498	498	498	498
Total Distribution & Other	498	498	498	498
System Capital Expenditures				
Corporate & Technical Capitalized Labor	1,051	2,225	3,414	4,620
Procurement	943	1,886	2,831	3,780
Contract Services	150	300	450	600
Professional Services	-	-	-	-
Information Services	3,940	4,055	4,253	4,451
Benefits	36	72	110	149
Less Wisconsin Direct Savings	(340)	(684)	(1,032)	(1,385)
Total System Capital Expenditures	5,779	7,855	10,026	12,215
Total Capital Revenue Requirement Savings	**6,624**	**9,233**	**11,943**	**14,676**
Total O & M and Capital Rev Req Savings	**26,310**	**34,122**	**39,433**	**50,606**
Interchange Impact				
Production				
Demand	21,350	21,350	21,350	21,350
Decommissioning	(3,073)	(3,073)	(3,073)	(3,073)
Energy	(30,663)	(30,663)	(30,663)	(30,663)
Total Production	(12,386)	(12,386)	(12,386)	(12,386)
Transmission	17,770	17,770	17,770	17,770
Total Interchange Impact	**5,384**	**5,384**	**5,384**	**5,384**
Total Savings and Interchange	**31,694**	**39,506**	**44,817**	**55,990**

Northern States Power Company
Gas Utility - State of Minnesota
1997 - 2000 Merger Savings and Costs (Revenue Requirements)
Dollars in Thousands

	1997	1998	1999	2000
Operating Expenses				
Fuel Expense Savings				
Electric Fuel & Purchased Power				
Electric Fuel Procurement	-	-	-	-
Production Dispatch	-	-	-	-
Total Electric Fuel & Purchased Power	-	-	-	-
DSM Expenditures Included in Clause (State of Minnesota Only)	-	-	-	-
Gas Purchased for Resale				
Gas Operations	1,670	1,729	1,789	1,852
Total Gas Purchased for Resale	1,670	1,729	1,789	1,852
Subtotal Fuel Expense and DSM Savings	1,670	1,729	1,789	1,852
O & M Expense Savings				
Electric Production & Transmission				
Nuclear Operations (Including Labor)	-	-	-	-
DSM Expenditures in O&M (Wi & Mi)	-	-	-	-
Dispatch Center	-	-	-	-
Eau Claire Backup Dispatch	-	-	-	-
Total Electric Production & Transmission	-	-	-	-
Gas Production, Storage & Transp.				
Gas Labor	1,011	1,057	1,104	1,154
Total Gas Production, Storage & Transp.	1,011	1,057	1,104	1,154
System O & M				
Corporate & Technical Labor	2,597	2,994	3,129	3,269
Miscellaneous Facilities	115	119	123	127
Professional Services	190	197	204	211
Information Services	245	278	279	280
Insurance	84	87	90	93
Benefits	88	94	99	106
Administrative & General Overhead	113	117	121	125
Shareholder Services	12	13	13	14
Regulatory Expenses	18	18	19	19
Advertising	14	15	15	16
Procurement	273	288	298	308
Contract Services	146	151	156	162
Less Wisconsin Direct O&M Savings	(843)	(881)	(921)	(962)
Total System O & M	3,058	3,488	3,625	3,768
Subtotal O & M Expense Savings	4,069	4,545	4,730	4,922
Total Operating Expense Savings	5,739	6,274	6,519	6,774
Less Premerger Initiatives (Labor)	(140)	(205)	(274)	(316)
Less Premerger Initiatives (Non-labor)	(109)	(112)	(116)	(120)
Less Costs to Achieve	(1,160)	(1,410)	(1,423)	(1,450)
Less Transaction Costs	(585)	(585)	(585)	(585)
Total Costs	(1,993)	(2,311)	(2,398)	(2,472)
Net Non-fuel/DSM Clause Expense Savings	2,075	2,234	2,331	2,451
Net Operating Expense Savings	3,746	3,962	4,120	4,302

Northern States Power Company

Schedule 6
Page 4 of 4

Northern States Power Company
Gas Utility - State of Minnesota
1997 - 2000 Merger Savings and Costs (Revenue Requirements)
Dollars in Thousands

	1997	1998	1999	2000
Capital Revenue Requirement Savings				
Electric Production & Transmission				
Nuclear Operations (Including Labor)	-	-	-	-
Dispatch Center	-	-	-	-
Total Production & Transmission	-	-	-	-
Gas Production, Storage & Transp.				
Gas Capitalized Labor	50	101	152	204
Total Gas Production, Storage & Transp.	50	101	152	204
Distribution & Other				
Inventory Reduction	-	-	-	-
Total Distribution & Other	-	-	-	-
System Capital Expenditures				
Corporate & Technical Capitalized Labor	106	225	346	468
Procurement	95	191	287	383
Contract Services	15	30	46	61
Professional Services	-	-	-	-
Information Services	399	411	431	451
Benefits	4	7	11	15
Less Wisconsin Direct Savings	(34)	(69)	(105)	(140)
Total System Capital Expenditures	585	795	1,015	1,237
Total Capital Revenue Requirement Savings	635	896	1,168	1,441
Total O & M and Capital Rev Req Savings	4,381	4,859	5,288	5,744
Interchange Impact				
Production				
Demand	-	-	-	-
Decommissioning	-	-	-	-
Energy	-	-	-	-
Total Production	-	-	-	-
Transmission	-	-	-	-
Total Interchange Impact	-	-	-	-
Total Savings and Interchange	4,381	4,859	5,288	5,744

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Attachment D

I. Information Required Pursuant to Minn. Rule 7825.1400

TABLE OF CONTENTS

A. Descriptive title:

Petition for Approval of Merger of Northern States Power Company and Wisconsin Energy Corporation and Related Petitions

B. Table of Contents:

Pages i through iv

C. Exact name of petitioner and address of its principle offices:

See page 2 of the Petition for merger approval.

D. Names, addresses and telephone numbers of persons authorized to receive notices and communications with respect to this petition are:

See pages 2 and 3 of the Petition.

E. Verification and attestation:

See attached verification of Edward J. McIntyre.

F. Purpose for which securities are to be issued:

NSP is not proposing to issue securities as part of this transaction. A complete description of the stock to be issued in this merger by other entities is described in Exhibit P and the proxy statement which will be filed with the Commission following SEC approval.

G. Copies of Resolutions:

Copies of the Resolutions authorizing the merger are found at Appendix 3, Exhibit A of the merger joint application before the FERC, Docket EC95-16-000.

H. Affiliated Interests:

NSP is not aware of any person who has received or is entitled to receive a fee in connection with the negotiation or consummation of the transaction which is the subject of this petition who is an affiliated interest within the meaning of Minnesota Statute Section 216B.48.

I. Opinion of Counsel

NSP is not proposing to issue securities as part of this transaction. A complete description of the stock to be issued in this merger by other entities is described in Exhibit P and the proxy statement which will be filed with the Commission following SEC approval.

J. Financial Statements — Exhibit

1. NSP Balance Sheet	J-1
2. NSP Statement of Income	J-2
3. NSP Consolidated Statement of Cash Flows	J-3

K. Description of Securities to be Issued:

NSP is not proposing to issue securities as part of this transaction. A complete description of the stock to be issued in this merger by other entities is described in Exhibit P and the proxy statement which will be filed with the Commission following SEC approval.

L. Estimate of Interest and Dividends:

NSP is not proposing to issue securities as part of this transaction. A complete description of the stock to be issued in this merger by other entities is described in Exhibit P and the proxy statement which will be filed with the Commission following SEC approval.

M. Articles of Incorporation

NSP's restated articles of incorporation are already on file with the Commission, Docket No. G,E002/S-92-1281.

N. Required exhibits to the petition — Exhibit

1. The amount and kinds of stock authorized by the articles of incorporation and outstanding — N-1
2. The terms of preference of preferred stock — N-2
3. Description of security agreements upon NSP's property — N-3
4. Amount of bonds authorized and issued — N-4
5. Long-term notes outstanding in excess of one percent of total debt and interest paid thereon — N-5
6. Other long-term notes and interest paid thereon — N-6
7. Dividends paid during the previous five years — N-7

O. Manner in which securities will be issued:

NSP is not proposing to issue securities as part of this transaction. A complete description of the stock to be issued in this merger by other entities is described in Exhibit P and the proxy statement which will be filed with the Commission following SEC approval.

P. Copy of the Merger Agreement

A copy of Agreement and Plan of Merger is located at Appendix 3, Exhibit H of the FERC merger joint application. A restated Merger Agreement is attached as Exhibit P.

Q. Cross Referenced Documents

The Public Utilities Commission, the Department of Public Service and the Office of Attorney General have been provided with copies of the merger filings made with the FERC on July 10, 1995. These documents are available to others upon request. Because of its volume only one copy of the FERC work papers has been included with this filing to the PUC, DPS and OAG, More copies are available upon request.

In addition, the following merger-related filings and other financial information are attached or available upon request:

	Exhibit
SEC 8-K Filing (Summary is included. Full text is available upon request.)	Q-1
SEC 13-D Application	Q-2
SEC Form 3	Q-3
NSP Form 10-K for the year ended December 31, 1994	Q-4
NSP Form 10-Q for the quarter ended March 31, 1995	Q-5
WEC 1994 Annual Report to Stockholders	Q-6
WEC Form 10-K for the year ended December 31, 1994	Q-7
WEC Form 10-Q for the quarter ending March 31, 1995	Q-8

NSP also will file with the Commission copies of filings made with the Securities and Exchange Commission and Federal Trade Commission and other state commissions.

R. Such additional information that the staff or Commission may require in a particular case.

NSP is prepared to respond to any questions the Commission or parties might have. The questions or areas of interest expressed by regulators prior to the filing of this merger have been addressed in the body of the filing.

II. Information Required Pursuant to Minn. Rule 7825.1500

A. Filings with the Securities and Exchange Commission

NSP will provide a copy of the final registration statement with the Commission when it is available.

B. Public Proposals for the Purchase or Underwriting of Securities
Not applicable

Exhibit J-1

Northern States Power Company (Minnesota) and Subsidiaries

Consolidated Balance Sheets (Unaudited)

	March 31, 1995	December 31, 1994
	(Thousands of dollars)	
ASSETS		
UTILITY PLANT		
Electric	$6,407,107	$6,372,317
Gas	679,587	677,233
Common	271,924	262,506
Total	7,358,618	7,312,056
Accumulated provision for depreciation	(3,189,171)	(3,116,811)
Nuclear fuel	811,809	797,097
Accumulated provision for amortization	(721,014)	(718,690)
Net utility plant	4,260,242	4,273,652
CURRENT ASSETS		
Cash and cash equivalents	36,525	41,055
Short-term investments	1,892	892
Accounts receivable - net	290,284	280,858
Accrued utility revenues	81,999	98,651
Federal income tax and interest receivable	0	28,858
Fossil fuel inventory - at average cost	46,229	56,960
Materials and supplies - at average cost	104,739	101,878
Prepayments and other	48,862	56,075
Total current assets	610,530	665,227
OTHER ASSETS		
Regulatory assets	351,729	357,576
Investments in non-regulated projects and other investments	220,080	201,329
External decommissioning fund	160,731	145,467
Non-regulated property - net	175,654	172,961
Federal income tax and interest receivable	56,358	56,358
Intangible assets and other	79,052	81,001
Total other assets	1,043,604	1,014,692
TOTAL	$5,914,376	$5,953,571
LIABILITIES AND EQUITY		
CAPITALIZATION		
Common stock equity:		
Common stock and premium - authorized 160,000,000 shares of $2.50 par value, issued shares: 1995, 67,274,385; 1994, 66,922,144	$728,601	$713,180
Retained earnings	1,203,982	1,183,191
Leveraged common stock held by ESOP	(15,998)	(2,990)
Currency translation adjustments - net	3,492	3,586
Total common stock equity	1,920,077	1,896,967
Cumulative preferred stock and premium - authorized 7,000,000 shares of $100 par value; outstanding shares: 1995 and 1994, 2,400,000 without mandatory redemption	240,469	240,469
Long-term debt	1,456,217	1,463,354
Total capitalization	3,616,763	3,600,790
CURRENT LIABILITIES		
Long-term debt due within one year	19,006	16,106
Other long-term debt potentially due within one year	141,600	141,600
Short-term debt - primarily commercial paper	157,648	238,439
Accounts payable	179,279	234,905
Taxes accrued	256,616	178,119
Interest accrued	30,232	28,164
Dividends payable on common and preferred stocks	47,602	47,283
Accrued payroll, vacation and other	61,421	79,029
Total current liabilities	893,404	963,645
OTHER LIABILITIES		
Deferred income taxes	850,823	848,870
Deferred investment tax credits	171,544	173,838
Regulatory liabilities	208,329	200,517
Pension and other benefit obligations	93,808	92,514
Other long-term obligations and deferred income	79,705	73,397
Total other liabilities	1,404,209	1,389,136
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 4)		
TOTAL	$5,914,376	$5,953,571

The Notes to Financial Statements are an integral part of the Balance Sheets.

NORTHERN STATES POWER COMPANY

A Consolidated Statement of
Northern States Power Company (Minnesota) and Subsidiaries

STATEMENTS OF INCOME (Unaudited)

	3 Months Ended March 31			12 Months Ended March 31		
	1995	1994	Increase	1995	1994	Increase
	(Millions of Dollars)					
Operating revenues						
Electric	$497.3	$494.0	$3.3	$2,069.9	$1,999.6	$70.3
Gas	163.9	189.4	(25.5)	394.3	447.7	(53.4)
Total	661.2	683.4	(22.2)	2,464.2	2,447.3	16.9
Operating expenses						
Fuel for electric generation	83.3	76.0	7.3	328.5	310.6	17.9
Purchased and interchange power	51.7	56.5	(4.8)	245.0	234.9	10.1
Cost of gas purchased and transported	99.3	121.8	(22.5)	240.9	288.9	(48.0)
Other operation	79.1	77.6	1.5	318.5	304.4	14.1
Maintenance	37.8	40.4	(2.6)	167.4	159.2	8.2
Administrative and general	43.8	47.8	(4.0)	184.0	180.5	3.5
Conservation and energy management	7.8	8.2	(0.4)	30.8	30.6	0.2
Depreciation and amortization	71.8	67.3	4.5	278.3	266.7	11.6
Taxes: Property and general	62.3	59.9	2.4	236.9	226.6	10.3
Current income	40.1	43.6	(3.5)	141.2	131.7	9.5
Deferred income	(1.3)	1.9	(3.2)	(8.3)	14.8	(23.1)
Investment tax credits recognized	(2.2)	(3.4)	1.2	(9.2)	(10.2)	1.0
Total	573.5	597.6	(24.1)	2,154.0	2,138.7	15.3
Operating income	87.7	85.8	1.9	310.2	308.6	1.6
Other income and expense						
Other income and deductions - net, including income taxes	(0.6)	3.3	(3.9)	(1.9)	9.3	(11.2)
Equity in earnings of unconsolidated investees	10.5	(0.1)	10.6	46.5	3.0	43.5
Allowance for funds used during construction - equity	1.4	1.2	0.2	4.7	7.9	(3.2)
Total	11.3	4.4	6.9	49.3	20.2	29.1
Income before interest charges	99.0	90.2	8.8	359.5	328.8	30.7
Interest charges						
Interest on long-term debt	27.4	22.8	4.6	101.7	101.3	0.4
Other interest and amortization	5.3	3.1	2.2	20.1	10.0	10.1
Allowance for funds used during construction - debt	(1.9)	(1.5)	(0.4)	(8.2)	(5.5)	(2.7)
Total	30.8	24.4	6.4	113.6	105.8	7.8
Net income	68.2	65.8	2.4	245.9	223.0	22.9
Preferred stock dividends	3.2	3.1	0.1	12.5	13.8	(1.3)
Earnings available for common stock	$65.0	$62.7	$2.3	$233.4	$209.2	$24.2
Average number of common and equivalent shares outstanding (000's)	67,004	66,742		66,896	65,951	
Earnings per average common share	$0.97	$0.94	$0.03	$3.49	$3.17	$0.32
Common dividends declared per share	$0.660	$0.645	$0.015	$2.640	$2.580	$0.060
Return on average common equity				12.4%	12.0%	

See Notes to Financial Statements on Page 4

This information is not given in connection with any sale or offer for sale or offer to buy any security.

Exhibit J-3

NORTHERN STATES POWER COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
TWELVE MONTHS ENDED MARCH 31, 1995
(In thousands, except per share amounts)

Cash flows from Operating Activities	
Net Income	$ 245,871
Adjustments to reconcile net income to cash from operations	
Depreciation and amortization	310,559
Nuclear fuel amortization	45,581
Deferred income taxes	(2,566)
Deferred investment tax credits recognized	(8,398)
Allowance for funds used during construction - equity	(4,678)
Undistributed equity in earnings of unconsolidated investees	(36,303)
Gain from non-regulated project termination settlement	(9,685)
Changes in working capital items	(1,604)
Conservation program expenditures - net of amortization	(31,149)
Changes in other assets & liabilities	31,509
Net Cash Provided by Operating Activities	539,137
Cash Flows from Investing Activities	
Capital expenditures	(415,746)
Sale (purchase) of short-term investments - net	(1,742)
Investment in external decommissioning funds	(41,991)
Proceeds from non-regulated project termination settlement	14,000
Investments in non-regulated projects and other	(76,128)
Net Cash Used for Investing Activities	(521,607)
Cash Flows from Financing Activities	
Increase in short-term debt	14,648
Proceeds from issuance of long-term debt	171,659
Loan to ESOP	(15,000)
Repayment of long-term debt	(36,638)
Proceeds from issuance of common stock	16,422
Dividends paid	(187,453)
Net Cash Used for Financing Activities	(36,362)
Net Decrease in Cash and Cash Equivalents	(18,832)
Cash and Cash Equivalents at Beginning of Period	55,357
Cash and Cash Equivalents at End of Period	$ 36,525

ATTACHMENT D.N-1

NSP-MINN
THE AMOUNT AND KINDS OF STOCK
AUTHORIZED BY ARTICLES OF INCORPORATION
AS OF DECEMBER 31, 1994

ATTACHMENT D.N-1

NSP-MINN
THE AMOUNT AND KINDS OF STOCK
AUTHORIZED BY ARTICLES OF INCORPORATION
AS OF DECEMBER 31, 1994

	Par Value Per Share	Authorized		Outstanding
		Face Value	No. of Shares	
		(Amounts are stated in thousands)		
Cumulative Preferred Stock	$100	$700,000	7,000	
$ 3.60 Series				$27,500
$ 4.08 Series				15,000
$ 4.10 Series				17,500
$ 4.11 Series				20,000
$ 4.16 Series				10,000
$ 4.56 Series				15,000
$ 6.80 Series				20,000
$ 7.00 Series				20,000
Adjustable Rate Series A				30,000
Adjustable Rate Series B				65,000
Total Preferred Stock				$240,000
Common Stock	$2.50	$400,000	160,000	167,241
Total				$407,241

ATTACHMENT D.N-2

NSP-MINN
STATEMENT OF TERMS OF PREFERENCE OF PREFERRED STOCK AS STATED IN ARTICLES OF INCORPORATION

The terms of preference of Preferred Stock, whether cumulative or participating, or on dividends or assets, or otherwise.

The holders of shares of Preferred Stock, irrespective of the series thereof, shall be entitled to receive in preference to the Common Stock, when and as declared by the Board of Directors of the Corporation, out of its net earnings or surplus, cumulative dividends at such rate as shall have been fixed for the series of which such shares are a part, and no more, payable to shareholders of record on such dates and for such dividend periods as shall be fixed by the Board of Directors of the Corporation. So long as dividends are in default in whole or in part on a series of Preferred Stock for any prior dividend period for such series of Preferred Stock, any dividends on the Preferred Stock shall be divided among the outstanding series of Preferred Stock for which dividends are accumulated and unpaid for any prior dividend period applicable thereto in proportion to the aggregate amounts that then would be distributable to the holders of Preferred Stock of each such series if all dividends accumulated thereon and unpaid for all prior dividend periods applicable thereto were paid and declared thereon. Dividends on each share of Preferred Stock shall begin to accrue on the first day of the dividend period during which the original issue of a certificate for such share shall occur, provided, however, that, in the case of any series of Preferred Stock created after May 6, 1970, the Board of Directors, in its discretion, may fix the date of original issue of the shares of such series as the date from which dividends shall accrue.

In the event of any distribution of assets of the Corporation other than by dividends from net earnings or surplus, whether upon voluntary liquidation or dissolution or upon involuntary liquidation or dissolution of the Corporation, the holders of the shares of Preferred Stock shall be entitled, in preference to the Common Stock, to one hundred dollars ($100) per share in the case of involuntary liquidation or dissolution and to such amount per share in the case of voluntary liquidation or dissolution (which may differ from that payable in involuntary liquidation or dissolution) as shall have been fixed by the Board of Directors for the shares of the series of which they are a part, plus in each case an amount equal to all dividends accumulated and unpaid thereon, and no more. The consolidation or merger of this Corporation with or into any other corporation or corporations shall not be deemed to be a distribution of assets or liquidation or dissolution of the Corporation within the meaning of any provisions hereof.

NSP-MINN
FIRST MORTGAGE BONDS OUTSTANDING AS OF DECEMBER 31, 1994
(Amounts are stated in thousands)

A brief description of each security agreement, mortgage and deed of trust upon Petitioner's property, showing date of execution, debtor and secured party, mortgagor and mortgagee and trustor and beneficiary, amount of indebtedness authorized to be secured thereby, and amount of indebtedness actually secured, together with any sinking fund provision.

		Date of Execution	Authorized	Outstanding
			Unlimited	
First Mortgage Bonds				
Series due March 1, 2002	7-3/8%	February 24, 1972		50 000
Series due February 1, 2003	7-1/2%	January 25, 1973		50 000
Pollution Control Series C	6.2%	March 1, 1976		8 800
Resource Recovery Series I	Various 6.57%	December 27, 1984		22 300
Pollution Control Series J, K & L	Variable	September 1, 1985		13 700
Series due July 1, 2019	9-1/8%	July 6, 1989		98 000
Series due June 1, 2020	9-3/8%	June 5, 1990		70 000
Series due October 1, 1997	5-7/8%	October 13, 1992		100 000
Series due April 1, 2003	6-3/8%	March 30, 1993		80 000
Series due December 1, 2000	5-3/4%	December 7, 1993		100 000
Series due December 1, 2005	6-1/8%	December 7, 1993		70 000
Series due February 1, 1999	5-1/2%	February 10, 1994		200 000
Series due October 1, 2001	7-7/8%	February 10, 1994		150 000
Total				$1 012 800

The name and address of the debtor and secured party are set forth below:

Debtor: Northern States Power Company
414 Nicollet Mall
Minneapolis, Minnesota 55401

Secured Party: Harris Trust and Savings Bank, Trustee
111 West Monroe Street
Chicago, Illinois 60690

NSP-WI
FIRST MORTGAGE BONDS OUTSTANDING AS OF DECEMBER 31, 1994
(Amounts are stated in thousands)

A brief description of each security agreement, mortgage and deed of trust upon Petitioner's property, showing date of execution, debtor and secured party, mortgagor and mortgagee and trustor and beneficiary, amount of indebtedness authorized to be secured thereby, and amount of indebtedness actually secured, together with any sinking fund provision.

		Date of Execution	Authorized	Outstanding
			Unlimited	
First Mortgage Bonds				
Series due October 1, 2003	5-3/4%	September 21, 1993		40 000
Series due April 1, 2021	9-1/8%	March 22, 1991		48 010
Series due March 1, 2023	7-1/4%	March 4, 1993		110 000
Total				$198 010

The name and address of the debtor and secured party are set forth below:

Debtor: Northern States Power Company
100 North Barstow Street
Eau Claire, Wisconsin 54701

Secured Party: Firstar Trust Company, Trustee
615 East Michigan Street
Milwaukee, Wisconsin 53202

NSP-MINN
FIRST MORTGAGE BONDS OUTSTANDING AS OF DECEMBER 31, 1994
Sinking Fund Requirements and Maturities

The annual sinking fund requirements of the Company are the amounts necessary to redeem on December 1, 1% of the highest principal amount of each series of first mortgage bonds, at any time outstanding, with the exception of:

Pollution Control Series C due March 1, 1996
Resource Recovery Series I due December 1, 2006
Pollution Control Series J, K & L due March 1, 2011
Series due October 1, 1997, 5-7/8%
Series due April 1, 2003, 6-3/8%
Series due December 1, 2000, 5-3/4%
Series due December 1, 2005, 6-1/8%
Series due February 1, 1999, 5-1/2%
Series due October 1, 2001 7-7/8%

Property additions equal to 166-2/3% (or 150% for Series due July 1, 2019 and Series due June 1, 2020) of principal amounts of bonds otherwise required to be so redeemed may be applied in lieu of cash.

Scheduled maturities of those bonds not subject to sinking fund requirements are as follows:

Pollution Control Series C	In total March 1, 1996
Resource Recovery Series I	$1,200,000 December 1, 1995
	$1,300,000 December 1, 1996
	$1,400,000 December 1, 1997
	$1,500,000 December 1, 1998
	$1,600,000 December 1, 1999
	$1,700,000 December 1, 2000
	$1,800,000 December 1, 2001
	$1,900,000 December 1, 2002
	$11,700,000 December 1, 2006
Pollution Control Series J, K & L	In total March 1, 2011
Series due October 1, 1997, 5-7/8%	In total October 1, 1997
Series due April 1, 2003, 6-3/8%	In total April 1, 2003
Series due December 1, 2000, 5-3/4%	In total December 1, 2000
Series due December 1, 2005, 6-1/8%	In total December 1, 2005
Series due February 1, 1999, 5-1/2%	In total February 1, 1999
Series due October 1, 2001, 7 7-8%	In total October 1, 2001

Certain bonds may be redeemed prior to their scheduled maturity, at the option of the Company, in accordance with redemption provisions specified for each bond. Other bonds have provisions that prohibit redemption prior to maturity.

NSP-WI
FIRST MORTGAGE BONDS OUTSTANDING AS OF DECEMBER 31, 1994
Sinking Fund Requirements and Maturities

The annual sinking fund requirements of the Company are the amounts necessary to redeem on June 1, 1% of the highest principal amount of each series of first mortgage bonds, at any time outstanding, with the exception of:

Series due October 1, 2003, 5-3/4%

Property additions equal to 166-2/3% of principal amounts of bonds otherwise required to be so redeemed may be applied in lieu of cash.

Scheduled maturities of those bonds not subject to sinking fund requirements are as follows:

Series due October 1, 2003, 5-3/4%	In total October 1, 2003

Certain bonds may be redeemed prior to their scheduled maturity, at the option of the Company, in accordance with redemption provisions specified for each bond. Other bonds have provisions that prohibit redemption prior to maturity.

NSP-MINN
FIRST MORTGAGE BONDS OUTSTANDING AND INTEREST
PAID THEREON FOR YEAR ENDED DECEMBER 31, 1994
(Amounts are stated in thousands)

The amount of bonds authorized and issued that exceed one (1%) percent of total debt giving the name of the public utility which issued same, describing each class separately, and giving the date of issue, par value, rate of interest, date of maturity and how secured, together with the amount of interest paid thereon during the last fiscal year.

redemption provisions specified for each bond. Other bonds have provisions that provide redemption prior to maturity

NSP-MINN

ATTACHMENT D-7

FIRST MORTGAGE BONDS OUTSTANDING AND INTEREST
PAID THEREON FOR YEAR ENDED DECEMBER 31, 1994
(Amounts are stated in thousands)

The amount of bonds authorized and issued that exceed one (1%) percent of total debt giving the name of the public utility which issued same, describing each class separately, and giving the date of issue, par value, rate of interest, date of maturity and how secured, together with the amount of interest paid thereon during the last fiscal year.

All of the bonds listed have been issued by Northern States Power Company (Minnesota) and are secured by a first mortgage on all of the fixed properties of Petitioner.

Class and Series of Obligation	Date of Issue	Date of Maturity	Par Value	Interest for Year Rate	Interest for Year Amount	
First Mortgage Bonds:						
Series due March 1, 2002	3-1-72	3-1-02	50,000	7.375	3,688	
Series due February 1, 2003	2-1-73	2-1-03	50,000	7.50	3,750	
Pollution Control Series C	3-1-76	3-1-96	8,800	6.2	546	
Resource Recovery Series I	12-1-84	12-1-06	22,300	6.57 (Various)	1,480	
Pollution Control Series J	9-1-86	3-1-11	5,450	Variable	154	
Pollution Control Series K	9-1-86	3-1-11	3,400	Variable	96	
Pollution Control Series L	9-1-86	3-1-11	4,850	Variable	137	
Series due July 1, 2019	7-1-89	7-1-19	98,000	9.125	9,026	
Series due June 1, 2020	6-1-90	6-1-20	70,000	9.375	7,229	
Series due October 1, 1997	10-1-92	10-1-97	100,000	5.875	4,477	*
Series due April 1, 2003	4-1-93	4-1-03	80,000	6.375	5,100	
Series due December 1, 2000	12-1-93	12-1-00	100,000	5.75	5,750	
Series due December 1, 2005	12-1-93	12-1-05	70,000	6.125	4,288	
Series due February 1, 1999	2-1-94	2-1-99	200,000	5.5	9,680	**
Series due October 1, 2001	10-1-94	10-1-01	150,000	7.875	2,559	
Interest on retired bonds					1,452	
Total					$59,412	

* Interest for the year reflects the combined impact of the stated bond interest rate, received by the bond holders, and a variable interest rate dictated by an interest rate swap agreement entered into with the underwriters of the bond issue. The net variable rate for the twelve months ended December 31, 1994 was approximately 4.48%.

** Interest for the year reflects the combined impact of the stated bond interest rate, received by the bond holders, and a variable interest rate dictated by an interest rate swap agreement entered into with the underwriters of the bond issue. The net annualized variable rate for the period from February 17, 1994 to December 31, 1995 approximately 5.50%.

NSP-WI

FIRST MORTGAGE BONDS OUTSTANDING AND INTEREST
PAID THEREON FOR YEAR ENDED DECEMBER 31, 1994
(Amounts are stated in thousands)

The amount of bonds authorized and issued that exceed one (1%) percent of total debt giving the name of the public utility which issued same, describing each class separately, and giving the date of issue, par value, rate of interest, date of maturity and how secured, together with the amount of interest paid thereon during the last fiscal year.

All of the bonds listed have been issued by Northern States Power Company (Wisconsin) and are secured by a first mortgage on all of the fixed properties of Petitioner.

Class and Series of Obligation	Date of Issue	Date of Maturity	Par Value	Interest for Year Rate	Interest for Year Amount	
First Mortgage Bonds:						
Series due October 1, 2003	10-5-93	10-1-03	40,000	5.75	2,296	
Series due April 1, 2021	4-1-91	4-1-21	48,010	9.125	4,428	
Series due March 1, 2023	3-1-93	3-1-23	110,000	7.25	7,829	***
Total					$14,553	

*** Interest for the year reflects the combined impact of the stated bond interest rate, received by the bond holders, and a variable interest rate dictated by an interest rate swap agreement for $20 million, entered into with the underwriters of the bond issue. The net annualized variable rate for the twelve months ended December 31, 1994 was approximately 6.52%.

NSP-MINN

ATTACHMENT D-8 and 9

OTHER LONG-TERM DEBT OUTSTANDING AND INTEREST

NSP-MINN

ATTACHMENT D.N-5 and 6

OTHER LONG-TERM DEBT OUTSTANDING AND INTEREST
PAID THEREON FOR YEAR ENDED DECEMBER 31, 1994
(Amounts are stated in thousands)

Other indebtedness with a maturity of more than one year, by class, together with the amount of interest paid thereon during the last fiscal year.

Class and Series of Obligation	Date of Issue	Date of Maturity	Outstanding	Interest for Year	
				Rate	Amount
Guar. agree.-poll. contr. fin'g.					
Monticello - 1973	02-73	02-03	$5,900	5.41%	$321
Monticello - 1975	07-75	02-03	3,500	7.40%	259
Red Wing - 1973	05-73	05-03	24,750	5.69%	1,416
Unsecured lease obligation ind. dev. rev. bds.;					
Sioux Falls	10-73	10-98	310	5.78%	17
Inver Grove Heights	02-75	02-95	1,000	7.125%	71
Poll contr. fin'g.					
Becker	06-87	12-05	9,000	7.25%	653
Poll contr. refunding bonds					
Becker	06-89	04-07	60,000	6.80%	4,080
Becker	03-92	03-19	27,900	Various	833
Becker	09-93	09-19	100,000	Various	2,958
Anoka Cty Recovery	12-85	12-05	26,100	Various	1,571
Easements' land purchases; and other misc.	Various	Various	206	Various	40
Public improvements	Various	Various	466	Various	20
Employee stock ownership loan	4-93	07-95	6,770	Various	324
Total			$265,902		$12,563

NSP-WI

OTHER LONG-TERM DEBT OUTSTANDING AND INTEREST
PAID THEREON FOR YEAR ENDED DECEMBER 31, 1994
(Amounts are stated in thousands)

Other indebtedness with a maturity of more than one year, by class, together with the amount of interest paid thereon during the last fiscal year.

Class and Series of Obligation	Date of Issue	Date of Maturity	Outstanding	Interest for Year	
				Rate	Amount
LaCrosse Resource Recovery	11-86	11-11	18,600	7.75%	1,442
Total			$18,600		$1,442

DIVIDENDS FOR THE FIVE PREVIOUS FISCAL YEARS ENDED DECEMBER 31, 1994

ATTACHMENT D.N-7

DIVIDENDS FOR THE FIVE PREVIOUS FISCAL YEARS ENDED DECEMBER 31, 1994

ATTACHMENT D.N-7

The rate and amount of dividends declared during the five previous fiscal years.

	Dividends Declared				
Cumulative Preferred Stock	1990	1991	1992	1993	1994
$ 3.60 Series, 275,000 shares	$990	$990	$990	$990	$990
$ 4.08 Series, 150,000 shares	612	612	612	612	61:
$ 4.10 Series, 175,000 shares	718	718	718	718	71:
$ 4.11 Series, 200,000 shares	822	822	822	822	82:
$ 4.16 Series, 100,000 shares	416	416	416	416	41:
$ 4.56 Series, 150,000 shares	684	684	684	684	68:
$ 6.80 Series, 200,000 shares	1,360	1,360	1,360	1,360	1,36(
$ 7.00 Series, 200,000 shares	1,400	1,400	1,400	1,400	1,40(
$ 8.80 Series, 250,000 shares	2,200	2,200	733	0	(
$ 7.84 Series, 350,000 shares	2,744	2,744	2,744	2,294	(
$10.36 Series, 250,000 shares Adjustable Rate Series A 300,000 shares	1,935	1,875	1,767	1,661	1,67:
Adjustable Rate Series B 650,000 shares	4,303	4,173	3,926	3,624	3,68:
Adjustable Rate Series C 500,000 shares					
Total	18,184	17,994	16,172	14,581	12,36:
Common Stock					
Per Share -					
$2.295	143,532				
$2.395		149,787			
$2.495			156,109		
$2.565				168,615	
$2.625					175,292
	$161,716	$167,781	$172,281	$183,196	$ 187,65:

EXHIBIT P
ANNEX A

AMENDED AND RESTATED AGREEMENT AND PLAN OF MERGER

by and among

NORTHERN STATES POWER COMPANY,

WISCONSIN ENERGY CORPORATION,

NORTHERN POWER WISCONSIN CORP.

and

WEC SUB CORP.

dated as of April 28, 1995,

as amended and restated as of July 26, 1995

		Page
SECTION 5.8	Registration Statement and Proxy Statement	A-24
SECTION 5.9	Tax Matters	A-25
SECTION 5.10	Employee Matters; ERISA	A-26
SECTION 5.11	Environmental Protection	A-27
SECTION 5.12	Regulation as a Utility	A-28
SECTION 5.13	Vote Required	A-28
SECTION 5.14	Accounting Matters	A-28
SECTION 5.15	Applicability of Certain Wisconsin Law	A-28
SECTION 5.16	Opinion of Financial Advisor	A-29
SECTION 5.17	Insurance	A-29
SECTION 5.18	Ownership of Old NSP Common Stock	A-29
	ARTICLE VI	
	CONDUCT OF BUSINESS PENDING THE MERGERS	
SECTION 6.1	Covenants of the Parties	A-29
	ARTICLE VII	
	ADDITIONAL AGREEMENTS	
SECTION 7.1	Access to Information	A-34
SECTION 7.2	Joint Proxy Statement and Registration Statement	A-35
SECTION 7.3	Regulatory Matters	A-35
SECTION 7.4	Shareholder Approval	A-36
SECTION 7.5	Directors' and Officers' Indemnification	A-36
SECTION 7.6	Disclosure Schedules	A-37
SECTION 7.7	Public Announcements	A-38
SECTION 7.8	Rule 145 Affiliates	A-38
SECTION 7.9	Employee Agreements and Workforce Matters	A-38
SECTION 7.10	Employee Benefit Plans	A-38
SECTION 7.11	Stock Option and Other Stock Plans	A-39
SECTION 7.12	No Solicitations	A-40
SECTION 7.13	Company Board of Directors	A-41
SECTION 7.14	Company Officers	A-41
SECTION 7.15	Employment Contracts	A-41
SECTION 7.16	Post-Merger Operations	A-42
SECTION 7.17	Expenses	A-42
SECTION 7.18	Further Assurances	A-42
SECTION 7.19	Utility Asset Transfer	A-42
SECTION 7.20	Charter and Bylaw Amendments	A-43
	ARTICLE VIII	
	CONDITIONS	
SECTION 8.1	Conditions to Each Party's Obligation to Effect the Mergers	A-43
SECTION 8.2	Conditions to Obligation of WEC to Effect the Mergers	A-44
SECTION 8.3	Conditions to Obligation of NSP to Effect the Mergers	A-45
	ARTICLE IX	
	TERMINATION, AMENDMENT AND WAIVER	
SECTION 9.1	Termination	A-45
SECTION 9.2	Effect of Termination	A-47
SECTION 9.3	Termination Fee; Expenses	A-47

TABLE OF CONTENTS

		Page
	ARTICLE I	
	THE MERGERS	
SECTION 1.1	The Mergers	A-8
SECTION 1.2	Effects of the Mergers	A-8
SECTION 1.3	Effective Time of the Mergers	A-9
	ARTICLE II	
	TREATMENT OF SHARES	
SECTION 2.1	Effect of the Mergers on Capital Stock	A-9
SECTION 2.2	Dissenting Shares	A-10
SECTION 2.3	Issuance of New Certificates	A-10
	ARTICLE III	
	THE CLOSING	
SECTION 3.1	Closing	A-12
	ARTICLE IV	
	REPRESENTATIONS AND WARRANTIES OF NSP	
SECTION 4.1	Organization and Qualification	A-12
SECTION 4.2	Subsidiaries	A-13
SECTION 4.3	Capitalization	A-13
SECTION 4.4	Authority; Non-Contravention; Statutory Approvals; Compliance	A-14
SECTION 4.5	Reports and Financial Statements	A-15
SECTION 4.6	Absence of Certain Changes or Events	A-15
SECTION 4.7	Litigation	A-15
SECTION 4.8	Registration Statement and Proxy Statement	A-16
SECTION 4.9	Tax Matters	A-16
SECTION 4.10	Employee Matters; ERISA	A-17
SECTION 4.11	Environmental Protection	A-19
SECTION 4.12	Regulation as a Utility	A-20
SECTION 4.13	Vote Required	A-20
SECTION 4.14	Accounting Matters	A-21
SECTION 4.15	Applicability of Certain Minnesota Law	A-21
SECTION 4.16	Opinion of Financial Advisor	A-21
SECTION 4.17	Insurance	A-21
SECTION 4.18	Ownership of WEC Common Stock	A-21
	ARTICLE V	
	REPRESENTATIONS AND WARRANTIES OF WEC	
SECTION 5.1	Organization and Qualification	A-21
SECTION 5.2	Subsidiaries	A-22
SECTION 5.3	Capitalization	A-22
SECTION 5.4	Authority; Non-Contravention; Statutory Approvals; Compliance	A-23
SECTION 5.5	Reports and Financial Statements	A-24
SECTION 5.6	Absence of Certain Changes or Events	A-24
SECTION 5.7	Litigation	A-24

		Page
SECTION 9.4	Amendment	A-48
SECTION 9.5	Waiver	A-49

ARTICLE X

GENERAL PROVISIONS

SECTION 10.1	Non-Survival; Effect of Representations and Warranties	A-49
SECTION 10.2	Brokers	A-49
SECTION 10.3	Notices	A-49
SECTION 10.4	Miscellaneous	A-50
SECTION 10.5	Interpretation	A-51
SECTION 10.6	Counterparts; Effect	A-51
SECTION 10.7	Parties in Interest	A-51
SECTION 10.8	Waiver of Jury Trial and Certain Damages	A-51
SECTION 10.9	Enforcement	A-51

Exhibit A	Form of WEC Stock Option Agreement
Exhibit B	Form of NSP Stock Option Agreement
Exhibit 7.8	Form of Affiliate Agreement
Exhibit 7.10(a)	Form of NSP Severance Plan
Exhibit 7.10(b)	Form of WEC Severance Plan
Exhibit 7.13	Committees of the Board of Directors of the Company
Exhibit 7.15.1	Form of Employment Agreement of James J. Howard
Exhibit 7.15.2	Form of Employment Agreement of Richard A. Abdoo
Exhibit 7.20(b)	Form of Amended and Restated Articles of Incorporation of New NSP
Exhibit 7.20(c)	Form of Amended and Restated Articles of Incorporation of WEC Sub

Index of Defined Terms

Term	Page
1935 Act	A-13
affiliate	A-13
Affiliate Agreement	A-38
Affiliated Employees	A-38
Agreement	A-8
Atomic Energy Act	A-15
Business Combination	A-46
Business Combination Proposal	A-41
Cancelled Common Shares	A-11
Certificates	A-11
Closing	A-12
Closing Agreement	A-17
Closing Date	A-12
Code	A-16
Committee	A-39
Company	A-8
Company Common Stock	A-10
Company Replacement Plans	A-39
Company Shares	A-11
Company Stock Plan	A-39
Confidentiality Agreement	A-35
control	A-21
date hereof	A-8
Direct Subsidiary	A-12
Disclosure Schedules	A-37
Effective Time	A-9
Environmental Claim	A-20
Environmental Laws	A-20
Environmental Permits	A-19
ERISA	A-17
Exchange Act	A-15
Exchange Agent	A-10
FERC	A-15
Final Order	A-43
Foundation	A-42
GAAP	A-15
Governmental Authority	A-14
Hazardous Materials	A-20
HSR Act	A-35
Indemnified Liabilities	A-36
Indemnified Party	A-36
Initial Termination Date	A-45
IRS	A-44
Joint Proxy/Registration Statement	A-35
joint venture	A-13
MBCA	A-9
Mergers	A-8
Mr. Abdoo	A-33
Mr. Howard	A-33
New NSP	A-8

Term	Page
NRC	A-15
NSP	A-8
NSP Benefit Plans	A-17
NSP Common Stock	A-9
NSP Disclosure Schedule	A-37
NSP Dissenting Shares	A-10
NSP Effective Time	A-9
NSP Financial Statements	A-15
NSP Incentive Plan	A-39
NSP Joint Venture	A-13
NSP Material Adverse Effect	A-15
NSP Merger	A-8
NSP Preferred Stock	A-9
NSP Required Consents	A-14
NSP Required Statutory Approvals	A-14
NSP SEC Reports	A-15
NSP Shareholders' Approval	A-20
NSP Special Meeting	A-36
NSP Stock Awards	A-40
NSP Stock Option	A-39
NSP Stock Option Agreement	A-8
NSP Stock Plan	A-39
NSP Subsidiary	A-12
NSP Unrestricted Subsidiaries	A-13
NSP-W	A-20
NYSE	A-11
Old NSP Common Stock	A-9
Old NSP Preferred Stock	A-9
PBGC	A-18
PCBs	A-20
Power Act	A-15
Preferred Certificates	A-11
Proxy Statement	A-16
Ratio	A-10
Registration Statement	A-16
Reincorporation Effective Time	A-9
Reincorporation Merger	A-8
Release	A-20
Representatives	A-34
SEC	A-15
Securities Act	A-15
Stock Plans	A-40
subsidiary	A-12
Target Party	A-48
Task Force	A-33
Tax Return	A-16
Tax Ruling	A-17
Taxes	A-16
Three Year Period	A-51
Violation	A-14
WBCL	A-9
WEC	A-8

Term	Page
WEC Article Amendments	A-43
WEC Benefit Plans	A-26
WEC Common Stock	A-10
WEC Disclosure Schedule	A-37
WEC Financial Statements	A-24
WEC Incentive Plan	A-39
WEC Joint Venture	A-22
WEC Material Adverse Effect	A-24
WEC Preferred Stock	A-22
WEC Required Consents	A-23
WEC Required Statutory Approvals	A-23
WEC SEC Reports	A-24
WEC Shareholders' Approval	A-28
WEC Special Meeting	A-36
WEC Stock Option Agreement	A-8
WEC Stock Plan	A-39
WEC Sub	A-8
WEC Subsidiary	A-21
WEC Unrestricted Subsidiaries	A-22
WEPCO	A-22
WEPCO Common Stock	A-22
WEPCO 6% Preferred Stock	A-22
WEPCO $100 Par Value Serial Preferred Stock	A-22
WEPCO $25 Par Value Serial Preferred Stock	A-22
WEPCO Preferred Stock	A-22
WN	A-28

AMENDED AND RESTATED AGREEMENT AND PLAN OF MERGER, dated as of April 28, 1995 (referred to herein as the "date hereof"), as amended and restated as of July 26, 1995 (this *"Agreement"*), by and among Northern States Power Company, a Minnesota corporation *("NSP")*, Wisconsin Energy Corporation, a Wisconsin corporation *("WEC"* and, after the Effective Time (as defined below), the *"Company"*), Northern Power Wisconsin Corp., a Wisconsin corporation *("New NSP")*, and WEC Sub Corp., a Wisconsin corporation *("WEC Sub")*.

WHEREAS, NSP and WEC have determined to engage in a business combination as peer firms in a merger of equals;

WHEREAS, in furtherance thereof, the respective Boards of Directors of NSP, WEC, New NSP and WEC Sub have approved this Agreement and the transactions contemplated hereby on the terms and conditions set forth in this Agreement (such transactions referred to herein collectively as the *"Mergers"*);

WHEREAS, the Board of Directors of WEC has approved and WEC has executed an agreement with NSP in the form of *Exhibit A* (the *"WEC Stock Option Agreement"*) and the Board of Directors of NSP has approved and NSP has executed an agreement with WEC in the form of *Exhibit B* (the *"NSP Stock Option Agreement"*) whereby each of WEC and NSP, respectively, has granted to the other an option to purchase shares of its common stock on the terms and conditions provided in such agreement; and

WHEREAS, for federal income tax purposes, it is intended that the parties hereto and their respective stockholders will recognize no gain or loss for federal income tax purposes as a result of the consummation of the Mergers;

NOW THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements contained herein, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE I

THE MERGERS

Section 1.1 *The Mergers.* Upon the terms and subject to the conditions of this Agreement:

(i) At the Reincorporation Effective Time (as defined in *Section 1.3*), NSP shall be merged with and into New NSP (the *"Reincorporation Merger"*) in accordance with the laws of the States of Minnesota and Wisconsin. New NSP shall be the surviving corporation in the Reincorporation Merger and shall continue its corporate existence under the laws of the State of Wisconsin. The effects and the consequences of the Reincorporation Merger shall be as set forth in *Section 1.2(a)*. Throughout this Agreement, the term "NSP" shall refer to NSP and/or New NSP, as the context requires.

(ii) At the NSP Effective Time (as defined in *Section 1.3*), WEC Sub shall be merged with and into New NSP (the *"NSP Merger"*) in accordance with the laws of the State of Wisconsin. New NSP shall be the surviving corporation in the NSP Merger and shall continue its corporate existence under the laws of the State of Wisconsin. The effects and the consequences of the NSP Merger shall be as set forth in *Section 1.2(b)*.

Section 1.2 *Effects of the Mergers.* (a) At the Reincorporation Effective Time, (i) the articles of incorporation of New NSP, as in effect immediately prior to the Reincorporation Effective Time, shall be the articles of incorporation of the surviving corporation in the Reincorporation Merger until thereafter amended as provided by law and such articles of incorporation, and (ii) the by-laws of New NSP, as in effect immediately prior to the Reincorporation Effective Time, shall be the by-laws of the surviving corporation in the Reincorporation Merger until thereafter amended as provided by law, the articles of incorporation of the surviving corporation in the Reincorporation Merger and such by-laws.

Subject to the foregoing, the additional effects of the Reincorporation Merger shall be as provided in the applicable provisions of the Minnesota Business Corporation Act (the *"MBCA"*) and the Wisconsin Business Corporation Law (the *"WBCL"*).

(b) At the NSP Effective Time, (i) the articles of incorporation of New NSP, as in effect immediately prior to the NSP Effective Time, shall be the articles of incorporation of the surviving corporation in the NSP Merger until thereafter amended as provided by law and such articles of incorporation, and (ii) the by-laws of New NSP, as in effect immediately prior to the NSP Effective Time, shall be the by-laws of the surviving corporation in the NSP Merger until thereafter amended as provided by law, the articles of incorporation of the surviving corporation in the NSP Merger and such by-laws. Subject to the foregoing, the additional effects of the NSP Merger shall be as provided in the applicable provisions of the WBCL.

Section 1.3 *Effective Time of the Mergers.* On the Closing Date (as defined in *Section 3.1*), (a) with respect to the Reincorporation Merger, articles of merger complying with the requirements of the WBCL and the MBCA shall be executed by NSP and New NSP and shall be filed by New NSP with the Secretary of State of each of the States of Wisconsin and Minnesota, and (b) with respect to the NSP Merger, articles of merger complying with the requirements of the WBCL shall be executed by New NSP and WEC Sub and shall be filed by New NSP with the Secretary of State of the State of Wisconsin. The Reincorporation Merger shall become effective at the time specified in the articles of merger filed with respect to the Reincorporation Merger (the *"Reincorporation Effective Time"*). The NSP Merger shall become effective at the time specified in the articles of merger filed with respect to the NSP Merger (the *"NSP Effective Time"* or the *"Effective Time"*). The effective time specified in the articles of merger to be filed with respect to the Reincorporation Merger shall be prior to the effective time specified in the articles of merger filed with respect to the NSP Merger.

ARTICLE II

TREATMENT OF SHARES

Section 2.1 *Effect of the Mergers on Capital Stock.* (a) At the Reincorporation Effective Time, by virtue of the Reincorporation Merger and without any action on the part of any holder of any capital stock of NSP or New NSP:

(i) *Cancellation of New NSP Stock.* Each share of Common Stock, par value $2.50 per share, of New NSP (the *"NSP Common Stock"*) that is owned by NSP shall be cancelled and shall cease to exist.

(ii) *Treatment of NSP Common Stock.* Each issued and outstanding share of Common Stock, par value $2.50 per share, of NSP (the *"Old NSP Common Stock"*), other than NSP Dissenting Shares (as defined in *Section 2.2*), shall be cancelled and converted into the right to receive one fully paid and, subject to Section 180.0622(2)(b) of the WBCL, as judicially interpreted, non-assessable share of NSP Common Stock. Upon such cancellation, all such shares of Old NSP Common Stock shall cease to exist, and each holder of a certificate formerly representing any such shares of Old NSP Common Stock shall cease to have any rights with respect thereto, except the right to receive the shares of NSP Common Stock to be issued in consideration therefor and, following the NSP Merger, the right to receive the shares of Company Common Stock (as defined in *Section 2.1(b)(ii)*) to be issued in consideration therefor upon the surrender of such certificate in accordance with *Section 2.3*.

(iii) *Treatment of NSP Preferred Stock.* Each issued and outstanding share of Cumulative Preferred Stock, par value $100.00 per share, of NSP (the *"Old NSP Preferred Stock"*), other than NSP Dissenting Shares, shall be cancelled and converted into the right to receive one fully paid and, subject to Section 180.0622(2)(b) of the WBCL, as judicially interpreted, non-assessable share of Cumulative Preferred Stock, par value $100.00 per share, of New NSP (*"NSP Preferred Stock"*) with identical rights (including dividend rates) and designations to the cancelled share of

Old NSP Preferred Stock. Upon such cancellation, all such shares of Old NSP Preferred Stock shall cease to exist, and each holder of a certificate formerly representing any such shares of Old NSP Preferred Stock shall cease to have any rights with respect thereto, except the right to receive the shares of NSP Preferred Stock to be issued in consideration therefor, which shares of NSP Preferred Stock shall be represented by the certificates formerly representing shares of Old NSP Preferred Stock.

(b) At the NSP Effective Time, by virtue of the NSP Merger and without any action on the part of any holder of any capital stock of New NSP or WEC Sub:

(i) *Cancellation of Certain NSP Stock.* Each share of NSP Common Stock and each share of NSP Preferred Stock that is owned by New NSP as treasury stock, by subsidiaries of New NSP or by WEC or any of its subsidiaries shall be cancelled and cease to exist.

(ii) *Treatment of NSP Common Stock.* Each issued and outstanding share of NSP Common Stock (other than shares cancelled pursuant to *Section 2.1(b)(i)* and NSP Dissenting Shares) shall be cancelled and converted into the right to receive 1.626 (the *"Ratio"*) fully paid and, subject to Section 180.0622(2)(b) of the WBCL, as judicially interpreted, non-assessable shares of Common Stock, par value $.01 per share, of WEC (the *"WEC Common Stock"* and, with respect to any period after the Effective Time, the *"Company Common Stock"*) Upon such cancellation, all such Shares of NSP Common Stock shall cease to exist, and each holder of a certificate formerly representing any such shares shall cease to have any rights with respect thereto, except the right to receive the shares of Company Common Stock to be issued in consideration therefor upon the surrender of such certificate in accordance with *Section 2.3*.

(iii) *No Change in NSP Preferred Stock.* Each issued and outstanding share of NSP Preferred Stock (other than shares cancelled pursuant to *Section 2.1(b)(i))* shall be unchanged as a result of the NSP Merger and shall remain outstanding thereafter.

(iv) *Treatment of WEC Sub Stock.* Each issued and outstanding share of Common Stock, par value $.01 per share, of WEC Sub shall be cancelled and converted into one fully paid and, subject to Section 180.0622(2)(b) of the WBCL, as judicially interpreted, non-assessable share of NSP Common Stock.

Section 2.2 *Dissenting Shares.* Shares of Old NSP Common Stock and Old NSP Preferred Stock held by any holder entitled to relief as a dissenting shareholder under Section 302A.471 of the MBCA (the *"NSP Dissenting Shares"*) shall not become the right to receive NSP Common Stock or NSP Preferred Stock, as the case may be, in the Reincorporation Merger or, in the case of Old NSP Common Stock, into the right to receive Company Common Stock in the NSP Merger, but shall be cancelled and converted into such consideration as may be due with respect to such shares pursuant to the applicable provisions of the MBCA, unless and until the right of such holder to receive fair cash value for such NSP Dissenting Shares terminates in accordance with Section 302A.473 of the MBCA. If such right is terminated otherwise than by the purchase of such shares by NSP, then such shares shall cease to be NSP Dissenting Shares and shall represent the right to receive Company Common Stock, as provided in *Section 2.1(b)*, or NSP Preferred Stock, as provided in *Section 2.1(a)*.

Section 2.3 *Issuance of New Certificates.*

(a) *Deposit with Exchange Agent.* As soon as practicable after the Effective Time, the Company shall deposit with such bank or trust company mutually agreeable to WEC and NSP (the *"Exchange Agent"*), certificates representing shares of Company Common Stock required to effect the issuance referred to in *Section 2.1*, together with cash payable in respect of fractional shares pursuant to *Section 2.3(d)*.

(b) *Issuance Procedures.* As soon as practicable after the Effective Time, the Exchange Agent shall mail (x) to each holder of record of a certificate or certificates (the *"Certificates"*) which immediately prior to the Reincorporation Effective Time represented outstanding shares of Old NSP

Common Stock (the *"Cancelled Common Shares"*) that were cancelled and became instead the right to receive shares of Company Common Stock (the *"Company Shares"*) pursuant to *Section 2.1*, (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon actual delivery of the Certificates to the Exchange Agent) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing Company Shares. Upon surrender of a Certificate to the Exchange Agent for cancellation (or to such other agent or agents as may be appointed by agreement of NSP and WEC), together with a duly executed letter of transmittal and such other documents as the Exchange Agent shall require, the holder of such Certificate shall be entitled to receive a certificate representing that number of whole Company Shares which such holder has the right to receive pursuant to the provisions of this *Article II*. In the event of a transfer of ownership of Cancelled Common Shares which is not registered in the transfer records of NSP, a certificate representing the proper number of Company Shares may be issued to a transferee if the Certificate representing such Cancelled Common Shares is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and by evidence satisfactory to the Exchange Agent that any applicable stock transfer taxes have been paid. Until surrendered as contemplated by this *Section 2.3*, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the certificate representing Company Shares and cash in lieu of any fractional shares of Company Common Stock as contemplated by this *Section 2.3*.

(c) *Distributions with Respect to Unsurrendered Shares.* No dividends or other distributions declared or made after the Effective Time with respect to Company Shares with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the Company Shares represented thereby and no cash payment in lieu of fractional shares shall be paid to any such holder pursuant to *Section 2.3(d)* until the holder of record of such Certificate shall surrender such Certificate. Subject to the effect of unclaimed property, escheat and other applicable laws, following surrender of any such Certificate, there shall be paid to the record holder of the certificates representing whole Company Shares issued in consideration therefor, without interest, (i) at the time of such surrender, the amount of any cash payable in lieu of a fractional share of Company Common Stock to which such holder is entitled pursuant to *Section 2.3(d)* and the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole Company Shares and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to surrender and a payment date subsequent to surrender payable with respect to such whole Company Shares.

(d) *No Fractional Securities.* Notwithstanding any other provision of this Agreement, no certificates or scrip representing fractional shares of Company Common Stock shall be issued upon the surrender for exchange of Certificates and such fractional shares shall not entitle the owner thereof to vote or to any other rights of a holder of Company Common Stock. A holder of NSP Common Stock who would otherwise have been entitled to a fractional share of Company Common Stock shall be entitled to receive a cash payment in lieu of such fractional share in an amount equal to the product of such fraction multiplied by the average of the last reported sales price, regular way, per share of WEC Common Stock on the New York Stock Exchange (*"NYSE"*) Composite Tape for the ten business days prior to and including the last business day on which Old NSP Common Stock was traded on the NYSE, without any interest thereon.

(e) *Book Entry.* Notwithstanding any other provision of this Agreement, the letter of transmittal referred to in *Section 2.3(b)* may, at the option of the Company, provide for the ability of a holder of one or more Certificates to elect that the Company Shares to be received in exchange for the Cancelled Common Shares formerly represented by such surrendered Certificates be issued in uncertificated form or to elect that such Company Shares be credited to an account established for the holder under the dividend reinvestment and stock purchase plan of the Company.

(f) *Closing of Transfer Books.* From and after the NSP Effective Time the stock transfer books of NSP shall be closed and no transfer of any capital stock of NSP shall thereafter be made. If, after the Effective Time, Certificates are presented to the Company, they shall be cancelled and exchanged for certificates representing the appropriate number of Company Shares, as provided in this *Section 2.3*.

(g) *Termination of Exchange Agent.* Any certificates representing Company Shares deposited with the Exchange Agent pursuant to *Section 2.3(a)* and not exchanged within one year after the Effective Time pursuant to this *Section 2.3* shall be returned by the Exchange Agent to the Company, which shall thereafter act as Exchange Agent. All funds held by the Exchange Agent for payment to the holders of unsurrendered Certificates and unclaimed at the end of one year from the Effective Time shall be returned to the Company, after which time any holder of unsurrendered Certificates shall look as a general creditor only to the Company for payment of such funds to which such holder may be due, subject to applicable law. The Company shall not be liable to any person for such shares or funds delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

ARTICLE III

THE CLOSING

Section 3.1 *Closing.* The closing of the Mergers (the "*Closing*") shall take place at the offices of Wachtell, Lipton, Rosen & Katz, 51 West 52nd Street, New York, New York at 10:00 A.M., local time, on the second business day immediately following the date on which the last of the conditions set forth in *Article VIII* hereof is fulfilled or waived, or at such other time and date and place as NSP and WEC shall mutually agree (the "*Closing Date*").

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF NSP

NSP represents and warrants to WEC as follows:

Section 4.1 *Organization and Qualification.* Except as set forth in Section 4.1 of the NSP Disclosure Schedule (as defined in *Section 7.6(ii)*), each of NSP and each of the NSP Subsidiaries (as defined below) is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite corporate power and authority, and has been duly authorized by all necessary approvals and orders to own, lease and operate its assets and properties to the extent owned, leased and operated and to carry on its business as it is now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its assets and properties makes such qualification necessary. As used in this Agreement, (a) the term "*subsidiary*" of a person shall mean any corporation or other entity (including partnerships and other business associations) of which at least a majority of the outstanding capital stock or other voting securities having voting power under ordinary circumstances to elect directors or similar members of the governing body of such corporation or entity shall at the time be held, directly or indirectly, by such person, (b) the term "*NSP Subsidiary*" shall mean those of the subsidiaries of NSP identified as NSP Subsidiaries in Section 4.2 of the NSP Disclosure Schedule and (c) the term "*Direct Subsidiary*" shall be deemed to mean NSP Subsidiaries or WEC Subsidiaries (as defined in *Section 5.1*), as the case may be.

Section 4.2 *Subsidiaries.* Section 4.2 of the NSP Disclosure Schedule sets forth a description as of the date hereof, of all subsidiaries and joint ventures of NSP, including (a) the name of each such entity and NSP's interest therein, and (b) as to each NSP Subsidiary and NSP Joint Venture (as defined below), a brief description of the principal line or lines of business conducted by each such entity. Except as set forth in Section 4.2 of the NSP Disclosure Schedule, none of the NSP Subsidiaries is a "public utility company", a "holding company", a "subsidiary company" or an "affiliate" of any public utility company within the meaning of Section 2(a)(5), 2(a)(7), 2(a)(8) or 2(a)(11) of the Public Utility Holding Company Act of 1935, as amended (the *"1935 Act"*), respectively. Except as set forth in Section 4.2 of the NSP Disclosure Schedule, all of the issued and outstanding shares of capital stock of each NSP Subsidiary are validly issued, fully paid, nonassessable (subject to Section 180.0622(2)(b) of the WBCL, as judicially interpreted, in the case of New NSP and NSP-W (as defined in *Section 4.12*)) and free of preemptive rights, and are owned, directly or indirectly, by NSP free and clear of any liens, claims, encumbrances, security interests, equities, charges and options of any nature whatsoever and there are no outstanding subscriptions, options, calls, contracts, voting trusts, proxies or other commitments, understandings, restrictions, arrangements, rights or warrants, including any right of conversion or exchange under any outstanding security, instrument or other agreement, obligating any such NSP Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of its capital stock or obligating it to grant, extend or enter into any such agreement or commitment. As used in this Agreement, (a) the term *"joint venture"* of a person shall mean any corporation or other entity (including partnerships and other business associations) that is not a subsidiary of such person, in which such person or one or more of its subsidiaries owns an equity interest, other than equity interests held for passive investment purposes which are less than 5% of any class of the outstanding voting securities or equity of any such entity and (b) the term *"NSP Joint Venture"* shall mean those of the joint ventures of NSP or any NSP Subsidiary identified as a NSP Joint Venture in Section 4.2 of the NSP Disclosure Schedule. With respect to the subsidiaries and joint ventures of NSP that are not NSP Subsidiaries (the *"NSP Unrestricted Subsidiaries"*): (i) except as set forth in Section 4.2 of the NSP Disclosure Schedule, neither NSP nor any NSP Subsidiary is liable for any obligations or liabilities of any NSP Unrestricted Subsidiary; (ii) neither NSP nor any NSP Subsidiary is obligated to make any loans or capital contributions to, or to undertake any guarantees or other obligations with respect to, NSP Unrestricted Subsidiaries, except for loans, capital contributions, guarantees and other obligations not in excess of $75,000,000 in the aggregate to all such NSP Unrestricted Subsidiaries; and (iii) the aggregate book value as of December 31, 1994, of NSP's investment in the NSP Unrestricted Subsidiaries was not in excess of $300,000,000.

Section 4.3 *Capitalization.* The authorized capital stock of NSP consists of 160,000,000 shares of Old NSP Common Stock, and 7,000,000 shares of Old NSP Preferred Stock. As of the close of business on April 20, 1995, there were issued and outstanding 67,275,241 shares of Old NSP Common Stock and 2,400,000 shares of Old NSP Preferred Stock, consisting of: 275,000 shares of $3.60 series; 150,000 shares of $4.08 series; 175,000 shares of $4.10 series; 200,000 shares of $4.11 series; 100,000 shares of $4.16 series; 150,000 shares of $4.56 series; 200,000 shares of $6.80 series; 200,000 shares of $7.00 series; 300,000 shares of Adjustable Rate Series A; and 650,000 shares of Adjustable Rate Series B. All of the issued and outstanding shares of the capital stock of NSP are, and any shares of Old NSP Common Stock issued pursuant to the NSP Stock Option Agreement will be, validly issued, fully paid, nonassessable and free of preemptive rights. Except as set forth in Section 4.3 of the NSP Disclosure Schedule, as of the date hereof, there are no outstanding subscriptions, options, calls, contracts, voting trusts, proxies or other commitments, understandings, restrictions, arrangements, rights or warrants, including any right of conversion or exchange under any outstanding security, instrument or other agreement, obligating NSP or any of the NSP Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of the capital stock of NSP, or obligating NSP to grant, extend or enter into any such agreement or commitment, other than under the NSP Stock Option Agreement. There are no outstanding stock appreciation rights of NSP which were not granted in tandem with a related stock option and no outstanding limited stock appreciation rights or other rights to redeem for cash options or warrants of NSP.

Section 4.4 *Authority; Non-Contravention; Statutory Approvals; Compliance.*

(a) *Authority.* NSP has all requisite power and authority to enter into this Agreement and the NSP Stock Option Agreement, and, subject to the applicable NSP Shareholders' Approval (as defined in *Section 4.13*) and the applicable NSP Required Statutory Approvals (as defined in *Section 4.4(c)*), to consummate the transactions contemplated hereby or thereby. The execution and delivery of this Agreement and the NSP Stock Option Agreement and the consummation by NSP of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of NSP, subject to obtaining the applicable NSP Shareholders' Approval. Each of this Agreement and the NSP Stock Option Agreement has been duly and validly executed and delivered by NSP and, assuming the due authorization, execution and delivery hereof and thereof by the other signatories hereto and thereto, constitutes the valid and binding obligation of NSP enforceable against it in accordance with its terms.

(b) *Non-Contravention.* Except as set forth in Section 4.4(b) of the NSP Disclosure Schedule, the execution and delivery of this Agreement and the NSP Stock Option Agreement by NSP do not, and the consummation of the transactions contemplated hereby or thereby will not, in any material respect, violate, conflict with, or result in a material breach of any provision of, or constitute a material default (with or without notice or lapse of time or both) under, or result in the termination or modification of, or accelerate the performance required by, or result in a right of termination, cancellation, or acceleration of any obligation or the loss of a material benefit under, or result in the creation of any material lien, security interest, charge or encumbrance upon any of the properties or assets of NSP or any of the NSP Subsidiaries or NSP Joint Ventures (any such violation, conflict, breach, default, right of termination, modification, cancellation or acceleration, loss or creation, a "*Violation*" with respect to NSP, such term when used in *Article V* having a correlative meaning with respect to WEC) pursuant to any provisions of (i) the articles of incorporation, by-laws or similar governing documents of NSP or any of the NSP Subsidiaries or the NSP Joint Ventures, (ii) subject to obtaining the NSP Required Statutory Approvals and the receipt of the NSP Shareholders' Approval, any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any Governmental Authority (as defined in *Section 4.4(c)*) applicable to NSP or any of the NSP Subsidiaries or the NSP Joint Ventures or any of their respective properties or assets or (iii) subject to obtaining the third-party consents set forth in Section 4.4(b) of the NSP Disclosure Schedule (the "*NSP Required Consents*") any material note, bond, mortgage, indenture, deed of trust, license, franchise, permit, concession, contract, lease or other instrument, obligation or agreement of any kind to which NSP or any of the NSP Subsidiaries or the NSP Joint Ventures is a party or by which it or any of its properties or assets may be bound or affected.

(c) *Statutory Approvals.* No declaration, filing or registration with, or notice to or authorization, consent or approval of, any court, federal, state, local or foreign governmental or regulatory body (including a stock exchange or other self-regulatory body) or authority (each, a "*Governmental Authority*") is necessary for the execution and delivery of this Agreement or the NSP Stock Option Agreement by NSP or the consummation by NSP of the transactions contemplated hereby or thereby, except as described in Section 4.4(c) of the NSP Disclosure Schedule (the "*NSP Required Statutory Approvals*", it being understood that references in this Agreement to "obtaining" such NSP Required Statutory Approvals shall mean making such declarations, filings or registrations; giving such notices; obtaining such authorizations, consents or approvals; and having such waiting periods expire as are necessary to avoid a violation of law).

(d) *Compliance.* Except as set forth in Section 4.4(d), Section 4.10 or Section 4.11 of the NSP Disclosure Schedule, or as disclosed in the NSP SEC Reports (as defined in *Section 4.5*) filed prior to the date hereof, neither NSP nor any of the NSP Subsidiaries nor, to the knowledge of NSP, any NSP Joint Venture is in material violation of, is under investigation with respect to any material violation of, or has been given notice or been charged with any material violation of, any law, statute, order, rule, regulation, ordinance or judgment (including, without limitation, any applicable environmental law, ordinance or regulation) of any Governmental Authority. Except as set forth in Section 4.4(d) of the

NSP Disclosure Schedule or in Section 4.11 of the NSP Disclosure Schedule, NSP and the NSP Subsidiaries and NSP Joint Ventures have all permits, licenses, franchises and other governmental authorizations, consents and approvals necessary to conduct their businesses as presently conducted in all material respects. Except as set forth in Section 4.4(d) of the NSP Disclosure Schedule, NSP and each of the NSP Subsidiaries is not in material breach or violation of or in material default in the performance or observance of any term or provision of, and no event has occurred which, with lapse of time or action by a third party, could result in a material default under, (i) its articles of incorporation or by-laws or (ii) any material contract, commitment, agreement, indenture, mortgage, loan agreement, note, lease, bond, license, approval or other instrument to which it is a party or by which it is bound or to which any of its property is subject.

Section 4.5 *Reports and Financial Statements.* The filings required to be made by NSP and the NSP Subsidiaries since January 1, 1990 under the Securities Act of 1933, as amended (the *"Securities Act"*), the Securities Exchange Act of 1934, as amended (the *"Exchange Act"*), the 1935 Act, the Federal Power Act (the *"Power Act"*), the Atomic Energy Act of 1954, as amended (the "Atomic Energy Act") and applicable state laws and regulations have been filed with the Securities and Exchange Commission (the *"SEC"*), the Federal Energy Regulatory Commission (the *"FERC"*), the Nuclear Regulatory Commission *("NRC")* or the appropriate state public utilities commission, as the case may be, including all forms, statements, reports, agreements (oral or written) and all documents, exhibits, amendments and supplements appertaining thereto, and complied, as of their respective dates, in all material respects with all applicable requirements of the appropriate statute and the rules and regulations thereunder. NSP has made available to WEC a true and complete copy of each report, schedule, registration statement and definitive proxy statement filed by NSP with the SEC since January 1, 1992 (as such documents have since the time of their filing been amended, the *"NSP SEC Reports"*). As of their respective dates, the NSP SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim financial statements of NSP included in the NSP SEC Reports (collectively, the *"NSP Financial Statements"*) have been prepared in accordance with generally accepted accounting principles applied on a consistent basis *("GAAP")* (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by Form 10-Q of the SEC) and fairly present the financial position of NSP as of the dates thereof and the results of its operations and cash flows for the periods then ended, subject, in the case of the unaudited interim financial statements, to normal, recurring audit adjustments. True, accurate and complete copies of the Restated Articles of Incorporation and by-laws of NSP, as in effect on the date hereof, are included (or incorporated by reference) in the NSP SEC Reports.

Section 4.6 *Absence of Certain Changes or Events.* Except as disclosed in the NSP SEC Reports filed prior to the date hereof or as set forth in Section 4.6 of the NSP Disclosure Schedule, from December 31, 1994, NSP and each of the NSP Subsidiaries have conducted their business only in the ordinary course of business consistent with past practice and there has not been, and no fact or condition exists which would have or, insofar as reasonably can be foreseen, could have, a material adverse effect on the business, assets, financial condition, results of operations or prospects of NSP and its subsidiaries taken as a whole (a *"NSP Material Adverse Effect"*).

Section 4.7 *Litigation.* Except as disclosed in the NSP SEC Reports filed prior to the date hereof or as set forth in Section 4.7, Section 4.9 or Section 4.11 of the NSP Disclosure Schedule, (i) there are no material claims, suits, actions or proceedings, pending or, to the knowledge of NSP, threatened, nor are there, to the knowledge of NSP, any material investigations or reviews pending or threatened against, relating to or affecting NSP or any of the NSP Subsidiaries, (ii) there have not been any significant developments since December 31, 1994 with respect to such disclosed claims,

suits, actions, proceedings, investigations or reviews and (iii) there are no material judgments, decrees, injunctions, rules or orders of any court, governmental department, commission, agency, instrumentality or authority or any arbitrator applicable to NSP or any of the NSP Subsidiaries.

Section 4.8 *Registration Statement and Proxy Statement.* None of the information supplied or to be supplied by or on behalf of NSP for inclusion or incorporation by reference in (i) the registration statement on Form S-4 to be filed with the SEC by WEC in connection with the issuance of shares of Company Common Stock in the Mergers (the "*Registration Statement*") will, at the time the Registration Statement is filed with the SEC and at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (ii) the joint proxy statement, in definitive form, relating to the meetings of NSP and WEC shareholders to be held in connection with the Mergers (the "*Proxy Statement*") will not, at the dates mailed to shareholders and at the times of the meetings of shareholders to be held in connection with the Mergers, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Registration Statement and the Proxy Statement will comply as to form in all material respects with the provisions of the Securities Act and the Exchange Act and the rules and regulations thereunder.

Section 4.9 *Tax Matters.* "*Taxes*", as used in this Agreement, means any federal, state, county, local or foreign taxes, charges, fees, levies, or other assessments, including all net income, gross income, sales and use, *ad valorem*, transfer, gains, profits, excise, franchise, real and personal property, gross receipt, capital stock, production, business and occupation, disability, employment, payroll, license, estimated, stamp, custom duties, severance or withholding taxes or charges imposed by any governmental entity, and includes any interest and penalties (civil or criminal) on or additions to any such taxes. "Tax Return", as used in this Agreement, means a report, return or other information required to be supplied to a governmental entity with respect to Taxes including, where permitted or required, combined or consolidated returns for any group of entities that includes NSP or any of its subsidiaries, or WEC or any of its subsidiaries, as the case may be.

Except as set forth in Section 4.9 of the NSP Disclosure Schedule:

(a) *Filing of Timely Tax Returns.* NSP and each of the NSP Subsidiaries have filed (or there has been filed on its behalf) all material Tax Returns required to be filed by each of them under applicable law. All such Tax Returns were and are in all material respects true, complete and correct and filed on a timely basis.

(b) *Payment of Taxes.* NSP and each of the NSP Subsidiaries have, within the time and in the manner prescribed by law, paid all Taxes that are currently due and payable except for those contested in good faith and for which adequate reserves have been taken.

(c) *Tax Reserves.* NSP and the NSP Subsidiaries have established on their books and records reserves adequate to pay all Taxes and reserves for deferred income taxes in accordance with GAAP.

(d) *Tax Liens.* There are no Tax liens upon the assets of NSP or any of the NSP Subsidiaries except liens for Taxes not yet due.

(e) *Withholding Taxes.* NSP and each of the NSP Subsidiaries have complied in all material respects with the provisions of the Internal Revenue Code of 1986, as amended (the "*Code*") relating to the withholding of Taxes, as well as similar provisions under any other laws, and have, within the time and in the manner prescribed by law, withheld from employee wages and paid over to the proper governmental authorities all amounts required.

(f) *Extensions of Time for Filing Tax Returns.* Neither NSP nor any of the NSP Subsidiaries has requested any extension of time within which to file any Tax Return, which Tax Return has not since been filed.

(g) *Waivers of Statute of Limitations.* Neither NSP nor any of the NSP Subsidiaries has executed any outstanding waivers or comparable consents regarding the application of the statute of limitations with respect to any Taxes or Tax Returns.

(h) *Expiration of Statute of Limitations.* The statute of limitations for the assessment of all Taxes has expired for all applicable Tax Returns of NSP and each of the NSP Subsidiaries or those Tax Returns have been examined by the appropriate taxing authorities for all periods through the date hereof, and no deficiency for any Taxes has been proposed, asserted or assessed against NSP or any of the NSP Subsidiaries that has not been resolved and paid in full.

(i) *Audit, Administrative and Court Proceedings.* No audits or other administrative proceedings or court proceedings are presently pending with regard to any Taxes or Tax Returns of NSP or any of the NSP Subsidiaries.

(j) *Powers of Attorney.* No power of attorney currently in force has been granted by NSP or any of the NSP Subsidiaries concerning any Tax matter.

(k) *Tax Rulings.* Neither NSP nor any of the NSP Subsidiaries has received a Tax Ruling (as defined below) or entered into a Closing Agreement (as defined below) with any taxing authority that would have a continuing adverse effect after the Closing Date. *"Tax Ruling"*, as used in this Agreement, shall mean a written ruling of a taxing authority relating to Taxes. *"Closing Agreement"*, as used in this Agreement, shall mean a written and legally binding agreement with a taxing authority relating to Taxes.

(l) *Availability of Tax Returns.* NSP has made available to WEC complete and accurate copies of (i) all Tax Returns, and any amendments thereto, filed by NSP or any of the NSP Subsidiaries, (ii) all audit reports received from any taxing authority relating to any Tax Return filed by NSP or any of the NSP Subsidiaries and (iii) any Closing Agreements entered into by NSP or any of the NSP Subsidiaries with any taxing authority.

(m) *Tax Sharing Agreements.* Neither NSP nor any NSP Subsidiary is a party to any agreement relating to allocating or sharing of Taxes.

(n) *Code Section 280G.* Neither NSP nor any of the NSP Subsidiaries is a party to any agreement, contract, or arrangement that could result, on account of the transactions contemplated hereunder, separately or in the aggregate, in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code.

(o) *Liability for Others.* None of NSP or any of the NSP Subsidiaries has any liability for Taxes of any person other than NSP and the NSP Subsidiaries (i) under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local or foreign law) as a transferee or successor, (ii) by contract, or (iii) otherwise.

Section 4.10 *Employee Matters; ERISA.* Except as set forth in Section 4.10 of the NSP Disclosure Schedule:

(a) *Benefit Plans.* Section 4.10(a) of the NSP Disclosure Schedule contains a true and complete list of each employee benefit plan covering employees, former employees or directors of NSP and each of the NSP Subsidiaries or their beneficiaries, or providing benefits to such persons in respect of services provided to any such entity, including, but not limited to, any employee benefit plans within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended *("ERISA")* and any severance or change in control agreement (collectively, the *"NSP Benefit Plans"*). For the purposes of this *Section 4.10* only, the term *"NSP"* shall be deemed to include the predecessors of such company.

prior to the date hereof or in Section 4.10(h) of the NSP Disclosure Schedule, (i) there is no unfair labor practice, employment discrimination or other material complaint against NSP or any of the

(b) *Contributions.* All material contributions and other payments required to be made by NSP or any of the NSP Subsidiaries to any NSP Benefit Plan (or to any person pursuant to the terms thereof) have been made or the amount of such payment or contribution obligation has been reflected in the NSP Financial Statements.

(c) *Qualification; Compliance.* Each of the NSP Benefit Plans intended to be "qualified" within the meaning of Section 401(a) of the Code has been determined by the IRS to be so qualified, and, to the best knowledge of NSP, no circumstances exist that are reasonably expected by NSP to result in the revocation of any such determination. NSP is in compliance in all material respects with, and each of the NSP Benefit Plans is and has been operated in all material respects in compliance with, all applicable laws, rules and regulations governing such plan, including, without limitation, ERISA and the Code. Each NSP Benefit Plan intended to provide for the deferral of income, the reduction of salary or other compensation, or to afford other income tax benefits, complies with the requirements of the applicable provisions of the Code or other laws, rules and regulations required to provide such income tax benefits.

(d) *Liabilities.* With respect to the NSP Benefit Plans, individually and in the aggregate, no event has occurred, and, to the best knowledge of NSP, there does not now exist any condition or set of circumstances, that could subject NSP or any of the NSP Subsidiaries to any material liability arising under the Code, ERISA or any other applicable law (including, without limitation, any liability to any such plan or the Pension Benefit Guaranty Corporation (the *"PBGC"*)), or under any indemnity agreement to which NSP is a party, excluding liability for benefit claims and funding obligations payable in the ordinary course.

(e) *Welfare Plans.* None of the NSP Benefit Plans that are "welfare plans", within the meaning of Section 3(1) of ERISA, provides for any retiree benefits, other than continuation coverage required to be provided under Section 4980B of the Code or Part 6 of Title I of ERISA.

(f) *Documents Made Available.* NSP has made available to WEC a true and correct copy of each collective bargaining agreement to which NSP or any of the NSP Subsidiaries is a party or under which NSP or any of the NSP Subsidiaries has obligations and, with respect to each NSP Benefit Plan, where applicable, (i) such plan and summary plan description, (ii) the most recent annual report filed with the IRS, (iii) each related trust agreement, insurance contract, service provider or investment management agreement (including all amendments to each such document), (iv) the most recent determination of the IRS with respect to the qualified status of such NSP Benefit Plan, and (v) the most recent actuarial report or valuation.

(g) *Payments Resulting from Mergers.* (i) The consummation or announcement of any transaction contemplated by this Agreement will not (either alone or upon the occurrence of any additional or further acts or events) result in any (A) payment (whether of severance pay or otherwise) becoming due from NSP or any of the NSP Subsidiaries to any officer, employee, former employee or director thereof or to the trustee under any "rabbi trust" or similar arrangement, or (B) benefit under any NSP Benefit Plan being established or becoming accelerated, vested or payable and (ii) neither NSP nor any of the NSP Subsidiaries is a party to (A) any management, employment, deferred compensation, severance (including any payment, right or benefit resulting from a change in control), bonus or other contract for personal services with any officer, director or employee, (B) any consulting contract with any person who prior to entering into such contract was a director or officer of NSP, or (C) any plan, agreement, arrangement or understanding similar to any of the foregoing.

(h) *Labor Agreements.* As of the date hereof, neither NSP nor any of the NSP Subsidiaries is a party to any collective bargaining agreement or other labor agreement with any union or labor organization. To the best knowledge of NSP, as of the date hereof, there is no current union representation question involving employees of NSP or any of the NSP Subsidiaries, nor does NSP know of any activity or proceeding of any labor organization (or representative thereof) or employee group to organize any such employees. Except as disclosed in the NSP SEC Reports filed

(g) As used in this Agreement:

prior to the date hereof or in Section 4.10(h) of the NSP Disclosure Schedule, (i) there is no unfair labor practice, employment discrimination or other material complaint against NSP or any of the NSP Subsidiaries pending, or to the best knowledge of NSP, threatened, (ii) there is no strike or lockout or material dispute, slowdown or work stoppage pending, or to the best knowledge of NSP, threatened, against or involving NSP, and (iii) there is no proceeding, claim, suit, action or governmental investigation pending or, to the best knowledge of NSP, threatened, in respect of which any director, officer, employee or agent of NSP or any of the NSP Subsidiaries is or may be entitled to claim indemnification from NSP or such NSP Subsidiary pursuant to their respective articles of incorporation or by-laws or as provided in the indemnification agreements listed in Section 4.10(h) of the NSP Disclosure Schedule.

Section 4.11 *Environmental Protection.* Except as set forth in Section 4.11 of the NSP Disclosure Schedule or in the NSP SEC Reports filed prior to the date hereof:

(a) *Compliance.* NSP and each of the NSP Subsidiaries is in material compliance with all applicable Environmental Laws (as defined in *Section 4.11(g)(ii)*); and neither NSP nor any of the NSP Subsidiaries has received any communication (written or oral), from any person or Governmental Authority that alleges that NSP or any of the NSP Subsidiaries is not in such compliance with applicable Environmental Laws.

(b) *Environmental Permits.* NSP and each of the NSP Subsidiaries has obtained or has applied for all material environmental, health and safety permits and governmental authorizations (collectively, the *"Environmental Permits"*) necessary for the construction of their facilities or the conduct of their operations, and all such Environmental Permits are in good standing or, where applicable, a renewal application has been timely filed and is pending agency approval, and NSP and the NSP Subsidiaries are in material compliance with all terms and conditions of the Environmental Permits.

(c) *Environmental Claims.* To the best knowledge of NSP, there is no material Environmental Claim (as defined in *Section 4.11(g)(i)*) pending (i) against NSP or any of the NSP Subsidiaries or NSP Joint Ventures, (ii) against any person or entity whose liability for any Environmental Claim NSP or any of the NSP Subsidiaries has or may have retained or assumed either contractually or by operation of law, or (iii) against any real or personal property or operations which NSP or any of the NSP Subsidiaries owns, leases or manages, in whole or in part.

(d) *Releases.* NSP has no knowledge of any material Releases (as defined in *Section 4.11(g)(iv)*) of any Hazardous Material (as defined in *Section 4.11(g)(iii)*) that would be reasonably likely to form the basis of any material Environmental Claim against NSP or any of the NSP Subsidiaries, or against any person or entity whose liability for any material Environmental Claim NSP or any of the NSP Subsidiaries has or may have retained or assumed either contractually or by operation of law.

(e) *Predecessors.* NSP has no knowledge, with respect to any predecessor of NSP or any of the NSP Subsidiaries, of any material Environmental Claim pending or threatened, or of any Release of Hazardous Materials that would be reasonably likely to form the basis of any material Environmental Claim.

(f) *Disclosure.* To NSP's best knowledge, NSP has disclosed to WEC all material facts which NSP reasonably believes form the basis of a material Environmental Claim arising from (i) the cost of NSP pollution control equipment currently required or known to be required in the future; (ii) current NSP remediation costs or NSP remediation costs known to be required in the future; or (iii) any other environmental matter affecting NSP.

may be required for the repurchase of shares of Old NSP Common Stock pursuant to Section 7(a) of

(g) As used in this Agreement:

(i) *"Environmental Claim"* means any and all administrative, regulatory or judicial actions, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or notices of noncompliance or violation (written or oral) by any person or entity (including any Governmental Authority) alleging potential liability (including, without limitation, potential responsibility for or liability for enforcement, investigatory costs, cleanup costs, governmental response costs, removal costs, remedial costs, natural-resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from (A) the presence, or Release or threatened Release into the environment, of any Hazardous Materials at any location, whether or not owned, operated, leased or managed by NSP or any of the NSP Subsidiaries or NSP Joint Ventures (for purposes of this *Section 4.11*), or by WEC or any of the WEC Subsidiaries or WEC Joint Ventures (for purposes of *Section 5.11*); or (B) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law; or (C) any and all claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence or Release of any Hazardous Materials.

(ii) *"Environmental Laws"* means all federal, state, local laws, rules and regulations relating to pollution, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or protection of human health as it relates to the environment including, without limitation, laws and regulations relating to Releases or threatened Releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials.

(iii) *"Hazardous Materials"* means (a) any petroleum or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, and transformers or other equipment that contain dielectric fluid containing polychlorinated biphenyls (*"PCBs"*); and (b) any chemicals, materials or substances which are now defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "extremely hazardous wastes", "restricted hazardous wastes", "toxic substances", "toxic pollutants", or words of similar import, under any Environmental Law; and (c) any other chemical, material, substance or waste, exposure to which is now prohibited, limited or regulated under any Environmental Law in a jurisdiction in which NSP or any of the NSP Subsidiaries or NSP Joint Ventures operates (for purposes of this *Section 4.11*) or in which WEC or any of the WEC Subsidiaries or WEC Joint Ventures operates (for purposes of *Section 5.11*).

(iv) *"Release"* means any release, spill, emission, leaking, injection, deposit, disposal, discharge, dispersal, leaching or migration into the atmosphere, soil, surface water, groundwater or property.

Section 4.12 *Regulation as a Utility.* NSP is regulated as a public utility in the States of Minnesota, North Dakota and South Dakota and in no other state. Northern States Power Company, a Wisconsin corporation (*"NSP-W"*), is regulated as a public utility in the States of Wisconsin and Michigan and in no other state. Except as set forth in Section 4.12 of the NSP Disclosure Schedule, neither NSP nor any "subsidiary company" or "affiliate" of NSP is subject to regulation as a public utility or public service company (or similar designation) by any other state in the United States or any foreign country. NSP is an exempt holding company under Section 3(a)(2) of the 1935 Act.

Section 4.13 *Vote Required.* The approval of the Mergers by a majority of the votes entitled to be cast by all holders of Old NSP Common Stock and Old NSP Preferred Stock voting together as a single class (the *"NSP Shareholders' Approval"*) is the only vote of the holders of any class or series of the capital stock of NSP or any of its subsidiaries required to approve this Agreement, the Mergers and the other transactions contemplated hereby, *provided* that the approval of shareholders of NSP

may be required for the repurchase of shares of Old NSP Common Stock pursuant to Section 7(a) of the NSP Stock Option Agreement under circumstances where Subdivision 3 of Section 302A.553 of the MBCA would be applicable.

Section 4.14 *Accounting Matters.* Neither NSP nor, to NSP's best knowledge, any of its affiliates has taken or agreed to take any action that would prevent the Company from accounting for the transactions to be effected pursuant to this Agreement as a pooling of interests in accordance with GAAP and applicable SEC regulations. As used in this Agreement (except as specifically otherwise defined), the term *"affiliate"*, except where otherwise defined herein, shall mean, as to any person, any other person which directly or indirectly controls, or is under common control with, or is controlled by, such person. As used in this definition, *"control"* (including, with its correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise).

Section 4.15 *Applicability of Certain Minnesota Law.* Assuming the representation and warranty of WEC made in *Section 5.18* is correct, none of the control share acquisition provisions of Section 302A.671 of the MBCA, the business combination provisions of Sections 302A.673 and 675 of the MBCA or any similar provisions of the MBCA (or, to the best knowledge of NSP, any other similar state statute) or the Restated Articles of Incorporation or by-laws of NSP, are applicable to the transactions contemplated by this Agreement, including the granting or exercise of the NSP Stock Option Agreement.

Section 4.16 *Opinion of Financial Advisor.* NSP has received the opinion of Goldman, Sachs & Co., dated April 28, 1995, to the effect that, as of the date thereof, the Ratio is fair to the holders of Old NSP Common Stock.

Section 4.17 *Insurance.* Except as set forth in Section 4.17 of the NSP Disclosure Schedule, NSP and each of the NSP Subsidiaries is, and has been continuously since January 1, 1990, insured with financially responsible insurers in such amounts and against such risks and losses as are customary in all material respects for companies conducting the business as conducted by NSP and the NSP Subsidiaries during such time period. Except as set forth in Section 4.17 of the NSP Disclosure Schedule, neither NSP nor any of the NSP Subsidiaries has received any notice of cancellation or termination with respect to any material insurance policy of NSP or any of the NSP Subsidiaries. The insurance policies of NSP and each of the NSP Subsidiaries are valid and enforceable policies in all material respects.

Section 4.18 *Ownership of WEC Common Stock.* Except pursuant to the terms of the WEC Stock Option Agreement, NSP does not "beneficially own" (as such term is defined for purposes of Section 13(d) of the Exchange Act) any shares of WEC Common Stock.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF WEC

WEC represents and warrants to NSP as follows:

Section 5.1 *Organization and Qualification.* Except as set forth in Section 5.1 of the WEC Disclosure Schedule (as defined in *Section 7.6(i)*), each of WEC and each of the WEC Subsidiaries (as defined below) is a corporation duly organized, validly existing and in active status under the laws of its jurisdiction of incorporation or organization, has all requisite corporate power and authority, and has been duly authorized by all necessary approvals and orders to own, lease and operate its assets and properties to the extent owned, leased and operated and to carry on its business as it is now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its assets and properties makes such qualification necessary. As used in this Agreement, the term: (a) *"WEC Subsidiary"* shall mean those of the

WEC to grant, extend or enter into any such agreement or commitment, other than under the WEC Stock Option Agreement. There are no outstanding stock appreciation rights of WEC which were not

subsidiaries of WEC identified as WEC Subsidiaries in Section 5.2 of the WEC Disclosure Schedule; and (b) *"WEC Joint Venture"* shall mean those of the joint ventures of WEC or any WEC Subsidiary identified as a WEC Joint Venture in Section 5.2 of the WEC Disclosure Schedule.

Section 5.2 *Subsidiaries.* Section 5.2 of the WEC Disclosure Schedule sets forth a description as of the date hereof of all subsidiaries and joint ventures of WEC, including (a) the name of each such entity and WEC's interest therein, and (b) as to each WEC Subsidiary and WEC Joint Venture, a brief description of the principal line or lines of business conducted by each such entity. Except as set forth in Section 5.2 of the WEC Disclosure Schedule, none of the WEC Subsidiaries is a "public utility company", a "holding company", a "subsidiary company" or an "affiliate" of any public utility company within the meaning of Section 2(a)(5), 2(a)(7), 2(a)(8) or 2(a)(11) of the 1935 Act, respectively. Except as set forth in Section 5.2 of the WEC Disclosure Schedule, all of the issued and outstanding shares of capital stock of each WEC Subsidiary are validly issued, fully paid, nonassessable (subject to Section 180.0622(2)(b) of the WBCL, as judicially interpreted) and free of preemptive rights, and are owned directly or indirectly by WEC free and clear of any liens, claims, encumbrances, security interests, equities, charges and options of any nature whatsoever and there are no outstanding subscriptions, options, calls, contracts, voting trusts, proxies or other commitments, understandings, restrictions, arrangements, rights or warrants, including any right of conversion or exchange under any outstanding security, instrument or other agreement, obligating any such WEC Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of its capital stock or obligating it to grant, extend or enter into any such agreement or commitment. With respect to the subsidiaries and joint ventures of WEC that are not WEC Subsidiaries (the *"WEC Unrestricted Subsidiaries"*): (i) except as set forth in Section 5.2 of the WEC Disclosure Schedule, neither WEC nor any WEC Subsidiary is liable for any obligations or liabilities of any WEC Unrestricted Subsidiary; (ii) neither WEC nor any WEC Subsidiary is obligated to make any loans or capital contributions to, or to undertake any guarantees or other obligations with respect to, WEC Unrestricted Subsidiaries, except for loans, capital contributions, guarantees and other obligations not in excess of $35 million in the aggregate to all such WEC Unrestricted Subsidiaries; and (iii) the aggregate book value as of December 31, 1994, of WEC's investment in the WEC Unrestricted Subsidiaries was not in excess of $120 million.

Section 5.3 *Capitalization.* The authorized capital stock of WEC consists of 325,000,000 shares of WEC Common Stock, and 15,000,000 shares of Preferred Stock, par value $.01 per share (the *"WEC Preferred Stock"*). As of the close of business on April 20, 1995, there were issued and outstanding 109,415,713 shares of WEC Common Stock and no shares of WEC Preferred Stock. All of the issued and outstanding shares of the capital stock of WEC are, and any WEC Common Stock issued pursuant to the WEC Stock Option Agreement will be, validly issued, fully paid, nonassessable (subject to Section 180.0622(2)(b) of the WBCL, as judicially interpreted) and free of preemptive rights. The authorized capital stock of Wisconsin Electric Power Company, a Wisconsin corporation (*"WEPCO"*), consists of 65,000,000 shares of Common Stock, par value $10.00 per share (the *"WEPCO Common Stock"*), 45,000 shares of 6% Preferred Stock, par value $100.00 per share (the *"WEPCO 6% Preferred Stock"*), 2,286,500 shares of Serial Preferred Stock, par value $100.00 per share (the *"WEPCO $100 Par Value Serial Preferred Stock"*) and 5,000,000 shares of Serial Preferred Stock, par value $25.00 per share (the *"WEPCO $25 Par Value Serial Preferred Stock"* and, together with the WEPCO 6% Preferred Stock and the WEPCO $100 Par Value Serial Preferred Stock, the *"WEPCO Preferred Stock"*). As of the close of business on April 20, 1995, there were issued and outstanding 33,289,327 shares of WEPCO Common Stock, 44,508 shares of the WEPCO 6% Preferred Stock, 260,000 shares of the WEPCO $100 Par Value Serial Preferred Stock, 3.60% Series, and no shares of the WEPCO $25 Par Value Serial Preferred Stock. Except as set forth in Section 5.3 of the WEC Disclosure Schedule, as of the date hereof, there are no outstanding subscriptions, options, calls, contracts, voting trusts, proxies or other commitments, understandings, restrictions, arrangements, rights or warrants, including any right of conversion or exchange under any outstanding security, instrument or other agreement, obligating WEC or any of the WEC Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of the capital stock of WEC, or obligating

material default in the performance or observance of any term or provision of, and no event has

WEC to grant, extend or enter into any such agreement or commitment, other than under the WEC Stock Option Agreement. There are no outstanding stock appreciation rights of WEC which were not granted in tandem with a related stock option and no outstanding limited stock appreciation rights or other rights to redeem for cash options or warrants of WEC.

Section 5.4 *Authority; Non-Contravention; Statutory Approvals; Compliance.*

(a) *Authority.* WEC has all requisite power and authority to enter into this Agreement and the WEC Stock Option Agreement, and, subject to the applicable WEC Shareholders' Approval (as defined in *Section 5.13*) and the applicable WEC Required Statutory Approvals (as defined in *Section 5.4(c)*), to consummate the transactions contemplated hereby or thereby. The execution and delivery of this Agreement and the WEC Stock Option Agreement and the consummation by WEC of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of WEC, subject to obtaining the applicable WEC Shareholders' Approval. Each of this Agreement and the WEC Stock Option Agreement has been duly and validly executed and delivered by WEC and, assuming the due authorization, execution and delivery hereof and thereof by the other signatories hereto and thereto, constitutes the valid and binding obligation of WEC enforceable against it in accordance with its terms.

(b) *Non-Contravention.* Except as set forth in Section 5.4(b) of the WEC Disclosure Schedule, the execution and delivery of this Agreement and the WEC Stock Option Agreement by WEC do not, and the consummation of the transactions contemplated hereby or thereby will not, result in a material Violation pursuant to any provisions of (i) the articles of incorporation, by-laws or similar governing documents of WEC or any of the WEC Subsidiaries or the WEC Joint Ventures, (ii) subject to obtaining the WEC Required Statutory Approvals and the receipt of the WEC Shareholders' Approval, any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any Governmental Authority applicable to WEC or any of the WEC Subsidiaries or the WEC Joint Ventures or any of their respective properties or assets or (iii) subject to obtaining the third-party consents set forth in Section 5.4(b) of the WEC Disclosure Schedule (the *"WEC Required Consents"*) any material note, bond, mortgage, indenture, deed of trust, license, franchise, permit, concession, contract, lease or other instrument, obligation or agreement of any kind to which WEC or any of the WEC Subsidiaries or the WEC Joint Ventures is a party or by which it or any of its properties or assets may be bound or affected.

(c) *Statutory Approvals.* No declaration, filing or registration with, or notice to or authorization, consent or approval of, any Governmental Authority is necessary for the execution and delivery of this Agreement or the WEC Stock Option Agreement by WEC or the consummation by WEC of the transactions contemplated hereby or thereby, except as described in Section 5.4(c) of the WEC Disclosure Schedule (the *"WEC Required Statutory Approvals"*, it being understood that references in this Agreement to "obtaining" such WEC Required Statutory Approvals shall mean making such declarations, filings or registrations; giving such notices; obtaining such authorizations, consents or approvals; and having such waiting periods expire as are necessary to avoid a violation of law).

(d) *Compliance.* Except as set forth in Section 5.4(d), Section 5.10 or Section 5.11 of the WEC Disclosure Schedule, or as disclosed in the WEC SEC Reports (as defined in *Section 5.5*) filed prior to the date hereof, neither WEC nor any of the WEC Subsidiaries nor, to the knowledge of WEC, any WEC Joint Venture, is in material violation of, is under investigation with respect to any material violation of, or has been given notice or been charged with any material violation of, any law, statute, order, rule, regulation, ordinance or judgment (including, without limitation, any applicable environmental law, ordinance or regulation) of any Governmental Authority. Except as set forth in Section 5.4(d) of the WEC Disclosure Schedule or in Section 5.11 of the WEC Disclosure Schedule, WEC and the WEC Subsidiaries and WEC Joint Ventures have all permits, licenses, franchises and other governmental authorizations, consents and approvals necessary to conduct their businesses as presently conducted in all material respects. Except as set forth in Section 5.4(d) of the WEC Disclosure Schedule, WEC and each of the WEC Subsidiaries is not in material breach or violation of or in

material default in the performance or observance of any term or provision of, and no event has occurred which, with lapse of time or action by a third party, could result in a material default under, (i) its articles of incorporation or by-laws or (ii) any material contract, commitment, agreement, indenture, mortgage, loan agreement, note, lease, bond, license, approval or other instrument to which it is a party or by which it is bound or to which any of its property is subject.

Section 5.5 *Reports and Financial Statements.* The filings required to be made by WEC and the WEC Subsidiaries since January 1, 1990 under the Securities Act, the Exchange Act, the 1935 Act, the Power Act, the Atomic Energy Act and applicable state laws and regulations have been filed with the SEC, the FERC, the NRC or the appropriate state public utilities commission, as the case may be, including all forms, statements, reports, agreements (oral or written) and all documents, exhibits, amendments and supplements appertaining thereto, and complied, as of their respective dates, in all material respects with all applicable requirements of the appropriate statute and the rules and regulations thereunder. WEC has made available to NSP a true and complete copy of each report, schedule, registration statement and definitive proxy statement filed by WEC with the SEC since January 1, 1992 (as such documents have since the time of their filing been amended, the *"WEC SEC Reports"*). As of their respective dates, the WEC SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim financial statements of WEC included in the WEC SEC Reports (collectively, the *"WEC Financial Statements"*) have been prepared in accordance with GAAP (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by Form 10-Q of the SEC) and fairly present the financial position of WEC as of the dates thereof and the results of its operations and cash flows for the periods then ended, subject, in the case of the unaudited interim financial statements, to normal, recurring audit adjustments. True, accurate and complete copies of the Restated Articles of Incorporation and by-laws of WEC, as in effect on the date hereof, are included (or incorporated by reference) in the WEC SEC Reports.

Section 5.6 *Absence of Certain Changes or Events.* Except as disclosed in the WEC SEC Reports filed prior to the date hereof or as set forth in Section 5.6 of the WEC Disclosure Schedule, from December 31, 1994, WEC and each of the WEC Subsidiaries have conducted their business only in the ordinary course of business consistent with past practice and there has not been, and no fact or condition exists which would have or, insofar as reasonably can be foreseen, could have, a material adverse effect on the business, assets, financial condition, results of operations or prospects of WEC and its subsidiaries taken as a whole (a *"WEC Material Adverse Effect"*).

Section 5.7 *Litigation.* Except as disclosed in the WEC SEC Reports filed prior to the date hereof or as set forth in Section 5.7, Section 5.9 or Section 5.11 of the WEC Disclosure Schedule, (i) there are no material claims, suits, actions or proceedings, pending or, to the knowledge of WEC, threatened, nor are there, to the knowledge of WEC, any material investigations or reviews pending or threatened against, relating to or affecting WEC or any of the WEC Subsidiaries. (ii) there have not been any significant developments since December 31, 1994 with respect to such disclosed claims, suits, actions, proceedings, investigations or reviews and (iii) there are no material judgments, decrees, injunctions, rules or orders of any court, governmental department, commission, agency, instrumentality or authority or any arbitrator applicable to WEC or any of the WEC Subsidiaries.

Section 5.8 *Registration Statement and Proxy Statement.* None of the information supplied or to be supplied by or on behalf of WEC for inclusion or incorporation by reference in (i) the Registration Statement will, at the time the Registration Statement is filed with the SEC and at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (ii) the Proxy Statement will not, at the dates mailed to shareholders and at the times of the meetings of shareholders to be held in connection with the Mergers, contain any untrue statement of a

material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Registration Statement and the Proxy Statement will comply as to form in all material respects with the provisions of the Securities Act and the Exchange Act and the rules and regulations thereunder.

Section 5.9 *Tax Matters.* Except as set forth in Section 5.9 of the WEC Disclosure Schedule:

(a) *Filing of Timely Tax Returns.* WEC and each of the WEC Subsidiaries have filed (or there has been filed on its behalf) all material Tax Returns required to be filed by each of them under applicable law. All such Tax Returns were and are in all material respects true, complete and correct and filed on a timely basis.

(b) *Payment of Taxes.* WEC and each of the WEC Subsidiaries have, within the time and in the manner prescribed by law, paid all Taxes that are currently due and payable except for those contested in good faith and for which adequate reserves have been taken.

(c) *Tax Reserves.* WEC and the WEC Subsidiaries have established on their books and records reserves adequate to pay all Taxes and reserves for deferred income taxes in accordance with GAAP.

(d) *Tax Liens.* There are no Tax liens upon the assets of WEC or any of the WEC Subsidiaries except liens for Taxes not yet due.

(e) *Withholding Taxes.* WEC and each of the WEC Subsidiaries have complied in all material respects with the provisions of the Code relating to the withholding of Taxes, as well as similar provisions under any other laws, and have, within the time and in the manner prescribed by law, withheld from employee wages and paid over to the proper governmental authorities all amounts required.

(f) *Extensions of Time for Filing Tax Returns.* Neither WEC nor any of the WEC Subsidiaries has requested any extension of time within which to file any Tax Return, which Tax Return has not since been filed.

(g) *Waivers of Statute of Limitations.* Neither WEC nor any of the WEC Subsidiaries has executed any outstanding waivers or comparable consents regarding the application of the statute of limitations with respect to any Taxes or Tax Returns.

(h) *Expiration of Statute of Limitations.* The statute of limitations for the assessment of all Taxes has expired for all applicable Tax Returns of WEC and each of the WEC Subsidiaries or those Tax Returns have been examined by the appropriate taxing authorities for all periods through the date hereof, and no deficiency for any Taxes has been proposed, asserted or assessed against WEC or any of the WEC Subsidiaries that has not been resolved and paid in full.

(i) *Audit, Administrative and Court Proceedings.* No audits or other administrative proceedings or court proceedings are presently pending with regard to any Taxes or Tax Returns of WEC or any of the WEC Subsidiaries.

(j) *Powers of Attorney.* No power of attorney currently in force has been granted by WEC or any of the WEC Subsidiaries concerning any Tax matter.

(k) *Tax Rulings.* Neither WEC nor any of the WEC Subsidiaries has received a Tax Ruling or entered into a Closing Agreement with any taxing authority that would have a continuing adverse effect after the Closing Date.

(l) *Availability of Tax Returns.* WEC has made available to NSP complete and accurate copies of (i) all Tax Returns, and any amendments thereto, filed by WEC or any of the WEC

under which WEC or any of the WEC Subsidiaries

Subsidiaries, (ii) all audit reports received from any taxing authority relating to any Tax Return filed by WEC or any of the WEC Subsidiaries and (iii) any Closing Agreements entered into by WEC or any of the WEC Subsidiaries with any taxing authority.

(m) *Tax Sharing Agreements.* Neither WEC nor any WEC Subsidiary is a party to any agreement relating to allocating or sharing of Taxes.

(n) *Code Section 280G.* Neither WEC nor any of the WEC Subsidiaries is a party to any agreement, contract, or arrangement that could result, on account of the transactions contemplated hereunder, separately or in the aggregate, in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code.

(o) *Liability for Others.* None of WEC or any of the WEC Subsidiaries has any liability for Taxes of any person other than WEC and the WEC Subsidiaries (i) under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local or foreign law) as a transferee or successor, (ii) by contract, or (iii) otherwise.

Section 5.10 *Employee Matters; ERISA.* Except as set forth in Section 5.10 of the WEC Disclosure Schedule:

(a) *Benefit Plans.* Section 5.10(a) of the WEC Disclosure Schedule contains a true and complete list of each employee benefit plan covering employees, former employees or directors of WEC and each of the WEC Subsidiaries or their beneficiaries, or providing benefits to such persons in respect of services provided to any such entity, including, but not limited to, any employee benefit plans within the meaning of Section 3(3) of ERISA and any severance or change in control agreement (collectively, the *"WEC Benefit Plans"*). For the purposes of this Section 5.10 only, the term *"WEC"* shall be deemed to include the predecessors of such company.

(b) *Contributions.* All material contributions and other payments required to be made by WEC or any of the WEC Subsidiaries to any WEC Benefit Plan (or to any person pursuant to the terms thereof) have been made or the amount of such payment or contribution obligation has been reflected in the WEC Financial Statements.

(c) *Qualification; Compliance.* Each of the WEC Benefit Plans intended to be "qualified" within the meaning of Section 401(a) of the Code has been determined by the IRS to be so qualified, and, to the best knowledge of WEC, no circumstances exist that are reasonably expected by WEC to result in the revocation of any such determination. WEC is in compliance in all material respects with, and each of the WEC Benefit Plans is and has been operated in all material respects in compliance with, all applicable laws, rules and regulations governing such plan, including, without limitation, ERISA and the Code. Each WEC Benefit Plan intended to provide for the deferral of income, the reduction of salary or other compensation, or to afford other income tax benefits, complies with the requirements of the applicable provisions of the Code or other laws, rules and regulations required to provide such income tax benefits.

(d) *Liabilities.* With respect to the WEC Benefit Plans, individually and in the aggregate, no event has occurred, and, to the best knowledge of WEC, there does not now exist any condition or set of circumstances, that could subject WEC or any of the WEC Subsidiaries to any material liability arising under the Code, ERISA or any other applicable law (including, without limitation, any liability to any such plan or the PBGC), or under any indemnity agreement to which WEC is a party, excluding liability for benefit claims and funding obligations payable in the ordinary course.

(e) *Welfare Plans.* None of the WEC Benefit Plans that are "welfare plans", within the meaning of Section 3(1) of ERISA, provides for any retiree benefits, other than continuation coverage required to be provided under Section 4980B of the Code or Part 6 of Title I of ERISA.

(f) *Documents Made Available.* WEC has made available to NSP a true and correct copy of each collective bargaining agreement to which WEC or any of the WEC Subsidiaries is a party or

under which WEC or any of the WEC Subsidiaries has obligations and, with respect to each WEC Benefit Plan, where applicable, (i) such plan and summary plan description, (ii) the most recent annual report filed with the IRS, (iii) each related trust agreement, insurance contract, service provider or investment management agreement (including all amendments to each such document), (iv) the most recent determination of the IRS with respect to the qualified status of such WEC Benefit Plan, and (v) the most recent actuarial report or valuation.

(g) *Payments Resulting from Mergers.* (i) The consummation or announcement of any transaction contemplated by this Agreement will not (either alone or upon the occurrence of any additional or further acts or events) result in any (A) payment (whether of severance pay or otherwise) becoming due from WEC or any of the WEC Subsidiaries to any officer, employee, former employee or director thereof or to the trustee under any "rabbi trust" or similar arrangement, or (B) benefit under any WEC Benefit Plan being established or becoming accelerated, vested or payable and (ii) neither WEC nor any of the WEC Subsidiaries is a party to (A) any management, employment, deferred compensation, severance (including any payment, right or benefit resulting from a change in control), bonus or other contract for personal services with any officer, director or employee, (B) any consulting contract with any person who prior to entering into such contract was a director or officer of WEC, or (C) any plan, agreement, arrangement or understanding similar to any of the foregoing.

(h) *Labor Agreements.* As of the date hereof, neither WEC nor any of the WEC Subsidiaries is a party to any collective bargaining agreement or other labor agreement with any union or labor organization. To the best knowledge of WEC, as of the date hereof, there is no current union representation question involving employees of WEC or any of the WEC Subsidiaries, nor does WEC know of any activity or proceeding of any labor organization (or representative thereof) or employee group to organize any such employees. Except as disclosed in the WEC SEC Reports filed prior to the date hereof or in Section 5.10(h) of the WEC Disclosure Schedule, (i) there is no unfair labor practice, employment discrimination or other material complaint against WEC or any of the WEC Subsidiaries pending, or to the best knowledge of WEC, threatened, (ii) there is no strike, or lockout or material dispute, slowdown or work stoppage pending, or to the best knowledge of WEC, threatened, against or involving WEC, and (iii) there is no proceeding, claim, suit, action or governmental investigation pending or, to the best knowledge of WEC, threatened, in respect of which any director, officer, employee or agent of WEC or any of the WEC Subsidiaries is or may be entitled to claim indemnification from WEC or such WEC Subsidiary pursuant to their respective articles of incorporation or by-laws or as provided in the indemnification agreements listed in Section 5.10(h) of the WEC Disclosure Schedule.

Section 5.11 *Environmental Protection.* Except as set forth in Section 5.11 of the WEC Disclosure Schedule or in the WEC SEC Reports filed prior to the date hereof:

(a) *Compliance.* WEC and each of the WEC Subsidiaries is in material compliance with all applicable Environmental Laws; and neither WEC nor any of the WEC Subsidiaries has received any communication (written or oral), from any person or Governmental Authority that alleges that WEC or any of the WEC Subsidiaries is not in such compliance with applicable Environmental Laws.

(b) *Environmental Permits.* WEC and each of the WEC Subsidiaries has obtained or has applied for all the Environmental Permits necessary for the construction of their facilities or the conduct of their operations, and all such Environmental Permits are in good standing or, where applicable, a renewal application has been timely filed and is pending agency approval, and WEC and the WEC Subsidiaries are in material compliance with all terms and conditions of the Environmental Permits.

(c) *Environmental Claims.* To the best knowledge of WEC, there is no material Environmental Claim pending (i) against WEC or any of the WEC Subsidiaries or WEC Joint Ventures, (ii) against any person or entity whose liability for any Environmental Claim WEC or any of the

each collective bargaining agreement to which WEC or any of the WEC Subsidiaries is a party or

WEC Subsidiaries has or may have retained or assumed either contractually or by operation of law, or (iii) against any real or personal property or operations which WEC or any of the WEC Subsidiaries owns, leases or manages, in whole or in part.

(d) *Releases.* WEC has no knowledge of any material Releases of any Hazardous Material that would be reasonably likely to form the basis of any material Environmental Claim against WEC or any of the WEC Subsidiaries, or against any person or entity whose liability for any material Environmental Claim WEC or any of the WEC Subsidiaries has or may have retained or assumed either contractually or by operation of law.

(e) *Predecessors.* WEC has no knowledge, with respect to any predecessor of WEC or any of the WEC Subsidiaries, of any material Environmental Claim pending or threatened, or of any Release of Hazardous Materials that would be reasonably likely to form the basis of any material Environmental Claim.

(f) *Disclosure.* To WEC's best knowledge, WEC has disclosed to NSP all material facts which WEC reasonably believes form the basis of a material Environmental Claim arising from (i) the cost of WEC pollution control equipment currently required or known to be required in the future; (ii) current WEC remediation costs or WEC remediation costs known to be required in the future; or (iii) any other environmental matter affecting WEC.

Section 5.12 *Regulation as a Utility.* WEC is regulated as a public utility holding company under Section 196.795 of the Wisconsin Statutes. WEPCO is regulated as a public utility in the States of Wisconsin and Michigan and in no other state. Wisconsin Natural Gas Company, a Wisconsin corporation *("WN")*, is regulated as a public utility in the State of Wisconsin and in no other state. Neither WEC nor any "subsidiary company" or "affiliate" of WEC is subject to regulation as a public utility or public service company (or similar designation) by any other state in the United States or any foreign country. WEC is an exempt holding company under Section 3(a)(1) of the 1935 Act.

Section 5.13 *Vote Required.* The approval of the issuance of Company Common Stock in connection with the NSP Merger by a majority of the votes entitled to be cast by the holders of the shares of WEC Common Stock represented at the meeting and entitled to vote thereon (in which the total vote cast represents over 50% of all shares entitled to vote thereon) and approval of the WEC Article Amendments (as defined in *Section 7.20)* by the votes required in the WEC Restated Articles of Incorporation (collectively, the *"WEC Shareholders' Approval"*) are the only votes of the holders of any class or series of the capital stock of WEC or any of its subsidiaries required to approve this Agreement, the Mergers and the other transactions contemplated hereby, *provided* that the approval of shareholders of WEC may be required for the repurchase of shares of WEC Common Stock pursuant to Section 7(a) of the WEC Stock Option Agreement under circumstances where Section 180.1134(1) of the WBCL or Article III.D.(1) of WEC's Restated Articles of Incorporation would be applicable.

Section 5.14 *Accounting Matters.* Neither WEC nor, to WEC's best knowledge, any of its affiliates has taken or agreed to take any action that would prevent the Company from accounting for the transactions to be effected pursuant to this Agreement as a pooling of interests in accordance with GAAP and applicable SEC regulations.

Section 5.15 *Applicability of Certain Wisconsin Law.* Assuming that the representation and warranty of NSP made in *Section 4.18* is correct, none of the control share acquisition provisions of Section 180.1150 of the WBCL, the business combination provisions of Sections 180.1140 to 180.1144 of the WBCL, the "fair price" provisions of Sections 180.1130 to 180.1134 of the WBCL or any similar provisions of the WBCL (or, to the best knowledge of WEC, any other similar state statute) or the Restated Articles of Incorporation or by-laws of WEC, are applicable to the transactions contemplated by this Agreement, including the granting or exercise of the WEC Stock Option Agreement (except as set forth in Section 5.15 of the WEC Disclosure Schedule).

Section 5.16 *Opinion of Financial Advisor.* WEC has received the opinion of Barr Devlin & Co. Incorporated, dated April 28, 1995, to the effect that, as of the date thereof, the Ratio is fair from a financial point of view to the holders of WEC Common Stock.

Section 5.17 *Insurance.* Except as set forth in Section 5.17 of the WEC Disclosure Schedule, WEC and each of the WEC Subsidiaries is, and has been continuously since January 1, 1990, insured with financially responsible insurers in such amounts and against such risks and losses as are customary in all material respects for companies conducting the business as conducted by WEC and the WEC Subsidiaries during such time period. Except as set forth in Section 5.17 of the WEC Disclosure Schedule, neither WEC nor any of the WEC Subsidiaries has received any notice of cancellation or termination with respect to any material insurance policy of WEC or any of the WEC Subsidiaries. The insurance policies of WEC and each of the WEC Subsidiaries are valid and enforceable policies in all material respects.

Section 5.18 *Ownership of Old NSP Common Stock.* Except pursuant to the terms of the NSP Stock Option Agreement, WEC does not "beneficially own" (as such term is defined for purposes of Section 13(d) of the Exchange Act) any shares of Old NSP Common Stock or Old NSP Preferred Stock.

ARTICLE VI

CONDUCT OF BUSINESS PENDING THE MERGERS

Section 6.1 *Covenants of the Parties.* After the date hereof and prior to the Effective Time or earlier termination of this Agreement, NSP and WEC each agree as follows, each as to itself and to each of the NSP Subsidiaries and the WEC Subsidiaries, as the case may be, except as expressly contemplated or permitted in this Agreement, the NSP Stock Option Agreement or the WEC Stock Option Agreement, or to the extent the other parties hereto shall otherwise consent in writing:

(a) *Ordinary Course of Business.* Each party hereto shall, and shall cause its Direct Subsidiaries to, carry on their respective businesses in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and use all commercially reasonable efforts to preserve intact their present business organizations and goodwill, preserve the goodwill and relationships with customers, suppliers and others having business dealings with them and, subject to prudent management of workforce needs and ongoing programs currently in force, keep available the services of their present officers and employees. Except as set forth in Section 6.1(a) of the NSP Disclosure Schedule or the WEC Disclosure Schedule, respectively, no party shall, nor shall any party permit any of its Direct Subsidiaries to, enter into a new line of business, or make any change in the line of business it engages in as of the date hereof involving any material investment of assets or resources or any material exposure to liability or loss, in the case of NSP, to NSP and its subsidiaries taken as a whole, and in the case of WEC, to WEC and its subsidiaries taken as a whole.

(b) *Dividends.* No party shall, nor shall any party permit any of its Direct Subsidiaries to, (i) declare or pay any dividends on or make other distributions in respect of any of their capital stock other than to such party or its wholly-owned subsidiaries and other than dividends required to be paid on any WEPCO Preferred Stock or Old NSP Preferred Stock in accordance with the respective terms thereof, regular quarterly dividends on WEC Common Stock with usual record and payment dates not, during any fiscal year, in excess of 106% of the dividends for the prior fiscal year and regular quarterly dividends on Old NSP Common Stock with usual record and payment dates not, during any fiscal year, in excess of 106% of the dividends for the prior fiscal year; (ii) split, combine or reclassify any of their capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of, or in substitution for, shares of their capital stock; or (iii) redeem, repurchase or otherwise acquire any shares of their capital stock, other than (A) redemptions, purchases or acquisitions required by the respective terms of any series of WEPCO Preferred Stock or Old NSP Preferred Stock, (B) in connection with refunding

of WEPCO Preferred Stock or Old NSP Preferred Stock with preferred stock or debt at a lower cost of funds (calculating such cost on an after-tax basis), (C) in connection with intercompany purchases of capital stock or (D) for the purpose of funding employee stock ownership plans in accordance with past practice. The last record date of each of WEC and NSP on or prior to the Effective Time which relates to a regular quarterly dividend on WEC Common Stock or Old NSP Common Stock, as the case may be, shall be the same date and shall be prior to the Effective Time. Notwithstanding the foregoing, (i) NSP may redeem all or any portion of the Old NSP Preferred Stock if the Board of Directors of NSP determines such course of action will facilitate the transactions contemplated hereby and (ii) WEPCO may redeem all or any portion of the WEPCO Preferred Stock, if the WEPCO Board of Directors determines such course of action will facilitate the transactions contemplated hereby.

(c) *Issuance of Securities.* No party shall, nor shall any party permit any of its Direct Subsidiaries to, issue, agree to issue, deliver, sell, award, pledge, dispose of or otherwise encumber or authorize or propose the issuance, delivery, sale, award, pledge, disposal or other encumbrance of, any shares of their capital stock of any class or any securities convertible into or exchangeable for, or any rights, warrants or options to acquire, any such shares or convertible or exchangeable securities, other than pursuant to the NSP Stock Option Agreement and the WEC Stock Option Agreement, as the case may be, other than intercompany issuances of capital stock, and other than issuances (i) in the case of WEC and the WEC Subsidiaries (x) in connection with refunding WEPCO Preferred Stock with preferred stock or debt at a lower cost of funds (calculating such cost on an after-tax basis); and (y) up to 1,600,000 shares of WEC Common Stock to be issued for general corporate purposes, including issuances in connection with acquisitions and financing and issuances pursuant to employee benefit plans, stock option and other incentive compensation plans, directors plans and stock purchase and dividend reinvestment plans; and (ii), in the case of NSP and the NSP Subsidiaries (x) in connection with refunding of Old NSP Preferred Stock with preferred stock or debt at a lower cost of funds (calculating such cost on an after-tax basis); and (y) up to 2,900,000 shares of Old NSP Common Stock (in addition to the 155,394 shares issued between April 20, 1995 and the date hereof) to be issued for general corporate purposes, including issuances in connection with acquisitions and financing and issuances pursuant to employee benefit plans, stock option and other incentive compensation plans, directors plans and stock purchase and dividend reinvestment plans. The parties shall promptly furnish to each other such information as may be reasonably requested including financial information and take such action as may be reasonably necessary and otherwise fully cooperate with each other in the preparation of any registration statement under the Securities Act and other documents necessary in connection with issuance of securities as contemplated by this *Section 6.1(c)*, subject to obtaining customary indemnities.

(d) *Charter Documents.* Except as set forth in Section 6.1(d) of the NSP Disclosure Schedule or the WEC Disclosure Schedule, no party shall amend or propose to amend its respective articles of incorporation, by-laws or regulations, or similar organic documents, except as contemplated herein.

(e) *No Acquisitions.* Except as set forth in Section 6.1(e) of the NSP Disclosure Schedule or the WEC Disclosure Schedule, other than acquisitions by a party and its Direct Subsidiaries not in excess of $50 million over the amount budgeted by such party for acquisition expenditures, as set forth in such Section 6.1(e) of the NSP Disclosure Schedule or the WEC Disclosure Schedule, singularly or in the aggregate, no party shall, nor shall any party permit any of its Direct Subsidiaries to, acquire, or publicly propose to acquire, or agree to acquire, by merger or consolidation with, or by purchase or otherwise, a substantial equity interest in or a substantial portion of the assets of, any business or any corporation, partnership, association or other business organization or division thereof, nor shall any party acquire or agree to acquire a material amount of assets other than in the ordinary course of business consistent with past practice.

(f) *Capital Expenditures and Emission Allowances.* Except as set forth in Section 6.1(f) of the NSP Disclosure Schedule or the WEC Disclosure Schedule or as required by law, no party shall, nor shall any party permit any of its Direct Subsidiaries to, (i) make capital expenditures in excess of $100 million over the amount budgeted by such party for capital expenditures as set forth in such Section 6.1(f) of the NSP Disclosure Schedule or the WEC Disclosure Schedule or (ii) enter into written commitments for the purchase of sulfur dioxide emission allowances as provided for by the Clean Air Act Amendments of 1990, in excess of $20 million, singularly or in the aggregate.

(g) *No Dispositions.* Except as set forth in Section 6.1(g) of the NSP Disclosure Schedule or the WEC Disclosure Schedule, other than dispositions by a party and its Direct Subsidiaries of less than $50 million, singularly or in the aggregate, no party shall, nor shall any party permit any of its Direct Subsidiaries to, sell, lease, license, encumber or otherwise dispose of, any of its assets, other than encumbrances or dispositions in the ordinary course of its business consistent with past practice.

(h) *Indebtedness.* Except as contemplated by this Agreement, no party shall, nor shall any party permit any of its Direct Subsidiaries to, incur or guarantee any indebtedness (including any debt borrowed or guaranteed or otherwise assumed including, without limitation, the issuance of debt securities or warrants or rights to acquire debt) or enter into any "keep well" or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing other than (i) short-term indebtedness in the ordinary course of business consistent with past practice (such as the issuance of commercial paper or the use of existing credit facilities); (ii) long-term indebtedness not aggregating more than $650 million; (iii) arrangements between such party and its Direct Subsidiaries or among its Direct Subsidiaries; (iv) as set forth in Section 6.1(h) of the NSP Disclosure Schedule or the WEC Disclosure Schedule; (v) in connection with the refunding of existing indebtedness at a lower cost of funds; or (vi) in connection with the refunding of WEPCO Preferred Stock or Old NSP Preferred Stock as permitted in *Section 6.1(b).*

(i) *Compensation, Benefits.* Except as set forth in Section 6.1(i) of the NSP Disclosure Schedule or the WEC Disclosure Schedule, as may be required by applicable law or as contemplated by this Agreement, no party shall, nor shall any party permit any of its Direct Subsidiaries to, (i) enter into, adopt or amend or increase the amount or accelerate the payment or vesting of any benefit or amount payable under, any employee benefit plan or other contract, agreement, commitment, arrangement, plan or policy maintained by, contributed to or entered into by such party or any of its Direct Subsidiaries, or increase, or enter into any contract, agreement, commitment or arrangement to increase in any manner, the compensation or fringe benefits, or otherwise to extend, expand or enhance the engagement, employment or any related rights, of any director, officer or other employee of such party or any of its Direct Subsidiaries, except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not result in a material increase in benefits or compensation expense to such party or any of its Direct Subsidiaries or (ii) enter into or amend any employment, severance or special pay arrangement with respect to the termination of employment or other similar contract, agreement or arrangement with any director or officer or other employee other than in the ordinary course of business consistent with past practice.

(j) *1935 Act.* Except as set forth in Section 6.1(j) of the NSP Disclosure Schedule or WEC Disclosure Schedule, no party shall, nor shall any party permit any of its Direct Subsidiaries to, except as required or contemplated by this Agreement, engage in any activities which would cause a change in its status, or that of its subsidiaries, under the 1935 Act, or that would impair the ability of NSP to claim an exemption as of right under Rule 2 of the 1935 Act or that would impair the ability of WEC to claim an exemption pursuant to its order under Section 3(a)(1) of the 1935

Act prior to the Effective Time, other than (i) the application to the SEC under the 1935 Act contemplated by this Agreement for approval to the extent required of the transactions contemplated hereby and (ii) the registration of the Company pursuant to the 1935 Act.

(k) *Transmission, Generation.* Except as required pursuant to tariffs on file with the FERC as of the date hereof, in the ordinary course of business consistent with past practice, or as set forth in Section 6.1(k) of the NSP Disclosure Schedule or the WEC Disclosure Schedule, no party shall, nor shall any party permit any of its Direct Subsidiaries to, (i) commence construction of any additional generating, transmission or delivery capacity, or (ii) obligate itself to purchase or otherwise acquire, or to sell or otherwise dispose of, or to share, any additional generating, transmission or delivery capacity except as set forth in the budgets of NSP and WEC.

(l) *Accounting.* Except as set forth in Section 6.1(l) of the NSP Disclosure Schedule or WEC Disclosure Schedule, no party shall, nor shall any party permit any of its Direct Subsidiaries to, make any changes in their accounting methods, except as required by law, rule, regulation or GAAP.

(m) *Pooling.* No party shall, nor shall any party permit any of its subsidiaries to, take any action which would, or would be reasonably likely to, prevent the Company from accounting for the transactions to be effected pursuant to this Agreement as a pooling of interests in accordance with GAAP and applicable SEC regulations, and each party hereto shall use all reasonable efforts to achieve such result (including taking such actions as may be necessary to cure any facts or circumstances that could prevent such transactions from qualifying for pooling-of-interests accounting treatment).

(n) *Tax-Free Status.* No party shall, nor shall any party permit any of its subsidiaries to, take any actions which would, or would be reasonably likely to, adversely affect the status of the Mergers as tax-free transactions (except as to dissenters' rights and fractional shares) under Section 368(a) of the Code, and each party hereto shall use all reasonable efforts to achieve such result.

(o) *Affiliate Transactions.* Except as set forth in Section 6.1(o) of each of the NSP Disclosure Schedule or the WEC Disclosure Schedule, no party shall, nor shall any party permit any of its Direct Subsidiaries to, enter into any material agreement or arrangement with any of their respective affiliates (other than wholly-owned subsidiaries) on terms materially less favorable to such party than could be reasonably expected to have been obtained with an unaffiliated third party on an arm's-length basis.

(p) *Cooperation, Notification.* Each party shall, and shall cause its Direct Subsidiaries to, (i) confer on a regular and frequent basis with one or more representatives of the other party to discuss, subject to applicable law, material operational matters and the general status of its ongoing operations; (ii) promptly notify the other party of any significant changes in its business, properties, assets, condition (financial or other), results of operations or prospects; (iii) advise the other party of any change or event which has had or, insofar as reasonably can be foreseen, is reasonably likely to result in, in the case of NSP, a NSP Material Adverse Effect or, in the case of WEC, a WEC Material Adverse Effect; and (iv) promptly provide the other party with copies of all filings made by such party or any of its Direct Subsidiaries with any state or federal court, administrative agency, commission or other Governmental Authority in connection with this Agreement and the transactions contemplated hereby.

(q) *Rate Matters.* Each of NSP and WEC shall, and shall cause its Direct Subsidiaries to, discuss with the other any changes in its or its Direct Subsidiaries' rates or charges (other than pass-through fuel and gas rates or charges), standards of service or accounting from those in effect on the date hereof and consult with the other prior to making any filing (or any amendment thereto), or effecting any agreement, commitment, arrangement or consent with governmental

(r) *Insurance.* Each party shall, and shall cause its Direct Subsidiaries to, maintain with

regulators, whether written or oral, formal or informal, with respect thereto, and no party will make any filing to change its rates on file with the FERC that would have a material adverse effect on the benefits associated with the business combination provided for herein.

(r) *Third-Party Consents.* NSP shall, and shall cause its Direct Subsidiaries to, use all commercially reasonable efforts to obtain all NSP Required Consents. NSP shall promptly notify WEC of any failure or prospective failure to obtain any such consents and, if requested by WEC, shall provide copies of all NSP Required Consents obtained by NSP to WEC. WEC shall, and shall cause its Direct Subsidiaries to, use all commercially reasonable efforts to obtain all WEC Required Consents. WEC shall promptly notify NSP of any failure or prospective failure to obtain any such consents and, if requested by NSP, shall provide copies of all WEC Required Consents obtained by WEC to NSP.

(s) *No Breach, Etc.* No party shall, nor shall any party permit any of its Direct Subsidiaries to, willfully take any action that would or is reasonably likely to result in a material breach of any provision of this Agreement, the NSP Stock Option Agreement or the WEC Stock Option Agreement, as the case may be, or in any of its representations and warranties set forth in this Agreement, the NSP Stock Option Agreement, or the WEC Stock Option Agreement, as the case may be, being untrue on and as of the Closing Date.

(t) *Tax-Exempt Status.* No party shall, nor shall any party permit any Direct Subsidiary to, take any action that would likely jeopardize the qualification of NSP's or WEPCO's outstanding revenue bonds which qualify on the date hereof under Section 142(a) of the Code as "exempt facility bonds" or as tax-exempt industrial development bonds under Section 103(b)(4) of the Internal Revenue Code of 1954, as amended, prior to the Tax Reform Act of 1986.

(u) *Transition Management.* As soon as practicable after the date hereof, the parties shall create a special transition management task force (the *"Task Force"*) which shall be headed by James J. Howard *("Mr. Howard")* and Richard A. Abdoo *("Mr. Abdoo").* The Task Force shall examine various alternatives regarding the manner in which to best organize and manage the business of the Company after the Effective Time, subject to applicable law. Messrs. Howard and Abdoo will have joint decision-making authority regarding the Task Force, and Mr. Abdoo will manage and be responsible for the day-to-day activities and operations of the Task Force.

(v) *Tax Matters.* Except as set forth in Section 6.1(w) of the NSP Disclosure Schedule or the WEC Disclosure Schedule, no party shall make or rescind any material express or deemed election relating to taxes, settle or compromise any material claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to taxes, or change any of its methods of reporting income or deductions for federal income tax purposes from those employed in the preparation of its federal income tax return for the taxable year ending December 31, 1993, except as may be required by applicable law.

(w) *Discharge of Liabilities.* No party shall pay, discharge or satisfy any material claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction, in the ordinary course of business consistent with past practice (which includes the payment of final and unappealable judgments) or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the most recent consolidated financial statements (or the notes thereto) of such party included in such party's reports filed with the SEC, or incurred in the ordinary course of business consistent with past practice.

(x) *Contracts.* No party shall, except in the ordinary course of business consistent with past practice, modify, amend, terminate, renew or fail to use reasonable business efforts to renew any material contract or agreement to which such party or any Direct Subsidiary of such party is a party or waive, release or assign any material rights or claims.

(y) *Insurance.* Each party shall, and shall cause its Direct Subsidiaries to, maintain with financially responsible insurance companies insurance in such amounts and against such risks and losses as are customary for companies engaged in the electric and gas utility industry and employing methods of generating electric power and fuel sources similar to those methods employed and fuels used by such party or its Direct Subsidiaries.

(z) *Permits.* Each party shall, and shall cause its Direct Subsidiaries to, use reasonable efforts to maintain in effect all existing governmental permits pursuant to which such party or its Direct Subsidiaries operate.

(aa) *Limitation on Investments in Unrestricted Subsidiaries.* From and after the date hereof, NSP will not make, and will not permit any NSP Subsidiary to make, any additional investments in, or loans or capital contributions to, or to undertake any guarantees or other obligations with respect to, any NSP Unrestricted Subsidiary in excess of $350 million (which number shall be made up of, and shall not be in duplication of, the amounts budgeted for capital expenditures and acquisitions as set forth in Sections 6.1(e) and (f) of the NSP Disclosure Schedule and amounts spent pursuant to the $50 million basket referenced in *Section 6.1(e)*) in the aggregate to all NSP Unrestricted Subsidiaries; and WEC will not make, and will not permit any WEC Subsidiary to make, any additional investments in, or loans or capital contributions to, or to undertake any guarantees or other obligations with respect to, any WEC Unrestricted Subsidiary in excess of $100 million (which number shall be made up of, and shall not be in duplication of, the amounts budgeted for capital expenditures and acquisitions as set forth in Sections 6.1(e) and (f) of the WEC Disclosure Schedule and amounts spent pursuant to the $50 million basket referenced in *Section 6.1(e)*) in the aggregate to all WEC Unrestricted Subsidiaries.

ARTICLE VII

ADDITIONAL AGREEMENTS

Section 7.1 *Access to Information.* Upon reasonable notice, each party shall, and shall cause its Direct Subsidiaries to, afford to the officers, directors, employees, accountants, counsel, investment bankers, financial advisors and other representatives of the other (collectively, "*Representatives*") reasonable access, during normal business hours throughout the period prior to the Effective Time, to all of its properties, books, contracts, commitments and records (including, but not limited to, Tax Returns) and, during such period, each party shall, and shall cause its Direct Subsidiaries to, furnish promptly to the other (i) access to each report, schedule and other document filed or received by it or any of its Direct Subsidiaries pursuant to the requirements of federal or state securities laws or filed with or sent to the SEC, the FERC, the NRC, the Department of Justice, the Federal Trade Commission, the Minnesota Public Utilities Commission, the Public Service Commission of Wisconsin or any other federal or state regulatory agency or commission, and (ii) access to all information concerning themselves, their subsidiaries, directors, officers and shareholders and such other matters as may be reasonably requested by the other party in connection with any filings, applications or approvals required or contemplated by this Agreement or for any other reason related to the transactions contemplated by this Agreement. Each party shall provide access to those premises, documents, reports and information described above of subsidiaries of such party that are not Direct Subsidiaries to the extent such party has or is able to obtain such access. Each party shall, and shall cause its subsidiaries and Representatives to, hold in strict confidence all documents and information concerning the other furnished to it in connection with the transactions contemplated by this Agreement in accordance with the Confidentiality Agreement, dated January 17, 1995, between NSP and WEC, as it may be amended from time to time (the "*Confidentiality Agreement*").

Section 7.2 *Joint Proxy Statement and Registration Statement.*

(a) *Preparation and Filing.* The parties will prepare and file with the SEC as soon as reasonably practicable after the date hereof the Registration Statement and the Proxy Statement (together, the *"Joint Proxy/Registration Statement"*). The parties hereto shall each use reasonable efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as practicable after such filing. Each party hereto shall also take such action as may be reasonably required to cause the shares of Company Common Stock issuable in connection with the Mergers to be registered or to obtain an exemption from registration under applicable state "blue sky" or securities laws; *provided, however,* that no party shall be required to register or qualify as a foreign corporation or to take other action which would subject it to service of process in any jurisdiction where it will not be, following the Mergers, so subject. Each of the parties hereto shall furnish all information concerning itself which is required or customary for inclusion in the Joint Proxy/Registration Statement. The parties shall use reasonable efforts to cause the shares of Company Common Stock issuable in the Mergers to be approved for listing on the NYSE upon official notice of issuance. The information provided by any party hereto for use in the Joint Proxy/Registration Statement shall be true and correct in all material respects without omission of any material fact which is required to make such information not false or misleading. No representation, covenant or agreement is made by any party hereto with respect to information supplied by any other party for inclusion in the Joint Proxy Statement/Registration Statement.

(b) *Letter of NSP's Accountants.* NSP shall use best efforts to cause to be delivered to WEC letters of Deloitte & Touche LLP and Price Waterhouse LLP, dated a date within two business days before the date of the Joint Proxy/Registration Statement, and addressed to WEC, in form and substance reasonably satisfactory to WEC and customary in scope and substance for "cold comfort" letters delivered by independent public accountants in connection with registration statements on Form S-4.

(c) *Letter of WEC's Accountants.* WEC shall use best efforts to cause to be delivered to NSP a letter of Price Waterhouse LLP, dated a date within two business days before the date of the Joint Proxy/Registration Statement, and addressed to NSP, in form and substance reasonably satisfactory to NSP and customary in scope and substance for "cold comfort" letters delivered by independent public accountants in connection with registration statements on Form S-4.

(d) *Fairness Opinions.* It shall be a condition to the mailing of the Joint Proxy/Registration Statement to the shareholders of NSP and WEC that (i) NSP shall have received an opinion from Goldman, Sachs & Co., dated the date of the Joint Proxy/Registration Statement, to the effect that, as of the date thereof, the Ratio is fair to the holders of Old NSP Common Stock and (ii) WEC shall have received an opinion from Barr Devlin & Co. Incorporated, dated the date of the Joint Proxy Statement, to the effect that, as of the date thereof, the Ratio is fair from a financial point of view to the holders of WEC Common Stock.

Section 7.3 *Regulatory Matters.*

(a) *HSR Filings.* Each party hereto shall file or cause to be filed with the Federal Trade Commission and the Department of Justice any notifications required to be filed by their respective "ultimate parent" companies under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the *"HSR Act"*), and the rules and regulations promulgated thereunder with respect to the transactions contemplated hereby. Such parties will use all commercially reasonable efforts to make such filings promptly and to respond promptly to any requests for additional information made by either of such agencies.

(b) *Other Regulatory Approvals.* Each party hereto shall cooperate and use its best efforts to promptly prepare and file all necessary documentation, to effect all necessary applications, notices, petitions, filings and other documents, and to use all commercially reasonable efforts to obtain all

statements therefor are received and otherwise advance to such Indemnified Party upon request

necessary permits, consents, approvals and authorizations of all Governmental Authorities necessary or advisable to consummate the transactions contemplated by this Agreement, including, without limitation, the NSP Required Statutory Approvals and the WEC Required Statutory Approvals.

Section 7.4 *Shareholder Approval.*

(a) *Approval of WEC Shareholders.* Subject to the provisions of *Section 7.4(c)* and *Section 7.4(d)*, WEC shall, as soon as reasonably practicable after the date hereof (i) take all steps necessary to duly call, give notice of, convene and hold a special meeting of its shareholders (the *"WEC Special Meeting"*) for the purpose of securing the WEC Shareholders' Approval, (ii) distribute to its shareholders the Proxy Statement in accordance with applicable federal and state law and with its Restated Articles of Incorporation and by-laws, (iii) subject to the fiduciary duties of its Board of Directors, recommend to its shareholders the approval of the NSP Merger, this Agreement and the transactions contemplated hereby (including the WEC Article Amendments) and (iv) cooperate and consult with NSP with respect to each of the foregoing matters.

(b) *Approval of NSP Shareholders.* Subject to the provisions of *Section 7.4(c)* and *Section 7.4(d)*, NSP shall, as soon as reasonably practicable after the date hereof (i) take all steps necessary to duly call, give notice of, convene and hold a meeting of its shareholders (the *"NSP Special Meeting"*) for the purpose of securing the NSP Shareholders' Approval, (ii) distribute to its shareholders the Proxy Statement in accordance with applicable federal and state law and with its Restated Articles of Incorporation and by-laws, (iii) subject to the fiduciary duties of its Board of Directors, recommend to its shareholders the approval of the NSP Merger, this Agreement and the transactions contemplated hereby and (iv) cooperate and consult with WEC with respect to each of the foregoing matters.

(c) *Meeting Date.* The WEC Special Meeting for the purpose of securing the WEC Shareholders' Approval and the NSP Special Meeting for the purpose of securing the NSP Shareholders' Approval shall be held on such dates as NSP and WEC shall mutually determine.

(d) *Fairness Opinions Not Withdrawn.* It shall be a condition to the obligation of NSP to hold the NSP Special Meeting that the opinion of Goldman, Sachs & Co., referred to in *Section 7.2(d)*, shall not have been withdrawn, and it shall be a condition to the obligation of WEC to hold the WEC Special Meeting that the opinion of Barr Devlin & Co. Incorporated, referred to in *Section 7.2(d)*, shall not have been withdrawn.

Section 7.5 *Directors' and Officers' Indemnification.*

(a) *Indemnification.* To the extent, if any, not provided by an existing right of indemnification or other agreement or policy, from and after the Effective Time, the Company shall, to the fullest extent permitted by applicable law, indemnify, defend and hold harmless each person who is now, or has been at any time prior to the date hereof, or who becomes prior to the Effective Time, an officer, director or employee of any of the parties hereto or any subsidiary (each an *"Indemnified Party"* and collectively, the *"Indemnified Parties"*) against (i) all losses, expenses (including reasonable attorney's fees and expenses), claims, damages or liabilities or, subject to the proviso of the next succeeding sentence, amounts paid in settlement, arising out of actions or omissions occurring at or prior to the Effective Time (and whether asserted or claimed prior to, at or after the Effective Time) that are, in whole or in part, based on or arising out of the fact that such person is or was a director, officer or employee of such party (the *"Indemnified Liabilities"*), and (ii) all Indemnified Liabilities to the extent they are based on or arise out of or pertain to the transactions contemplated by this Agreement. In the event of any such loss, expense, claim, damage or liability (whether or not arising before the Effective Time), (i) the Company shall pay the reasonable fees and expenses of counsel selected by the Indemnified Parties, which counsel shall be reasonably satisfactory to the Company, promptly after

statements therefor are received and otherwise advance to such Indemnified Party upon request reimbursement of documented expenses reasonably incurred, in either case to the extent not prohibited by the WBCL and upon receipt of any affirmation and undertaking required by Section 180.0853 of the WBCL, (ii) the Company will cooperate in the defense of any such matter and (iii) any determination required to be made with respect to whether an Indemnified Party's conduct complies with the standards set forth under Wisconsin law and the Restated Articles of Incorporation (including the WEC Article Amendments) or By-laws of the Company (as the same shall be amended pursuant to *Section 7.20*) shall be made by independent counsel mutually acceptable to the Company and the Indemnified Party; *provided, however,* that the Company shall not be liable for any settlement effected without its written consent (which consent shall not be unreasonably withheld). The Indemnified Parties as a group may retain only one law firm with respect to each related matter except to the extent there is, in the opinion of counsel to an Indemnified Party, under applicable standards of professional conduct, a conflict on any significant issue between positions of such Indemnified Party and any other Indemnified Party or Indemnified Parties.

(b) *Insurance.* For a period of six years after the Effective Time, the Company shall cause to be maintained in effect policies of directors' and officers' liability insurance maintained by NSP and WEC for the benefit of those persons who are currently covered by such policies on terms no less favorable than the terms of such current insurance coverage; *provided, however,* that the Company shall not be required to expend in any year an amount in excess of 200% of the annual aggregate premiums currently paid by NSP and WEC for such insurance; and *provided, further,* that if the annual premiums of such insurance coverage exceed such amount, the Company shall be obligated to obtain a policy with the best coverage available, in the reasonable judgment of the Board of Directors of the Company, for a cost not exceeding such amount.

(c) *Successors.* In the event the Company or any of its successors or assigns (i) consolidates with or merges into any other person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any person, then and in either such case, proper provisions shall be made so that the successors and assigns of the Company shall assume the obligations set forth in this *Section 7.5.*

(d) *Survival of Indemnification.* To the fullest extent permitted by law, from and after the Effective Time, all rights to indemnification as of the date hereof in favor of the employees, agents, directors and officers of NSP, WEC and their respective subsidiaries with respect to their activities as such prior to the Effective Time, as provided in their respective articles of incorporation and by-laws in effect on the date hereof, or otherwise in effect on the date hereof, shall survive the Mergers and shall continue in full force and effect for a period of not less than six years from the Effective Time.

(e) *Benefit.* The provisions of this *Section 7.5* are intended to be for the benefit of, and shall be enforceable by, each Indemnified Party, his or her heirs and his or her representatives.

Section 7.6 *Disclosure Schedules.* On the date hereof, (i) WEC has delivered to NSP a schedule (the *"WEC Disclosure Schedule"*), accompanied by a certificate signed by the chief financial officer of WEC stating the WEC Disclosure Schedule is being delivered pursuant to this *Section 7.6(i)* and (ii) NSP has delivered to WEC a schedule (the *"NSP Disclosure Schedule"*), accompanied by a certificate signed by the chief financial officer of NSP stating the NSP Disclosure Schedule is being delivered pursuant to this *Section 7.6(ii).* The NSP Disclosure Schedule and the WEC Disclosure Schedule are collectively referred to herein as the *"Disclosure Schedules"*. The Disclosure Schedules constitute an integral part of this Agreement and modify the respective representations, warranties, covenants or agreements of the parties hereto contained herein to the extent that such representations, warranties, covenants or agreements expressly refer to the Disclosure Schedules. Anything to the contrary contained herein or in the Disclosure Schedules notwithstanding, any and all statements, representations, warranties or disclosures set forth in the Disclosure Schedules shall be deemed to have been made on and as of the date hereof.

Section 7.7 *Public Announcements.* Subject to each party's disclosure obligations imposed by law, NSP and WEC will cooperate with each other in the development and distribution of all news releases and other public information disclosures with respect to this Agreement or any of the transactions contemplated hereby and shall not issue any public announcement or statement with respect hereto or thereto without the consent of the other party (which consent shall not be unreasonably withheld).

Section 7.8 *Rule 145 Affiliates.* Within 30 days after the date of this Agreement, NSP shall identify in a letter to WEC, and WEC shall identify in a letter to NSP, all persons who are, and to such person's best knowledge who will be at the Closing Date, "affiliates" of NSP and WEC, respectively, as such term is used in Rule 145 under the Securities Act (or otherwise under applicable SEC accounting releases with respect to pooling-of-interests accounting treatment). Each of NSP and WEC shall use all reasonable efforts to cause their respective affiliates (including any person who may be deemed to have become an affiliate after the date of the letter referred to in the prior sentence) to deliver to each other on or prior to the Closing Date a written agreement substantially in the form attached as *Exhibit 7.8* (each, an *"Affiliate Agreement"*).

Section 7.9 *Employee Agreements and Workforce Matters.*

(a) *Certain Employee Agreements.* Subject to *Section 7.10, Section 7.14* and *Section 7.15*, the Company and its subsidiaries shall honor, without modification, all contracts, agreements, collective bargaining agreements and commitments of the parties prior to the date hereof which apply to any current or former employee or current or former director of the parties hereto; *provided, however,* that this undertaking is not intended to prevent the Company from enforcing such contracts, agreements, collective bargaining agreements and commitments in accordance with their terms, including, without limitation, any reserved right to amend, modify, suspend, revoke or terminate any such contract, agreement, collective bargaining agreement or commitment.

(b) *Workforce Matters.* Subject to applicable collective bargaining agreements, for a period of three years following the Effective Time, any reductions in workforce in respect of employees of the Company shall be made on a fair and equitable basis, in light of the circumstances and the objectives to be achieved, giving consideration to previous work history, job experience, and qualifications, without regard to whether employment was with NSP or its subsidiaries or WEC or its subsidiaries, and any employees whose employment is terminated or jobs are eliminated by the Company or any of its subsidiaries during such period shall be entitled to participate on a fair and equitable basis in the job opportunity and employment placement programs offered by the Company or any of its subsidiaries. Any workforce reductions carried out following the Effective Time by the Company and its subsidiaries shall be done in accordance with all applicable collective bargaining agreements, and all laws and regulations governing the employment relationship and termination thereof including, without limitation, the Worker Adjustment and Retraining Notification Act and regulations promulgated thereunder, and any comparable state or local law.

Section 7.10 *Employee Benefit Plans.*

(a) *Maintenance of NSP and WEC Benefit Plans.* Subject to *Section 7.10(b), Section 7.10(c)* and *Section 6.1(i)*, each of the NSP Benefit Plans and WEC Benefit Plans in effect at the date hereof shall be maintained in effect with respect to the employees or former employees of NSP and any of its Direct Subsidiaries, on the one hand, and of WEC and any of its Direct Subsidiaries, on the other hand, respectively, who are covered by any such benefit plan immediately prior to the Closing Date (the *"Affiliated Employees"*) until the Company otherwise determines after the Effective Time; *provided, however,* that nothing herein contained shall limit any reserved right contained in any such NSP Benefit Plan or WEC Benefit Plan to amend, modify, suspend, revoke or terminate any such plan; *provided, further, however,* that the Company or its subsidiaries shall provide to the Affiliated Employees for a period of not less than one year following the Effective Time benefits, other than with respect to plans referred to in *Section 7.10(b)* and *Section 7.11*, which are no less favorable in the aggregate than those provided under the NSP Benefit Plans or the WEC Benefit Plans, as the case may be.

Without limitation of the foregoing, each participant of any such NSP Benefit Plan or WEC Benefit Plan shall receive credit for purposes of eligibility to participate, vesting, benefit accrual and eligibility to receive benefits under any benefit plan of the Company or any of its subsidiaries or affiliates for service credited for the corresponding purpose under such benefit plan; *provided, however,* that such crediting of service shall not operate to duplicate any benefit to any such participant or the funding for any such benefit. Any person hired by the Company or any of its subsidiaries after the Closing Date who was not employed by any party hereto or its subsidiaries immediately prior to the Closing Date shall be eligible to participate in such benefit plans maintained, or contributed to, by the subsidiary, division or operation by which such person is employed, *provided* that such person meets the eligibility requirements of the applicable plan.

(b) *Adoption of Company Replacement Plans.* With respect to the WEC Short-Term Performance Plan (the *"WEC Incentive Plan"*), the NSP Executive Incentive Compensation Plan (the *"NSP Incentive Plan"*), the NSP Long-Term Incentive Award Stock Plan (the *"NSP Stock Plan"*) and the WEC 1993 Omnibus Stock Incentive Plan (the *"WEC Stock Plan"*), the Company and its subsidiaries shall adopt replacement plans as set forth in this *Section 7.10*(b) (collectively, the *"Company Replacement Plans"*). Subject to shareholder approval thereof by the NSP shareholders and the WEC shareholders, the Company Replacement Plans will go into effect at the Effective Time. Upon the consummation of the Mergers, no additional obligations shall be incurred under the NSP Incentive Plan, the WEC Incentive Plan, the WEC Stock Plan or the NSP Stock Plan, except to the extent such obligations are attributable to employment prior to the Effective Time and are consistent with past practice under the applicable plan. The WEC Incentive Plan and the NSP Incentive Plan shall be replaced (except with respect to obligations incurred or attributable to employment prior to the Effective Time) by a new annual bonus plan under which cash bonuses, based on percentages of base salaries, are awarded based upon the achievement of performance goals determined in advance by the Compensation Committee of the Board of Directors of the Company (the *"Committee"*). With respect to those participants in the new plan who are, or who the Committee determines are likely to be, "covered individuals" within the meaning of Section 162(m) of the Code, the performance goals shall be objective standards that are approved by shareholders in accordance with the requirements for exclusion from the limits of Section 162(m) of the Code as performance-based compensation. The NSP Stock Plan and the WEC Stock Plan shall be replaced (except with respect to obligations incurred or attributable to employment prior to the Effective Time) by a stock compensation plan (the *"Company Stock Plan"*) providing for the grant of stock options, stock appreciation rights, restricted stock and such other awards based upon the Company Common Stock as the Committee may determine, subject to shareholder approval of the Company Stock Plan. The Company shall reserve 12 million shares for issuance under the Company Stock Plan.

(c) *NSP and WEC Action.* With respect to each of the Company Replacement Plans, each of NSP and WEC shall take all corporate action necessary or appropriate to obtain the approval of the respective shareholders with respect to such plan prior to the Effective Time. Before the Effective Time, WEC shall take all steps necessary to amend (i) the WEC Supplemental Executive Retirement Plan, (ii) the WEC Executive Non-Qualified Trust, (iii) each of the Supplemental Retirement Benefit Agreements set forth in Section 5.10(g) of the WEC Disclosure Schedule, (iv) the WEC Executive Deferred Compensation Plan, (v) the WEC Directors' Deferred Compensation Plan, and (vi) the WEPCO Directors' Deferred Compensation Plan, so that none of the transactions contemplated by this Agreement shall constitute a Change of Control for purposes of said arrangements, *provided* that with respect to items (iii) through (vi), WEC shall use its best efforts to obtain the consent of the other parties thereto. Prior to or as soon as practicable after the date hereof, each of NSP and WEC shall adopt severance plans substantially in the forms attached hereto as *Exhibits 7.10(a)* and *7.10(b)*, respectively.

Section 7.11 *Stock Option and Other Stock Plans.*

(a) *Amendment of NSP Stock Plan and Agreements.* Effective as of the Effective Time, NSP shall amend the NSP Stock Plan and each underlying award agreement to provide that (i) each

initiate, solicit or encourage, or take any action to facilitate the making of any offer or proposal which

outstanding option to purchase shares of Old NSP Common Stock (each, a *"NSP Stock Option"*), along with any tandem stock appreciation right, shall constitute an option to acquire shares of Company Common Stock, on the same terms and conditions as were applicable under such NSP Stock Option, based on the same number of shares of the Company Common Stock as the holder of such NSP Stock Option would have been entitled to receive pursuant to the NSP Merger in accordance with *Article II* had such holder exercised such option in full immediately prior to the Effective Time; *provided*, that the number of shares, the option price, and the terms and conditions of exercise of such option, shall be determined in a manner that preserves both (A) the aggregate gain (or loss) on the NSP Stock Option immediately prior to the Effective Time and (B) the ratio of the exercise price per share subject to the NSP Stock Option to the fair market value (determined immediately prior to the Effective Time) per share subject to such option; and *provided, further*, that in the case of any option to which Section 421 of the Code applies by reason of its qualification under any of Sections 422-424 of the Code, the option price, the number of shares purchasable pursuant to such option and the terms and conditions of exercise of such option shall be determined in order to comply with Section 424(a) of the Code; and (ii) each other outstanding award under the NSP Stock Plan (*"NSP Stock Awards"*) shall constitute an award based upon the same number of shares of Company Common Stock as the holder of such NSP Stock Award would have been entitled to receive pursuant to the NSP Merger in accordance with *Article II* had such holder been the absolute owner, immediately before the Effective Time, of the shares of NSP Common Stock on which such NSP Stock Award is based, and otherwise on the same terms and conditions as governed such NSP Stock Award immediately before the Effective Time. At the Effective Time, the Company shall assume each stock award agreement relating to the NSP Stock Plan, each as amended as previously provided. As soon as practicable after the Effective Time, the Company shall deliver to the holders of NSP Stock Options and NSP Stock Awards appropriate notices setting forth such holders' rights pursuant to the Company Stock Plan and each underlying stock award agreement, each as assumed by the Company.

(b) *Amendment of WEC Stock Plan and Agreements.* Effective as of the Effective Time, WEC shall amend the WEC Stock Plan and use its best efforts to amend each underlying stock award agreement to provide that none of the transactions contemplated by this Agreement shall constitute a Change in Control for purposes of the WEC Stock Plan.

(c) *Company Action.* With respect to each of the NSP Stock Plan, the WEC Stock Plan, the NSP Employee Stock Ownership Plan and any other plans under which the delivery of Old NSP Common Stock, WEC Common Stock or Company Common Stock is required upon payment of benefits, grant of awards or exercise of options (the *"Stock Plans"*), the Company shall take all corporate action necessary or appropriate to (i) obtain shareholder approval with respect to such Stock Plan to the extent such approval is required for purposes of the Code or other applicable law, or to enable such Stock Plan to comply with Rule 16b-3 promulgated under the Exchange Act, (ii) reserve for issuance under such plan or otherwise provide a sufficient number of shares of Company Common Stock for delivery upon payment of benefits, grant of awards or exercise of options under such Stock Plan and (iii) as soon as practicable after the Effective Time, file registration statements on Form S-3 or Form S-8, as the case may be (or any successor or other appropriate forms), with respect to the shares of Company Common Stock subject to such Stock Plan to the extent such registration statement is required under applicable law, and the Company shall use its best efforts to maintain the effectiveness of such registration statements (and maintain the current status of the prospectuses contained therein) for so long as such benefits and grants remain payable and such options remain outstanding. With respect to those individuals who subsequent to the Mergers will be subject to the reporting requirements under Section 16(a) of the Exchange Act, the Company shall administer the Stock Plans, where applicable, in a manner that complies with Rule 16b-3 promulgated under the Exchange Act.

Section 7.12 *No Solicitations.* No party hereto shall, and each such party shall cause its Direct Subsidiaries not to, shall not permit any of its Representatives or subsidiaries that are not Direct Subsidiaries to, and shall use its best efforts to cause such persons not to, directly or indirectly

initiate, solicit or encourage, or take any action to facilitate the making of any offer or proposal which constitutes or is reasonably likely to lead to, any Business Combination Proposal (as defined below), or, in the event of an unsolicited Business Combination Proposal, except to the extent required by their fiduciary duties under applicable law if so advised in a written opinion of outside counsel, engage in negotiations or provide any information or data to any person relating to any Business Combination Proposal. Each party hereto shall notify the other party orally and in writing of any such inquiries, offers or proposals (including, without limitation, the terms and conditions of any such proposal and the identity of the person making it), within 24 hours of the receipt thereof, shall keep the other party informed of the status and details of any such inquiry, offer or proposal, and shall give the other party five days' advance notice of any agreement to be entered into with or any information to be supplied to any person making such inquiry, offer or proposal. Each party hereto shall immediately cease and cause to be terminated all existing discussions and negotiations, if any, with any parties conducted heretofore with respect to any Business Combination Proposal. As used in this *Section 7.12, "Business Combination Proposal"* shall mean any tender or exchange offer, proposal for a merger, consolidation or other business combination involving any party to this Agreement or any of its material subsidiaries, or any proposal or offer (in each case, whether or not in writing and whether or not delivered to the stockholders of a party generally) to acquire in any manner, directly or indirectly, a substantial equity interest in or a substantial portion of the assets of any party to this Agreement or any of its material subsidiaries, other than pursuant to the transactions contemplated by this Agreement. Nothing contained herein shall prohibit a party from taking and disclosing to its stockholders a position contemplated by Rule 14e-2(a) under the Exchange Act with respect to a Business Combination Proposal by means of a tender offer.

Section 7.13 *Company Board of Directors.* NSP's and WEC's respective Boards of Directors will take such action as may be necessary to cause the number of directors comprising the full Board of Directors of the Company at the Effective Time to be 12 persons, six of whom shall be designated by NSP prior to the Effective Time and six of whom shall be designated by WEC prior to the Effective Time. The initial designation of such directors among the three classes of the Board of Directors of the Company shall be agreed to by NSP and WEC, the designees of each party to be divided equally among such classes; *provided, however,* that if, prior to the Effective Time, any of such designees shall decline or be unable to serve, the party which designated such person shall designate another person to serve in such person's stead. NSP's and WEC's respective Boards of Directors will also take such action as may be necessary to cause the committees of the Board of Directors of the Company at the Effective Time to consist of that number of NSP and WEC designees with such chairs as are set forth on *Exhibit 7.13.*

Section 7.14 *Company Officers.* At the Effective Time, pursuant to the terms hereof and of the employment contracts referred to in *Section 7.15:* (a) Mr. Howard shall hold the positions of Chairman of the Board and Chief Executive Officer of the Company and shall be entitled to serve in such capacities until the end of the Initial Period (as defined in Mr. Howard's employment contract entered into pursuant to *Section 7.15*), at which time he shall be entitled to continue to hold the position of Chairman of the Board of the Company until the end of the Secondary Period (as defined in Mr. Howard's employment contract entered into pursuant to *Section 7.15*); and (b) Mr. Abdoo shall hold the positions of Vice Chairman of the Board, President and Chief Operating Officer of the Company and shall be entitled to serve in such capacities until the end of the Initial Period, at which time he shall be entitled to hold the additional position of Chief Executive Officer of the Company and to serve in all such capacities until his successor is elected or appointed and shall have qualified in accordance with the WBCL and the Restated Articles of Incorporation (including the WEC Article Amendments) and By-laws of the Company (as the same shall be amended pursuant to *Section 7.20*). If either of such persons is unable or unwilling to hold such offices for the periods set forth above, his successor shall be selected by the Board of Directors of the Company in accordance with its By-laws.

Section 7.15 *Employment Contracts.* The Company shall, as of or prior to the Effective Time, enter into employment contracts with Mr. Howard and Mr. Abdoo in the forms set forth in *Exhibit 7.15.1* and *Exhibit 7.15.2*, respectively.

Section 7.16 *Post-Merger Operations.* Following the Effective Time, the Company shall conduct its operations in accordance with the following:

(a) *Principal Corporate Offices.* The Company and NSP shall maintain their principal corporate offices in Minnesota in the city of Minneapolis and WEPCO shall maintain its principal corporate offices in Wisconsin in the city of Milwaukee.

(b) *Maintenance of Separate Existence of New NSP and WEPCO.* WEPCO, on the one hand, and New NSP, on the other hand, shall continue their separate corporate existences, operating under the names of "WISCONSIN ENERGY COMPANY" and "NORTHERN STATES POWER COMPANY", respectively. The respective corporate officers of WEPCO, on the one hand, and NSP, on the other hand, shall be entitled to maintain their current titles and responsibilities as officers of WEPCO and New NSP, respectively, unless and until otherwise determined by the Board of Directors of WEPCO and New NSP.

(c) *Charities.* After the Effective Time, the Company shall provide charitable contributions and community support within the service areas of the parties and each of their respective subsidiaries at levels substantially comparable to the levels of charitable contributions and community support provided by the parties and their respective subsidiaries within their service areas within the two-year period immediately prior to the Effective Time. The assets of The Wisconsin Energy Corporation Foundation, Inc. (the *"Foundation"*) shall be used for charitable purposes in accordance with the articles and by-laws of the Foundation in the service areas of WEPCO (including the prior service area of NSP-W) unless changed by the Board of Directors of the Company.

Section 7.17 *Expenses.* Subject to *Section 9.3*, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses, except that those expenses incurred in connection with printing the Joint Proxy/Registration Statement, as well as the filing fee relating thereto, shall be shared equally by NSP and WEC.

Section 7.18 *Further Assurances.* Each party will, and will cause its Direct Subsidiaries to, execute such further documents and instruments and take such further actions as may reasonably be requested by any other party in order to consummate the Mergers in accordance with the terms hereof. The parties expressly acknowledge and agree that, although it is their current intention to effect a business combination among themselves in the form contemplated by this Agreement, it may be preferable to effectuate such a business combination by means of an alternative structure in light of the conditions set forth in *Section 8.1(e), Section 8.2(e), Section 8.2(f), Section 8.3(e),* and *Section 8.3(f).* Accordingly, if the only conditions to the parties' obligations to consummate the Mergers which are not satisfied or waived are receipt of any one or more of the NSP Required Consents, NSP Required Statutory Approvals, WEC Required Consents, WEC Required Statutory Approvals or the ruling referred to in *Sections 8.2(e)* and *8.3(e),* and the adoption of an alternative structure (that otherwise substantially preserves for NSP and WEC the economic benefits of the Merger) would result in such conditions being satisfied or waived, then the parties shall use their respective best efforts to effect a business combination among themselves by means of a mutually agreed upon structure other than the Mergers that so preserves such benefits; *provided* that, prior to closing any such restructured transaction, all material third party and Governmental Authority declarations, filings, registrations, notices, authorizations, consents or approvals necessary for the effectuation of such alternative business combination shall have been obtained and all other conditions to the parties' obligations to consummate the Mergers, as applied to such alternative business combination, shall have been satisfied or waived.

Section 7.19 *Utility Asset Transfer.* In addition to the transactions described in *Article I* and *Article II*, contemporaneously with the Reincorporation Effective Time, NSP-W shall transfer to New NSP certain utility assets located in the State of Wisconsin such that, upon such transfer, New NSP shall be a Wisconsin utility for purposes of considering its assets as assets of a public utility affiliate in the determination made under Section 196.795(5)(p) of the Wisconsin Statutes.

Section 7.20 *Charter and By-Law Amendments.* Prior to the Closing: (a) WEC and NSP shall agree upon amendments to be effected to the Restated Articles of Incorporation of WEC, including to change the name of WEC to a name agreed upon by NSP and WEC (which shall not be the name of, or a name substantially similar to, either NSP or WEC) (the *"WEC Article Amendments"*), and the by-laws of WEC, and WEC shall take all actions necessary so that the WEC Article Amendments and such amendments to the WEC by-laws become effective no later than the Effective Time; (b) NSP shall cause the articles of incorporation of New NSP to be amended and restated in substantially the form attached hereto as Exhibit 7.20(b); (c) WEC shall cause the articles of incorporation of WEC Sub to be amended and restated substantially in the form attached hereto as Exhibit 7.20(c) and shall cause WEC Sub to issue to WEC additional fully paid shares of WEC Sub's common stock so that, immediately prior to the Effective Time, the number of outstanding shares of common stock of WEC Sub is equal to the number of outstanding shares of NSP Common Stock at such time.

ARTICLE VIII

CONDITIONS

Section 8.1 *Conditions to Each Party's Obligation to Effect the Mergers.* The respective obligations of each party to effect the Mergers shall be subject to the satisfaction on or prior to the Closing Date of the following conditions, except, to the extent permitted by applicable law, that such conditions may be waived in writing pursuant to *Section 9.5* by the joint action of the parties hereto:

(a) *Shareholder Approvals.* The WEC Shareholders' Approval and the NSP Shareholders' Approval shall have been obtained.

(b) *No Injunction.* No temporary restraining order or preliminary or permanent injunction or other order by any federal or state court preventing consummation of the Mergers shall have been issued and be continuing in effect, and the Mergers and the other transactions contemplated hereby shall not have been prohibited under any applicable federal or state law or regulation.

(c) *Registration Statement.* The Registration Statement shall have become effective in accordance with the provisions of the Securities Act, and no stop order suspending such effectiveness shall have been issued and remain in effect.

(d) *Listing of Shares.* The shares of Company Common Stock issuable in the Mergers pursuant to *Article II* shall have been approved for listing on the NYSE upon official notice of issuance.

(e) *Statutory Approvals.* The NSP Required Statutory Approvals and the WEC Required Statutory Approvals shall have been obtained at or prior to the Effective Time, such approvals shall have become Final Orders (as defined below) and such Final Orders do not impose terms or conditions which, in the aggregate, would have, or insofar as reasonably can be foreseen, could have, a material adverse effect on the business, assets, financial condition or results of operations of the Company and its prospective subsidiaries taken as a whole or on the Company's prospective utility subsidiaries located in the State of Minnesota taken as a whole, or on its prospective utility subsidiaries located in the State of Wisconsin taken as a whole or which would be materially inconsistent with the agreements of the parties contained herein. A *"Final Order"* means action by the relevant regulatory authority which has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which any waiting period prescribed by law before the

Section 8.3 *Conditions to Obligation of NSP to Effect the Mergers.* The obligation of NSP

transactions contemplated hereby may be consummated has expired, and as to which all conditions to the consummation of such transactions prescribed by law, regulation or order have been satisfied.

(f) *Dissenters' Rights.* The number of NSP Dissenting Shares shall not constitute more than 5% of the number of issued and outstanding shares of Old NSP Common Stock and Old NSP Preferred Stock, taken together as a single class, for this purpose.

(g) *Pooling.* Each of NSP and WEC shall have received a letter of its independent public accountants, dated the Closing Date, in form and substance reasonably satisfactory, in each case to NSP and WEC, stating that the transactions effected pursuant to this Agreement will qualify as a pooling of interests transaction under GAAP and applicable SEC regulations.

Section 8.2 *Conditions to Obligation of WEC to Effect the Mergers.* The obligation of WEC to effect the NSP Merger shall be further subject to the satisfaction, on or prior to the Closing Date, of the following conditions, except as may be waived by WEC in writing pursuant to *Section 9.5*:

(a) *Performance of Obligations of NSP.* NSP (and/or its appropriate subsidiaries) will have performed its agreements and covenants contained in *Sections 6.1(b)* and *6.1(c)* and *Section 7.19* and will have performed in all material respects its other agreements and covenants contained in or contemplated by this Agreement and the NSP Stock Option Agreement required to be performed by it at or prior to the Effective Time.

(b) *Representations and Warranties.* The representations and warranties of NSP set forth in this Agreement and the NSP Stock Option Agreement shall be true and correct (i) on and as of the date hereof and (ii) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date (except for representations and warranties that expressly speak only as of a specific date or time other than the date hereof or the Closing Date which need only be true and correct as of such date or time) except in each of cases (i) and (ii) for such failures of representations or warranties to be true and correct (without regard to any materiality qualifications contained therein) which, individually or in the aggregate, would not be reasonably likely to result in a NSP Material Adverse Effect.

(c) *Closing Certificates.* WEC shall have received a certificate signed by the chief financial officer of NSP, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in *Section 8.2(a)* and *Section 8.2(b)* have been satisfied.

(d) *NSP Material Adverse Effect.* No NSP Material Adverse Effect shall have occurred and there shall exist no fact or circumstance which is reasonably likely to have a NSP Material Adverse Effect.

(e) *Tax Ruling and Opinion.* WEC shall have received (i) a private letter ruling from the Internal Revenue Service *("IRS")* providing certain assurances regarding the federal income tax consequences of the Mergers satisfactory in form and substance to Skadden, Arps, Slate, Meagher & Flom and Quarles & Brady and (ii) an opinion of Skadden, Arps, Slate, Meagher & Flom or Quarles & Brady based upon such ruling and satisfactory in form and substance to WEC, dated as of the Closing Date, to the effect that the Reincorporation Merger and the subsequent NSP Merger will each be treated as a tax-free reorganization under Section 368(a) of the Code.

(f) *NSP Required Consents.* The NSP Required Consents the failure of which to obtain would have a NSP Material Adverse Effect shall have been obtained.

(g) *Affiliate Agreements.* WEC shall have received Affiliate Agreements, duly executed by each "affiliate" of NSP, substantially in the form of *Exhibit 7.8*, as provided in *Section 7.8*.

Section 8.3 *Conditions to Obligation of NSP to Effect the Mergers.* The obligation of NSP to effect the NSP Merger shall be further subject to the satisfaction, on or prior to the Closing Date, of the following conditions, except as may be waived by NSP in writing pursuant to *Section 9.5:*

(a) *Performance of Obligations of WEC.* WEC (and/or its appropriate subsidiaries) will have performed its agreements and covenants contained in *Sections 6.1(b)* and *6.1(c)* and will have performed in all material respects its other agreements and covenants contained in or contemplated by this Agreement and the WEC Stock Option Agreement required to be performed at or prior to the Effective Time.

(b) *Representations and Warranties.* The representations and warranties of WEC set forth in this Agreement and the WEC Stock Option Agreement shall be true and correct (i) on and as of the date hereof and (ii) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date (except for representations and warranties that expressly speak only as of a specific date or time other than the date hereof or the Closing Date which need only be true and correct as of such date or time) except in each of cases (i) and (ii) for such failures of representations or warranties to be true and correct (without regard to any materiality qualifications contained therein) which, individually or in the aggregate, would not be reasonably likely to result in a WEC Material Adverse Effect.

(c) *Closing Certificates.* NSP shall have received a certificate signed by the chief financial officer of WEC, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in *Section 8.3(a)* and *Section 8.3(b)* have been satisfied.

(d) *WEC Material Adverse Effect.* No WEC Material Adverse Effect shall have occurred and there shall exist no fact or circumstance which is reasonably likely to have a WEC Material Adverse Effect.

(e) *Tax Ruling and Opinion.* NSP shall have received (i) a private letter ruling from the IRS providing certain assurances regarding the federal income tax consequences of the Mergers satisfactory in form and substance to Wachtell, Lipton, Rosen & Katz and (ii) an opinion of Wachtell, Lipton, Rosen & Katz based upon such ruling and satisfactory in form and substance to NSP, dated as of the Closing Date, to the effect that the Reincorporation Merger and the subsequent NSP Merger will each be treated as a tax-free reorganization under Section 368(a) of the Code.

(f) *WEC Required Consents.* The WEC Required Consents the failure of which to obtain would have a WEC Material Adverse Effect shall have been obtained.

(g) *Affiliate Agreements.* NSP shall have received Affiliate Agreements, duly executed by each "affiliate" of WEC substantially in the form of *Exhibit 7.8,* as provided in *Section 7.8.*

ARTICLE IX

TERMINATION, AMENDMENT AND WAIVER

Section 9.1 *Termination.* This Agreement may be terminated at any time prior to the Closing Date, whether before or after approval by the shareholders of the respective parties hereto contemplated by this Agreement:

(a) by mutual written consent of the Boards of Directors of NSP and WEC;

(b) by any party hereto, by written notice to the other parties, if the Effective Time shall not have occurred on or before April 30, 1997 (the *"Initial Termination Date"*); *provided, however,* that the right to terminate the Agreement under this *Section 9.1(b)* shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Effective Time to occur on or before this date; and *provided, further,*

and comply with, in all material respects, its other agreements and covenants hereunder or under the WEC Stock Option Agreement and such failure to perform or comply shall not have been remedied within 20 days after receipt by WEC of notice in writing from NSP, specifying the nature

that if on the Initial Termination Date the conditions to the Closing set forth in *Sections 8.1(e), 8.2(f)* and/or *8.3(f)* shall not have been fulfilled but all other conditions to the Closing shall be fulfilled or shall be capable of being fulfilled, then the Initial Termination Date shall be extended to October 31, 1997;

(c) by any party hereto, by written notice to the other parties, if the WEC Shareholders' Approval shall not have been obtained at a duly held WEC Special Meeting, including any adjournments thereof, or the NSP Shareholders' Approval shall not have been obtained at a duly held NSP Special Meeting, including any adjournments thereof;

(d) by any party hereto, if any state or federal law, order, rule or regulation is adopted or issued, which has the effect, as supported by the written opinion of outside counsel for such party, of prohibiting the NSP Merger, or by any party hereto if any court of competent jurisdiction in the United States or any State shall have issued an order, judgment or decree permanently restraining, enjoining or otherwise prohibiting the NSP Merger, and such order, judgment or decree shall have become final and nonappealable;

(e) by WEC, upon two days' prior notice to NSP, if, as a result of a tender offer by a party other than NSP or any of its affiliates or any written offer or proposal with respect to a merger, sale of a material portion of its assets or other business combination (each, a *"Business Combination"*) by a party other than NSP or any of its affiliates, the Board of Directors of WEC determines in good faith that their fiduciary obligations under applicable law require that such tender offer or other written offer or proposal be accepted; *provided, however,* that (i) the Board of Directors of WEC shall have been advised in a written opinion of outside counsel that notwithstanding a binding commitment to consummate an agreement of the nature of this Agreement entered into in the proper exercise of their applicable fiduciary duties, and notwithstanding all concessions which may be offered by NSP in negotiations entered into pursuant to *clause (ii)* below, such fiduciary duties would also require the directors to reconsider such commitment as a result of such tender offer or other written offer or proposal; and (ii) prior to any such termination, WEC shall, and shall cause its respective financial and legal advisors to, negotiate with NSP to make such adjustments in the terms and conditions of this Agreement as would enable WEC to proceed with the transactions contemplated herein on such adjusted terms;

(f) by NSP, upon two days' prior notice to WEC, if, as a result of a tender offer by a party other than WEC or any of its affiliates or any written offer or proposal with respect to a Business Combination by a party other than WEC or any of its affiliates, the Board of Directors of NSP determines in good faith that their fiduciary obligations under applicable law require that such tender offer or other written offer or proposal be accepted; *provided, however,* that (i) the Board of Directors of NSP shall have been advised in a written opinion of outside counsel that notwithstanding a binding commitment to consummate an agreement of the nature of this Agreement entered into in the proper exercise of their applicable fiduciary duties, and notwithstanding all concessions which may be offered by WEC in negotiations entered into pursuant to clause (ii) below, such fiduciary duties would also require the directors to reconsider such commitment as a result of such tender offer or other written offer or proposal; and (ii) prior to any such termination, NSP shall, and shall cause its respective financial and legal advisors to, negotiate with WEC to make such adjustments in the terms and conditions of this Agreement as would enable NSP to proceed with the transactions contemplated herein on such adjusted terms;

(g) by NSP, by written notice to WEC, if (i) there exist breaches of the representations and warranties of WEC made herein as of the date hereof which breaches, individually or in the aggregate, would or would be reasonably likely to result in a WEC Material Adverse Effect, and such breaches shall not have been remedied within 20 days after receipt by WEC of notice in writing from NSP, specifying the nature of such breaches and requesting that they be remedied, (ii) WEC (and/or its appropriate subsidiaries) shall not have performed and complied with its agreements and covenants contained in *Sections 6.1(b)* and *6.1(c)* or shall have failed to perform

offeror or a subsidiary of an affiliate of such offeror or accepts a written offer to consummate or consummates a Business Combination with such offeror or an affiliate thereof, then such breaching

and comply with, in all material respects, its other agreements and covenants hereunder or under the WEC Stock Option Agreement and such failure to perform or comply shall not have been remedied within 20 days after receipt by WEC of notice in writing from NSP, specifying the nature of such failure and requesting that it be remedied; or (iii) the Board of Directors of WEC or any committee thereof (A) shall withdraw or modify in any manner adverse to NSP its approval or recommendation of this Agreement or the NSP Merger, (B) shall fail to reaffirm such approval or recommendation upon NSP's request, (C) shall approve or recommend any acquisition of WEC or a material portion of its assets or any tender offer for shares of capital stock of WEC, in each case, by a party other than NSP or any of its affiliates or (D) shall resolve to take any of the actions specified in *clause (A), (B)* or *(C)*; or

(h) by WEC, by written notice to NSP, if (i) there exist material breaches of the representations and warranties of NSP made herein as of the date hereof which breaches, individually or in the aggregate, would or would be reasonably likely to result in a NSP Material Adverse Effect, and such breaches shall not have been remedied within 20 days after receipt by NSP of notice in writing from WEC, specifying the nature of such breaches and requesting that they be remedied, (ii) NSP (and/or its appropriate subsidiaries) shall not have performed and complied with its agreements and covenants contained in *Sections 6.1(b)* and *6.1*(c) or shall have failed to perform and comply with, in all material respects, its other agreements and covenants hereunder or under the NSP Stock Option Agreement, and such failure to perform or comply shall not have been remedied within 20 days after receipt by NSP of notice in writing from WEC, specifying the nature of such failure and requesting that it be remedied; or (iii) the Board of Directors of NSP or any committee thereof (A) shall withdraw or modify in any manner adverse to WEC its approval or recommendation of this Agreement or the NSP Merger, (B) shall fail to reaffirm such approval or recommendation upon WEC's request, (C) shall approve or recommend any acquisition of NSP or a material portion of its assets or any tender offer for the shares of capital stock of NSP, in each case by a party other than WEC or any of its affiliates or (D) shall resolve to take any of the actions specified in *clause (A), (B)* or *(C)*.

Section 9.2 *Effect of Termination.* Subject to *Section 10.1(b)*, in the event of termination of this Agreement by either NSP or WEC pursuant to *Section 9.1* there shall be no liability on the part of either NSP or WEC or their respective officers or directors hereunder, except that *Section 7.17* and *Section 9.3*, the agreement contained in the last sentence of *Section 7.1*, *Section 10.2* and *Section 10.8* shall survive the termination.

Section 9.3 *Termination Fee; Expenses.*

(a) *Termination Fee upon Breach or Withdrawal of Approval.* If this Agreement is terminated at such time that this Agreement is terminable pursuant to one (but not both) of (x) *Section 9.1(g)(i)* or *(ii) or (y) Section 9.1(h)(i)* or *(ii)*, then: (i) the breaching party shall promptly (but not later than five business days after receipt of notice from the non-breaching party) pay to the non-breaching party in cash an amount equal to all documented out-of-pocket expenses and fees incurred by the non-breaching party (including, without limitation, fees and expenses payable to all legal, accounting, financial, public relations and other professional advisors arising out of, in connection with or related to the Mergers or the transactions contemplated by this Agreement) not in excess of $10 million; *provided, however*, that, if this Agreement is terminated by a party as a result of a willful breach by the other party, the non-breaching party may pursue any remedies available to it at law or in equity and shall, in addition to its out-of-pocket expenses (which shall be paid as specified above and shall not be limited to $10 million), be entitled to retain such additional amounts as such non-breaching party may be entitled to receive at law or in equity; and (ii) if (x) at the time of the breaching party's willful breach of this Agreement, there shall have been a third party tender offer for shares of, or a third party offer or proposal with respect to a Business Combination involving, such party or any of its affiliates which at the time of such termination shall not have been rejected by such party and its board of directors and withdrawn by the third party, and (y) within two and one-half years of any termination by the non-breaching party, the breaching party or an affiliate thereof becomes a subsidiary of such

WEC, except for alterations or changes that could otherwise be adopted by the Board of Directors of

offeror or a subsidiary of an affiliate of such offeror or accepts a written offer to consummate or consummates a Business Combination with such offeror or an affiliate thereof, then such breaching party (jointly and severally with its affiliates), upon the signing of a definitive agreement relating to such a Business Combination, or, if no such agreement is signed then at the closing (and as a condition to the closing) of such breaching party becoming such a subsidiary or of such Business Combination, will pay to the non-breaching party an additional fee equal to $75 million in cash.

(b) *Additional Termination Fee.* If (i) this Agreement (x) is terminated by any party pursuant to *Section 9.1(e)* or *Section 9.1(f)*, (y) is terminated following a failure of the shareholders of any one of the parties to grant the necessary approvals described in *Section 4.13* and *Section 5.13* or (z) is terminated as a result of such party's material breach of *Section 7.4*, and (ii) at the time of such termination or prior to the meeting of such party's shareholders there shall have been a third-party tender offer for shares of, or a third-party offer or proposal with respect to a Business Combination involving, such party or any of its affiliates which at the time of such termination or of the meeting of such party's shareholders shall not have been (A) rejected by such party and its board of directors and (B) withdrawn by the third party, and (iii) within two and one-half years of any such termination described in clause (i) above, the party or its affiliate which is the subject of the tender offer or offer or proposal with respect to a Business Combination (the "*Target Party*") becomes a subsidiary of such offeror or a subsidiary of an affiliate of such offeror or accepts a written offer to consummate or consummates a Business Combination with such offeror or affiliate thereof, then such Target Party (jointly and severally with its affiliates), upon the signing of a definitive agreement relating to such a Business Combination, or, if no such agreement is signed, then at the closing (and as a condition to the closing) of such Target Party becoming such a subsidiary or of such Business Combination, will pay to the other party a termination fee equal to $75 million in cash plus the out-of-pocket fees and expenses incurred by the non-breaching party (including, without limitation, fees and expenses payable to all legal, accounting, financial, public relations and other professional advisors arising out of, in connection with or related to the Mergers or the transactions contemplated by this Agreement).

(c) *Expenses.* The parties agree that the agreements contained in this *Section 9.3* are an integral part of the transactions contemplated by the Agreement and constitute liquidated damages and not a penalty. If one party fails to promptly pay to the other any fee due hereunder, the defaulting party shall pay the costs and expenses (including legal fees and expenses) in connection with any action, including the filing of any lawsuit or other legal action, taken to collect payment, together with interest on the amount of any unpaid fee at the publicly announced prime rate of Citibank, N.A. from the date such fee was required to be paid.

(d) *Limitation of Termination Fees.* Notwithstanding anything herein to the contrary, the aggregate amount payable to NSP and its affiliates pursuant to *Section 9.3(a)*, *Section 9.3(b)* and the terms of the WEC Stock Option Agreement shall not exceed $125 million and the aggregate amount payable to WEC and its affiliates pursuant to *Section 9.3(a)*, *Section 9.3(b)* and the terms of the NSP Stock Option Agreement shall not exceed $125 million (including, in each case, reimbursement for fees and expenses payable pursuant to this *Section 9.3*). For purposes of this *Section 9.3(d)*, the amount payable pursuant to the terms of the WEC Stock Option Agreement or the NSP Stock Option Agreement, as the case may be, shall be the amount paid pursuant to Section 7(a)(i) and 7(a)(ii) thereof.

Section 9.4 *Amendment.* This Agreement may be amended by the Boards of Directors of the parties hereto, at any time before or after approval hereof by the shareholders of NSP and WEC and prior to the Effective Time, but after such approvals, no such amendment shall (i) alter or change the amount or kind of shares, rights or any of the proceedings of the treatment of shares under *Article II*, (ii) alter or change any of the terms and conditions of this Agreement if any of the alterations or changes, alone or in the aggregate, would materially adversely affect the rights of holders of Old NSP Common Stock or WEC Common Stock, or (iii) alter or change any term of the Restated Articles of Incorporation of WEC (including the WEC Article Amendments) as approved by the shareholders of

WEC, except for alterations or changes that could otherwise be adopted by the Board of Directors of the Company, without the further approval of such shareholders, as applicable. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

Section 9.5 *Waiver.* At any time prior to the Effective Time, the parties hereto may (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (c) waive compliance with any of the agreements or conditions contained herein, to the extent permitted by applicable law. Any agreement on the part of a party hereto to any such extension or waiver shall be valid if set forth in an instrument in writing signed on behalf of such party.

ARTICLE X

GENERAL PROVISIONS

Section 10.1 *Non-Survival; Effect of Representations and Warranties.* (a) All representations, warranties and agreements in this Agreement shall not survive the Mergers, except as otherwise provided in this Agreement and except for the agreements contained in this *Section 10.1* and in *Article II, Section 7.5, Section 7.9, Section 7.10, Section 7.11, Section 7.14, Section 7.15, Section 7.16, Section 7.17* and *Section 10.7.*

(b) No party may assert a claim for breach of any representation or warranty contained in this Agreement (whether by direct claim or counterclaim) except in connection with the cancellation of this Agreement pursuant to *Section 9.1(g)(i)* or *Section 9.1(h)(i)* (or pursuant to any other subsection of *Section 9.1,* if the terminating party would have been entitled to terminate this Agreement pursuant to *Section 9.1(g)(i)* or *Section 9.1(h)(i)*).

Section 10.2 *Brokers.* NSP represents and warrants that, except for Goldman, Sachs & Co. whose fees have been disclosed to WEC prior to the date hereof, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Mergers or the transactions contemplated by this Agreement based upon arrangements made by or on behalf of NSP. WEC represents and warrants that, except for Barr Devlin & Co. Incorporated, whose fees have been disclosed to NSP prior to the date hereof, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Mergers or the transactions contemplated by this Agreement based upon arrangements made by or on behalf of WEC.

Section 10.3 *Notices.* All notices and other communications hereunder shall be in writing and shall be deemed given if (i) delivered personally, (ii) sent by reputable overnight courier service, (iii) telecopied (which is confirmed), or (iv) five days after being mailed by registered or certified mail (return receipt requested) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) If to NSP, to:

Northern States Power Company
414 Nicollet Mall
Minneapolis, Minnesota 55401

Attention: Gary Johnson, Esq.
Telephone: (612) 330-7623
Telecopy: (612) 330-6222

effect to its conflicts of law, rules or principles and except to the extent the provisions of this

with a copy to:

Gardner, Carton & Douglas
Quaker Tower, 31st Floor
321 North Clark Street
Chicago, Illinois 60610-4795

Attention: Peter Clarke, Esq.
Telephone: (312) 245-8685
Telecopy: (312) 644-3381

and a copy to:

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019

Attention: Barry A. Bryer, Esq.
Seth A. Kaplan, Esq.
Telephone: (212) 403-1000
Telecopy: (212) 403-2000

(b) If to WEC, to:

Wisconsin Energy Corporation
231 West Michigan Street
Milwaukee, WI 53201

Attention: Walter T. Woelfle, Esq.
Telephone: (414) 221-2765
Telecopy: (414) 221-2412

with a copy to:

Quarles & Brady
411 East Wisconsin Avenue
Milwaukee, Wisconsin 53202

Attention: Patrick M. Ryan, Esq.
Telephone: (414) 277-5181
Telecopy: (414) 277-5174

and a copy to:

Skadden, Arps, Slate, Meagher & Flom
919 Third Avenue
New York, New York 10022

Attention: Sheldon S. Adler, Esq.
Telephone: (212) 735-3000
Telecopy: (212) 735-2000

Section 10.4 *Miscellaneous.* This Agreement (including the documents and instruments referred to herein) (i) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof other than the Confidentiality Agreement; (ii) shall not be assigned by operation of law or otherwise; and (iii) shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts executed in and to be fully performed in such State, without giving

IN WITNESS WHEREOF, NSP, WEC, New NSP and WEC Sub have caused this Agreement to be

effect to its conflicts of law, rules or principles and except to the extent the provisions of this Agreement (including the documents or instruments referred to herein) are expressly governed by or derive their authority from the MBCA or the WBCL.

Section 10.5 *Interpretation.* When a reference is made in this Agreement to Sections or Exhibits, such reference shall be to a Section or Exhibit of this Agreement, respectively, unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation".

Section 10.6 *Counterparts; Effect.* This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

Section 10.7 *Parties in Interest.* This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and, except for rights of Indemnified Parties as set forth in *Section 7.5*, nothing in this Agreement, express or implied, is intended to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement. Notwithstanding the foregoing and any other provision of this Agreement, and in addition to any other required action of the Board of Directors of the Company (a) a majority of the directors (or their successors) serving on the Board of Directors of the Company who are designated by WEC pursuant to *Section 7.13* shall be entitled during the three year period commencing at the Effective Time (the *"Three Year Period"*) to enforce the provisions of *Section 7.9, Section 7.10, Section 7.11* and *Section 7.14* on behalf of the WEC officers, directors and employees, as the case may be, and (b) a majority of the directors (or their successors) serving on the Board of Directors of the Company who are designated by NSP pursuant to *Section 7.13* shall be entitled during the Three Year Period to enforce the provisions of, *Sections 7.9, Section 7.10, Section 7.11*, and *Section 7.14* on behalf of the NSP officers, directors and employees, as the case may be. Such directors' rights and remedies under the preceding sentence are cumulative and are in addition to any other rights and remedies they may have at law or in equity, but in no event shall this *Section 10.7* be deemed to impose any additional duties on any such directors. The Company shall pay, at the time they are incurred, all costs, fees and expenses of such directors incurred in connection with the assertion of any rights on behalf of the persons set forth above pursuant to this *Section 10.7*.

Section 10.8 *Waiver of Jury Trial and Certain Damages.* Each party to this Agreement waives, to the fullest extent permitted by applicable law, (i) any right it may have to a trial by jury in respect of any action, suit or proceeding arising out of or relating to this Agreement and (ii) without limitation to *Section 9.3*, any right it may have to receive damages from any other party based on any theory of liability for any special, indirect, consequential (including lost profits) or punitive damages.

Section 10.9 *Enforcement.* The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of New York or in New York state court, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any federal court located in the State of New York or any New York state court in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement, (b) agrees that it will not attempt to deny such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court other than a federal or state court sitting in the State of New York.

IN WITNESS WHEREOF, NSP, WEC, New NSP and WEC Sub have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

NORTHERN STATES POWER COMPANY

By: /s/ JAMES J. HOWARD
Name: James J. Howard
Title: Chairman and Chief Executive Officer

Attest: /s/ GARY R. JOHNSON
Secretary

WISCONSIN ENERGY CORPORATION

By: /s/ RICHARD A. ABDOO
Name: Richard A. Abdoo
Title: Chairman, President and Chief Executive Officer

Attest: /s/ JOHN H. GOETSCH
Secretary

NORTHERN POWER WISCONSIN CORP

By: /s/ EDWARD J. McINTYRE
Name: Edward J. McIntyre
Title: President

Attest: /s/ GARY R. JOHNSON
Secretary

WEC SUB CORP

By: /s/ RICHARD A. ABDOO
Name: Richard A. Abdoo
Title: Chairman, President and Chief Executive Officer

Attest: /s/ ANN MARIE BRADY
Secretary

FORM OF WEC
STOCK OPTION AGREEMENT

See Annex C to the
Joint Proxy Statement/Prospectus

FORM OF NSP
STOCK OPTION AGREEMENT

See Annex B to the
Joint Proxy Statement/Prospectus

EXHIBIT 7.8 TO MERGER AGREEMENT

Form of Affiliate Agreement

Gentlemen:

[The undersigned is a holder of shares of [Common Stock, par value $2.50 per share (*"NSP Common Stock"*), of Northern States Power Company, a Minnesota corporation ("NSP")] [Common Stock, par value $.01 per share (*"WEC Common Stock"*) of Wisconsin Energy Corporation, a Wisconsin corporation ("WEC")] [Cumulative Preferred Stock, par value $100 per share (*"NSP Preferred Stock"*) of Northern States Power Company, a Minnesota corporation ("NSP")] [Preferred Stock, par value $100 per share (*"WEPCO Preferred Stock"*) of Wisconsin Electric Power Company, a Wisconsin corporation ("WEPCO")]]. [The undersigned is entitled to receive in connection with the merger (the *"Merger"*) of [NSP], after it is reincorporated in Wisconsin, with a subsidiary of [WEC], securities of WEC (the "Securities").] [This letter relates to the merger (the "Merger") of [NSP], after it is reincorporated in Wisconsin, with a subsidiary of [WEC], in which holders of securities of NSP shall receive securities of WEC (the "Securities").]

The undersigned acknowledges that the undersigned may be deemed an "affiliate" of [NSP] [WEC] within the meaning of Rule 145 (*"Rule 145"*) promulgated under the Securities Act of 1933, as amended (the *"Act"*), and/or as such term is used in and for purposes of Accounting Series Releases 130 and 135, as amended, of the Securities and Exchange Commission (the "Commission"), although nothing contained herein shall be construed as an admission of such status.

If in fact the undersigned were an affiliate of [NSP] [WEC] under the Act, the undersigned's ability to sell, assign or transfer any Securities [received by the undersigned in exchange for any shares of NSP Common Stock pursuant to the Merger] may be restricted unless such transaction is registered under the Act or an exemption from such registration is available. The undersigned understands that such exemptions are limited and the undersigned has obtained advice of counsel as to the nature and conditions of such exemptions, including information with respect to the applicability to the sale of such securities of Rules 144 and 145(d) promulgated under the Act.

The undersigned hereby represents to and covenants with [WEC] [NSP] that it will not sell, assign or transfer any Securities [received by the undersigned in exchange for shares of NSP Common Stock pursuant to the Merger] except (i) pursuant to an effective registration statement under the Act, (ii) by a sale made in conformity with the volume and other limitations of Rule 145 (and otherwise in accordance with Rule 144 under the Act if the undersigned is an affiliate of WEC and if so required at the time) or (iii) in a transaction which, in the opinion of independent counsel reasonably satisfactory to WEC or as described in a "no-action" or interpretive letter from the Staff of the Commission, is not required to be registered under the Act.

The undersigned understands that WEC is under no obligation to register the sale, transfer or other disposition of the Securities by the undersigned or on behalf of the undersigned under the Act or to take any other action necessary in order to make compliance with an exemption from such registration available solely as a result of the Merger.

In the event of a sale of Securities pursuant to Rule 145, the undersigned will supply WEC with evidence of compliance with such Rule, in the form of customary seller's and broker's Rule 145 representation letters or as WEC may otherwise reasonably request. The undersigned understands that WEC may instruct its transfer agent to withhold the transfer of any Securities disposed of by the undersigned in a manner inconsistent with this letter.

The undersigned acknowledges and agrees that appropriate legends will be placed on certificates representing Securities received by the undersigned in the Merger or held by a transferee thereof, which legends will be removed (i) by delivery of substitute certificates upon receipt of an opinion in form and substance reasonably satisfactory to WEC to the effect that such legends are no longer

required for the purposes of the Act and the rules and regulations of the Commission promulgated thereunder or (ii) in the event of a sale of the Securities which has been registered under the Act or made in conformity with the provisions of Rule 145.

The undersigned further represents to, and covenants with WEC that the undersigned will not, during the 30 days prior to the effective time of the Merger sell, transfer or otherwise dispose of, or reduce any risk relative to, any securities of WEPCO, NSP or WEC, and the undersigned will not sell, transfer or otherwise dispose of, or reduce any risk relative to, the Securities received by the undersigned in the Merger or any other shares of the capital stock of WEC until after such time as results covering at least 30 days of operations of WEC (including the combined operations of NSP and WEC) have been published by WEC in the form of a quarterly earnings report, an effective registration statement filed with the Commission, a report to the Commission on Form 10-K, 10-Q, or 8-K, or any other public filing or announcement which includes such results of operations.

The undersigned acknowledges that it has carefully reviewed this letter and understands the requirements hereof and the limitations imposed upon the distribution, sale, transfer or other disposition of Securities.

Very truly yours,

_____

[Name]

Dated:

As an inducement to the above individual to deliver this letter, WEC agrees that for so long as and to the extent necessary to permit such individual to sell the Securities pursuant to Rule 145 and, to the extent applicable, Rule 144 under the Act, WEC shall use all reasonable efforts to file, on a timely basis, all reports and data required to be filed by it with the Commission pursuant to Section 13 of the Securities Exchange Act of 1934.

Very truly yours,

WISCONSIN ENERGY CORPORATION

By: _____

Name:

Title:

EXHIBIT 7.10 (a) TO MERGER AGREEMENT

NSP SENIOR EXECUTIVE SEVERANCE POLICY

Introduction

Northern States Power Company, a Minnesota corporation ("NSP") and Wisconsin Energy Corporation, a Wisconsin corporation ("WEC") have entered into an Agreement and Plan of Merger dated as of April 28, 1995 (the "Merger Agreement"), whereby the NSP and WEC organizations will engage in a merger-of-equals transaction (the "Combination"). The Board of Directors of NSP recognizes that the pendency of the Combination, and the inevitable adjustments that will occur during the transition period following the Combination, may result in the loss or distraction of employees of the Corporation and its Subsidiaries to the detriment of the Corporation and its shareholders.

The Board considers the avoidance of such loss and distraction to be essential to protecting and enhancing the best interests of the Corporation and its shareholders. The Board also believes that during the pendency of the Combination and the transition period thereafter, the Board should be able to receive and rely on disinterested service from employees without concern that employees might be distracted or concerned by personal uncertainties and risks.

In addition, the Board believes that it is consistent with the Corporation's employment practices and policies and in the best interests of the Corporation and its shareholders to treat fairly its employees whose employment terminates in connection with or following the Combination.

Accordingly, the Board has determined that appropriate steps should be taken to assure the Corporation of the continued employment and attention and dedication to duty of its employees and to seek to ensure the availability of their continued service, notwithstanding the Combination.

Therefore, in order to fulfill the above purposes, the following plan has been developed and is hereby adopted.

ARTICLE I

ESTABLISHMENT OF PLAN

As of the Effective Date, the Corporation hereby establishes a separation compensation plan known as the NSP Senior Executive Severance Policy, as set forth in this document.

ARTICLE II

DEFINITIONS

As used herein the following words and phrases shall have the following respective meanings unless the context clearly indicates otherwise.

(a) *Annual Incentive Award.* The highest amount a Participant received as an annual cash incentive award in any of the three years prior to a termination of employment entitling the Participant to a Separation Benefit.

(b) *Annual Compensation.* The sum of a Participant's Annual Salary and Annual Incentive Award.

(c) *Annual Salary.* The Participant's regular annual base salary immediately prior to his or her termination of employment, including compensation converted to other benefits under a flexible pay arrangement maintained by the Corporation or deferred pursuant to a written plan or agreement with the Corporation, but excluding overtime pay, allowances, premium pay, compensation paid or payable under any Corporation long-term or short-term incentive plan or any similar payment.

(d) *Board.* The Board of Directors of Northern States Power Company.

(e) *Code.* The Internal Revenue Code of 1986, as amended from time to time.

(f) *Committee.* The Compensation Committee of the Board.

(g) *Corporation.* Northern States Power Company and any successor thereto, including without limitation Northern Power Wisconsin Corp.

(h) *Date of the Combination.* The Effective Time, as defined in the Merger Agreement.

(i) *Date of Termination.* The date on which a Participant ceases to be an Employee.

(j) *Effective Date.* The date of the Merger Agreement.

(k) *Employee.* Any full-time, regular-benefit, non-bargaining employee of an Employer. The term shall exclude all individuals employed as independent contractors, temporary employees, other benefit employees, non-benefit employees, leased employees, even if it is subsequently determined that such classification is incorrect.

(l) *Employer.* The Corporation or a Subsidiary which has adopted the Plan pursuant to Article V hereof.

(m) *Participant.* An individual who is designated as such pursuant to Section 3.1.

(n) *Separation Benefits.* The benefits described in Section 4.3 that are provided to qualifying Participants under the Plan.

(o) *Plan.* The NSP Senior Executive Severance Policy.

(p) *Separation Period.* The period beginning on a Participant's Date of Termination and ending on the third anniversary thereof.

(q) *Subsidiary.* Any corporation in which the Corporation, directly or indirectly, holds a majority of the voting power of such corporation's outstanding shares of capital stock.

(r) *Target Annual Incentive.* The Annual Incentive Award that the Participant would have received for the year in which his or her Date of Termination occurs, if the target goals had been achieved.

ARTICLE III

ELIGIBILITY

3.1 *Participation.* Each of the individuals named on Schedule 1 hereto shall be a Participant in the Plan. Schedule 1 may be amended by the Board from time to time to add individuals as Participants.

3.2 *Duration of Participation.* A Participant shall only cease to be a Participant in the Plan as a result of an amendment or termination of the Plan complying with Article VII of the Plan, or when he ceases to be an Employee of any Employer, unless, at the time he ceases to be an Employee, such Participant is entitled to payment of a Separation Benefit as provided in the Plan or there has been an event or occurrence described in Section 4.2(a) which would enable the Participant to terminate his employment and receive a Separation Benefit. A Participant entitled to payment of a Separation Benefit or any other amounts under the Plan shall remain a Participant in the Plan until the full amount of the Separation Benefit and any other amounts payable under the Plan have been paid to the Participant.

ARTICLE IV

SEPARATION BENEFITS

4.1 *Right to Separation Benefit.* A Participant shall be entitled to receive Separation Benefits in accordance with Section 4.3 if the Participant ceases to be an Employee for any reason specified in Section 4.2(a).

4.2 *Termination of Employment.*

(a) *Terminations Which Give Rise to Separation Benefits Under This Plan.* Except as set forth in subsection (b) below, a Participant shall be entitled to Separation Benefits if, at any time before the second anniversary of the Date of the Combination:

(i) the Participant ceases to be an Employee by action of the Employer or any of its affiliates (excluding any transfer to another Employer);

(ii) the Participant's Annual Salary is reduced below the higher of (x) the amount in effect on the Effective Date and (y) the highest amount in effect at any time thereafter, and the Participant ceases to be an Employee by his or her own action within 90 days after the occurrence of such reduction;

(iii) the Participant's duties and responsibilities or the program of incentive compensation and retirement and welfare benefits offered to the Participant are materially and adversely diminished in comparison to the duties and responsibilities or the program of benefits enjoyed by the Participant on the Effective Date, and the Participant ceases to be an Employee by his or her own action within 90 days after the occurrence after such reduction;

(iv) the Participant is required to be based at a location more than 50 miles from the location where the Participant was based and performed services on the Effective Date, and the Participant ceases to be an Employee by his or her own action within 90 days after such relocation;

(v) an Employer or any affiliate of an Employer sells or otherwise distributes or disposes of the subsidiary, branch or other business unit in which the Participant was employed before such sale, distribution or disposition and the requirements of subsection (b)(iv) of this Section 4.2 are not met, and the Participant ceases to be an Employee upon or within 90 days after such sale, distribution or disposition.

(b) *Terminations Which Do Not Give Rise to Separation Benefits Under This Plan.* If a Participant's employment is terminated for Cause, disability, retirement, or a qualified sale of business (as those terms are defined below), or voluntarily by the Participant in the absence of an event described in subsection (a)(ii), (iii) or (iv) of this Section 4.2, the Participant shall not be entitled to Separation Benefits under the Plan.

(i) A termination for disability shall have occurred where a Participant is terminated because illness or injury has prevented him from performing his duties (as they existed immediately prior to the illness or injury) on a full time basis for 180 consecutive business days.

(ii) A termination by retirement shall have occurred where a Participant's termination is due to his voluntary late, normal or early retirement under a pension plan sponsored by his Employer or its affiliates, as defined in such plan.

(iii) A termination for Cause shall have occurred where a Participant is terminated because of:

(A) the willful and continued failure of the Participant to perform substantially the Participant's duties with the Corporation or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Participant by the Board or an elected officer of

the Corporation which specifically identifies the manner in which the Board or the elected officer believes that the Participant has not substantially performed the Participant's duties, or

(B) the willful engaging by the Participant in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Corporation.

For purposes of this provision, no act or failure to act, on the part of the Participant, shall be considered "willful" unless it is done, or omitted to be done, by the Participant in bad faith or without reasonable belief that the Participant's action or omission was in the best interests of the Corporation. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board, or upon the advice of counsel for the Corporation, shall be conclusively presumed to be done, or omitted to be done, by the Participant in good faith and in the best interests of the Corporation.

(iv) A termination due to a qualified sale of business shall have occurred where an Employer or an affiliate of an Employer has sold, distributed or otherwise disposed of the subsidiary, branch or other business unit in which the Participant was employed before such sale, distribution or disposition and the Participant has been offered employment with the purchaser of such subsidiary, branch or other business unit or the corporation or other entity which is the owner thereof on substantially the same terms and conditions under which he worked for the Employer (including, without limitation, base salary, duties and responsibilities, programs of benefits and location where based). Such terms and conditions shall also include, without limitation, a legally binding agreement or plan covering such Participant, providing that upon a termination of employment with the subsidiary, branch or business unit (or the corporation or other entity which is the owner thereof) or any successor thereto of the kind described in Article VI of this Plan, at any time before the second anniversary of the Date of the Combination, the Participant's employer or any successor will pay to each such former Participant an amount equal to the separation benefit and other benefits that such former Participant would have received under the Plan had he been a Participant at the time of such termination. For purposes of this subsection, the new employer plan or agreement must treat service with any Employer (irrespective of whether the Employer was an affiliate of the Corporation or the Employee was a Participant at the time of such service) and the new employer as continuous service for purposes of calculating separation benefits.

4.3 *Separation Benefits.*

(a) If a Participant's employment is terminated in circumstances entitling him to a separation benefit as provided in Section 4.2(a), the Participant's Employer shall pay such Participant, within ten days of the Date of Termination, a cash lump sum as set forth in subsection (b) below and the continued benefits set forth in subsection (c) below. For purposes of determining the benefits set forth in subsections (b) and (c), if the termination of the Participant's employment is based upon a reduction of the Participant's Annual Salary or benefits as described in subsection (ii) or (iii) of Section 4.2, such reduction shall be ignored.

(b) The cash lump sum referred to in Section 4.3(a) shall equal the aggregate of the following amounts:

(i) the sum of (1) the Participant's Annual Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the Target Incentive and (y) a fraction, the numerator of which is the number of days in such year through the Date of Termination, and the denominator of which is 365, and (3) any compensation previously deferred by the Participant (together with any accrued interest or earnings thereon) and any accrued vacation pay, in each case to the extent not theretofore paid and in full satisfaction of the rights of the Participant thereto;

(ii) an amount equal to the product of (1) three and (2) the sum of (x) the Participant's Annual Salary and (y) the higher of the Target Annual Incentive or the Annual Incentive Award; and

(iii) an amount equal to the difference between (a) the actuarial equivalent of the benefit under the Corporation's qualified defined benefit retirement plan (the "Retirement Plan") and any excess or supplemental retirement plans in which the Participant participates (together, the "SERP") which the Participant would receive if his or her employment continued during the Separation Period, assuming that the Participant's compensation during the Separation Period would have been equal to his or her compensation as in effect immediately before the termination or, if higher, on the Effective Date, and (b) the actuarial equivalent of the Participant's actual benefit (paid or payable), if any, under the Retirement Plan and the SERP as of the Date of Termination. The actuarial assumptions used for purposes of determining actuarial equivalence shall be no less favorable to the Participant than the most favorable of those in effect under the Retirement Plan and the SERP on the Date of Termination and the Effective Date.

(c) The continued benefits referred to above shall be as follows.

(i) During the Separation Period, the Participant and his family shall be provided with medical, dental and life insurance benefits as if the Participant's employment had not been terminated; provided, however, that if the Participant becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Participant for retiree medical, dental and life insurance benefits under the Corporation's plans, practices, programs and policies, the Participant shall be considered to have remained employed during the Separation Period and to have retired on the last day of such period;

(ii) The Corporation shall, at its sole expense as incurred, provide the Participant with outplacement services the scope and provider of which shall be selected by the Participant in his or her sole discretion (but at a cost to the Corporation of not more than $30,000) or, at the Participant's option, the use of office space, office supplies and equipment and secretarial services for a period not to exceed one year;

(iii) The Corporation shall continue to provide the Participant with financial planning counselling benefits through the second anniversary of the Date of Termination, on the same terms and conditions as were in effect immediately before the termination or, if more favorable, on the Effective Date; and

(iv) The Corporation shall transfer to the Participant, at no cost to the Participant, the title to the company car being used by the Participant as of the Date of Termination.

To the extent any benefits described in this Section 4.3(c) cannot be provided pursuant to the appropriate plan or program maintained for Employees, the Employer shall provide such benefits outside such plan or program at no additional cost (including without limitation tax cost) to the Participant.

4.4 *Other Benefits Payable.* The cash lump sum and continuing benefits described in Section 4.3 above shall be payable in addition to, and not in lieu of, all other accrued or vested or earned but deferred compensation, rights, options or other benefits which may be owed to a Participant upon or following termination, including but not limited to accrued vacation or sick pay, amounts or benefits payable under any bonus or other compensation plans, stock option plan, stock ownership plan, stock purchase plan, life insurance plan, health plan, disability plan or similar or successor plan, but excluding any severance pay or pay in lieu of notice required to be paid to such Participant under applicable law.

4.5 *Certain Reduction of Payments by the Corporation.*

(a) For purposes of this Section 4.5, (i) a Payment shall mean any payment or distribution in the nature of compensation to or for the benefit of a Participant, whether paid or payable pursuant to this Plan or otherwise; (ii) Separation Payment shall mean a Payment paid or payable pursuant to this Plan (disregarding this Section); (iii) Net After Tax Receipt shall mean the Present Value of a Payment net of all taxes imposed on a Participant with respect thereto under Sections 1 and 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), determined by applying the highest marginal rate under Section 1 of the Code which applied to the Participant's taxable income for the immediately preceding taxable year; (iv) "Present Value" shall mean such value determined in accordance with Section 280G(d)(4) of the Code; and (v) "Reduced Amount" shall mean the greatest aggregate amount of Separation Payments which (a) is less than the sum of all Separation Payments and (b) results in aggregate Net After Tax Receipts which are equal to or greater than the Net After Tax Receipts which would result if the Participant were paid the sum of all Separation Payments.

(b) Anything in this Agreement to the contrary notwithstanding, in the event Price Waterhouse or such other certified public accounting firm designated by the Participant (the "Accounting Firm") shall determine that receipt of all Payments would subject the Participant to tax under Section 4999 of the Code, it shall determine whether some amount of Separation Payments would meet the definition of a "Reduced Amount." If the Accounting Firm determines that there is a Reduced Amount, the aggregate Separation Payments shall be reduced to such Reduced Amount. All fees payable to the Accounting Firm shall be paid solely by the Corporation.

(c) If the Accounting Firm determines that aggregate Separation Payments should be reduced to the Reduced Amount, the Corporation shall promptly give the Participant notice to that effect and a copy of the detailed calculation thereof, and the Participant may then elect, in his sole discretion, which and how much of the Separation Payments shall be eliminated or reduced (as long as after such election the present value of the aggregate Separation Payments equals the Reduced Amount), and shall advise the Corporation in writing of his election within ten days of his receipt of notice. If no such election is made by the Participant within such ten-day period, the Corporation may elect which of such Separation Payments shall be eliminated or reduced (as long as after such election the present value of the aggregate Separation Payments equals the Reduced Amount) and shall notify the Participant promptly of such election. All determinations made by the Accounting Firm under this Section shall be binding upon the Corporation and the Participant and shall be made within 60 days of a termination of employment of the Participant. As promptly as practicable following such determination, the Corporation shall pay to or distribute for the benefit of the Participant such Separation Payments as are then due to the Participant under this Plan and shall promptly pay to or distribute for the benefit of the Participant in the future such Separation Payments as become due to the Participant under this Plan.

(d) While it is the intention of the Corporation to reduce the amounts payable or distributable to the Participants hereunder only if the aggregate Net After Tax Receipts to a Participant would thereby be increased, as a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that amounts will have been paid or distributed by the Corporation to or for the benefit of a Participant pursuant to this Plan which should not have been so paid or distributed ("Overpayment") or that additional amounts which will have not been paid or distributed by the Corporation to or for the benefit of a Participant pursuant to this Plan could have been so paid or distributed ("Underpayment"), in each case, consistent with the calculation of the Reduced Amount hereunder. In the event that the Accounting Firm, based upon the assertion of a deficiency by the Internal Revenue Service against either the Corporation or the Participant which the Accounting Firm believes has a high probability of success determines that an Overpayment has been made, any such Overpayment paid or distributed by the Corporation to or for the benefit of a Participant shall be treated for all purposes as a loan to the Participant which the Participant shall repay to the Corporation together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code; provided, however, that no such loan

shall be deemed to have been made and no amount shall be payable by a Participant to the Corporation if and to the extent such deemed loan and payment would not either reduce the amount on which the Participant is subject to tax under Section 1 and Section 4999 of the Code or generate a refund of such taxes. In the event that the Accounting Firm, based upon controlling precedent or substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Corporation to or for the benefit of the Participant together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code.

4.6 *Payment Obligations Absolute.* Subject to Section 4.5, the obligations of the Corporation and the Employers to pay the separation benefits described in Section 4.3 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Corporation or any of its Subsidiaries may have against any Participant. In no event shall a Participant be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to a Participant under any of the provisions of this Plan, nor shall the amount of any payment hereunder be reduced by any compensation earned by a Participant as a result of employment by another employer, except as specifically provided in Section 4.3(c)(i).

ARTICLE V

PARTICIPATING EMPLOYERS

This Plan may be adopted by any Subsidiary of the Corporation. Upon such adoption, the Subsidiary shall become an Employer hereunder and the provisions of the Plan shall be fully applicable to the Employees of that Subsidiary who are Participants pursuant to Section 3.1.

ARTICLE VI

SUCCESSOR TO CORPORATION

This Plan shall bind any successor of the Corporation, its assets or its businesses (whether direct or indirect, by purchase, merger, consolidation or otherwise), including without limitation Northern Power Wisconsin Corp., in the same manner and to the same extent that the Corporation would be obligated under this Plan if no succession had taken place.

In the case of any transaction in which a successor would not by the foregoing provision or by operation of law be bound by this Plan, the Corporation shall require such successor expressly and unconditionally to assume and agree to perform the Corporation's obligations under this Plan, in the same manner and to the same extent that the Corporation would be required to perform if no such succession had taken place. The term "Corporation," as used in this Plan, shall mean the Corporation as hereinbefore defined and any successor or assignee to the business or assets which by reason hereof becomes bound by this Plan.

ARTICLE VII

DURATION, AMENDMENT AND TERMINATION

7.1 *Duration.* If the Combination has not occurred, this Plan shall expire five years from the Effective Date, unless extended for an additional period or periods by resolution adopted by the Board.

If the Combination occurs, this Plan shall continue in full force and effect and shall not terminate or expire until after all Participants who become entitled to any payments hereunder shall have received such payments in full and all adjustments required to be made pursuant to Section 4.5 have been made.

7.2 *Amendment.* Except as provided in Section 7.1, the Plan shall not be subject to amendment, change, substitution, deletion, revocation or termination in any respect which adversely affects the rights of Participants.

7.3 *Form of Amendment.* The form of any amendment of the Plan shall be a written instrument signed by a duly authorized officer or officers of the Corporation, certifying that the amendment has been approved by the Board.

ARTICLE VIII

MISCELLANEOUS

8.1 *Indemnification.* If a Participant institutes any legal action in seeking to obtain or enforce, or is required to defend in any legal action the validity or enforceability of, any right or benefit provided by this Plan, the Corporation or the Employer will pay for all actual legal fees and expenses incurred (as incurred) by such Participant, regardless of the outcome of such action.

8.2 *Employment Status.* This Plan does not constitute a contract of employment or impose on the Participant or the Participant's Employer any obligation to retain the Participant as an Employee, to change the status of the Participant's employment, or to change the Corporation's policies or those of its Subsidiaries regarding termination of employment.

8.3 *Claim Procedure.* If an Employee or former Employee makes a written request alleging a right to receive benefits under this Plan or alleging a right to receive an adjustment in benefits being paid under the Plan, the Corporation shall treat it as a claim for benefit. All claims for benefit under the Plan shall be sent to the Human Resources Department of the Corporation and must be received within 30 days after termination of employment. If the Corporation determines that any individual who has claimed a right to receive benefits, or different benefits, under the Plan is not entitled to receive all or any part of the benefits claimed, it will inform the claimant in writing of its determination and the reasons therefor in terms calculated to be understood by the claimant. The notice will be sent within 90 days of the claim unless the Corporation determines additional time, not exceeding 90 days, is needed. The notice shall make specific reference to the pertinent Plan provisions on which the denial is based, and describe any additional material or information that is necessary. Such notice shall, in addition, inform the claimant what procedure the claimant should follow to take advantage of the review procedures set forth below in the event the claimant desires to contest the denial of the claim. The claimant may within 90 days thereafter submit in writing to the Corporation a notice that the claimant contests the denial of his or her claim by the Corporation and desires a further review. The Corporation shall within 60 days thereafter review the claim and authorize the claimant to appear personally and review pertinent documents and submit issues and comments relating to the claim to the persons responsible for making the determination on behalf of the Corporation. The Corporation will render its final decision with specific reasons therefor in writing and will transmit it to the claimant within 60 days of the written request for review, unless the Corporation determines additional time, not exceeding 60 days, is needed, and so notifies the Participant. If the Corporation fails to respond to a claim filed in accordance with the foregoing within 60 days or any such extended period, the Corporation shall be deemed to have denied the claim.

8.4 *Validity and Severability.* The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision of the Plan, which shall remain in full force and effect, and any prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

8.5 *Governing Law.* The validity, interpretation, construction and performance of the Plan shall in all respects be governed by the laws of Minnesota, without reference to principles of conflict of law, except to the extent pre-empted by federal law.

EXHIBIT 7.10(b) TO MERGER AGREEMENT

WEC

SENIOR EXECUTIVE SEVERANCE POLICY

Introduction

Northern States Power Company, a Minnesota corporation ("NSP") and Wisconsin Energy Corporation, a Wisconsin corporation ("WEC") have entered into an Agreement and Plan of Merger dated as of April 28, 1995 (the "Merger Agreement"), whereby the NSP and WEC organizations will merge with WEC as the surviving parent (the "Combination"). The Board of Directors of WEC recognizes that the pendency of the Combination, and the inevitable adjustments that will occur during the transition period following the Combination, may result in the loss or distraction of employees of WEC and its Subsidiaries to the detriment of WEC and its shareholders.

The Board considers the avoidance of such loss and distraction to be essential to protecting and enhancing the best interests of WEC and its shareholders. The Board also believes that during the pendency of the Combination and the transition period thereafter, the Board should be able to receive and rely on disinterested service from employees without concern that employees might be distracted or concerned by personal uncertainties and risks.

In addition, the Board believes that it is consistent with WEC's employment practices and policies and in the best interests of WEC and its shareholders to treat fairly its employees whose employment terminates in connection with or following the Combination.

Accordingly, the Board has determined that appropriate steps should be taken to assure WEC of the continued employment and attention and dedication to duty of its employees and to seek to ensure the availability of their continued service, notwithstanding the Combination.

Therefore, in order to fulfill the above purposes, the following plan has been developed and is hereby adopted.

ARTICLE I

ESTABLISHMENT OF PLAN

As of the Effective Date, WEC hereby establishes a separation compensation plan known as the WEC Senior Executive Severance Policy, as set forth in this document.

ARTICLE II

DEFINITIONS

As used herein the following words and phrases shall have the following respective meanings unless the context clearly indicates otherwise.

(a) *Annual Incentive Award.* The highest amount a Participant received as an annual incentive award in any of the three years prior to a termination of employment entitling the Participant to a Separation Benefit.

(b) *Annual Compensation.* The sum of a Participant's Annual Salary and Annual Incentive Award.

(c) *Annual Salary.* The Participant's regular annual base salary immediately prior to his or her termination of employment, including compensation converted to other benefits under a flexible pay arrangement maintained by the Corporation or deferred pursuant to a written plan or agreement with the Corporation, but excluding overtime pay, allowances, premium pay, compensation paid or payable under any Corporation long-term or short-term incentive plan or any similar payment.

(d) *Board.* The Board of Directors of Wisconsin Energy Corporation.

(e) *Code.* The Internal Revenue Code of 1986, as amended from time to time.

(f) *Committee.* The Compensation Committee of the Board.

(g) *Corporation.* Wisconsin Energy Corporation and any successor thereto.

(h) *Date of the Combination.* The Effective Time, as defined in the Merger Agreement.

(i) *Date of Termination.* The date on which a Participant ceases to be an Employee.

(j) *Effective Date.* The date of the Merger Agreement.

(k) *Employee.* Any full-time, regular-benefit, non-bargaining employee of an Employer. The term shall exclude all individuals employed as independent contractors, temporary employees, other benefit employees, non-benefit employees, leased employees, even if it is subsequently determined that such classification is incorrect.

(l) *Employer.* The Corporation or a Subsidiary which has adopted the Plan pursuant to Article V hereof.

(m) *Participant.* An individual who is designated as such pursuant to Section 3.1.

(n) *Separation Benefits.* The benefits described in Section 4.3 that are provided to qualifying Participants under the Plan.

(o) *Plan.* The WEC Senior Executive Severance Policy.

(p) *Separation Period.* The period beginning on a Participant's Date of Termination and ending on the third anniversary thereof.

(q) *Subsidiary.* Any corporation in which the Corporation, directly or indirectly, holds a majority of the voting power of such corporation's outstanding shares of capital stock.

(r) *Target Annual Incentive.* The Annual Incentive that the Participant would have received for the year in which his or her Date of Termination occurs, if the target goals had been achieved.

ARTICLE III

ELIGIBILITY

3.1 *Participation.* Each of the individuals named on Schedule 1 hereto shall be a Participant in the Plan. Schedule 1 may be amended by the Board from time to time to add individuals as Participants.

3.2 *Duration of Participation.* A Participant shall only cease to be a Participant in the Plan as a result of an amendment or termination of the Plan complying with Article VII of the Plan, or when he ceases to be an Employee of any Employer, unless, at the time he ceases to be an Employee, such Participant is entitled to payment of a Separation Benefit as provided in the Plan or there has been an event or occurrence described in Section 4.2(a) which would enable the Participant to terminate his employment and receive a Separation Benefit. A Participant entitled to payment of a Separation Benefit or any other amounts under the Plan shall remain a Participant in the Plan until the full amount of the Separation Benefit and any other amounts payable under the Plan have been paid to the Participant.

ARTICLE IV

SEPARATION BENEFITS

4.1 *Right to Separation Benefit.* A Participant shall be entitled to receive Separation Benefits in accordance with Section 4.3 if the Participant ceases to be an Employee for any reason specified in Section 4.2(a).

4.2 *Termination of Employment.*

(a) *Terminations Which Give Rise to Separation Benefits Under This Plan.* Except as set forth in subsection (b) below, a Participant shall be entitled to Separation Benefits if at any time before the second anniversary of the Date of the Combination:

(i) the Participant ceases to be an Employee by action of the Employer or any of its affiliates (excluding any transfer to another Employer);

(ii) the Participant's Annual Salary is reduced below the higher of (x) the amount in effect on the Effective Date and (y) the highest amount in effect at any time thereafter, and the Participant ceases to be an Employee by his or her own action within 90 days after the occurrence of such reduction;

(iii) the Participant's duties and responsibilities or the program of incentive compensation and retirement and welfare benefits offered to the Participant are materially and adversely diminished in comparison to the duties and responsibilities or the program of benefits enjoyed by the Participant on the Effective Date, and the Participant ceases to be an Employee by his or her own action within 90 days after the occurrence after such reduction;

(iv) the Participant is required to be based at a location more than 50 miles from the location where the Participant was based and performed services on the Effective Date, and the Participant ceases to be an Employee by his or her own action within 90 days after such relocation;

(v) an Employer or any affiliate of an Employer sells or otherwise distributes or disposes of the subsidiary, branch or other business unit in which the Participant was employed before such sale, distribution or disposition and the requirements of subsection (b)(iv) of this Section 4.2 are not met, and the Participant ceases to be an Employee upon or within 90 days after such sale, distribution or disposition.

(b) *Terminations Which Do Not Give Rise to Separation Benefits Under This Plan.* If a Participant's employment is terminated for Cause, disability, retirement, or a qualified sale of business (as those terms are defined below), or voluntarily by the Participant in the absence of an event described in subsection (a)(ii), (iii) or (iv) of this Section 4.2, the Participant shall not be entitled to Separation Benefits under the Plan.

(i) A termination for disability shall have occurred where a Participant is terminated because illness or injury has prevented him from performing his duties (as they existed immediately prior to the illness or injury) on a full time basis for 180 consecutive business days.

(ii) A termination by retirement shall have occurred where a Participant's termination is due to his voluntary late, normal or early retirement under a pension plan sponsored by his Employer or its affiliates, as defined in such plan.

(iii) A termination for Cause shall have occurred where a Participant is terminated because of:

(A) the willful and continued failure of the Participant to perform substantially the Participant's duties with the Corporation or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Participant by the Board or an elected officer of

the Corporation which specifically identifies the manner in which the Board or the elected officer believes that the Participant has not substantially performed the Participant's duties, or

(B) the willful engaging by the Participant in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Corporation.

For purposes of this provision, no act or failure to act, on the part of the Participant, shall be considered "willful" unless it is done, or omitted to be done, by the Participant in bad faith or without reasonable belief that the Participant's action or omission was in the best interests of the Corporation. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the advice of counsel for the Corporation, shall be conclusively presumed to be done, or omitted to be done, by the Participant in good faith and in the best interests of the Corporation.

(iv) A termination due to a qualified sale of business shall have occurred where an Employer or an affiliate of an Employer has sold, distributed or otherwise disposed of the subsidiary, branch or other business unit in which the Participant was employed before such sale, distribution or disposition and the Participant has been offered employment with the purchaser of such subsidiary, branch or other business unit or the corporation or other entity which is the owner thereof on substantially the same terms and conditions under which he worked for the Employer (including, without limitation, base salary, duties and responsibilities, program of benefits and location where based). Such terms and conditions shall also include, without limitation, a legally binding agreement or plan covering such Participant, providing that upon a termination of employment with the subsidiary, branch or business unit (or the corporation or other entity which is the owner thereof) or any successor thereto of the kind described in Article VI of this Plan, at any time before the second anniversary of the Date of the Combination, the Participant's employer or any successor will pay to each such former Participant an amount equal to the separation benefit and other benefits that such former Participant would have received under the Plan had he been a Participant at the time of such termination. For purposes of this subsection, the new employer plan or agreement must treat service with any Employer (irrespective of whether the Employer was an affiliate of the Corporation or the Employee was a Participant at the time of such service) and the new employer as continuous service for purposes of calculating separation benefits.

4.3 *Separation Benefits.*

(a) If a Participant's employment is terminated in circumstances entitling him to a separation benefit as provided in Section 4.2(a), the Participant's Employer shall pay such Participant, within ten days of the Date of Termination, a cash lump sum as set forth in subsection (b) below and the continued benefits set forth in subsection (c) below. For purposes of determining the benefits set forth in subsections (b) and (c), if the termination of the Participant's employment is based upon a reduction of the Participant's Annual Salary or benefits as described in subsection (ii) or (iii) of Section 4.2, such reduction shall be ignored.

(b) The cash lump sum referred to in Section 4.3(a) shall equal the aggregate of the following amounts:

(i) the sum of (1) the Participant's Annual Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the Target Incentive and (y) a fraction, the numerator of which is the number of days in such year through the Date of Termination, and the denominator of which is 365, and (3) any compensation previously deferred by the Participant (together with any accrued interest or earnings thereon) and any accrued vacation pay, in each case to the extent not theretofore paid and in full satisfaction of the rights of the Participant thereto;

(ii) an amount equal to the product of (1) three, and (2) the sum of (x) the Participant's Annual Salary and (y) the higher of the Target Annual Incentive or the Annual Incentive Award; and

(iii) an amount equal to the difference between (a) the actuarial equivalent of the benefit under the Corporation's qualified defined benefit retirement plan (the "Retirement Plan") and any excess or supplemental retirement plans in which the Participant participates (together, the "SERP") which the Participant would receive if his or her employment continued during the Separation Period, assuming that the Participant's compensation during the Separation Period would have been equal to his or her compensation as in effect immediately before the termination or, if higher, on the Effective Date, and (b) the actuarial equivalent of the Participant's actual benefit (paid or payable), if any, under the Retirement Plan and the SERP as of the Date of Termination. The actuarial assumptions used for purposes of determining actuarial equivalence shall be no less favorable to the Participant than the most favorable of those in effect under the Retirement Plan and the SERP on the Date of Termination and the Effective Date.

(c) The continued benefits referred to above shall be as follows:

(i) During the Separation Period, the Participant and his family shall be provided with medical, dental and life insurance benefits as if the Participant's employment had not been terminated; provided, however, that if the Participant becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Participant for retiree medical, dental and life insurance benefits under the Corporation's plans, practices, programs and policies, the Participant shall be considered to have remained employed during the Separation Period and to have retired on the last day of such period;

(ii) The Corporation shall, at its sole expense as incurred, provide the Participant with outplacement services the scope and provider of which shall be selected by the Participant in his or her sole discretion (but at a cost to the Corporation of not more than $30,000) or, at the Participant's option, the use of office space, office supplies and equipment and secretarial services for a period not to exceed one year;

(iii) The Corporation shall continue to provide the Participant with financial planning counseling benefits through the second anniversary of the Date of Termination, on the same terms and conditions as were in effect immediately before the termination or, if more favorable, on the Effective Date; and

(iv) The Corporation shall transfer to the Participant, at no cost to the Participant, the title to the company car being used by the Participant as of the Date of Termination.

To the extent any benefits described in this Section 4.3(c) cannot be provided pursuant to the appropriate plan or program maintained for Employees, the Employer shall provide such benefits outside such plan or program at no additional cost (including without limitation tax cost) to the Participant.

4.4 *Other Benefits Payable.* The cash lump sum and continuing benefits described in Section 4.3 above shall be payable in addition to, and not in lieu of, all other accrued or vested or earned but deferred compensation, rights, options or other benefits which may be owed to a Participant upon or following termination, including but not limited to accrued vacation or sick pay, amounts or benefits payable under any bonus or other compensation plans, stock option plan, stock ownership plan, stock purchase plan, life insurance plan, health plan, disability plan or similar or successor plan but excluding any severance pay or pay in lieu of notice required to be paid to such Participant under applicable law.

4.5 *Certain Reduction of Payments by the Corporation.*

(a) For purposes of this Section 4.5, (i) a Payment shall mean any payment or distribution in the nature of compensation to or for the benefit of a Participant, whether paid or payable pursuant to this Plan or otherwise; (ii) Separation Payment shall mean a Payment paid or payable pursuant to this Plan (disregarding this Section); (iii) Net After Tax Receipt shall mean the Present Value of a Payment net of all taxes imposed on a Participant with respect thereto under Sections 1 and 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), determined by applying the highest marginal rate under Section 1 of the Code which applied to the Participant's taxable income for the immediately preceding taxable year; (iv) "Present Value" shall mean such value determined in accordance with Section 280G(d)(4) of the Code; and (v) "Reduced Amount" shall mean the greatest aggregate amount of Separation Payments which (a) is less than the sum of all Separation Payments and (b) results in aggregate Net After Tax Receipts which are equal to or greater than the Net After Tax Receipts which would result if the Participant were paid the sum of all Separation Payments.

(b) Anything in this Agreement to the contrary notwithstanding, in the event Price Waterhouse or such other certified public accounting firm designated by the Participant (the "Accounting Firm") shall determine that receipt of all Payments would subject the Participant to tax under Section 4999 of the Code, it shall determine whether some amount of Separation Payments would meet the definition of a "Reduced Amount." If the Accounting Firm determines that there is a Reduced Amount, the aggregate Separation Payments shall be reduced to such Reduced Amount. All fees payable to the Accounting Firm shall be paid solely by the Corporation.

(c) If the Accounting Firm determines that aggregate Separation Payments should be reduced to the Reduced Amount, the Corporation shall promptly give the Participant notice to that effect and a copy of the detailed calculation thereof, and the Participant may then elect, in his sole discretion, which and how much of the Separation Payments shall be eliminated or reduced (as long as after such election the present value of the aggregate Separation Payments equals the Reduced Amount), and shall advise the Corporation in writing of his election within ten days of his receipt of notice. If no such election is made by the Participant within such ten-day period, the Corporation may elect which of such Separation Payments shall be eliminated or reduced (as long as after such election the present value of the aggregate Separation Payments equals the Reduced Amount) and shall notify the Participant promptly of such election. All determinations made by the Accounting Firm under this Section shall be binding upon the Corporation and the Participant and shall be made within 60 days of a termination of employment of the Participant. As promptly as practicable following such determination, the Corporation shall pay to or distribute for the benefit of the Participant such Separation Payments as are then due to the Participant under this Plan and shall promptly pay to or distribute for the benefit of the Participant in the future such Separation Payments as become due to the Participant under this Plan.

(d) While it is the intention of the Corporation to reduce the amounts payable or distributable to the Participants hereunder only if the aggregate Net After Tax Receipts to a Participant would thereby be increased, as a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that amounts will have been paid or distributed by the Corporation to or for the benefit of a Participant pursuant to this Plan which should not have been so paid or distributed ("Overpayment") or that additional amounts which will have not been paid or distributed by the Corporation to or for the benefit of a Participant pursuant to this Plan could have been so paid or distributed ("Underpayment"), in each case, consistent with the calculation of the Reduced Amount hereunder. In the event that the Accounting Firm, either upon the assertion of a deficiency by the Internal Revenue Service against either the Corporation or the Participant which the Accounting Firm believes has a high probability of success determines that an Overpayment has been made, any such Overpayment paid or distributed by the Corporation to or for the benefit of a Participant shall be treated for all purposes as a loan to the Participant which the Participant shall repay to the Corporation together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code; provided, however, that no such loan

shall be deemed to have been made and no amount shall be payable by a Participant to the Corporation if and to the extent such deemed loan and payment would not either reduce the amount on which the Participant is subject to tax under Section 1 and Section 4999 of the Code or generate a refund of such taxes. In the event that the Accounting Firm, based upon controlling precedent or substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Corporation to or for the benefit of the Participant together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code.

4.6 *Payment Obligations Absolute.* Subject to Section 4.5, the obligations of the Corporation and the Employers to pay the separation benefits described in Section 4.3 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Corporation or any of its Subsidiaries may have against any Participant. In no event shall a Participant be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to a Participant under any of the provisions of this Plan, nor shall the amount of any payment hereunder be reduced by any compensation earned by a Participant as a result of employment by another employer, except as specifically provided in Section 4.3(c)(i).

ARTICLE V

PARTICIPATING EMPLOYERS

This Plan may be adopted by any Subsidiary of the Corporation. Upon such adoption, the Subsidiary shall become an Employer hereunder and the provisions of the Plan shall be fully applicable to the Employees of that Subsidiary who are Participants pursuant to Section 3.1.

ARTICLE VI

SUCCESSOR TO CORPORATION

This Plan shall bind any successor of the Corporation, its assets or its businesses (whether direct or indirect, by purchase, merger, consolidation or otherwise) in the same manner and to the same extent that the Corporation would be obligated under this Plan if no succession had taken place.

In the case of any transaction in which a successor would not by the foregoing provision or by operation of law be bound by this Plan, the Corporation shall require such successor expressly and unconditionally to assume and agree to perform the Corporation's obligations under this Plan, in the same manner and to the same extent that the Corporation would be required to perform if no such succession had taken place. The term "Corporation," as used in this Plan, shall mean the Corporation as hereinbefore defined and any successor or assignee to the business or assets which by reason hereof becomes bound by this Plan.

ARTICLE VII

DURATION, AMENDMENT AND TERMINATION

7.1 *Duration.* If the Combination has not occurred, this Plan shall expire five years from the Effective Date, unless extended for an additional period or periods by resolution adopted by the Board.

If the Combination occurs, this Plan shall continue in full force and effect and shall not terminate or expire until after all Participants who become entitled to any payments hereunder shall have received such payments in full and all adjustments required to be made pursuant to Section 4.5 have been made.

7.2 *Amendment.* Except as provided in Section 7.1, the Plan shall not be subject to amendment, change, substitution, deletion, revocation or termination in any respect which adversely affects the rights of Participants.

7.3 *Form of Amendment.* The form of any amendment of the Plan shall be a written instrument signed by a duly authorized officer or officers of the Corporation, certifying that the amendment has been approved by the Board.

ARTICLE VIII

MISCELLANEOUS

8.1 *Indemnification.* If a Participant institutes any legal action in seeking to obtain or enforce, or is required to defend in any legal action the validity or enforceability of, any right or benefit provided by this Plan, the Corporation or the Employer will pay for all actual legal fees and expenses incurred (as incurred) by such Participant, regardless of the outcome of such action.

8.2 *Employment Status.* This Plan does not constitute a contract of employment or impose on the Participant or the Participant's Employer any obligation to retain the Participant as an Employee, to change the status of the Participant's employment, or to change the Corporation's policies or those of its Subsidiaries regarding termination of employment.

8.3 *Claim Procedure.* If an Employee or former Employee makes a written request alleging a right to receive benefits under this Plan or alleging a right to receive an adjustment in benefits being paid under the Plan, the Corporation shall treat it as a claim for benefit. All claims for benefit under the Plan shall be sent to the Human Resources Department of the Corporation and must be received within 30 days after termination of employment. If the Corporation determines that any individual who has claimed a right to receive benefits, or different benefits, under the Plan is not entitled to receive all or any part of the benefits claimed, it will inform the claimant in writing of its determination and the reasons therefor in terms calculated to be understood by the claimant. The notice will be sent within 90 days of the claim unless the Corporation determines additional time, not exceeding 90 days, is needed. The notice shall make specific reference to the pertinent Plan provisions on which the denial is based, and describe any additional material or information that is necessary. Such notice shall, in addition, inform the claimant what procedure the claimant should follow to take advantage of the review procedures set forth below in the event the claimant desires to contest the denial of the claim. The claimant may within 90 days thereafter submit in writing to the Corporation a notice that the claimant contests the denial of his or her claim by the Corporation and desires a further review. The Corporation shall within 60 days thereafter review the claim and authorize the claimant to appear personally and review pertinent documents and submit issues and comments relating to the claim to the persons responsible for making the determination on behalf of the Corporation. The Corporation will render its final decision with specific reasons therefor in writing and will transmit it to the claimant within 60 days of the written request for review, unless the Corporation determines additional time, not exceeding 60 days, is needed, and so notifies the Participant. If the Corporation fails to respond to a claim filed in accordance with the foregoing within 60 days or any such extended period, the Corporation shall be deemed to have denied the claim.

8.4 *Validity and Severability.* The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision of the Plan, which shall remain in full force and effect, and any prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

8.5 *Governing Law.* The validity, interpretation, construction and performance of the Plan shall in all respects be governed by the laws of Wisconsin, without reference to principles of conflict of law, except to the extent pre-empted by federal law.

BOARD COMMITTEES

The Board of Directors of the Company shall have the following committees. Each of such committees will have four (4) members, with WEC selecting two (2) members of each such committee and NSP selecting two (2) members of each such committee. The chair of each such committee shall be selected by the party set forth below:

Committee	Chair Selected By
Executive Committee	NSP
Nominating Committee	WEC
Compensation Committee	NSP
Audit Committee	NSP
Finance Committee	WEC
Nuclear Oversight Committee	WEC

EXHIBIT 7.15.1 TO MERGER AGREEMENT

FORM OF EMPLOYMENT AGREEMENT OF JAMES J. HOWARD

See Annex D to the
Joint Proxy Statement/Prospectus

FORM OF EMPLOYMENT AGREEMENT OF RICHARD A. ABDOO

See Annex E to the
Joint Proxy Statement/Prospectus

FORM OF AMENDED AND RESTATED ARTICLES OF INCORPORATION OF NEW NSP

See Annex J to the
Joint Proxy Statement/Prospectus

EXHIBIT 7.20(c) TO MERGER AGREEMENT

FORM OF

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

WEC SUB CORP.

These Amended and Restated Articles of Incorporation of WEC Sub Corp., a corporation incorporated under the Wisconsin Business Corporation Law, Chapter 180 of the Wisconsin Statutes (the "WBCL"), supersede and take the place of the existing Articles of Incorporation and all prior amendments thereto.

ARTICLE I

NAME

The name of the corporation is WEC Sub Corp.

ARTICLE II

PURPOSES

The purposes for which the corporation is organized are to engage in any lawful activity within the purposes for which a corporation may be organized under the WBCL.

ARTICLE III

CAPITAL STOCK

The aggregate number of shares which the corporation shall have authority to issue is [Eighty Million (80,000,000)] shares, consisting of [Seventy Three Million (73,000,000)] shares designated as "Common Stock," of the par value of One Cent ($.01) per share, and [Seven Million (7,000,000)] shares designated as "Preferred Stock," of the par value of One Cent ($.01) per share.

The Board of Directors shall have authority to divide the Preferred Stock into series, to issue shares of any such series and to fix and determine the relative rights and preferences of the shares of any series so established, including (i) the rate of dividend payable thereon and whether such dividend shall be cumulative, noncumulative or partially cumulative; (ii) the extent to which such dividends are payable on a parity with or in preference to the dividends payable on the shares of any other class or series of stock; (iii) the amount payable upon shares in the event of voluntary or involuntary liquidation; (iv) the terms and conditions on which shares may be converted into any other class or series of stock, if the shares are issued with the privilege of conversion; (v) the price at and the terms and conditions on which the shares may be redeemed; (vi) the terms or amount of any sinking fund provided for the purchase or redemption of shares; (vii) the voting rights, if any, of the holders thereof; and (viii) such other provisions as may be permitted to be fixed by the Board of Directors of the corporation pursuant to the laws of the State of Wisconsin, as in effect at the time of the creation of any such series.

ARTICLE IV

PREEMPTIVE RIGHTS

No holder of any stock of the corporation shall have any preemptive right to purchase, subscribe for, or otherwise acquire any shares of stock of the corporation of any class now or hereafter authorized, or any securities exchangeable for or convertible into such shares.

ARTICLE V

REGISTERED OFFICE AND AGENT

The address of the registered office of the corporation is 411 East Wisconsin Avenue, Milwaukee, Milwaukee County, Wisconsin 53202 and the name of its registered agent at such address is Lawdock, Inc.

NSP STOCK OPTION AGREEMENT

STOCK OPTION AGREEMENT, dated as of April 28, 1995 by and among Wisconsin Energy Corporation, a Wisconsin corporation ("*WEC*"), and Northern States Power Company, a Minnesota corporation (the "*Company*").

WHEREAS, concurrently with the execution and delivery of this Agreement, (i) the Company, WEC, Northern Power Wisconsin Corp., a Wisconsin corporation ("*New NSP*") and WEC Sub Corp., a Wisconsin corporation ("*Sub*"), are entering into an Agreement and Plan of Merger, dated as of the date hereof (the "*Merger Agreement*"), which provides, among other things, upon the terms and subject to the conditions thereof, for the merger of the Company with and into New NSP and the merger of Sub with and into New NSP (the "*Mergers*"), and (ii) WEC and the Company are entering into a certain stock option agreement dated as of the date hereof whereby WEC grants to the Company an option with respect to certain shares of WEC's common stock on the terms and subject to the conditions set forth therein (the "*WEC Stock Option Agreement*"); and

WHEREAS, as a condition to WEC's willingness to enter into the Merger Agreement, WEC has requested that the Company agree, and the Company has so agreed, to grant to WEC an option with respect to certain shares of the Company's common stock, on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, to induce WEC to enter into the Merger Agreement, and in consideration of the mutual covenants and agreements set forth herein and in the Merger Agreement, the parties hereto agree as follows:

1. *Grant of Option.* The Company hereby grants WEC an irrevocable option (the "*Company Option*") to purchase up to 13,387,772 shares, subject to adjustment as provided in *Section 11* (such shares being referred to herein as the "*Company Shares*") of common stock, par value $2.50 per share, of the Company (the "*Company Common Stock*") (being 19.9% of the number of shares of Company Common Stock outstanding on the date hereof) in the manner set forth below at a price (the "*Exercise Price*") per Company Share of $44.075 (which is equal to the Fair Market Value (as defined below) of a Company Share on the date hereof) payable, at WEC's option, (a) in cash or (b) subject to the Company's having obtained the approvals of any Governmental Authority required for the Company to acquire the WEC Shares (as defined below) from WEC, which approvals the Company shall use best efforts to obtain, in shares of common stock, par value $.01 per share, of WEC ("*WEC Shares*") in either case in accordance with Section 4 hereof. Notwithstanding the foregoing, in no event shall the number of Company Shares for which the Company Option is exercisable exceed 19.9% of the number of issued and outstanding shares of Company Common Stock. As used herein, the "*Fair Market Value*" of any share shall be the average of the daily closing sales price for such share on the New York Stock Exchange (the "*NYSE*") during the 10 NYSE trading days prior to the fifth NYSE trading day preceding the date such Fair Market Value is to be determined. Capitalized terms used herein but not defined herein shall have the meanings set forth in the Merger Agreement.

2. *Exercise of Option.* The Company Option may be exercised by WEC, in whole or in part, at any time or from time to time after the Merger Agreement becomes terminable by WEC under circumstances which could entitle WEC to termination fees under either Section 9.3(a) of the Merger Agreement (provided that the events specified in Section 9.3(a)(ii)(x) of the Merger Agreement shall have occurred, although the events specified in Section 9.3(a)(ii)(y) thereof need not have occurred) or Section 9.3(b) of the Merger Agreement (regardless of whether the Merger Agreement is actually terminated or whether there occurs a closing of any Business Combination involving a Target Party or a closing by which a Target Party becomes a subsidiary), any such event by which the Merger Agreement becomes so terminable by WEC being referred to herein as a "*Trigger Event.*" The Company shall notify WEC promptly in writing of the occurrence of any

Trigger Event, it being understood that the giving of such notice by the Company shall not be a condition to the right of WEC to exercise the Company Option. In the event WEC wishes to exercise the Company Option, WEC shall deliver to the Company a written notice (an "*Exercise Notice*") specifying the total number of Company Shares it wishes to purchase. Each closing of a purchase of Company Shares (a "*Closing*") shall occur at a place, on a date and at a time designated by WEC in an Exercise Notice delivered at least two business days prior to the date of the Closing. The Company Option shall terminate upon the earlier of: (i) the Effective Time; (ii) the termination of the Merger Agreement pursuant to Section 9.1 thereof (other than upon or during the continuance of a Trigger Event); or (iii) 180 days following any termination of the Merger Agreement upon or during the continuance of a Trigger Event (or if, at the expiration of such 180 day period the Company Option cannot be exercised by reason of any applicable judgment, decree, order, law or regulation, 10 business days after such impediment to exercise shall have been removed or shall have become final and not subject to appeal, but in no event under this clause (iii) later than October 31, 1997). Notwithstanding the foregoing, the Company Option may not be exercised if WEC is in material breach of any of its material representations or warranties, or in material breach of any of its covenants or agreements, contained in this Agreement or in the Merger Agreement. Upon the giving by WEC to the Company of the Exercise Notice and the tender of the applicable aggregate Exercise Price, WEC shall be deemed to be the holder of record of the Company Shares issuable upon such exercise, notwithstanding that the stock transfer books of the Company shall then be closed or that certificates representing such Company Shares shall not then be actually delivered to WEC.

3. *Conditions to Closing.* The obligation of the Company to issue the Company Shares to WEC hereunder is subject to the conditions, which (other than the conditions described in clauses (i), (iii) and (iv) below) may be waived by the Company in its sole discretion, that (i) all waiting periods, if any, under the HSR Act, applicable to the issuance of the Company Shares hereunder shall have expired or have been terminated; (ii) the Company Shares, and any WEC Shares which are issued in payment of the Exercise Price, shall have been approved for listing on the NYSE upon official notice of issuance; (iii) all consents, approvals, orders or authorizations of, or registrations, declarations or filings with, any federal, state or local administrative agency or commission or other federal state or local Governmental Authority, if any, required in connection with the issuance of the Company Shares hereunder shall have been obtained or made, as the case may be, including, without limitation, the approval of the SEC under Section 10 of the 1935 Act of the acquisition of the Company Shares by WEC and, if applicable, the acquisition by the Company of the WEC Shares constituting the Exercise Price hereunder; and (iv) no preliminary or permanent injunction or other order by any court of competent jurisdiction prohibiting or otherwise restraining such issuance shall be in effect.

4. *Closing.* At any Closing, (a) the Company will deliver to WEC or its designee a single certificate in definitive form representing the number of the Company Shares designated by WEC in its Exercise Notice, such certificate to be registered in the name of WEC and to bear the legend set forth in *Section 12*, and (b) WEC will deliver to the Company the aggregate price for the Company Shares so designated and being purchased by (i) wire transfer of immediately available funds or certified check or bank check or (ii) subject to the condition in Section 1(b), a certificate or certificates representing the number of WEC Shares being issued by WEC in consideration thereof, as the case may be. For the purposes of this Agreement, the number of WEC Shares to be delivered to the Company shall be equal to the quotient obtained by dividing (i) the product of (x) the number of Company Shares with respect to which the Company Option is being exercised and (y) the Exercise Price by (ii) the Fair Market Value of the WEC Shares on the date immediately preceding the date the Exercise Notice is delivered to the Company. The Company shall pay all expenses, and any and all United States federal, state and local taxes and other charges that may be payable in connection with the preparation, issue and delivery of stock certificates under this Section 4 in the name of WEC or its designee.

5. *Representations and Warranties of the Company.* The Company represents and warrants to WEC that (a) except as set forth in Section 4.1 of the NSP Disclosure Schedule, the Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota and has the corporate power and authority to enter into this Agreement and, subject to obtaining the applicable approval of shareholders of the Company for the repurchase of Company Shares pursuant to *Section 7(a)* below under circumstances where Subdivision 3 of Section 302A.553 of the MBCA would be applicable (the "*Buyback Approvals*") and subject to any regulatory approvals referred to herein and to the provisions of Section 302A.551 of the MBCA, if applicable, to carry out its obligations hereunder, (b) the execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company and no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or any of the transactions contemplated hereby (other than any required Buyback Approvals), (c) such corporate action (including the approval of the Board of Directors of the Company) is intended to render inapplicable to this Agreement and the Merger Agreement and the transactions contemplated hereby and thereby, the provisions of the MBCA referred to in Section 4.15 of the Merger Agreement, (d) this Agreement has been duly executed and delivered by the Company, constitutes a valid and binding obligation of the Company and, assuming this Agreement constitutes a valid and binding obligation of WEC, is enforceable against the Company in accordance with its terms, (e) the Company has taken all necessary corporate action to authorize and reserve for issuance and to permit it to issue, upon exercise of the Company Option, and at all times from the date hereof through the expiration of the Company Option will have reserved, 13,387,772 authorized and unissued Company Shares, such amount being subject to adjustment as provided in *Section 11*, all of which, upon their issuance and delivery in accordance with the terms of this Agreement, will be validly issued, fully paid and nonassessable, (f) upon delivery of the Company Shares to WEC upon the exercise of the Company Option, WEC will acquire the Company Shares free and clear of all claims, liens, charges, encumbrances and security interests of any nature whatsoever, (g) except as described in Section 4.4(b) of the Merger Agreement, the execution and delivery of this Agreement by the Company does not, and the consummation by the Company of the transactions contemplated hereby will not, violate, conflict with, or result in a breach of any provision of, or constitute a default (with or without notice or lapse of time, or both) under, or result in the termination of, or accelerate the performance required by, or result in a right of termination, cancellation, or acceleration of any obligation or the loss of a material benefit under, or the creation of a lien, pledge, security interest or other encumbrance on assets (any such conflict, violation, default, right of termination, cancellation or acceleration, loss or creation, a "*Violation*") of the Company or any of its subsidiaries, pursuant to, (A) any provision of the Restated Articles of Incorporation or by-laws of the Company, (B) any provisions of any loan or credit agreement, note, mortgage, indenture, lease, Company benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license or (C) any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company or its properties or assets, which Violation, in the case of each of clauses (B) and (C), could reasonably be expected to have a material adverse effect on the Company and its subsidiaries taken as a whole, (h) except as described in Section 4.4(c) of the Merger Agreement or *Section 1(b)* or *Section 3* hereof, the execution and delivery of this Agreement by the Company does not, and the performance of this Agreement by the Company will not, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority, (i) none of the Company, any of its affiliates or anyone acting on its or their behalf has issued, sold or offered any security of the Company to any person under circumstances that would cause the issuance and sale of the Company Shares, as contemplated by this Agreement, to be subject to the registration requirements of the Securities Act as in effect on the date hereof and, assuming the representations of WEC contained in *Section 6(h)* are true and correct, the issuance, sale and delivery of the Company Shares hereunder would be exempt from the registration and prospectus delivery requirements of the Securities Act, as in effect on the

date hereof (and the Company shall not take any action which would cause the issuance, sale and delivery of the Company Shares hereunder not to be exempt from such requirements), and (j) any WEC Shares acquired pursuant to this Agreement will be acquired for the Company's own account, for investment purposes only and will not be acquired by the Company with a view to the public distribution thereof in violation of any applicable provision of the Securities Act.

6. *Representations and Warranties of WEC.* WEC represents and warrants to the Company that (a) WEC is a corporation duly organized, validly existing and in good standing under the laws of the State of Wisconsin and has the corporate power and authority to enter into this Agreement and to carry out its obligations hereunder, (b) the execution and delivery of this Agreement by WEC and the consummation by WEC of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of WEC and no other corporate proceedings on the part of WEC are necessary to authorize this Agreement or any of the transactions contemplated hereby, (c) this Agreement has been duly executed and delivered by WEC and constitutes a valid and binding obligation of WEC, and, assuming this Agreement constitutes a valid and binding obligation of the Company, is enforceable against WEC in accordance with its terms, (d) prior to any delivery of WEC Shares in consideration of the purchase of Company Shares pursuant hereto, WEC will have taken all necessary corporate action to authorize for issuance and to permit it to issue such WEC Shares, all of which, upon their issuance and delivery in accordance with the terms of this Agreement, will be validly issued, fully paid and nonassessable (subject to Section 180.0622(2)(b) of the WBCL, as judicially determined), and to render inapplicable to the receipt by the Company of the WEC Shares the provisions of the WBCL referred to in Section 5.15 of the Merger Agreement, (e) upon any delivery of such WEC Shares to the Company in consideration of the purchase of Company Shares pursuant hereto, the Company will acquire the WEC Shares free and clear of all claims, liens, charges, encumbrances and security interests of any nature whatsoever, (f) except as described in Section 5.4(b) of the Merger Agreement, the execution and delivery of this Agreement by WEC does not, and the consummation by WEC of the transactions contemplated hereby will not, violate, conflict with, or result in the breach of any provision of, or constitute a default (with or without notice or lapse of time, or both) under, or result in any Violation by WEC or any of its subsidiaries, pursuant to (A) any provision of the Restated Articles of Incorporation or By-laws of WEC, (B) any provisions of any loan or credit agreement, note, mortgage, indenture, lease, WEC benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license or (C) any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to WEC or its properties or assets, which Violation, in the case of each of clauses (B) and/or (C), would have a material adverse effect on WEC and its subsidiaries taken as a whole, (g) except as described in Section 5.4(c) of the Merger Agreement or *Section 1(b)* or *Section 3* hereof, the execution and delivery of this Agreement by WEC does not, and the consummation by WEC of the transactions contemplated hereby will not, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority and (h) any Company Shares acquired upon exercise of the Company Option will be acquired for WEC's own account, for investment purposes only and will not be, and the Company Option is not being, acquired by WEC with a view to the public distribution thereof in violation of any applicable provision of the Securities Act.

7. *Certain Repurchases.*

(a) *WEC Put.* At the request of WEC by written notice at any time during which the Company Option is exercisable pursuant to *Section 2* (the "*Repurchase Period*"), the Company (or any successor entity thereof) shall repurchase from WEC all or any portion of the Company Option, at the price set forth in subparagraph (i) below, or, at the request of WEC by written notice at any time prior to April 30, 1997 (provided that such date shall be extended to October 31, 1997 under the circumstances where the date after which either party may terminate the Merger Agreement pursuant to Section 9.1(b) of the Merger Agreement has been extended to October 31,

1997), the Company (or any successor entity thereof) shall repurchase from WEC all or any portion of the Company Shares purchased by WEC pursuant to the Company Option, at the price set forth in subparagraph (ii) below:

(i) the difference between the "*Market/Offer Price*" for shares of Company Common Stock as of the date WEC gives notice of its intent to exercise its rights under this *Section 7* (defined as the higher of (A) the price per share offered as of such date pursuant to any tender or exchange offer or other offer with respect to a Business Combination which was made prior to such date and not terminated or withdrawn as of such date (the "*Offer Price*") and (B) the Fair Market Value of Company Common Stock as of such date (the "*Market Price*")) and the Exercise Price, multiplied by the number of Company Shares purchasable pursuant to the Company Option (or portion thereof with respect to which WEC is exercising its rights under this *Section 7*), but only if the Market/Offer Price is greater than the Exercise Price;

(ii) the product of (x) the sum of (A) the Exercise Price paid by WEC per Company Share acquired pursuant to the Company Option and (B) the difference between the Market/Offer Price and the Exercise Price, but only if the Market/Offer Price is greater than the Exercise Price, and (*y*) the number of Company Shares so to be repurchased pursuant to this *Section 7*. For purposes of this clause (ii), the Offer Price shall be the highest price per share offered pursuant to a tender or exchange offer or other Business Combination offer during the Repurchase Period prior to the delivery by WEC of a notice of repurchase.

(b) *Redelivery of WEC Shares.* If WEC elected to purchase Company Shares pursuant to the exercise of the Company Option by the issuance and delivery of WEC Shares, then the Company shall, if so requested by WEC, in fulfillment of its obligation pursuant to clause (A) of *Section 7(a)(ii)(x)* (that is, with respect to the Exercise Price only and without limitation to its obligation to pay additional consideration under clause (B) of *Section 7(a)(ii)(x)*), redeliver the certificate for such WEC Shares to WEC, free and clear of all liens, claims, damages, charges and encumbrances of any kind or nature whatsoever; *provided, however,* that if less than all of the Company Shares purchased by WEC pursuant to the Company Option are to be repurchased pursuant to this *Section 7*, then WEC shall issue to the Company a new certificate representing those WEC Shares which are not due to be redelivered to WEC pursuant to this *Section 7* as they constituted payment of the Exercise Price for the Company Shares not being repurchased.

(c) *Payment and Redelivery of Company Option or Shares.* In the event WEC exercises its rights under this *Section 7*, the Company shall, within 10 business days thereafter, pay the required amount to WEC in immediately available funds and WEC shall surrender to the Company the Company Option or the certificates evidencing the Company Shares purchased by WEC pursuant thereto, and WEC shall warrant that it owns the Company Option or such shares and that the Company Option or such shares are then free and clear of all liens, claims, damages, charges and encumbrances of any kind or nature whatsoever.

(d) *WEC Call.* If WEC has elected to purchase Company Shares pursuant to the exercise of the Company Option by the issuance and delivery of WEC Shares, notwithstanding that WEC may no longer hold any such Company Shares or that WEC elects not to exercise its other rights under this *Section 7*, WEC may require, at any time or from time to time prior to April 30, 1997 (provided that such date shall be extended to October 31, 1997 under the circumstances where the date after which either party may terminate the Merger Agreement pursuant to Section 9.1(b) of the Merger Agreement has been extended to October 31, 1997), the Company to sell to WEC any such WEC Shares at the price attributed to such WEC Shares pursuant to *Section 4* plus interest at the rate of 6.5% per annum on such amount from the Closing Date relating to the exchange of such WEC Shares pursuant to *Section 4* to the closing date under this *Section 7(d)* less any dividends on such WEC Shares paid during such period or declared and payable to stockholders of record on a date during such period.

(e) *Repurchase Price Reduced at WEC's Option.* In the event the repurchase price specified in *Section 7(a)* would subject the repurchase of the Company Option or the Company Shares purchased by WEC pursuant to the Company Option to a vote of the shareholders of the Company pursuant to Section 302A.553, Subd. 3 of the MBCA, then WEC may, at its election, reduce the repurchase price to an amount which would permit such repurchase without the necessity for such a shareholder vote.

8. *Voting of Shares.* Following the date hereof and prior to the fifth anniversary of the date hereof (the "*Expiration Date*"), each party shall vote any shares of capital stock of the other party acquired by such party pursuant to this Agreement, including any WEC Shares issued pursuant to *Section 1(b)* ("*Restricted Shares*") or otherwise beneficially owned (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended (the "*Exchange Act*")) by such party on each matter submitted to a vote of shareholders of such other party for and against such matter in the same proportion as the vote of all other shareholders of such other party are voted (whether by proxy or otherwise) for and against such matter.

9. *Restrictions on Transfer.*

(a) *Restrictions on Transfer.* Prior to the Expiration Date, neither party shall, directly or indirectly, by operation of law or otherwise, sell, assign, pledge, or otherwise dispose of or transfer any Restricted Shares beneficially owned by such party, other than (i) pursuant to *Section 7*, or (ii) in accordance with *Section 9(b)* or *Section 10*.

(b) *Permitted Sales.* Following the termination of the Merger Agreement, a party shall be permitted to sell any Restricted Shares beneficially owned by it if such sale is made pursuant to a tender or exchange offer that has been approved or recommended, or otherwise determined to be fair to and in the best interests of the shareholders of the other party, by a majority of the members of the Board of Directors of such other party which majority shall include a majority of directors who were directors prior to the announcement of such tender or exchange offer.

10. *Registration Rights.* Following the termination of the Merger Agreement, each party hereto (a "*Designated Holder*") may by written notice (the "*Registration Notice*") to the other party (the "*Registrant*") request the Registrant to register under the Securities Act all or any part of the Restricted Shares beneficially owned by such Designated Holder (the "*Registrable Securities*") pursuant to a bona fide firm commitment underwritten public offering in which the Designated Holder and the underwriters shall effect as wide a distribution of such Registrable Securities as is reasonably practicable and shall use their best efforts to prevent any person (including any Group (as used in Rule 13d-5 under the Exchange Act)) and its affiliates from purchasing through such offering Restricted Shares representing more than 1% of the outstanding shares of common stock of the Registrant on a fully diluted basis (a "*Permitted Offering*"). The Registration Notice shall include a certificate executed by the Designated Holder and its proposed managing underwriter, which underwriter shall be an investment banking firm of nationally recognized standing (the "*Manager*"), stating that (i) they have a good faith intention to commence promptly a Permitted Offering and (ii) the Manager in good faith believes that, based on the then prevailing market conditions, it will be able to sell the Registrable Securities at a per share price equal to at least 80% of the then Fair Market Value of such shares. The Registrant (and/or any person designated by the Registrant) shall thereupon have the option exercisable by written notice delivered to the Designated Holder within 10 business days after the receipt of the Registration Notice, irrevocably to agree to purchase all or any part of the Registrable Securities proposed to be so sold for cash at a price (the "*Option Price*") equal to the product of (i) the number of Registrable Securities to be so purchased by the Registrant and (ii) the then Fair Market Value of such shares. Any such purchase of Registrable Securities by the Registrant (or its designee) hereunder shall take place at a closing to be held at the principal executive offices of the Registrant or at the offices of its counsel at any reasonable date and time designated by the

Registrant and/or such designee in such notice within 20 business days after delivery of such notice. Any payment for the shares to be purchased shall be made by delivery at the time of such closing of the Option Price in immediately available funds.

If the Registrant does not elect to exercise its option pursuant to this *Section 10* with respect to all Registrable Securities, it shall use its best efforts to effect, as promptly as practicable, the registration under the Securities Act of the unpurchased Registrable Securities proposed to be so sold; *provided, however,* that (i) neither party shall be entitled to more than an aggregate of two effective registration statements hereunder and (ii) the Registrant will not be required to file any such registration statement during any period of time (not to exceed 40 days after such request in the case of clause (A) below or 90 days in the case of clauses (B) and (C) below) when (A) the Registrant is in possession of material non-public information which it reasonably believes would be detrimental to be disclosed at such time and, in the opinion of counsel to the Registrant, such information would have to be disclosed if a registration statement were filed at that time; (B) the Registrant is required under the Securities Act to include audited financial statements for any period in such registration statement and such financial statements are not yet available for inclusion in such registration statement; or (C) the Registrant determines, in its reasonable judgment, that such registration would interfere with any financing, acquisition or other material transaction involving the Registrant or any of its affiliates. The Registrant shall use its reasonable best efforts to cause any Registrable Securities registered pursuant to this *Section 10* to be qualified for sale under the securities or Blue-Sky laws of such jurisdictions as the Designated Holder may reasonably request and shall continue such registration or qualification in effect in such jurisdiction; *provided, however,* that the Registrant shall not be required to qualify to do business in, or consent to general service of process in, any jurisdiction by reason of this provision.

The registration rights set forth in this *Section 10* are subject to the condition that the Designated Holder shall provide the Registrant with such information with respect to such holder's Registrable Securities, the plans for the distribution thereof, and such other information with respect to such holder as, in the reasonable judgment of counsel for the Registrant, is necessary to enable the Registrant to include in such registration statement all material facts required to be disclosed with respect to a registration thereunder.

A registration effected under this *Section 10* shall be effected at the Registrant's expense, except for underwriting discounts and commissions and the fees and the expenses of counsel to the Designated Holder, and the Registrant shall provide to the underwriters such documentation (including certificates, opinions of counsel and "comfort" letters from auditors) as are customary in connection with underwritten public offerings as such underwriters may reasonably require. In connection with any such registration, the parties agree (i) to indemnify each other and the underwriters in the customary manner, (ii) to enter into an underwriting agreement in form and substance customary for transactions of such type with the Manager and the other underwriters participating in such offering and (iii) to take all further actions which shall be reasonably necessary to effect such registration and sale (including, if the Manager deems it necessary, participating in road-show presentations).

The Registrant shall be entitled to include (at its expense) additional shares of its common stock in a registration effected pursuant to this *Section 10* only if and to the extent the Manager determines that such inclusion will not adversely affect the prospects for success of such offering.

11. *Adjustment Upon Changes in Capitalization.* Without limitation to any restriction on the Company contained in this Agreement or in the Merger Agreement, in the event of any change in Company Common Stock by reason of stock dividends, splitups, mergers (other than the Mergers), recapitalizations, combinations, exchange of shares or the like, the type and number of shares or securities subject to the Company Option, and the purchase price per share provided in *Section 1*, shall be adjusted appropriately to restore to WEC its rights hereunder,

including the right to purchase from the Company (or its successors) shares of Company Common Stock representing 19.9% of the outstanding Company Common Stock for the aggregate Exercise Price calculated as of the date of this Agreement as provided in *Section 1*.

12. *Restrictive Legends.* Each certificate representing shares of Company Common Stock issued to WEC hereunder, and WEC Shares, if any, delivered to the Company at a Closing, shall include a legend in substantially the following form:

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY BE REOFFERED OR SOLD ONLY IF SO REGISTERED OR IF AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE. SUCH SECURITIES ARE ALSO SUBJECT TO ADDITIONAL RESTRICTIONS ON TRANSFER AS SET FORTH IN THE STOCK OPTION AGREEMENT, DATED AS OF APRIL 28, 1995, A COPY OF WHICH MAY BE OBTAINED FROM THE ISSUER UPON REQUEST.

It is understood and agreed that: (i) the reference to the resale restrictions of the Securities Act in the above legend shall be removed by delivery of substitute certificate(s) without such reference if WEC or the Company, as the case may be, shall have delivered to the other party a copy of a letter from the staff of the Securities and Exchange Commission, or an opinion of counsel, in form and substance satisfactory to the other party, to the effect that such legend is not required for purposes of the Securities Act; (ii) the reference to the provisions to this Agreement in the above legend shall be removed by delivery of substitute certificate(s) without such reference if the shares have been sold or transferred in compliance with the provisions of this Agreement and under circumstances that do not require the retention of such reference; and (iii) the legend shall be removed in its entirety if the conditions in the preceding clauses (i) and (ii) are both satisfied. In addition, such certificates shall bear any other legend as may be required by law. Certificates representing shares sold in a registered public offering pursuant to *Section 10* shall not be required to bear the legend set forth in this *Section 12*.

13. *Binding Effect; No Assignment; No Third Party Beneficiaries.* This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Except as expressly provided for in this Agreement, neither this Agreement nor the rights or the obligations of either party hereto are assignable, except by operation of law, or with the written consent of the other party. Nothing contained in this Agreement, express or implied, is intended to confer upon any person other than the parties hereto and their respective permitted assigns any rights or remedies of any nature whatsoever by reason of this Agreement. Any Restricted Shares sold by a party in compliance with the provisions of *Section 10* shall, upon consummation of such sale, be free of the restrictions imposed with respect to such shares by this Agreement, unless and until such party shall repurchase or otherwise become the beneficial owner of such shares, and any transferee of such shares shall not be entitled to the registration rights of such party.

14. *Specific Performance.* The parties recognize and agree that if for any reason any of the provisions of this Agreement are not performed in accordance with their specific terms or are otherwise breached, immediate and irreparable harm or injury would be caused for which money damages would not be an adequate remedy. Accordingly, each party agrees that, in addition to other remedies, the other party shall be entitled to an injunction restraining any violation or threatened violation of the provisions of this Agreement. In the event that any action should be brought in equity to enforce the provisions of the Agreement, neither party will allege, and each party hereby waives the defense, that there is adequate remedy at law.

15. *Entire Agreement.* This Agreement, the WEC Stock Option Agreement, the Confidentiality Agreement and the Merger Agreement (including the exhibits and schedules thereto)

constitute the entire agreement among the parties with respect to the subject matter hereof and thereof and supersede all other prior agreements and understandings, both written and oral, among the parties or any of them with respect to the subject matter hereof and thereof.

16. *Further Assurances.* Each party will execute and deliver all such further documents and instruments and take all such further action as may be necessary in order to consummate the transactions contemplated hereby.

17. *Validity.* The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of the other provisions of this Agreement, which shall remain in full force and effect. In the event any court or other competent authority holds any provisions of this Agreement to be null, void or unenforceable, the parties hereto shall negotiate in good faith the execution and delivery of an amendment to this Agreement in order, as nearly as possible, to effectuate, to the extent permitted by law, the intent of the parties hereto with respect to such provision and the economic effects thereof. If for any reason any such court or regulatory agency determines that WEC is not permitted to acquire, or the Company is not permitted to repurchase pursuant to *Section 7*, the full number of shares of Company Common Stock provided in *Section 1* hereof (as the same may be adjusted), it is the express intention of the Company to allow WEC to acquire or to require the Company to repurchase such lesser number of shares as may be permissible, without any amendment or modification hereof. Each party agrees that, should any court or other competent authority hold any provision of this Agreement or part hereof to be null, void or unenforceable, or order any party to take any action inconsistent herewith, or not take any action required herein, the other party shall not be entitled to specific performance of such provision or part hereof or to any other remedy, including but not limited to money damages, for breach hereof or of any other provision of this Agreement or part hereof as the result of such holding or order.

18. *Notices.* All notices and other communications hereunder shall be in writing and shall be deemed given if (i) delivered personally, or (ii) sent by reputable overnight courier service, or (iii) telecopied (which is confirmed), or (iv) five days after being mailed by registered or certified mail (return receipt requested) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

A. If to WEC, to:

Wisconsin Energy Corporation
231 West Michigan Street
Milwaukee, WI 53201

Attention: Walter T. Woelfle, Esq.
Telephone: (414) 221-2765
Telecopy: (414) 221-2412

with a copy to:

Quarles & Brady
411 East Wisconsin Avenue
Milwaukee, WI 53202

Attention: Patrick M. Ryan, Esq.
Telephone: (414) 277-5181
Telecopy: (414) 277-5174

and a copy to:

Skadden, Arps, Slate, Meagher & Flom
919 Third Avenue
New York, NY 10022

Attention: Sheldon S. Adler, Esq.
Telephone: (212) 735-3000
Telecopy: (212) 735-2000

B. If to the Company, to:

Northern States Power Company
4 Nicollet Mall
Minneapolis, MN 55401

Attention: Gary R. Johnson, Esq.
Telephone: (612) 330-7623
Telecopy: (612) 330-6222

with a copy to:

Gardner, Carton & Douglas
Quaker Tower
321 North Clark Street, 31st Floor
Chicago, IL 60610

Attention: Peter Clarke, Esq.
Telephone: (312) 245-8685
Telecopy: (312) 644-3381

and a copy to:

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019

Attention: Barry A. Bryer, Esq.
Seth A. Kaplan, Esq.
Telephone: (212) 403-1000
Telecopy: (212) 403-2000

19. *Governing Law; Choice of Forum.* This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed entirely within such State and without regard to its choice of law principles. Each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any federal court located in the State of New York or any New York state court in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court other than a federal court sitting in the State of New York or a New York state court.

20. *Interpretation.* When a reference is made in this Agreement to a Section such reference shall be to a Section of this Agreement unless otherwise indicated. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". The descriptive headings herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

21. *Counterparts.* This Agreement may be executed in two counterparts, each of which shall be deemed to be an original, but both of which, taken together, shall constitute one and the same instrument.

22. *Expenses.* Except as otherwise expressly provided herein or in the Merger Agreement, all costs and expenses incurred in connection with the transactions contemplated by this Agreement shall be paid by the party incurring such expenses.

23. *Amendments; Waiver.* This Agreement may be amended by the parties hereto and the terms and conditions hereof may be waived only by an instrument in writing signed on behalf of each of the parties hereto, or, in the case of a waiver, by an instrument signed on behalf of the party waiving compliance.

24. *Extension of Time Periods.* The time periods for exercise of certain rights under *Sections 2, 6* and *7* shall be extended: (i) to the extent necessary to obtain all regulatory approvals for the exercise of such rights, and for the expiration of all statutory waiting periods; and (ii) to the extent necessary to avoid any liability under Section 16(b) of the Exchange Act by reason of such exercise.

25. *Replacement of Company Option.* Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Agreement, and (in the case of loss, theft or destruction) of reasonably satisfactory indemnification, and upon surrender and cancellation of this Agreement, if mutilated, the Company will execute and deliver a new Agreement of like tenor and date.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective duly authorized officers as of the date first above written.

WISCONSIN ENERGY CORPORATION

By: /s/ RICHARD A. ABDOO

Name: Richard A. Abdoo
Title: Chairman, President and Chief Executive Officer

NORTHERN STATES POWER COMPANY

By: /s/ JAMES J. HOWARD

Name: James J. Howard
Title: Chairman and Chief Executive Officer

ANNEX C

WEC STOCK OPTION AGREEMENT

STOCK OPTION AGREEMENT, dated as of April 28, 1995 by and among Northern States Power Company, a Minnesota corporation ("*NSP*"), and Wisconsin Energy Corporation, a Wisconsin corporation (the "*Company*").

WHEREAS, concurrently with the execution and delivery of this Agreement, (i) NSP, the Company, Northern Power Wisconsin Corp., a Wisconsin corporation ("*New NSP*") and WEC Sub Corp., a Wisconsin corporation ("*WEC Sub*"), are entering into an Agreement and Plan of Merger, dated as of the date hereof (the "*Merger Agreement*"), which provides, among other things, upon the terms and subject to the conditions thereof, for the merger of NSP with and into New NSP and the merger of WEC Sub with and into New NSP (the "*Mergers*"), and (ii) the Company and NSP are entering into a certain stock option agreement dated as of the date hereof whereby NSP grants to the Company an option with respect to certain shares of NSP's common stock on the terms and subject to the conditions set forth therein (the "*NSP Stock Option Agreement*"); and

WHEREAS, as a condition to NSP's willingness to enter into the Merger Agreement, NSP has requested that the Company agree, and the Company has so agreed, to grant to NSP an option with respect to certain shares of the Company's common stock, on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, to induce NSP to enter into the Merger Agreement, and in consideration of the mutual covenants and agreements set forth herein and in the Merger Agreement, the parties hereto agree as follows:

1. *Grant of Option.* The Company hereby grants NSP an irrevocable option (the "*Company Option*") to purchase up to 21,773,726 shares, subject to adjustment as provided in *Section 11* (such shares being referred to herein as the "*Company Shares*") of common stock, par value $.01 per share, of the Company (the "*Company Common Stock*") (being 19.9% of the number of shares of Company Common Stock outstanding on the date hereof) in the manner set forth below at a price (the "*Exercise Price*") per Company Share of $27.675 (which is equal to the Fair Market Value (as defined below) of a Company Share on the date hereof) payable, at NSP's option, (a) in cash or (b) subject to the Company's having obtained the approvals of any Governmental Authority required for the Company to acquire the NSP Shares (as defined below) from NSP, which approvals the Company shall use best efforts to obtain, in shares of common stock, par value $2.50 per share, of NSP ("*NSP Shares*") in either case in accordance with Section 4 hereof. Notwithstanding the foregoing, in no event shall the number of Company Shares for which the Company Option is exercisable exceed 19.9% of the number of issued and outstanding shares of Company Common Stock. As used herein, the "*Fair Market Value*" of any share shall be the average of the daily closing sales price for such share on the New York Stock Exchange (the "*NYSE*") during the 10 NYSE trading days prior to the fifth NYSE trading day preceding the date such Fair Market Value is to be determined. Capitalized terms used herein but not defined herein shall have the meanings set forth in the Merger Agreement.

2. *Exercise of Option.* The Company Option may be exercised by NSP, in whole or in part, at any time or from time to time after the Merger Agreement becomes terminable by NSP under circumstances which could entitle NSP to termination fees under either Section 9.3(a) of the Merger Agreement (provided that the events specified in Section 9.3(a)(ii)(x) of the Merger Agreement shall have occurred, although the events specified in Section 9.3(a)(ii)(y) thereof need not have occurred) or Section 9.3(b) of the Merger Agreement (regardless of whether the Merger Agreement is actually terminated or whether there occurs a closing of any Business Combination involving a Target Party or a closing by which a Target Party becomes a subsidiary), any such event by which the Merger Agreement becomes so terminable by NSP being referred to herein as a "*Trigger Event.*" The Company shall notify NSP promptly in writing of the occurrence of any

Trigger Event, it being understood that the giving of such notice by the Company shall not be a condition to the right of NSP to exercise the Company Option. In the event NSP wishes to exercise the Company Option, NSP shall deliver to the Company a written notice (an "*Exercise Notice*") specifying the total number of Company Shares it wishes to purchase. Each closing of a purchase of Company Shares (a "*Closing*") shall occur at a place, on a date and at a time designated by NSP in an Exercise Notice delivered at least two business days prior to the date of the Closing. The Company Option shall terminate upon the earlier of: (i) the Effective Time; (ii) the termination of the Merger Agreement pursuant to Section 9.1 thereof (other than upon or during the continuance of a Trigger Event); or (iii) 180 days following any termination of the Merger Agreement upon or during the continuance of a Trigger Event (or if, at the expiration of such 180 day period the Company Option cannot be exercised by reason of any applicable judgment, decree, order, law or regulation, 10 business days after such impediment to exercise shall have been removed or shall have become final and not subject to appeal, but in no event under this clause (iii) later than October 31, 1997). Notwithstanding the foregoing, the Company Option may not be exercised if NSP is in material breach of any of its material representations or warranties, or in material breach of any of its covenants or agreements, contained in this Agreement or in the Merger Agreement. Upon the giving by NSP to the Company of the Exercise Notice and the tender of the applicable aggregate Exercise Price, NSP shall be deemed to be the holder of record of the Company Shares issuable upon such exercise, notwithstanding that the stock transfer books of the Company shall then be closed or that certificates representing such Company Shares shall not then be actually delivered to NSP.

3. *Conditions to Closing.* The obligation of the Company to issue the Company Shares to NSP hereunder is subject to the conditions, which (other than the conditions described in clauses (i), (iii) and (iv) below) may be waived by the Company in its sole discretion, that (i) all waiting periods, if any, under the HSR Act, applicable to the issuance of the Company Shares hereunder shall have expired or have been terminated; (ii) the Company Shares, and any NSP Shares which are issued in payment of the Exercise Price, shall have been approved for listing on the NYSE upon official notice of issuance; (iii) all consents, approvals, orders or authorizations of, or registrations, declarations or filings with, any federal, state or local administrative agency or commission or other federal state or local Governmental Authority, if any, required in connection with the issuance of the Company Shares hereunder shall have been obtained or made, as the case may be, including, without limitation, the approval of the SEC under Section 10 of the 1935 Act of the acquisition of the Company Shares by NSP and, if applicable, the acquisition by the Company of the NSP Shares constituting the Exercise Price hereunder; and (iv) no preliminary or permanent injunction or other order by any court of competent jurisdiction prohibiting or otherwise restraining such issuance shall be in effect.

4. *Closing.* At any Closing, (a) the Company will deliver to NSP or its designee a single certificate in definitive form representing the number of the Company Shares designated by NSP in its Exercise Notice, such certificate to be registered in the name of NSP and to bear the legend set forth in Section 12, and (b) NSP will deliver to the Company the aggregate price for the Company Shares so designated and being purchased by (i) wire transfer of immediately available funds or certified check or bank check or (ii) subject to the condition in Section 1(b), a certificate or certificates representing the number of NSP Shares being issued by NSP in consideration thereof, as the case may be. For the purposes of this Agreement, the number of NSP Shares to be delivered to the Company shall be equal to the quotient obtained by dividing (i) the product of (x) the number of Company Shares with respect to which the Company Option is being exercised and (y) the Exercise Price by (ii) the Fair Market Value of the NSP Shares on the date immediately preceding the date the Exercise Notice is delivered to the Company. The Company shall pay all expenses, and any and all United States federal, state and local taxes and other charges that may be payable in connection with the preparation, issue and delivery of stock certificates under this Section 4 in the name of NSP or its designee.

5. *Representations and Warranties of the Company.* The Company represents and warrants to NSP that (a) except as set forth in Section 5.1 of the WEC Disclosure Schedule, the Company is a corporation duly organized, validly existing and in active status under the laws of the State of Wisconsin and has the corporate power and authority to enter into this Agreement and, subject to obtaining the applicable approval of shareholders of the Company for the repurchase of Company Shares pursuant to *Section 7(a)* below under circumstances where Section 180.1134(1) of the WBCL or Article III D.(1) of the Company's Restated Articles of Incorporation ("*Restated Articles*") would be applicable (the "*Buyback Approvals*") and subject to any regulatory approvals referred to herein and to the provisions of Section 180.0640 of the WBCL, if applicable, to carry out its obligations hereunder, (b) the execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company and no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or any of the transactions contemplated hereby (other than any required Buyback Approvals), (c) such corporate action (including the approval of the Board of Directors of the Company) is intended to render inapplicable to this Agreement and the Merger Agreement and the transactions contemplated hereby and thereby, the provisions of the WBCL referred to in Section 5.15 of the Merger Agreement, (d) this Agreement has been duly executed and delivered by the Company, constitutes a valid and binding obligation of the Company and, assuming this Agreement constitutes a valid and binding obligation of NSP, is enforceable against the Company in accordance with its terms, (e) the Company has taken all necessary corporate action to authorize and reserve for issuance and to permit it to issue, upon exercise of the Company Option, and at all times from the date hereof through the expiration of the Company Option will have reserved, 21,773,726 authorized and unissued Company Shares, such amount being subject to adjustment as provided in *Section 11*, all of which, upon their issuance and delivery in accordance with the terms of this Agreement, will be validly issued, fully paid and nonassessable (subject to Section 180.0622(2)(b) of the WBCL, as judicially interpreted), (f) upon delivery of the Company Shares to NSP upon the exercise of the Company Option, NSP will acquire the Company Shares free and clear of all claims, liens, charges, encumbrances and security interests of any nature whatsoever, (g) except as described in Section 5.4(b) of the Merger Agreement, the execution and delivery of this Agreement by the Company does not, and the consummation by the Company of the transactions contemplated hereby will not, violate, conflict with, or result in a breach of any provision of, or constitute a default (with or without notice or lapse of time, or both) under, or result in the termination of, or accelerate the performance required by, or result in a right of termination, cancellation, or acceleration of any obligation or the loss of a material benefit under, or the creation of a lien, pledge, security interest or other encumbrance on assets (any such conflict, violation, default, right of termination, cancellation or acceleration, loss or creation, a "*Violation*") of the Company or any of its subsidiaries, pursuant to, (A) any provision of the Restated Articles or by-laws of the Company, (B) any provisions of any loan or credit agreement, note, mortgage, indenture, lease, Company benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license or (C) any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company or its properties or assets, which Violation, in the case of each of clauses (B) and (C), could reasonably be expected to have a material adverse effect on the Company and its subsidiaries taken as a whole, (h) except as described in Section 5.4(c) of the Merger Agreement or *Section 1(b) or Section 3* hereof, the execution and delivery of this Agreement by the Company does not, and the performance of this Agreement by the Company will not, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority, (i) none of the Company, any of its affiliates or anyone acting on its or their behalf has issued, sold or offered any security of the Company to any person under circumstances that would cause the issuance and sale of the Company Shares, as contemplated by this Agreement, to be subject to the registration requirements of the Securities Act as in effect on the date hereof and, assuming the representations of NSP contained in *Section 6(h)* are true and correct, the issuance, sale and delivery of the

Company Shares hereunder would be exempt from the registration and prospectus delivery requirements of the Securities Act, as in effect on the date hereof (and the Company shall not take any action which would cause the issuance, sale and delivery of the Company Shares hereunder not to be exempt from such requirements), and (j) any NSP Shares acquired pursuant to this Agreement will be acquired for the Company's own account, for investment purposes only and will not be acquired by the Company with a view to the public distribution thereof in violation of any applicable provision of the Securities Act.

6. *Representations and Warranties of NSP.* NSP represents and warrants to the Company that (a) NSP is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota and has the corporate power and authority to enter into this Agreement and to carry out its obligations hereunder, (b) the execution and delivery of this Agreement by NSP and the consummation by NSP of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of NSP and no other corporate proceedings on the part of NSP are necessary to authorize this Agreement or any of the transactions contemplated hereby, (c) this Agreement has been duly executed and delivered by NSP and constitutes a valid and binding obligation of NSP, and, assuming this Agreement constitutes a valid and binding obligation of the Company, is enforceable against NSP in accordance with its terms, (d) prior to any delivery of NSP Shares in consideration of the purchase of Company Shares pursuant hereto, NSP will have taken all necessary corporate action to authorize for issuance and to permit it to issue such NSP Shares, all of which, upon their issuance and delivery in accordance with the terms of this Agreement, will be validly issued, fully paid and nonassessable, and to render inapplicable to the receipt by the Company of the NSP Shares the provisions of the MBCA referred to in Section 4.15 of the Merger Agreement, (e) upon any delivery of such NSP Shares to the Company in consideration of the purchase of Company Shares pursuant hereto, the Company will acquire the NSP Shares free and clear of all claims, liens, charges, encumbrances and security interests of any nature whatsoever, (f) except as described in Section 4.4(b) of the Merger Agreement, the execution and delivery of this Agreement by NSP does not, and the consummation by NSP of the transactions contemplated hereby will not, violate, conflict with, or result in the breach of any provision of, or constitute a default (with or without notice or lapse of time, or both) under, or result in any Violation by NSP or any of its subsidiaries, pursuant to (A) any provision of the Restated Articles of Incorporation or By-laws of NSP, (B) any provisions of any loan or credit agreement, note, mortgage, indenture, lease, NSP benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license or (C) any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to NSP or its properties or assets, which Violation, in the case of each of clauses (B) and/or (C), would have a material adverse effect on NSP and its subsidiaries taken as a whole, (g) except as described in Section 4.4(c) of the Merger Agreement or *Section 1(b) or Section 3* hereof, the execution and delivery of this Agreement by NSP does not, and the consummation by NSP of the transactions contemplated hereby will not, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority and (h) any Company Shares acquired upon exercise of the Company Option will be acquired for NSP's own account, for investment purposes only and will not be, and the Company Option is not being, acquired by NSP with a view to the public distribution thereof in violation of any applicable provision of the Securities Act.

7. *Certain Repurchases.*

(a) *NSP Put.* At the request of NSP by written notice at any time during which the Company Option is exercisable pursuant to *Section 2* (the "*Repurchase Period*"), the Company (or any successor entity thereof) shall repurchase from NSP all or any portion of the Company Option, at the price set forth in subparagraph (i) below, or, at the request of NSP by written notice at any time prior to April 30, 1997 (provided that such date shall be extended to October 31, 1997 under the circumstances where the date after which either party may terminate the Merger Agreement pursuant to Section 9.1(b) of the Merger Agreement has been extended to October 31,

1997), the Company (or any successor entity thereof) shall repurchase from NSP all or any portion of the Company Shares purchased by NSP pursuant to the Company Option, at the price set forth in subparagraph (ii) below:

(i) the difference between the *"Market/Offer Price"* for shares of Company Common Stock as of the date NSP gives notice of its intent to exercise its rights under this *Section 7* (defined as the higher of (A) the price per share offered as of such date pursuant to any tender or exchange offer or other offer with respect to a Business Combination which was made prior to such date and not terminated or withdrawn as of such date (the *"Offer Price"*) and (B) the Fair Market Value of Company Common Stock as of such date (the *"Market Price"*)) and the Exercise Price, multiplied by the number of Company Shares purchasable pursuant to the Company Option (or portion thereof with respect to which NSP is exercising its rights under this *Section 7*), but only if the Market/Offer Price is greater than the Exercise Price;

(ii) the product of (x) the sum of (A) the Exercise Price paid by NSP per Company Share acquired pursuant to the Company Option and (B) the difference between the Market/Offer Price and the Exercise Price, but only if the Market/Offer Price is greater than the Exercise Price, and (y) the number of Company Shares so to be repurchased pursuant to this *Section 7*. For purposes of this clause (ii), the Offer Price shall be the highest price per share offered pursuant to a tender or exchange offer or other Business Combination offer during the Repurchase Period prior to the delivery by NSP of a notice of repurchase.

(b) *Redelivery of NSP Shares.* If NSP elected to purchase Company Shares pursuant to the exercise of the Company Option by the issuance and delivery of NSP Shares, then the Company shall, if so requested by NSP, in fulfillment of its obligation pursuant to clause (A) of *Section 7(a)(ii)(x)* (that is, with respect to the Exercise Price only and without limitation to its obligation to pay additional consideration under clause (B) of *Section 7(a)(ii)(x)*), redeliver the certificate for such NSP Shares to NSP, free and clear of all liens, claims, damages, charges and encumbrances of any kind or nature whatsoever; *provided, however,* that if less than all of the Company Shares purchased by NSP pursuant to the Company Option are to be repurchased pursuant to this *Section 7*, then NSP shall issue to the Company a new certificate representing those NSP Shares which are not due to be redelivered to NSP pursuant to this *Section 7* as they constituted payment of the Exercise Price for the Company Shares not being repurchased.

(c) *Payment and Redelivery of Company Option or Shares.* In the event NSP exercises its rights under this *Section 7*, the Company shall, within 10 business days thereafter, pay the required amount to NSP in immediately available funds and NSP shall surrender to the Company the Company Option or the certificates evidencing the Company Shares purchased by NSP pursuant thereto, and NSP shall warrant that it owns the Company Option or such shares and that the Company Option or such shares are then free and clear of all liens, claims, damages, charges and encumbrances of any kind or nature whatsoever.

(d) *NSP Call.* If NSP has elected to purchase Company Shares pursuant to the exercise of the Company Option by the issuance and delivery of NSP Shares, notwithstanding that NSP may no longer hold any such Company Shares or that NSP elects not to exercise its other rights under this *Section 7*, NSP may require, at any time or from time to time prior to April 30, 1997 (provided that such date shall be extended to October 31, 1997 under the circumstances where the date after which either party may terminate the Merger Agreement pursuant to Section 9.1(b) of the Merger Agreement has been extended to October 31, 1997), the Company to sell to NSP any such NSP Shares at the price attributed to such NSP Shares pursuant to *Section 4* plus interest at the rate of 6.5% per annum on such amount from the Closing Date relating to the exchange of such NSP Shares pursuant to *Section 4* to the closing date under this *Section 7(d)* less any dividends on such NSP Shares paid during such period or declared and payable to stockholders of record on a date during such period.

(e) *Repurchase Price Reduced at NSP's Option.* In the event the repurchase price specified in *Section 7(a)* would subject the purchase of the Company Option or the Company Shares

Registrant and/or such designee in such notice within 20 business days after delivery of such notice. Any payment for the shares to be purchased shall be made by delivery at the time of such closing of the Option Price in immediately available funds

purchased by NSP pursuant to the Company Option to a vote of the shareholders of the Company pursuant to Section 180.1134 of the WBCL or Section D(1) of Article III of the Company's Restated Articles of Incorporation, then NSP may, at its election, reduce the repurchase price to an amount which would permit such repurchase without the necessity for such a shareholder vote.

8. *Voting of Shares.* Following the date hereof and prior to the fifth anniversary of the date hereof (the "*Expiration Date*"), each party shall vote any shares of capital stock of the other party acquired by such party pursuant to this Agreement, including any NSP Shares issued pursuant to *Section 1(b)* ("*Restricted Shares*") or otherwise beneficially owned (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended (the "*Exchange Act*")) by such party on each matter submitted to a vote of shareholders of such other party for and against such matter in the same proportion as the vote of all other shareholders of such other party are voted (whether by proxy or otherwise) for and against such matter.

9. *Restrictions on Transfer.*

(a) *Restrictions on Transfer.* Prior to the Expiration Date, neither party shall, directly or indirectly, by operation of law or otherwise, sell, assign, pledge, or otherwise dispose of or transfer any Restricted Shares beneficially owned by such party, other than (i) pursuant to *Section 7*, or (ii) in accordance with *Section 9(b)* or *Section 10*.

(b) *Permitted Sales.* Following the termination of the Merger Agreement, a party shall be permitted to sell any Restricted Shares beneficially owned by it if such sale is made pursuant to a tender or exchange offer that has been approved or recommended, or otherwise determined to be fair to and in the best interests of the shareholders of the other party, by a majority of the members of the Board of Directors of such other party which majority shall include a majority of directors who were directors prior to the announcement of such tender or exchange offer.

10. *Registration Rights.* Following the termination of the Merger Agreement, each party hereto (a "*Designated Holder*") may by written notice (the "*Registration Notice*") to the other party (the "*Registrant*") request the Registrant to register under the Securities Act all or any part of the Restricted Shares beneficially owned by such Designated Holder (the "*Registrable Securities*") pursuant to a bona fide firm commitment underwritten public offering in which the Designated Holder and the underwriters shall effect as wide a distribution of such Registrable Securities as is reasonably practicable and shall use their best efforts to prevent any person (including any Group (as used in Rule 13d-5 under the Exchange Act)) and its affiliates from purchasing through such offering Restricted Shares representing more than 1% of the outstanding shares of common stock of the Registrant on a fully diluted basis (a "*Permitted Offering*"). The Registration Notice shall include a certificate executed by the Designated Holder and its proposed managing underwriter, which underwriter shall be an investment banking firm of nationally recognized standing (the "*Manager*"), stating that (i) they have a good faith intention to commence promptly a Permitted Offering and (ii) the Manager in good faith believes that, based on the then prevailing market conditions, it will be able to sell the Registrable Securities at a per share price equal to at least 80% of the then Fair Market Value of such shares. The Registrant (and/or any person designated by the Registrant) shall thereupon have the option exercisable by written notice delivered to the Designated Holder within 10 business days after the receipt of the Registration Notice, irrevocably to agree to purchase all or any part of the Registrable Securities proposed to be so sold for cash at a price (the "*Option Price*") equal to the product of (i) the number of Registrable Securities to be so purchased by the Registrant and (ii) the then Fair Market Value of such shares. Any such purchase of Registrable Securities by the Registrant (or its designee) hereunder shall take place at a closing to be held at the principal executive offices of the Registrant or at the offices of its counsel at any reasonable date and time designated by the

including the right to purchase from the Company (or its successors) shares of Common Stock representing 19.9% of the outstanding C

Registrant and/or such designee in such notice within 20 business days after delivery of such notice. Any payment for the shares to be purchased shall be made by delivery at the time of such closing of the Option Price in immediately available funds.

If the Registrant does not elect to exercise its option pursuant to this *Section 10* with respect to all Registrable Securities, it shall use its best efforts to effect, as promptly as practicable, the registration under the Securities Act of the unpurchased Registrable Securities proposed to be so sold; *provided, however*; that (i) neither party shall be entitled to more than an aggregate of two effective registration statements hereunder and (ii) the Registrant will not be required to file any such registration statement during any period of time (not to exceed 40 days after such request in the case of clause (A) below or 90 days in the case of clauses (B) and (C) below) when (A) the Registrant is in possession of material non-public information which it reasonably believes would be detrimental to be disclosed at such time and, in the opinion of counsel to the Registrant, such information would have to be disclosed if a registration statement were filed at that time; (B) the Registrant is required under the Securities Act to include audited financial statements for any period in such registration statement and such financial statements are not yet available for inclusion in such registration statement; or (C) the Registrant determines, in its reasonable judgment, that such registration would interfere with any financing, acquisition or other material transaction involving the Registrant or any of its affiliates. The Registrant shall use its reasonable best efforts to cause any Registrable Securities registered pursuant to this *Section 10* to be qualified for sale under the securities or Blue-Sky laws of such jurisdictions as the Designated Holder may reasonably request and shall continue such registration or qualification in effect in such jurisdiction; *provided, however*, that the Registrant shall not be required to qualify to do business in, or consent to general service of process in, any jurisdiction by reason of this provision.

The registration rights set forth in this *Section 10* are subject to the condition that the Designated Holder shall provide the Registrant with such information with respect to such holder's Registrable Securities, the plans for the distribution thereof, and such other information with respect to such holder as, in the reasonable judgment of counsel for the Registrant, is necessary to enable the Registrant to include in such registration statement all material facts required to be disclosed with respect to a registration thereunder.

A registration effected under this *Section 10* shall be effected at the Registrant's expense, except for underwriting discounts and commissions and the fees and the expenses of counsel to the Designated Holder, and the Registrant shall provide to the underwriters such documentation (including certificates, opinions of counsel and "comfort" letters from auditors) as are customary in connection with underwritten public offerings as such underwriters may reasonably require. In connection with any such registration, the parties agree (i) to indemnify each other and the underwriters in the customary manner, (ii) to enter into an underwriting agreement in form and substance customary for transactions of such type with the Manager and the other underwriters participating in such offering and (iii) to take all further actions which shall be reasonably necessary to effect such registration and sale (including, if the Manager deems it necessary, participating in road-show presentations).

The Registrant shall be entitled to include (at its expense) additional shares of its common stock in a registration effected pursuant to this *Section 10* only if and to the extent the Manager determines that such inclusion will not adversely affect the prospects for success of such offering.

11. *Adjustment Upon Changes in Capitalization.* Without limitation to any restriction on the Company contained in this Agreement or in the Merger Agreement, in the event of any change in Company Common Stock by reason of stock dividends, splitups, mergers (other than the Mergers), recapitalizations, combinations, exchange of shares or the like, the type and number of shares or securities subject to the Company Option, and the purchase price per share provided in *Section 1*, shall be adjusted appropriately to restore to NSP its rights hereunder,

including the right to purchase from the Company (or its successors) shares of Company Common Stock representing 19.9% of the outstanding Company Common Stock for the aggregate Exercise Price calculated as of the date of this Agreement as provided in *Section 1*.

12. *Restrictive Legends.* Each certificate representing shares of Company Common Stock issued to NSP hereunder, and NSP Shares, if any, delivered to the Company at a Closing, shall include a legend in substantially the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY BE REOFFERED OR SOLD ONLY IF SO REGISTERED OR IF AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE. SUCH SECURITIES ARE ALSO SUBJECT TO ADDITIONAL RESTRICTIONS ON TRANSFER AS SET FORTH IN THE STOCK OPTION AGREEMENT, DATED AS OF APRIL 28, 1995, A COPY OF WHICH MAY BE OBTAINED FROM THE ISSUER UPON REQUEST.

It is understood and agreed that: (i) the reference to the resale restrictions of the Securities Act in the above legend shall be removed by delivery of substitute certificate(s) without such reference if NSP or the Company, as the case may be, shall have delivered to the other party a copy of a letter from the staff of the Securities and Exchange Commission, or an opinion of counsel, in form and substance satisfactory to the other party, to the effect that such legend is not required for purposes of the Securities Act; (ii) the reference to the provisions to this Agreement in the above legend shall be removed by delivery of substitute certificate(s) without such reference if the shares have been sold or transferred in compliance with the provisions of this Agreement and under circumstances that do not require the retention of such reference; and (iii) the legend shall be removed in its entirety if the conditions in the preceding clauses (i) and (ii) are both satisfied. In addition, such certificates shall bear any other legend as may be required by law. Certificates representing shares sold in a registered public offering pursuant to *Section 10* shall not be required to bear the legend set forth in this *Section 12*.

13. *Binding Effect; No Assignment; No Third Party Beneficiaries.* This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Except as expressly provided for in this Agreement, neither this Agreement nor the rights or the obligations of either party hereto are assignable, except by operation of law, or with the written consent of the other party. Nothing contained in this Agreement, express or implied, is intended to confer upon any person other than the parties hereto and their respective permitted assigns any rights or remedies of any nature whatsoever by reason of this Agreement. Any Restricted Shares sold by a party in compliance with the provisions of *Section 10* shall, upon consummation of such sale, be free of the restrictions imposed with respect to such shares by this Agreement, unless and until such party shall repurchase or otherwise become the beneficial owner of such shares, and any transferee of such shares shall not be entitled to the registration rights of such party.

14. *Specific Performance.* The parties recognize and agree that if for any reason any of the provisions of this Agreement are not performed in accordance with their specific terms or are otherwise breached, immediate and irreparable harm or injury would be caused for which money damages would not be an adequate remedy. Accordingly, each party agrees that, in addition to other remedies, the other party shall be entitled to an injunction restraining any violation or threatened violation of the provisions of this Agreement. In the event that any action should be brought in equity to enforce the provisions of the Agreement, neither party will allege, and each party hereby waives the defense, that there is adequate remedy at law.

15. *Entire Agreement.* This Agreement, the NSP Stock Option Agreement, the Confidentiality Agreement and the Merger Agreement (including the exhibits and schedules thereto)

constitute the entire agreement among the parties with respect to the subject matter hereof and thereof and supersede all other prior agreements and understandings, both written and oral, among the parties or any of them with respect to the subject matter hereof and thereof.

16. *Further Assurances.* Each party will execute and deliver all such further documents and instruments and take all such further action as may be necessary in order to consummate the transactions contemplated hereby.

17. *Validity.* The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of the other provisions of this Agreement, which shall remain in full force and effect. In the event any court or other competent authority holds any provisions of this Agreement to be null, void or unenforceable, the parties hereto shall negotiate in good faith the execution and delivery of an amendment to this Agreement in order, as nearly as possible, to effectuate, to the extent permitted by law, the intent of the parties hereto with respect to such provision and the economic effects thereof. If for any reason any such court or regulatory agency determines that NSP is not permitted to acquire, or the Company is not permitted to repurchase pursuant to *Section 7*, the full number of shares of Company Common Stock provided in *Section 1* hereof (as the same may be adjusted), it is the express intention of the Company to allow NSP to acquire or to require the Company to repurchase such lesser number of shares as may be permissible, without any amendment or modification hereof. Each party agrees that, should any court or other competent authority hold any provision of this Agreement or part hereof to be null, void or unenforceable, or order any party to take any action inconsistent herewith, or not take any action required herein, the other party shall not be entitled to specific performance of such provision or part hereof or to any other remedy, including but not limited to money damages, for breach hereof or of any other provision of this Agreement or part hereof as the result of such holding or order.

18. *Notices.* All notices and other communications hereunder shall be in writing and shall be deemed given if (i) delivered personally, or (ii) sent by reputable overnight courier service, or (iii) telecopied (which is confirmed), or (iv) five days after being mailed by registered or certified mail (return receipt requested) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

A. If to NSP, to:

Northern States Power Company
4 Nicollet Mall
Minneapolis, MN 55401

Attention: Gary R. Johnson, Esq.
Telephone: (612) 330-7623
Telecopy: (612) 330-6222

with a copy to:

Gardner, Carton & Douglas
Quaker Tower
321 North Clark Street, 31st Floor
Chicago, IL 60610

Attention: Peter Clarke, Esq.
Telephone: (312) 245-8685
Telecopy: (312) 644-3381

ANNEX D

EMPLOYMENT AGREEMENT

THIS AGREEMENT by and between Primergy Corporation, a Wisconsin corporation (the "Company"), and James J. Howard (the "Executive"), dated as of the day of , 199 .

WITNESSETH THAT

WHEREAS, Northern States Power Company, a Minnesota corporation ("NSP") and Wisconsin Energy Corporation, a Wisconsin corporation ("WEC") have entered into an Amended and Restated Agreement and Plan of Merger, dated as of April 28, 1995, as amended and restated as of July 26, 1995 (the "Merger Agreement"), whereby the NSP and WEC organizations will merge, with the Company as the surviving parent; and

WHEREAS, NSP and WEC wish to provide for the orderly succession of management of the Company following the Effective Time (as defined in the Merger Agreement); and

WHEREAS, NSP and WEC further wish to provide for the employment by the Company of the Executive, and the Executive wishes to serve the Company, in the capacities and on the terms and conditions set forth in this Agreement;

NOW, THEREFORE, it is hereby agreed as follows:

1. *Employment Period.* The Company shall employ the Executive, and the Executive shall serve the Company, on the terms and conditions set forth in this Agreement, for an initial period (the "Initial Period") and a further period (the "Secondary Period") (the Initial Period and the Secondary Period are hereinafter referred to in the aggregate as the "Employment Period"). The Initial Period shall begin at the Effective Time (as defined in the Merger Agreement), and end on the later of (i) the date of the annual meeting of shareholders of the Company that occurs in 1998, and (ii) the last day of the sixteenth full month following the Effective Time. The Secondary Period shall begin at the end of the Initial Period and end on the later of July 1, 2000 and the second anniversary of the last day of the Initial Period.

2. *Position and Duties.* (a) During the Initial Period, the Executive shall serve as Chairman of the Board of Directors of the Company (the "Board") and Chief Executive Officer of the Company, and during the Secondary Period, the Executive shall serve as Chairman of the Board, in each case as an employee of the Company and with such duties and responsibilities as are customarily assigned to such positions, and such other duties and responsibilities not inconsistent therewith as may from time to time be assigned to him by the Board. The Executive shall be a member of the Board on the first day of the Employment Period, and the Board shall propose the Executive for re-election to the Board throughout the Employment Period.

(b) During the Initial Period: (i) as is customary, the Chief Operating Officer of the Company shall report to the Executive in his capacity as Chief Executive Officer; (ii) the subsidiary of the Company that provides administrative and other services to the Company's utility company subsidiaries (the "Service Company"), as well as the Company's subsidiary NRG Energy, Inc. ("NRG"), and their respective chief executive officers, shall report to the Executive; and (iii) the subsidiaries of the Company (other than the Service Company and NRG) that are operating companies, and their respective chief executive officers, shall report to the Chief Operating Officer of the Company.

(c) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive shall devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive under this Agreement, use the Executive's reasonable best efforts to carry out such responsibilities faithfully and efficiently. It shall

Board, in its sole discretion, consents to the

not be considered a violation of the foregoing for the Executive to serve on corporate, industry, civic or charitable boards or committees, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement.

(d) The Executive's services shall be performed primarily at the Company's headquarters in Minneapolis, Minnesota.

3. *Compensation.* (a) *Base Salary.* The Executive's compensation during the Employment Period shall be determined by the Board upon the recommendation of the Compensation Committee of the Board, subject to the next sentence and Section 3(b). During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary") of not less than his annual base salary from NSP as in effect immediately before the Effective Time. The Annual Base Salary shall be payable in accordance with the Company's regular payroll practice for its senior executives, as in effect from time to time. During the Employment Period, the Annual Base Salary shall be reviewed for possible increase at least annually. Any increase in the Annual Base Salary shall not limit or reduce any other obligation of the Company under this Agreement. The Annual Base Salary shall not be reduced after any such increase, and the term "Annual Base Salary" shall thereafter refer to the Annual Base Salary as so increased.

(b) *Incentive Compensation.* During the Employment Period, the Executive shall participate in short-term incentive compensation plans and long-term incentive compensation plans (the latter to consist of plans offering stock options, restricted stock and other long-term incentive compensation) providing him with the opportunity to earn, on a year-by-year basis, short-term and long-term incentive compensation (the "Incentive Compensation") at least equal to the amounts that he had the opportunity to earn under the comparable plans of NSP as in effect immediately before the Effective Time.

(c) *Other Benefits.* (i) *Supplemental Executive Retirement Plan.* During the Employment Period, the Executive shall participate in a supplemental executive retirement plan ("SERP") such that the aggregate value of the retirement benefits that he and his spouse will receive at the end of the Employment Period under all defined benefit plans of the Company and its affiliates (whether qualified or not) will be not less than the aggregate value of the benefits he would have received had he continued, through the end of the Employment Period, to accrue the supplemental retirement benefits provided by the terms of his employment agreement with NSP as in effect immediately before the Effective Time, and to participate in the NSP Deferred Compensation Plan, the NSP Excess Benefit Plan, and the NSP Pension Plan, all as in effect immediately before the Effective Time; *provided*, that notwithstanding the terms of the foregoing agreement and plans, in determining benefits under the SERP, benefits pursuant to the foregoing plans shall be computed as if they were based upon the Executive's average compensation for the three consecutive years in which his compensation was the highest. In addition, the SERP shall offer the Executive the option to receive his benefits thereunder in a single lump sum payment on terms and conditions no less favorable than those in effect with respect to the supplemental retirement benefits of Richard A. Abdoo pursuant to the letter agreement dated November 21, 1994 regarding supplemental benefits from WEC to Richard A. Abdoo or otherwise, as in effect immediately before the Effective Time; provided, that such lump sum payment option shall be subject to the consent of the Board in its sole discretion. Finally, if the Executive dies while employed, or deemed pursuant to paragraph (a) of Section 5 to be employed, by the Company, his surviving spouse (or, if he has no surviving spouse, his estate) shall be entitled to receive a SERP benefit equal in value to the SERP benefit that the Executive would have received under the SERP if he had retired (rather than died) on the date of his death and received a lump sum SERP benefit; *provided*, that in the case where the Executive has no surviving spouse, the benefit pursuant to this sentence shall be paid in a lump sum; and *provided*, further, that in the case where the Executive has a surviving spouse, the benefit pursuant to this sentence shall be paid in the form of a single life annuity for her life unless she elects a single lump sum payment and the

Board, in its sole discretion, consents to the lump sum payment. The Company shall maintain and fund one or more grantor trusts (the "Trusts"), or such other funding mechanism as may be satisfactory to the Executive, which shall comply with the following sentence and which shall at all times be adequate to provide for the payment of all benefits under the SERP to the Executive and his spouse, as well as any elective deferrals of Annual Cash Incentives by the Executive (with such adequacy being determined by an independent consulting firm acceptable to the Executive, whose fees shall be paid by the Company). The assets of the Trusts (if any) shall be subject to the claims of the Company's creditors, and the Trusts (if any) shall in all other respects be designed to prevent the Executive and his spouse from being taxed on the assets or income thereof, except as and when such assets or income are paid to them.

(ii) During the Employment Period, the Company shall provide the Executive with life insurance coverage (the "Life Insurance Coverage") providing a death benefit to such beneficiary or beneficiaries as the Executive may designate of not less than three times his Annual Base Salary. Following the Employment Period, the Company shall provide the Executive with a life insurance benefit at least equal to the benefit that would have been provided to the Executive after termination of employment under the Northern States Power Company Officer Survivor Benefit Plan as in effect immediately before the Effective Time.

(iii) In addition, and without limiting the generality of the foregoing, during the Employment Period and thereafter: (A) the Executive shall be entitled to participate in all applicable incentive, savings and retirement plans, practices, policies and programs of the Company to the same extent as other senior executives (or, where applicable, retired senior executives) of the Company; and (B) the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in, and shall receive all benefits under, all applicable welfare benefit plans, practices, policies and programs provided by the Company, other than severance plans, practices, policies and programs but including, without limitation, medical, prescription, dental, disability, salary continuance, employee life insurance, group life insurance, accidental death and travel accident insurance plans and programs, to the same extent as other senior executives (or, where applicable, retired senior executives) of the Company.

(d) *Fringe Benefits.* During the Employment Period, the Executive shall be entitled to receive fringe benefits on the same terms and conditions as he received such fringe benefits from NSP immediately before the Effective Time or, if more favorable, the terms and conditions that fringe benefits were available to Richard A. Abdoo from WEC immediately before the Effective Time.

4. *Termination of Employment.* (a) *Death or Disability.* The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. The Company shall be entitled to terminate the Executive's employment because of the Executive's Disability during the Employment Period. "Disability" means that (i) the Executive has been unable, for a period of 180 consecutive business days, to perform the Executive's duties under this Agreement, as a result of physical or mental illness or injury, and (ii) a physician selected by the Company or its insurers, and acceptable to the Executive or the Executive's legal representative, has determined that the Executive's incapacity is total and permanent. A termination of the Executive's employment by the Company for Disability shall be communicated to the Executive by written notice, and shall be effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), unless the Executive returns to full-time performance of the Executive's duties before the Disability Effective Date.

(b) *By the Company.* (i) The Company may terminate the Executive's employment during the Employment Period for Cause or without Cause. "Cause" means:

A. the willful and continued failure of the Executive substantially to perform the Executive's duties under this Agreement (other than as a result of physical or mental illness or injury), after the Board of the Company delivers to the Executive a written

demand for substantial performance that specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties; or

B. illegal conduct or gross misconduct by the Executive, in either case that is willful and results in material and demonstrable damage to the business or reputation of the Company.

No act or failure to act on the part of the Executive shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act or failure to act that is based upon authority given pursuant to a resolution duly adopted by the Board, or the advice of counsel for the Company, shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company.

(ii) A termination of the Executive's employment for Cause shall be effected in accordance with the following procedures. The Company shall give the Executive written notice ("Notice of Termination for Cause") of its intention to terminate the Executive's employment for Cause, setting forth in reasonable detail the specific conduct of the Executive that it considers to constitute Cause and the specific provision(s) of this Agreement on which it relies, and stating the date, time and place of the Special Board Meeting for Cause. The "Special Board Meeting for Cause" means a meeting of the Board called and held specifically for the purpose of considering the Executive's termination for Cause, that takes place not less than ten and not more than twenty business days after the Executive receives the Notice of Termination for Cause. The Executive shall be given an opportunity, together with counsel, to be heard at the Special Board Meeting for Cause. The Executive's termination for Cause shall be effective when and if a resolution is duly adopted at the Special Board Meeting for Cause by affirmative vote of a majority of the entire membership of the Board, excluding employee directors, stating that in the good faith opinion of the Board, the Executive is guilty of the conduct described in the Notice of Termination for Cause, and that conduct constitutes Cause under this Agreement.

(iii) A termination of the Executive's employment without Cause shall be effected in accordance with the following procedures. The Company shall give the Executive written notice ("Notice of Termination without Cause") of its intention to terminate the Executive's employment without Cause, stating the date, time and place of the Special Board Meeting without Cause. The "Special Board Meeting without Cause" means a meeting of the Board called and held specifically for the purpose of considering the Executive's termination without Cause, that takes place not less than ten and not more than twenty business days after the Executive receives the Notice of Termination without Cause. The Executive shall be given an opportunity, together with counsel, to be heard at the Special Board Meeting without Cause. The Executive's termination without Cause shall be effective when and if a resolution is duly adopted at the Special Board Meeting without Cause by affirmative vote of a majority of the entire membership of the Board, excluding employee directors, stating that the Executive is terminated without Cause.

(c) *Good Reason.* (i) The Executive may terminate employment for Good Reason or without Good Reason. "Good Reason" means:

A. the assignment to the Executive of any duties inconsistent in any respect with paragraph (a) of Section 2 of this Agreement, or any other action by the Company that results in a diminution in the Executive's position, authority, duties or responsibilities, other than an isolated, insubstantial and inadvertent action that is not taken in bad faith and is remedied by the Company promptly after receipt of notice thereof from the Executive;

B. any failure by the Company to comply with any provision of Section 3 of this Agreement, other than an isolated, insubstantial and inadvertent failure that is not taken in bad faith and is remedied by the Company promptly after receipt of notice thereof from the Executive;

C. any requirement by the Company that the Executive's services be rendered primarily at a location or locations other than that provided for in paragraph (d) of Section 2 of this Agreement;

D. any purported termination of the Executive's employment by the Company for a reason or in a manner not expressly permitted by this Agreement;

E. any failure by the Company to comply with paragraph (c) of Section 11 of this Agreement; or

F. any other substantial breach of this Agreement by the Company that either is not taken in good faith or is not remedied by the Company promptly after receipt of notice thereof from the Executive.

(ii) A termination of employment by the Executive for Good Reason shall be effectuated by giving the Company written notice ("Notice of Termination for Good Reason") of the termination, setting forth in reasonable detail the specific conduct of the Company that constitutes Good Reason and the specific provision(s) of this Agreement on which the Executive relies. A termination of employment by the Executive for Good Reason shall be effective on the fifth business day following the date when the Notice of Termination for Good Reason is given, unless the notice sets forth a later date (which date shall in no event be later than 30 days after the notice is given).

(iii) A termination of the Executive's employment by the Executive without Good Reason shall be effected by giving the Company written notice of the termination.

(d) *No Waiver.* The failure to set forth any fact or circumstance in a Notice of Termination for Cause, a Notice of Termination without Cause or a Notice of Termination for Good Reason shall not constitute a waiver of the right to assert, and shall not preclude the party giving notice from asserting, such fact or circumstance in an attempt to enforce any right under or provision of this Agreement.

(e) *Date of Termination.* The "Date of Termination" means the date of the Executive's death, the Disability Effective Date, the date on which the termination of the Executive's employment by the Company for Cause or without Cause or by the Executive for Good Reason is effective, or the date on which the Executive gives the Company notice of a termination of employment without Good Reason, as the case may be.

5. *Obligations of the Company upon Termination.*

(a) *By the Company Other Than for Cause or Disability; By the Executive for Good Reason.* If, during the Employment Period, the Company terminates the Executive's employment, other than for Cause or Disability, or the Executive terminates employment for Good Reason, the Company shall continue to provide the Executive with the compensation and benefits set forth in paragraphs (a), (b) and (c) of Section 3 as if he had remained employed by the Company pursuant to this Agreement through the end of the Employment Period and then retire (at which time he will be treated as eligible for all retiree welfare benefits and other benefits provided to retired senior executives, as set forth in Section 3(c)(ii) and (iii)); *provided*, that the Incentive Compensation for such period shall be equal to the maximum Incentive Compensation that the Executive would have been eligible to earn for such period; *provided*, further, that in lieu of stock options, restricted stock and other stock-based awards, the Executive shall be paid cash equal to the fair market value (without regard to any restrictions) of the stock options, restricted stock and other stock-based awards that would otherwise have been granted; *provided*, further, that to the extent

any benefits described in paragraph (c) of Section 3 cannot be provided pursuant to the plan or program maintained by the Company for its executives, the Company shall provide such benefits outside such plan or program at no additional cost (including without limitation tax cost) to the Executive and his family; and *provided*, finally, that during any period when the Executive is eligible to receive benefits of the type described in clause (B) of paragraph (c)(iii) of Section 3 under another employer-provided plan, the benefits provided by the Company under this paragraph (a) of Section 5 may be made secondary to those provided under such other plan. In addition to the foregoing, any restricted stock outstanding on the Date of Termination shall be fully vested as of the Date of Termination and all options outstanding on the Date of Termination shall be fully vested and exercisable and shall remain in effect and exercisable through the end of their respective terms, without regard to the termination of the Executive's employment. The payments and benefits provided pursuant to this paragraph (a) of Section 5 are intended as liquidated damages for a termination of the Executive's employment by the Company other than for Cause or Disability or for the actions of the Company leading to a termination of the Executive's employment by the Executive for Good Reason, and shall be the sole and exclusive remedy therefor.

(b) *Death or Disability.* If the Executive's employment is terminated by reason of the Executive's death or Disability during the Employment Period, the Company shall pay to the Executive or, in the case of the Executive's death, to the Executive's designated beneficiaries (or, if there is no such beneficiary, to the Executive's estate or legal representative), in a lump sum in cash within 30 days after the Date of Termination, the sum of the following amounts (the "Accrued Obligations"): (1) any portion of the Executive's Annual Base Salary through the Date of Termination that has not yet been paid; (2) an amount representing the Incentive Compensation for the period that includes the Date of Termination, computed by assuming that the amount of all such Incentive Compensation would be equal to the maximum amount of such Incentive Compensation that the Executive would have been eligible to earn for such period, and multiplying that amount by a fraction, the numerator of which is the number of days in such period through the Date of Termination, and the denominator of which is the total number of days in the relevant period; (3) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) that has not yet been paid; and (4) any accrued but unpaid Incentive Compensation and vacation pay; and the Company shall have no further obligations under this Agreement, except as specified in Section 6 below.

(c) *By the Company for Cause; By the Executive Other than for Good Reason.* If the Executive's employment is terminated by the Company for Cause during the Employment Period, the Company shall pay the Executive the Annual Base Salary through the Date of Termination and the amount of any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon), in each case to the extent not yet paid, and the Company shall have no further obligations under this Agreement, except as specified in Section 6 below. If the Executive voluntarily terminates employment during the Employment Period, other than for Good Reason, the Company shall pay the Accrued Obligations to the Executive in a lump sum in cash within 30 days of the Date of Termination, and the Company shall have no further obligations under this Agreement, except as specified in Section 6 below.

6. *Non-exclusivity of Rights.* Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies for which the Executive may qualify, nor, subject to paragraph (f) of Section 12, shall anything in this Agreement limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Vested benefits and other amounts that the Executive is otherwise entitled to receive under the Incentive Compensation, the SERP, the Life Insurance Coverage, or any other plan, policy, practice or program of, or any contract or agreement with, the Company or any

of its affiliated companies on or after the Date of Termination shall be payable in accordance with the terms of each such plan, policy, practice, program, contract or agreement, as the case may be, except as explicitly modified by this Agreement.

7. *Full Settlement.* The Company's obligation to make the payments provided for in, and otherwise to perform its obligations under, this Agreement shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as specifically provided in paragraph (a) of Section 5 with respect to benefits described in clause (B) of paragraph (c)(iii) of Section 3, such amounts shall not be reduced, regardless of whether the Executive obtains other employment.

8. *Confidential Information.* The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies and their respective businesses that the Executive obtains during the Executive's employment by the Company or any of its affiliated companies and that is not public knowledge (other than as a result of the Executive's violation of this Section 8) ("Confidential Information"). The Executive shall not communicate, divulge or disseminate Confidential Information at any time during or after the Executive's employment with the Company, except with the prior written consent of the Company or as otherwise required by law or legal process. In no event shall any asserted violation of the provisions of this Section 8 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

9. *Certain Additional Payments by the Company.* (a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 9) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of paragraph (c) of this Section 9, all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a certified public accounting firm designated by the Executive (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the change of control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding

upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to paragraph (c) of this Section 9 and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this paragraph (c) of Section 9, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided*, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and *provided*, further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to paragraph (c) of this Section 9, the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of paragraph (c) of this Section 9) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to paragraph (c) of this Section 9, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

10. *Attorneys' Fees.* The Company agrees to pay, as incurred, to the fullest extent permitted by law, all legal fees and expenses that the Executive may reasonably incur as a result of any contest (regardless of the outcome) by the Company, the Executive or others of the validity or enforceability of or liability under, or otherwise involving, any provision of this Agreement, together with interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code.

11. *Successors.* (a) This Agreement is personal to the Executive and, without the prior written consent of the Company, shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean both the Company as defined above and any such successor that assumes and agrees to perform this Agreement, by operation of law or otherwise.

12. *Miscellaneous.* (a) This Agreement shall be governed by, and construed in accordance with, the laws of the State of Minnesota, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified except by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

If to the Company:

Attention: General Counsel

or to such other address as either party furnishes to the other in writing in accordance with this paragraph (b) of Section 12. Notices and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. If any provision of this Agreement shall be held invalid or unenforceable in part, the remaining portion of such provision, together with all other provisions of this Agreement, shall remain valid and enforceable and continue in full force and effect to the fullest extent consistent with law.

(d) Notwithstanding any other provision of this Agreement, the Company may withhold from amounts payable under this Agreement all federal, state, local and foreign taxes that are required to be withheld by applicable laws or regulations.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision of, or to assert any right under, this Agreement (including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to paragraph (c) of Section 4 of this Agreement) shall not be deemed to be a waiver of such provision or right or of any other provision of or right under this Agreement.

(f) The Executive and the Company acknowledge that this Agreement supersedes any other agreement between them concerning the subject matter hereof.

(g) The rights and benefits of the Executive under this Agreement may not be anticipated, assigned, alienated or subject to attachment, garnishment, levy, execution or other legal or equitable process except as required by law. Any attempt by the Executive to anticipate, alienate, assign, sell, transfer, pledge, encumber or charge the same shall be void. Payments hereunder shall not be considered assets of the Executive in the event of insolvency or bankruptcy.

(h) This Agreement may be executed in several counterparts, each of which shall be deemed an original, and said counterparts shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization of its Board of Directors, the Company has caused this Agreement to be executed in its name on its behalf, all as of the day and year first above written.

_____

James J. Howard

PRIMERGY CORPORATION

By _____

EMPLOYMENT AGREEMENT

THIS AGREEMENT by and between Primergy Corporation, a Wisconsin corporation (the "Company"), and Richard A. Abdoo (the "Executive"), dated as of the day of , 199 .

WITNESSETH THAT

WHEREAS, Northern States Power Company, a Minnesota corporation ("NSP") and Wisconsin Energy Corporation, a Wisconsin corporation ("WEC") have entered into an Amended and Restated Agreement and Plan of Merger dated as of April 28, 1995, as amended and restated as of July 26, 1995 (the "Merger Agreement"), whereby the NSP and WEC organizations will merge, with the Company as the surviving parent; and

WHEREAS, NSP and WEC wish to provide for the orderly succession of management of the Company following the Effective Time (as defined in the Merger Agreement); and

WHEREAS, NSP and WEC further wish to provide for the employment by the Company of the Executive, and the Executive wishes to serve the Company, in the capacities and on the terms and conditions set forth in this Agreement;

NOW, THEREFORE, it is hereby agreed as follows:

1. *Employment Period.* The Company shall employ the Executive, and the Executive shall serve the Company, on the terms and conditions set forth in this Agreement, for an initial period (the "Initial Period") and a further period (the "Secondary Period") (the Initial Period and the Secondary Period are hereinafter referred to in the aggregate as the "Employment Period"). The Initial Period shall begin at the Effective Time (as defined in the Merger Agreement), and end on the earlier of: (i) such date as James J. Howard ceases to be Chief Executive Officer of the Company for any reason; or (ii) the later of (a) the date of the annual meeting of shareholders of the Company that occurs in 1998, and (b) the last day of the sixteenth full month following the Effective Time. The Secondary Period shall begin at the end of the Initial Period and end on that date which is the later of: (x) January 31, 2002; or (y) five (5) years after the first day of the Initial Period; except that on the third, fourth and fifth anniversaries of the first day of the Employment Period, the Secondary Period shall be extended by one year unless either party gives written notice to the other, at least 60 days before the Secondary Period would otherwise be so extended, that the Secondary Period shall not be so extended.

2. *Position and Duties.* (a) During the Initial Period, the Executive shall serve as Vice Chairman of the Board of Directors of the Company (the "Board"), President and Chief Operating Officer of the Company; during the Secondary Period, the Executive shall serve as Vice Chairman of the Board, President and Chief Executive Officer of the Company; and on and after any date during the Employment Period as of which James J. Howard ceases to be Chairman of the Board, the Executive shall serve as the Chairman of the Board; in each case with such duties and responsibilities as are customarily assigned to such positions, and such other duties and responsibilities not inconsistent therewith as may from time to time be assigned to him by the Board. The Executive shall be a member of the Board on the first day of the Employment Period, and the Board shall propose the Executive for re-election to the Board throughout the Employment Period.

(b) During the Initial Period: (i) as is customary, the Executive shall report to the Chief Executive Officer of the Company; (ii) the subsidiary of the Company that provides administrative and other services to the Company's utility company subsidiaries (the "Service Company"), as well as the Company's subsidiary NRG Energy Inc. ("NRG"), and their respective chief executive officers, shall report to the Chief Executive Officer of the Company; and (iii) all other subsidiaries of the Company (other than the Service Company and NRG), and their respective chief executive officers, shall report to the Executive.

(collectively, the "WEC Plans"), as in effect immediately before the Effective Time. The Company shall maintain and fund one or more grantor trusts (the "Trusts"), the assets of which shall at all times be adequate to provide for the payment of all benefits under the SERP to the Executive and his spouse, as well as any elective deferrals of Incentive Compensation

(c) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive shall devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive under this Agreement, use the Executive's reasonable best efforts to carry out such responsibilities faithfully and efficiently. It shall not be considered a violation of the foregoing for the Executive to serve on corporate, industry, civic or charitable boards or committees, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement.

(d) The Company's headquarters shall be located in Minneapolis, Minnesota and the Executive shall reside in the general area of the Twin Cities of Minneapolis and St. Paul, Minnesota. The Company shall assure that the Executive suffers no financial loss on the sale of Executive's Milwaukee residence (including the value of loss of tax deferrals which may occur if Executive does not reinvest all of the proceeds of the sale of such residence in accordance with the provisions of Section 1034 of the Internal Revenue Code of 1986, as amended and a gross-up payment for the additional income taxes payable by the Executive as a result of such payment). The Company shall reimburse the Executive for all of his moving expenses incurred in relocating Executive's residence to the Twin Cities area. During the period from the first day of the Employment Period through the earlier of the end of the last day of the sixth full calendar month of the Employment Period and the date of such relocation, the Company shall provide the Executive with an apartment in the Twin Cities area and reimburse him for reasonable expenses while in the Twin Cities area and travel between the Twin Cities area and his principal residence, provided in each case that the Executive complies with the policies, practices and procedures of the Company for submission of expense reports, receipts, or similar documentation of such expenses.

3. *Compensation.* (a) *Base Salary.* The Executive's compensation during the Employment Period shall be determined by the Board upon the recommendation of the Compensation Committee of the Board, subject to the next sentence and Section 3(b). During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary") of not less than his annual base salary from WEC as in effect immediately before the Effective Time. The Annual Base Salary shall be payable in accordance with the Company's regular payroll practice for its senior executives, as in effect from time to time. During the Employment Period, the Annual Base Salary shall be reviewed for possible increase at least annually. Any increase in the Annual Base Salary shall not limit or reduce any other obligation of the Company under this Agreement. The Annual Base Salary shall not be reduced after any such increase, and the term "Annual Base Salary" shall thereafter refer to the Annual Base Salary as so increased.

(b) *Incentive Compensation.* During the Employment Period, the Executive shall participate in short-term incentive compensation plans and long-term incentive compensation plans (the latter to consist of plans offering stock options, restricted stock and other long-term incentive compensation) providing him with the opportunity to earn, on a year-by-year basis, short-term and long-term incentive compensation (the "Incentive Compensation") at least equal to the amounts that he had the opportunity to earn under the comparable plans of WEC as in effect immediately before the Effective Time.

(c) *Other Benefits.* (i) *Supplemental Executive Retirement Plan.* During the Employment Period, the Executive shall participate in a supplemental executive retirement plan ("SERP") such that the aggregate value of the retirement benefits that he and his spouse will receive at the end of the Employment Period under all defined benefit plans of the Company and its affiliates (whether qualified or not) will be not less than the benefits he would have received had he continued, through the end of the Employment Period, to participate in the WEC Defined Benefit Pension Plan, Supplemental Executive Retirement Plan A, Supplemental Executive Retirement Plan B, the special supplemental benefits letter dated November 21, 1994 as amended on April 26, 1995 between WEC and the Executive, and Executive Deferred Compensation Plan

B. illegal conduct or gross misconduct by the Executive, in either case that is willful and results in material and demonstrable damage to the

(collectively, the "WEC Plans"), as in effect immediately before the Effective Time. The Company shall maintain and fund one or more grantor trusts (the "Trusts"), the assets of which shall at all times be adequate to provide for the payment of all benefits under the SERP to the Executive and his spouse, as well as any elective deferrals of Incentive Compensation by the Executive (with such adequacy being determined by an independent consulting firm acceptable to the Executive, whose fees shall be paid by the Company). The assets of the Trusts shall be subject to the claims of the Company's creditors, and the Trusts shall in all other respects be designed to prevent the Executive and his spouse from being taxed on the assets or income thereof, except as and when such assets or income are paid to them.

(ii) During the Employment Period, the Company shall provide the Executive with life insurance coverage (the "Life Insurance Coverage") providing a death benefit to such beneficiary or beneficiaries as the Executive may designate of not less than three times his Annual Base Salary.

(iii) In addition, and without limiting the generality of the foregoing, during the Employment Period and thereafter: (A) the Executive shall be entitled to participate in all applicable incentive, savings and retirement plans, practices, policies and programs of the Company to the same extent as other senior executives (or, where applicable, retired senior executives) of the Company, and (B) the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in, and shall receive all benefits under, all applicable welfare benefit plans, practices, policies and programs provided by the Company, other than severance plans, practices, policies and programs but including, without limitation, medical, prescription, dental, disability, salary continuance, employee life insurance, group life insurance, accidental death and travel accident insurance plans and programs, to the same extent as other senior executives (or, where applicable, retired senior executives) of the Company.

(d) *Fringe Benefits.* During the Employment Period, the Executive shall be entitled to receive fringe benefits on the same terms and conditions as he received such fringe benefits from WEC immediately before the Effective Time.

4. *Termination of Employment.* (a) *Death or Disability.* The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. The Company shall be entitled to terminate the Executive's employment because of the Executive's Disability during the Employment Period. "Disability" means that (i) the Executive has been unable, for a period of 180 consecutive business days, to perform the Executive's duties under this Agreement, as a result of physical or mental illness or injury, and (ii) a physician selected by the Company or its insurers, and acceptable to the Executive or the Executive's legal representative, has determined that the Executive's incapacity is total and permanent. A termination of the Executive's employment by the Company for Disability shall be communicated to the Executive by written notice, and shall be effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), unless the Executive returns to full-time performance of the Executive's duties before the Disability Effective Date.

(b) *By the Company.* (i) The Company may terminate the Executive's employment during the Employment Period for Cause or without Cause. "Cause" means:

A. the willful and continued failure of Executive substantially to perform the Executive's duties under this Agreement (other than as a result of physical or mental illness or injury), after the Board of the Company delivers to the Executive a written demand for substantial performance that specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties; or

B. illegal conduct or gross misconduct by the Executive, in either case that is willful and results in material and demonstrable damage to the business or reputation of the Company.

No act or failure to act on the part of the Executive shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act or failure to act that is based upon authority given pursuant to a resolution duly adopted by the Board, or the advice of counsel for the Company, shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company.

(ii) A termination of the Executive's employment for Cause shall be effected in accordance with the following procedures. The Company shall give the Executive written notice ("Notice of Termination for Cause") of its intention to terminate the Executive's employment for Cause, setting forth in reasonable detail the specific conduct of the Executive that it considers to constitute Cause and the specific provision(s) of this Agreement on which it relies, and stating the date, time and place of the Special Board Meeting for Cause. The "Special Board Meeting for Cause" means a meeting of the Board called and held specifically for the purpose of considering the Executive's termination for Cause, that takes place not less than ten and not more than twenty business days after the Executive receives the Notice of Termination for Cause. The Executive shall be given an opportunity, together with counsel, to be heard at the Special Board Meeting for Cause. The Executive's termination for Cause shall be effective when and if a resolution is duly adopted at the Special Board Meeting for Cause by affirmative vote of a majority of the entire membership of the Board, excluding employee directors, stating that in the good faith opinion of the Board, the Executive is guilty of the conduct described in the Notice of Termination for Cause, and that conduct constitutes Cause under this Agreement.

(iii) A termination of the Executive's employment without Cause shall be effected in accordance with the following procedures. The Company shall give the Executive written notice ("Notice of Termination without Cause") of its intention to terminate the Executive's employment without Cause, stating the date, time and place of the Special Board Meeting without Cause. The "Special Board Meeting without Cause" means a meeting of the Board called and held specifically for the purpose of considering the Executive's termination without Cause, that takes place not less than ten and not more than twenty business days after the Executive receives the Notice of Termination without Cause. The Executive shall be given an opportunity, together with counsel, to be heard at the Special Board Meeting without Cause. The Executive's termination without Cause shall be effective when and if a resolution is duly adopted at the Special Board Meeting without Cause by affirmative vote of a majority of the entire membership of the Board, excluding employee directors, stating that the Executive is terminated without Cause.

(c) *Good Reason.* (i) The Executive may terminate employment for Good Reason or without Good Reason. "Good Reason" means:

A. the assignment to the Executive of any duties inconsistent in any respect with paragraph (a) of Section 2 of this Agreement, or any other action by the Company that results in a diminution in the Executive's position, authority, duties or responsibilities, other than an isolated, insubstantial and inadvertent action that is not taken in bad faith and is remedied by the Company promptly after receipt of notice thereof from the Executive;

B. any failure by the Company to comply with any provision of Section 3 of this Agreement, other than an isolated, insubstantial and inadvertent failure that is not taken in bad faith and is remedied by the Company promptly after receipt of notice thereof from the Executive;

C. any requirement by the Company that the Executive's services be rendered primarily at a location or locations other than that provided for in paragraph (d) of Section 2 of this Agreement;

D. any purported termination of the Executive's employment by the Company for a reason or in a manner not expressly permitted by this Agreement;

E. any failure by the Company to comply with paragraph (c) of Section 11 of this Agreement; or

F. any other substantial breach of this Agreement by the Company that either is not taken in good faith or is not remedied by the Company promptly after receipt of notice thereof from the Executive.

(ii) A termination of employment by the Executive for Good Reason shall be effectuated by giving the Company written notice ("Notice of Termination for Good Reason") of the termination, setting forth in reasonable detail the specific conduct of the Company that constitutes Good Reason and the specific provision(s) of this Agreement on which the Executive relies. A termination of employment by the Executive for Good Reason shall be effective on the fifth business day following the date when the Notice of Termination for Good Reason is given, unless the notice sets forth a later date (which date shall in no event be later than 30 days after the notice is given).

(iii) A termination of the Executive's employment by the Executive without Good Reason shall be effected by giving the Company written notice of the termination.

(d) *No Waiver.* The failure to set forth any fact or circumstance in a Notice of Termination for Cause, a Notice of Termination without Cause or a Notice of Termination for Good Reason shall not constitute a waiver of the right to assert, and shall not preclude the party giving notice from asserting, such fact or circumstance in an attempt to enforce any right under or provision of this Agreement.

(e) *Date of Termination.* The "Date of Termination" means the date of the Executive's death, the Disability Effective Date, the date on which the termination of the Executive's employment by the Company for Cause or without Cause or by the Executive for Good Reason is effective, or the date on which the Executive gives the Company notice of a termination of employment without Good Reason, as the case may be.

5. *Obligations of the Company upon Termination.* (a) *Other Than for Cause, Death or Disability; Good Reason.* If, during the Employment Period, the Company terminates the Executive's employment, other than for Cause or Disability, or the Executive terminates employment for Good Reason, the Company shall continue to provide the Executive with the compensation and benefits set forth in paragraphs (a), (b) and (c) of Section 3 as if he had remained employed by the Company pursuant to this Agreement through the end of the Employment Period and then retired [at which time he will be treated as eligible for all retiree welfare benefits and other benefits provided to retired senior executives, as set forth in Section 3(c)(iii)]; provided, that the Incentive Compensation for such period shall be equal to the maximum Incentive Compensation that the Executive would have been eligible to earn for such period; provided, further that in lieu of stock options, restricted stock and other stock-based awards, the Executive shall be paid cash equal to the fair market value (without regard to any restrictions) of the stock options, restricted stock and other stock-based awards that would otherwise have been granted; and provided, further, that to the extent any benefits described in paragraph (c) of Section 3 cannot be provided pursuant to the plan or program maintained by the Company for its executives, the Company shall provide such benefits outside such plan or program at no additional cost (including without limitation tax cost) to the Executive and his family; and provided, finally, that during any period when the Executive is eligible to receive benefits of the type described in clause (B) of paragraph (c)(iii) of Section 3 under another employer-provided plan, the benefits provided by the Company

under this paragraph (a) of Section 5 may be made secondary to those provided under such other plan. In addition to the foregoing, any restricted stock outstanding on the Date of Termination shall be fully vested as of the Date of Termination and all options outstanding on the Date of Termination shall be fully vested and exercisable and shall remain in effect and exercisable through the end of their respective terms, without regard to the termination of the Executive's employment. The payments and benefits provided pursuant to this paragraph (a) of Section 5 are intended as liquidated damages for a termination of the Executive's employment by the Company other than for Cause or Disability or for the actions of the Company leading to a termination of the Executive's employment by the Executive for Good Reason, and shall be the sole and exclusive remedy therefor.

(b) *Death and Disability.* If the Executive's employment is terminated by reason of the Executive's death or Disability during the Employment Period, the Company shall pay to the Executive or, in the case of the Executive's death, to the Executive's designated beneficiaries (or, if there is no such beneficiary, to the Executive's estate or legal representative), in a lump sum in cash within 30 days after the Date of Termination, the sum of the following amounts (the "Accrued Obligations"): (1) any portion of the Executive's Annual Base Salary through the Date of Termination that has not yet been paid; (2) an amount representing the Incentive Compensation for the period that includes the Date of Termination, computed by assuming that the amount of all such Incentive Compensation would be equal to the maximum amount of such Incentive Compensation that the Executive would have been eligible to earn for such period, and multiplying that amount by a fraction, the numerator of which is the number of days in such period through the Date of Termination, and the denominator of which is the total number of days in the relevant period; (3) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) that has not yet been paid; and (4) any accrued but unpaid Incentive Compensation and vacation pay; and the Company shall have no further obligations under this Agreement, except as specified in Section 6 below.

(c) *By the Company for Cause; By the Executive Other than for Good Reason.* If the Executive's employment is terminated by the Company for Cause during the Employment Period, the Company shall pay the Executive the Annual Base Salary through the Date of Termination and the amount of any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon), in each case to the extent not yet paid, and the Company shall have no further obligations under this Agreement, except as specified in Section 6 below. If the Executive voluntarily terminates employment during the Employment Period, other than for Good Reason, the Company shall pay the Accrued Obligations to the Executive in a lump sum in cash within 30 days of the Date of Termination, and the Company shall have no further obligations under this Agreement, except as specified in Section 6 below.

6. *Non-exclusivity of Rights.* Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies for which the Executive may qualify, nor, subject to paragraph (f) of Section 12, shall anything in this Agreement limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Vested benefits and other amounts that the Executive is otherwise entitled to receive under the Incentive Compensation, the SERP, the Life Insurance Coverage, or any other plan, policy, practice or program of, or any contract or agreement with, the Company or any of its affiliated companies on or after the Date of Termination shall be payable in accordance with the terms of each such plan, policy, practice, program, contract or agreement, as the case may be, except as explicitly modified by this Agreement.

7. *Full Settlement.* The Company's obligation to make the payments provided for in, and otherwise to perform its obligations under, this Agreement shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other

employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as specifically provided in paragraph (a) of Section 5 with respect to benefits described in clause (B) of paragraph (c)(iii) of Section 3, such amounts shall not be reduced, regardless of whether the Executive obtains other employment.

8. *Confidential Information.* The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies and their respective businesses that the Executive obtains during the Executive's employment by the Company or any of its affiliated companies and that is not public knowledge (other than as a result of the Executive's violation of this Section 8) ("Confidential Information"). The Executive shall not communicate, divulge or disseminate Confidential Information at any time during or after the Executive's employment with the Company, except with the prior written consent of the Company or as otherwise required by law or legal process. In no event shall any asserted violation of the provisions of this Section 8 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

9. *Certain Additional Payments by the Company.* (a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 9) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of paragraph (c) of this Section 9, all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a certified public accounting firm designated by the Executive (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the change of control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to paragraph (c) of this

the Executive of an amount advanced by the Company pursuant to paragraph (c) of this Section 9, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the

Section 9 and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this paragraph (c) of Section 9, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided*, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and *provided*, further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to paragraph (c) of this Section 9, the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of paragraph (c) of this Section 9) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If after the receipt by

(d) Notwithstanding any other provision of this A

the Executive of an amount advanced by the Company pursuant to paragraph (c) of this Section 9, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

10. *Attorneys' Fees.* The Company agrees to pay, as incurred, to the fullest extent permitted by law, all legal fees and expenses that the Executive may reasonably incur as a result of any contest (regardless of the outcome) by the Company, the Executive or others of the validity or enforceability of or liability under, or otherwise involving, any provision of this Agreement, together with interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code.

11. *Successors.* (a) This Agreement is personal to the Executive and, without the prior written consent of the Company, shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean both the Company as defined above and any such successor that assumes and agrees to perform this Agreement, by operation of law or otherwise.

12. *Miscellaneous.* (a) This Agreement shall be governed by, and construed in accordance with, the laws of the State of Minnesota, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified except by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

If to the Company:

Attention: General Counsel

or to such other address as either party furnishes to the other in writing in accordance with this paragraph (b) of Section 12. Notices and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. If any provision of this Agreement shall be held invalid or unenforceable in part, the remaining portion of such provision, together with all other provisions of this Agreement, shall remain valid and enforceable and continue in full force and effect to the fullest extent consistent with law.

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Tel. 212-902-1000

(d) Notwithstanding any other provision of this Agreement, the Company may withhold from amounts payable under this Agreement all federal, state, local and foreign taxes that are required to be withheld by applicable laws or regulations.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provisions of, or to assert any right under, this Agreement (including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to paragraph (c) of Section 4 of this Agreement) shall not be deemed to be a waiver of such provision or right or of any other provision of or right under this Agreement.

(f) The Executive and the Company acknowledge that this Agreement supersedes any other agreement between them concerning the subject matter hereof.

(g) The rights and benefits of the Executive under this Agreement may not be anticipated, assigned, alienated or subject to attachment, garnishment, levy, execution or other legal or equitable process except as required by law. Any attempt by the Executive to anticipate, alienate, assign, sell, transfer, pledge, encumber or charge the same shall be void. Payments hereunder shall not be considered assets of the Executive in the event of insolvency or bankruptcy.

(h) This Agreement may be executed in several counterparts, each of which shall be deemed an original, and said counterparts shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization of its Board of Directors, the Company has caused this Agreement to be executed in its name on its behalf, all as of the day and year first above written.

_____

Richard A. Abdoo

PRIMERGY CORPORATION

By _____

In the ordinary course of the trading activities of Goldman Sachs, the Firm actively trades the debt and equity securities of the Company and Wisconsin

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Tel: 212-902-1000

Goldman Sachs

ANNEX F

August __, 1995

PERSONAL AND CONFIDENTIAL

Board of Directors
Northern States Power Company
414 Nicollet Mall
Minneapolis, MN 55401

Gentlemen and Mesdames:

You have requested our opinion as to the fairness to the holders of the outstanding shares of Common Stock, par value $2.50 per share (the "Shares"), of Northern States Power Company (the "Company") of the exchange ratio of 1.626 shares of Common Stock, par value $.01 per share, of Primergy Corporation (the "Primergy Common Stock") to be received for each Share (the "Exchange Ratio") pursuant to the Amended and Restated Agreement and Plan of Merger, dated as of April 28, 1995, as amended and restated as of July 26, 1995, by and among the Company, Wisconsin Energy Corporation ("Wisconsin Energy"), Northern Power Wisconsin Corp., a wholly owned subsidiary of NSP, and WEC Sub Corp., a wholly owned subsidiary of WEC (the "Agreement"). Capitalized terms used herein but not defined shall have the meanings ascribed to such terms in the Agreement.

Goldman, Sachs & Co., as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. We are familiar with the Company having provided certain investment banking services to the Company from time to time, including acting as managing underwriter of certain public offerings of debt securities of the Company, and having acted as its financial advisor in connection with, and having participated in certain of the negotiations leading to, the Agreement. We also have provided certain investment banking services to Wisconsin Energy from time to time, including acting as managing underwriter of certain public offerings of debt securities of Wisconsin Electric Power Company, a wholly owned subsidiary of Wisconsin Energy, and may provide investment banking services to Wisconsin Energy in the future.

In the ordinary course of the trading activities of Goldman Sachs, the Firm actively trades the debt and equity securities of the Company and Wisconsin Energy for its own account and for the accounts of customers of Goldman Sachs and may, therefore, at any time hold a long or short position in such securities.

In connection with this opinion, we have reviewed, among other things, the Agreement; the Registration Statement on Form S-4, including the Joint Proxy Statement/Prospectus relating to the Annual Meeting of Shareholders of the Company and Special Meeting of Shareholders of Wisconsin Energy; Annual Reports to shareholders and Annual Reports on Form 10-K of the Company and Wisconsin Energy for the five years ended December 31, 1994; certain interim reports to shareholders and Quarterly Reports on Form 10-Q of the Company and Wisconsin Energy; FERC Forms 1 of the Company and Wisconsin Energy; certain other communications from the Company and Wisconsin Energy to their respective shareholders; and certain internal financial analyses and forecasts for the Company and Wisconsin Energy prepared by their respective managements, including analyses and forecasts of certain operating efficiencies and financial synergies (the "Synergies") expected to be achieved as a result of the Mergers. We also have held discussions with members of the senior management of the Company and Wisconsin Energy regarding the past and current business operations, financial condition and future prospects of their respective companies and their analyses of the strategic benefits of the Mergers, including, without limitation, the amount and timing of realization of the Synergies. In addition, we have reviewed the reported price and trading activity for the Shares and the Wisconsin Energy Common Stock, compared certain financial and stock market information for the Company and Wisconsin Energy with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combinations in the electric utility industry specifically and in other industries generally and performed such other studies and analyses as we considered appropriate.

We have relied without independent verification upon the accuracy and completeness of all of the financial and other information reviewed by us for purposes of this opinion. In this regard, we have assumed, with your consent, that the Synergies have been reasonably prepared on a basis reflecting the best currently available judgments and estimates of the Company and Wisconsin Energy and that such Synergies will be realized in the amounts and at the times contemplated thereby. In addition, we have not made an independent evaluation or appraisal of the assets and liabilities of the Company or Wisconsin Energy or any of their subsidiaries and we have not been furnished with any such evaluation or appraisal. We have assumed, with your consent, that the consummation of the transactions contemplated by the Agreement will be recorded as a pooling of interests under generally accepted accounting principles.

We are not expressing any opinion herein as to the prices at which the Primergy Common Stock may trade if and when it is issued.

Based upon and subject to the foregoing and based upon such other matters as we consider relevant, it is our opinion that as of the date hereof the Exchange Ratio pursuant to the Agreement is fair to the holders of the Shares.

Very truly yours,

Goldman, Sachs & Co.

BARR DEVLIN & CO. INCORPORATED

ANNEX G

August __, 1995

The Board of Directors
Wisconsin Energy Corporation
231 West Michigan Street
Milwaukee, WI 53203

Dear Members of the Board:

We understand that Wisconsin Energy Corporation, a Wisconsin corporation ("WEC"), and Northern States Power Company, a Minnesota corporation ("NSP"), have determined to engage in a business combination as peer firms in a merger of equals. In order to effect that combination, NSP has formed Northern Power Wisconsin Corp. ("New NSP"), a Wisconsin corporation; and WEC has formed WEC Sub Corp. ("WEC Sub"), a Wisconsin corporation. The terms and conditions of the business combination are set forth in an Amended and Restated Agreement and Plan of Merger, dated as of April 28, 1995, as amended and restated as of July 26, 1995 (the "Agreement"), among NSP, WEC, New NSP and WEC Sub. The Agreement provides for, among other things (i) the merger of NSP into New NSP (the "Reincorporation Merger") and (ii) the merger of WEC Sub into the surviving corporation in the Reincorporation Merger (the "NSP Merger"). Pursuant to the Reincorporation and NSP Mergers (i) each issued and outstanding share of Common Stock, $2.50 par value, of NSP (the "NSP Common Stock") (other than NSP Dissenting Shares and shares cancelled pursuant to Section 2.1(b)(i) of the Agreement) shall be converted into the right to receive 1.626 (the "Exchange Ratio") fully paid and nonassessable shares of Common Stock, $0.01, of WEC ("WEC Common Stock"), and (ii) each issued and outstanding share of Common Stock, $0.01 par value, of WEC Sub shall be converted into one fully paid and nonassessable share of Common Stock, $2.50 par value, of the surviving corporation in the NSP Merger (collectively, the "Proposed Transaction"). The terms and conditions of the Proposed Transaction are set forth in more detail in the Agreement. Capitalized terms used herein without definition have the respective meanings assigned to such terms in the Agreement. In addition, in the remainder of this letter, references to "WEC" shall be deemed to include WEC's subsidiaries (including Wisconsin Electric Power Company and Wisconsin Natural Gas Company, each a Wisconsin corporation) and references to "NSP" shall be deemed to include NSP's subsidiaries (including Northern States Power Company, a Wisconsin corporation).

We have been requested by WEC to render our opinion with respect to the fairness, from a financial point of view, to holders of WEC Common Stock of the Exchange Ratio to be offered in the Proposed Transaction.

In arriving at our opinion, we have, among other things:

(1) Reviewed the Annual Reports, Form 10-Ks and the related financial information for the three years in the period ended December 31, 1994, and the Form 10-Qs and the related unaudited financial information for the quarterly period ended March 31, 1995, for Wisconsin Energy Corporation, Wisconsin Electric Power Company and Wisconsin Natural Gas Company;

(2) Reviewed the Annual Reports, Form 10-Ks and the related financial information for the three years in the period ended December 31, 1994, and the Form 10-Qs and the related unaudited financial information for the quarterly period ended March 31, 1995, for Northern States Power Company (Minnesota) and Northern States Power Company (Wisconsin);

(3) Reviewed certain other filings with the Securities and Exchange Commission and other regulatory authorities made by Wisconsin Energy Corporation, Wisconsin Electric Power

inaccurate or misleading. With respect to the financial projections of WEC and NSP (including

Company, Wisconsin Natural Gas Company, Northern States Power Company (Minnesota) and Northern States Power Company (Wisconsin), including proxy statements, FERC Form 1s, Form 8Ks and registration statements, during the last three years;

(4) Reviewed certain internal information, including financial forecasts, relating to the business, earnings, capital expenditures, cash flow, assets and prospects of WEC and NSP furnished to us by WEC and NSP;

(5) Conducted discussions with members of senior management of WEC and NSP concerning their respective businesses, regulatory environments, prospects and strategic objectives and possible operating, administrative and capital synergies which might be realized for the benefit of WEC following the Proposed Transaction;

(6) Reviewed the historical market prices and trading activity for shares of WEC Common Stock and NSP Common Stock, and compared them with those of certain publicly traded companies which we deemed to be relevant;

(7) Compared the results of operations of WEC and NSP with those of certain companies which we deemed to be relevant;

(8) Compared the proposed financial terms of the Proposed Transaction with the financial terms of certain utility industry business combinations which we deemed to be relevant;

(9) Analyzed the respective contributions in terms of assets, earnings, cash flow and shareholders' equity of WEC and NSP;

(10) Analyzed the valuation of shares of WEC Common Stock and NSP Common Stock using various valuation methodologies which we deemed to be appropriate;

(11) Considered the pro forma effect of the Proposed Transaction on WEC's capitalization, earnings and cash flow;

(12) Compared the pro forma effect of the Proposed Transaction on WEC's capitalization ratios, earnings per share, dividends per share, book value per share, cash flow per share, return on equity and payout ratio with each of their corresponding current and projected values on a stand-alone basis;

(13) Considered the obligation of WEC to register as a public utility holding company under the Public Utility Holding Company Act of 1935 (the "1935 Act") and the resulting possibility that WEC would be required to dispose of WEC's and/or NSP's gas operations or to dispose of certain of WEC's and/or NSP's non-utility businesses;

(14) Examined the possible tax treatment of alternative ways of effecting a disposition of WEC's and/or NSP's gas operations, and a disposition of certain of WEC's and/or NSP's non-utility businesses should any such disposition be required pursuant to the 1935 Act, for which we have relied on the advice of WEC's counsel;

(15) Reviewed the Agreement;

(16) Reviewed the Registration Statement, including the Joint Proxy Statement/Prospectus of NSP and WEC dated the date hereof; and

(17) Reviewed such other studies, conducted such other analyses, considered such other financial, economic and market criteria, performed such other investigations and taken into account such other matters as we deemed necessary or appropriate for purposes of this opinion.

In rendering our opinion, we have assumed and relied, without independent verification, upon the accuracy and completeness of all financial and other information publicly available or otherwise furnished or made available to us by WEC and NSP and have further relied upon the assurances of management of WEC and NSP that they are not aware of any facts that would make such information

inaccurate or misleading. With respect to the financial projections of WEC and NSP (including, without limitation, projected cost savings and operating synergies), we have relied upon the assurances of management of WEC and NSP that such projections have been reasonably prepared and reflect the best currently available estimates and judgments of the management of WEC and NSP as to the future financial performance of WEC and NSP, as the case may be, and as to the outcomes projected of legal, regulatory and other contingencies. In arriving at our opinion, we have not made or been provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of WEC or NSP, nor have we made any physical inspection of the properties or assets of WEC or NSP. We have assumed that the Proposed Transaction will be a reorganization as described in Section 368(a) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder, and that WEC, NSP and the shareholders of NSP who exchange their shares solely for WEC Common Stock will recognize no gain or loss for federal income tax purposes as a result of the consummation of the Proposed Transaction. We have also assumed that the Proposed Transaction will qualify as a pooling of interests for financial accounting purposes. You have not authorized us to solicit, and we have not solicited, any indications of interest from any third party with respect to the purchase of all or a part of WEC. Our opinion herein is necessarily based upon financial, stock market and other conditions and circumstances existing and disclosed to us as of the date hereof.

We have acted as financial adviser to WEC in connection with the Proposed Transaction and will receive certain fees for our services. In addition, we render certain investment banking and financial advisory services to WEC from time to time for which we receive customary compensation.

Our advisory services and the opinion expressed herein are provided solely for the use of WEC's Board of Directors in evaluating the Proposed Transaction. Except for its publication in the Joint Proxy Statement/Prospectus dated the date hereof which is being distributed to holders of WEC Common Stock and NSP Common Stock in connection with approval of the Proposed Transaction, our opinion may not be published or otherwise used or referred to without our prior written consent. This opinion is not intended to be and does not constitute a recommendation to any stockholder as to how such stockholder should act with respect to the Proposed Transaction.

Based upon and subject to the foregoing, our experience as investment bankers and other factors we deem relevant, we are of the opinion that, as of the date hereof, the Exchange Ratio to be offered in connection with the Proposed Transaction is fair, from a financial point of view, to the holders of WEC Common Stock.

Very truly yours,

Barr Devlin & Co. Incorporated

BARR DEVLIN & CO. INCORPORATED

ANNEX H

RESTATED

ARTICLES OF INCORPORATION

OF

PRIMERGY CORPORATION

These Restated Articles of Incorporation of Primergy Corporation (formerly known as Wisconsin Energy Corporation), a corporation incorporated under Chapter 180 of the Wisconsin Statutes, the Wisconsin Business Corporation Law, supersede and take the place of the existing Restated Articles of Incorporation and all prior amendments thereto.

ARTICLE I.

NAME

The name of the corporation is PRIMERGY CORPORATION.

ARTICLE II.

PURPOSE

The corporation is organized for the purpose of engaging in any lawful activity within the purposes for which corporations may be organized under the Wisconsin Business Corporation Law.

ARTICLE III.

DESCRIPTION OF CAPITAL STOCK

A. *Authorized Number and Classes of Shares*

The aggregate number of shares which the corporation shall have authority to issue is Seven Hundred Sixty-Five Million (765,000,000) shares, consisting of Seven Hundred Fifty Million (750,000,000) shares of Common Stock of the par value of One Cent ($.01) per share (hereinafter called the "Common Stock") and Fifteen Million (15,000,000) shares of Preferred Stock of the par value of One Cent ($.01) per share (hereinafter called the "Preferred Stock").

B. *Common Stock Provisions*

(1) *Dividends*

Subject to any rights of holders of Preferred Stock, such dividends (payable in cash, stock or otherwise) as may be determined by the Board of Directors may be declared and paid on the Common Stock from time to time from any funds, property or shares legally available therefor.

(2) *Voting Rights*

Subject to any rights of holders of Preferred Stock to vote on a matter as a class or series, each outstanding share of Common Stock shall be entitled to one vote on each matter submitted to a vote of holders of Common Stock at a meeting of stockholders.

(3) *Liquidation, Dissolution or Winding Up*

In the event of any liquidation, dissolution or winding up of the corporation, the holders of Common Stock, subject to any rights of holders of Preferred Stock, shall be entitled to receive the net balance of any remaining assets of the corporation.

(4) *No Preemptive Rights*

No holder of Common Stock shall be entitled as such, as a matter of right, to subscribe for or purchase or receive any part of any new or additional issue of stock, or securities convertible into stock, of any class whatever, whether now or hereafter authorized, or whether issued for cash, property or services, by way of dividend, or in exchange for the stock of another corporation.

C. *Preferred Stock Provisions*

The Board of Directors shall have authority to divide the Preferred Stock into series, to issue shares of any such series and, within the limitations set forth in these Articles of Incorporation or prescribed by law, to fix and determine the relative rights and preferences of the shares of any series so established. Each such series shall be so designated as to distinguish the shares thereof from the shares of all other series and classes. All shares of Preferred Stock shall be identical except as to the following relative rights and preferences, as to which there may be variations between different series:

(1) The rate of dividend;

(2) The price at and the terms and conditions on which shares may be redeemed;

(3) The amount payable upon shares in the event of voluntary or involuntary liquidation of the corporation;

(4) Sinking fund provisions for the redemption or purchase of shares;

(5) The terms and conditions on which shares may be converted, if shares are issued with the privilege of conversion;

(6) Voting rights, if any; and

(7) Any other rights or preferences as to which the laws of the State of Wisconsin, as in effect at the time of the determination thereof, permit variations between different series of Preferred Stock.

Shares of Preferred Stock shall have only such voting rights, if any, preemptive rights, if any, and other rights as are fixed and determined by the Board of Directors in accordance with the foregoing provisions or as may be required by law.

D. *Certain Other Provisions Affecting Stockholders*

(1) *Restriction on Certain Purchases of Common Stock at Market Premium*

(a) The corporation shall not purchase any shares of Common Stock from any person or other entity if more than 5% of the outstanding shares of Common Stock are believed by the Board of Directors to be Beneficially Owned by such person or other entity at the time the purchase is authorized by the Board, at a price exceeding significantly (as determined by the Board of Directors) the then current market price. This provision shall not apply, however, to (i) any purchase of shares believed by the Board to have been Beneficially Owned by the seller, or by the seller and any of the seller's Affiliates consecutively, for at least the two-year period ending with the date of purchase; (ii) any purchase of shares which has been approved by affirmative vote by a majority of the aggregate number of votes which the holders of the then outstanding shares of Common Stock and Preferred Stock are entitled to cast, voting together as a class, in the election of directors; or (iii) any purchase pursuant to a tender offer to all holders of Common Stock on the same terms.

(b) As used in this Subsection (1):

(i) "Affiliate", with respect to any person or other entity, means any other person or other entity that directly, or indirectly through one or more intermediary, controls, is controlled by, or is under common control with, such former person or other entity;

(ii) "Beneficially Owned", as of any time, means Beneficially Owned within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as in effect on June 1, 1986.

(2) *Shares Not Subject to Statutory Vote Reduction Provisions*

The voting power of shares of Common Stock and Preferred Stock shall not at any time be subject to Section 180.1150 of the Wisconsin Statutes or any successor provision.

(3) *Bylaw Provisions Fixing Greater Voting Requirements*

The Bylaws may require a greater stockholder vote than would otherwise be required by law or by these Articles of Incorporation for: (i) removal of a director from office; or (ii) amending provisions of the Bylaws relating to or in connection with taking action by the unanimous consent of stockholders without a meeting; the number, term, qualification, classification and election of directors; the removal of a director from office; notice for Board of Directors' meetings; indemnification of officers, directors and other persons by the corporation; or Bylaw amendments. For purposes of Sections 180.1021 and 180.1706(4) of the Wisconsin Statutes, each section of the Bylaws shall be deemed to be a separate bylaw.

ARTICLE IV.

NUMBER OF DIRECTORS

The Board of Directors shall consist of such number of directors as shall be fixed from time to time by or in the manner provided in the Bylaws, which may provide that the directors shall be divided into three classes as contemplated in Section 180.0806 of the Wisconsin Statutes or any successor provision.

ARTICLE V.

EMERGENCY PROVISIONS

The business and affairs of the corporation shall be managed by its Board of Directors, except as otherwise provided in this Article V after the occurrence and during the continuance of any Emergency. During any Emergency the provisions of this Article V shall apply to the maximum extent permitted by the Wisconsin Business Corporation Law, particularly Sections 180.0207 and 180.0303 thereof, or any successor provisions, as at the time in effect. The provisions of this Article V shall control during any Emergency, notwithstanding any contrary provisions of these Articles of Incorporation or the Bylaws of the corporation.

As used in this Article V, "Emergency" means a catastrophic event that prevents a quorum of the Board of Directors from being readily assembled.

During any Emergency, the business and affairs of the corporation shall be managed by an interim Board of Directors consisting of so many of the incumbent directors, if any, as are known to be alive and not incapacitated, and whom the corporation is able to contact by normal means of communication, together with provisional directors selected as hereinafter provided. The total number of directors on such interim Board of Directors shall be the lesser of the number determined in or pursuant to the Bylaws, or the number of eligible persons who are known to be alive, are not incapacitated and can be readily contacted by the usual means of communication. The Board of Directors by resolution may from time to time designate a list of provisional directors and the order of priority in which such persons shall become interim directors in the event of Emergency, which designation shall continue in effect until such resolution has been subsequently amended or rescinded

ANNEX I

BYLAWS

of

WISCONSIN ENERGY CORPORATION
(to be renamed PRIMERGY CORPORATION)

As Amended and Restated

July 26, 1995

TABLE OF CONTENTS

	ARTICLE I. STOCKHOLDERS	
1.01	Annual Meeting	I-4
1.02	Special Meetings	I-4
1.03	Place of Meetings; Postponements and Adjournments	I-4
1.04	Notices to Stockholders	I-4
	(a) Required Notice	I-4
	(b) Fundamental Transactions	I-4
1.05	Fixing of Record Date	I-4
1.06	Quorum and Voting Requirements	I-5
1.07	Conduct of Meetings	I-5
1.08	Proxies; Balloting and Inspectors of Election	I-5
1.09	Stockholder Unanimous Consent Without a Meeting	I-6
1.10	Stockholder Waiver of Notice	I-6
1.11	Notice of Stockholder Nomination(s) and/or Proposal(s)	I-6
	ARTICLE II. BOARD OF DIRECTORS	I-6
2.01	Number	I-7
2.02	Classification	I-7
2.03	Election and Tenure	I-7
2.04	Removal	I-8
2.05	Vacancies	I-8
2.06	Regular Meetings	I-8
2.07	Special Meetings	I-8
2.08	Meetings by Telephone or Other Communication Technology	I-8
2.09	Notice of Meetings	I-8
2.10	Quorum	I-8
2.11	Manner of Acting	I-9
2.12	Committees	I-9
2.13	Compensation	I-9
2.14	Presumption of Assent	I-9
2.15	Director Unanimous Consent Without a Meeting	I-10
	ARTICLE III. OFFICERS	I-10
3.01	Positions	I-10
3.02	Resignation and Removal	I-10
3.03	Vacancies	I-10
3.04	Powers and Duties	I-10
	ARTICLE IV. CERTIFICATES FOR SHARES AND THEIR TRANSFER	I-10
4.01	Stock Certificates and Facsimile Signatures	I-11
4.02	Transfer of Stock	I-11
4.03	Lost, Destroyed or Stolen Certificates	I-11
4.04	Shares Without Certificates	I-11
	ARTICLE V. INDEMNIFICATION	I-11
5.01	Mandatory Indemnification	I-12
5.02	Certain Definitions	I-12
5.03	Legal Enforceability	I-12
5.04	Limitation on Modification or Termination	I-12
5.05	Non-Exclusive Bylaw	I-12
	ARTICLE VI. OTHER INDEMNIFICATION PROVISIONS	I-12
6.01	Indemnification for Successful Defense	I-12
6.02	Other Indemnification	I-12
		I-13

6.03	Written Request	I-13
6.04	Nonduplication	I-13
6.05	Determination of Right to Indemnification	I-13
6.06	Advance of Expenses	I-14
6.07	Limitations on Indemnification	I-14
6.08	Court-Ordered Indemnification	I-14
6.09	Indemnification and Allowance of Expenses of Employees and Agents	I-15
6.10	Insurance	I-15
6.11	Securities Law Claims	I-15
6.12	Liberal Construction	I-15
	ARTICLE VII. CONTRACTS, CHECKS, NOTES, BONDS, ETC.	I-15
7.01	Contracts	I-15
7.02	Checks, Drafts, Etc.	I-15
	ARTICLE VIII. FISCAL YEAR	I-16
	ARTICLE IX. CORPORATE SEAL	I-16
	ARTICLE X. EFFECT OF HEADINGS	I-16
	ARTICLE XI. AMENDMENTS	I-16
11.01	By Stockholders	I-16
11.02	By Directors	I-16
11.03	Implied Amendments	I-17
11.04	Vote Required for Certain Amendments	I-17

ARTICLE I.

STOCKHOLDERS

1.01. *Annual Meeting.* The annual meeting of the stockholders of the corporation shall be held each year on the first business day of June, or on such earlier or later date and at the time designated by or under the authority of the Board of Directors, the Chairman of the Board, the President or the Secretary, for the purpose of electing directors and for the transaction of such other business as may properly come before the meeting.

1.02. *Special Meetings.* Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by the Wisconsin Business Corporation Law, may be called by the Chairman of the Board, the President or a majority of the Board of Directors. If and as required by the Wisconsin Business Corporation Law, a special meeting shall be called upon written demand describing one or more purposes for which it is to be held by holders of shares with at least 10% of the votes entitled to be cast on any issue proposed to be considered at the meeting. The time and purpose or purposes of any special meeting shall be described in the notice required by Section 1.04 of these Bylaws and only business within the purpose(s) described in such notice shall be conducted at such meeting.

1.03. *Place of Meetings; Postponements and Adjournments.* The Board of Directors, the Chairman of the Board, the President or the Secretary may designate any place, either within or without the State of Wisconsin, as the place of meeting for any annual meeting or any special meeting, including any adjourned meeting. The Board of Directors, the Chairman of the Board, the President or the Secretary may postpone any previously scheduled annual meeting or special meeting by giving public notice of the postponed meeting date at any time prior to the scheduled meeting date. If no designation is made, the place of meeting shall be the principal office of the corporation. Any meeting may be adjourned from time to time, whether or not a quorum is present, by the chairperson of the meeting or by vote of a majority of the votes entitled to be cast by the shares represented thereat.

1.04. *Notices to Stockholders.*

(a) *Required Notice.* Notice may be communicated by mail, private carrier, or any other means permissible under Wisconsin law. Written notice stating the scheduled place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be communicated or sent not less than ten (10) days, unless a longer period is required by the Wisconsin Business Corporation Law or the Articles of Incorporation, nor more than ninety (90) days, unless a longer period is permitted or a shorter period is required by the Wisconsin Business Corporation Law, before the date of the meeting, by or at the direction of the Chairman of the Board, the President or the Secretary, to each stockholder of record entitled to vote at such meeting or, for the fundamental transactions described in subsections (b)(1) to (4) below, for which the Wisconsin Business Corporation Law requires that notice be given to stockholders not entitled to vote, to all stockholders of record. At least twenty (20) days' notice shall be provided if the purpose, or one of the purposes, of the meeting is to consider a plan of merger or share exchange for which stockholder approval is required by law, or the sale, lease, exchange or other disposition of all or substantially all of the corporation's property, with or without good will, otherwise than in the usual and regular course of business. A stockholder may waive notice in accordance with Section 1.10 of these Bylaws.

(b) *Fundamental Transactions.* If a purpose of any stockholder meeting is to consider either: (1) a proposed amendment to the Articles of Incorporation (including any restated articles); (2) a plan of merger or share exchange for which stockholder approval is required by law; (3) the sale, lease, exchange or other disposition of all or substantially all of the corporation's property, with or without good will, otherwise than in the usual and regular course of business; (4) the dissolution of the corporation; or (5) the removal of a director, the notice must so state and in cases (1), (2) and (3) above must be accompanied by, respectively, a copy or summary of the: (1) proposed articles of amendment or a copy of the restated articles that identifies any amendment or other change; (2) proposed plan of

merger or share exchange; or (3) proposed transaction for disposition of all or substantially all of the corporation's property. If the proposed corporate action creates dissenters' rights, the notice must state that stockholders and beneficial stockholders are or may be entitled to assert dissenters' rights, and must be accompanied by a copy of Sections 180.1301 to 180.1331 (or successor provisions) of the Wisconsin Business Corporation Law.

1.05. *Fixing of Record Date.* The Board of Directors, or any officer authorized by the Board of Directors, may fix in advance a date as the record date for one or more voting groups for any determination of stockholders entitled to notice of a stockholders' meeting, to demand a special meeting, to vote, or to take any other action, such date in any case to be not more than seventy (70) days and, in case of a meeting of stockholders, dividend or stock split, not less than ten (10) days prior to the meeting or action requiring such determination of stockholders, and may fix the record date for determining stockholders entitled to a share dividend or distribution. If within thirty (30) days after the corporation receives one or more written demands for a special stockholder meeting that purport to satisfy the requirements of Section 180.0702(1)(b) of the Wisconsin Business Corporation Law (or any successor provision) no record date has been fixed pursuant to the first sentence of this Section 1.05 for the determination of stockholders entitled to demand such a stockholder meeting, the record date for determining stockholders entitled to demand such meeting shall be the date that the first stockholder signed the demand. If no record date has been fixed pursuant to the first sentence of this Section 1.05 for the determination of stockholders entitled (A) to notice of or to vote at a meeting of stockholders prior to the time that notice of the meeting is mailed or otherwise delivered to stockholders, or (B) to consent to action without a meeting within thirty (30) days after the corporation receives the first written consent to stockholder action without a meeting, (a) the close of business on the day before the first notice of the meeting is mailed or otherwise delivered to stockholders or (b) the date that the first stockholder signed the first written consent to stockholder action without a meeting, respectively, shall be the record date for the determination of such stockholders. When a determination of stockholders entitled to vote at any meeting of stockholders has been made as provided in this section, such determination shall be applied to any postponement or adjournment thereof unless the Board of Directors fixes a new record date and except as otherwise required by law. A new record date must be set if a meeting is postponed or adjourned to a date more than 120 days after the date fixed for the original meeting.

1.06. *Quorum and Voting Requirements.* Except as otherwise provided in the Articles of Incorporation or in the Wisconsin Business Corporation Law, a majority of the votes entitled to be cast by shares entitled to vote as a separate voting group on a matter, represented in person or by proxy, shall constitute a quorum of that voting group for action on that matter at a meeting of stockholders. If a quorum exists, action on a matter, other than the election of directors, by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action unless a greater number of affirmative votes is required by the Wisconsin Business Corporation Law, the Articles of Incorporation, or any other provision of these Bylaws. If the Articles of Incorporation or the Wisconsin Business Corporation Law provide for voting by two (2) or more classes or voting groups on a matter, action on that matter is taken only when voted upon by each of those voting groups counted separately.

1.07. *Conduct of Meetings.* The Chairman of the Board, or in his absence or at his request, the Vice Chairman of the Board, and in his absence, the President, and in the President's absence, a Vice President, and in their absence, any person chosen by the stockholders present shall call the meeting of the stockholders to order and shall act as chairperson of the meeting, and the Secretary shall act as secretary of all meetings of the stockholders, but, in the absence of the Secretary, the chairperson of the meeting may appoint any other person to act as secretary of the meeting.

1.08. *Proxies; Balloting and Inspectors of Election.* At all meetings of stockholders, a stockholder entitled to vote may vote in person or by proxy appointed in writing by the stockholder or by his or her duly authorized attorney-in-fact. Voting at meetings of stockholders need not be by written ballot unless so determined by the Board of Directors, the Chairman of the Board, the President or the

taken at an annual meeting of stockholders, the notice shall clearly set forth: (a) the name and address of the stockholder who intends to make the proposal(s); (b) a representation that the stockholder is a

Secretary. Voting at meetings of stockholders shall be conducted by one or more inspectors of election appointed by the Board of Directors, the Chairman of the Board, the President or the Secretary. However, no director or person who is a candidate for the office of director shall be appointed as such inspector. The inspectors, or persons representing the inspector if the inspector is an institution, before entering upon the discharge of their duties, shall take and subscribe an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of their ability.

1.09. *Stockholder Unanimous Consent Without a Meeting.* Any action required by the Articles of Incorporation, Bylaws or any provision of law to be taken at a meeting of stockholders or any other action which may be taken at such a meeting may be taken without a meeting if consent in writing setting forth the action so taken shall be signed by all of the stockholders entitled to vote with respect to the subject matter thereof and such consent shall have the same force and effect as a unanimous vote.

1.10. *Stockholder Waiver of Notice.* A stockholder may waive any notice required by the Wisconsin Business Corporation Law, the Articles of Incorporation or these Bylaws before or after the date and time stated in the notice. The waiver shall be in writing and signed by the stockholder entitled to the notice, shall contain the same information that would have been required in the notice under the Wisconsin Business Corporation Law except that the time and place of meeting need not be stated, and shall be delivered to the corporation for inclusion in the corporate records. A stockholder's attendance at a meeting, in person or by proxy, waives objection to both of the following:

(a) Lack of notice or defective notice of the meeting, unless the stockholder at the beginning of the meeting or promptly upon arrival objects to holding the meeting or transacting business at the meeting.

(b) Consideration of a particular matter at the meeting that is not within the purpose described in the meeting notice, unless the stockholder objects to considering the matter when it is presented.

1.11. *Notice of Stockholder Nomination(s) and/or Proposal(s).* Except with respect to nomination(s) or proposal(s) adopted or recommended by the Board of Directors for inclusion in the corporation's proxy statement for its annual meeting, a stockholder entitled to vote at a meeting may nominate a person or persons for election as director(s) or propose action(s) to be taken at a meeting only if written notice of any stockholder nomination(s) and/or proposal(s) to be considered for a vote at an annual meeting of stockholders is delivered personally or mailed by Certified Mail-Return Receipt Requested at least seventy (70) days and not more than one hundred (100) days before the scheduled date of such meeting to the Secretary of the corporation at the principal business office of the corporation. With respect to stockholder nomination(s) for the election of directors each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination(s), of any beneficial owner of shares on whose behalf such nomination is being made and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting (including the number of shares the stockholder owns as of the record date (or as of the most recent practicable date if no record date has been set) and the length of time the shares have been held) and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements and understandings between the stockholder or any beneficial holder on whose behalf it holds such shares, and their respective affiliates, and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission (whether or not such rules are applicable) had each nominee been nominated, or intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a director of the corporation if so elected. With respect to stockholder proposal(s) for action(s) to be

2.03. *Election and Tenure.* Unless action is taken without a meeting under these Bylaws

taken at an annual meeting of stockholders, the notice shall clearly set forth: (a) the name and address of the stockholder who intends to make the proposal(s); (b) a representation that the stockholder is a holder of record of the stock of the corporation entitled to vote at the meeting (including the number of shares the stockholder owns as of the record date (or as of the most recent practicable date if no record date has been set) and the length of time the shares have been held) and intends to appear in person or by proxy to make the proposal(s) specified in the notice; (c) the proposal(s) and a brief supporting statement of such proposal(s); and (d) such other information regarding the proposal(s) as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission (whether or not such rules are applicable).

Except with respect to nomination(s) or proposal(s) adopted or recommended by the Board of Directors for inclusion in the notice to stockholders for a special meeting of stockholders, a stockholder entitled to vote at a special meeting may nominate a person or persons for election as director(s) and/or propose action(s) to be taken at a meeting only if written notice of any stockholder nomination(s) and/or proposal(s) to be considered for a vote at a special meeting is delivered personally or mailed by Certified Mail-Return Receipt Requested to the Secretary of the corporation at the principal business office of the corporation so that it is received in a reasonable period of time before such special meeting and only if such nomination or proposal is within the purposes described in the notice to stockholders of the special meeting. All other notice requirements regarding stockholder nomination(s) and/or proposal(s) applicable to annual meetings also apply to nomination(s) and/or proposal(s) for special meetings.

The chairperson of the meeting may refuse to acknowledge the nomination(s) and/or proposal(s) of any person made without compliance with the foregoing procedures. This section shall not affect the corporation's rights or responsibilities with respect to its proxies or proxy statement for any meeting.

ARTICLE II.

BOARD OF DIRECTORS

2.01. *Number.* The number of directors constituting the whole Board of Directors shall be such number as shall be fixed from time to time by the affirmative vote of the whole Board but in no event shall the number be less than three. Until so fixed at a different number, the number shall be nine.* The number of directors at any time constituting the whole Board shall not be reduced so as to shorten the term of any director then in office. Directors shall be stockholders of the corporation.

The directors shall hold office until the next annual meeting of stockholders at which their respective terms of office shall expire and until their respective successors are duly elected and qualified.

2.02. *Classification.* The directors shall be divided into three classes as nearly equal in number as possible, the term of one class expiring each year. Except for any director elected pursuant to Section 2.05 of these Bylaws and any director elected by the stockholders to fill a vacancy for the remainder of a three year term, whose terms of office may be less than three years, directors shall be elected for three year terms. However, at any time when there shall be a complete vacancy of the Board, the directors of Class I shall be elected to hold office until the next succeeding annual meeting of stockholders; the directors of Class II until the second succeeding annual meeting of stockholders; and the directors of Class III until the third succeeding annual meeting of stockholders, and in each foregoing case, until their respective successors are duly elected and qualified. If, at any meeting of stockholders, directors of more than one class are to be elected, whether due to a vacancy or vacancies on the Board of Directors, or otherwise, each class of directors to be elected at the meeting shall be nominated and voted for in a separate election.

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* Effective July 1, 1995, the Board of Directors fixed the number of directors at eight.

2.03. *Election and Tenure.* Unless action is taken without a meeting under these Bylaws, directors shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at a stockholders meeting at which a quorum is present. Each director shall hold office until the end of such director's term and until such director's successor has been elected, or until such director's prior death, resignation or removal. A director may resign at any time by filing a written resignation with the Secretary of the corporation.

2.04. *Removal.* A director may be removed from office only by affirmative vote by a majority if for cause, or at least 80% if without cause, of the aggregate number of votes which the holders of the then outstanding shares of Common Stock and Preferred Stock are entitled to cast, voting together as a class, in the election of directors.

2.05. *Vacancies.* Any vacancy occurring in the Board of Directors, including a vacancy created by an increase in the number of directors, may be filled by the stockholders or the Board of Directors. If the directors remaining in office constitute fewer than a quorum of the Board, the directors may fill a vacancy by the affirmative vote of a majority of all directors remaining in office. The director filling the vacancy shall serve for a term equal to the remaining term of the directors in the class of directors in which the vacancy occurred or in which the new director position was created.

2.06. *Regular Meetings.* Regular meetings of the Board of Directors and any committee thereof shall be held at such time and place, either within or without the State of Wisconsin, as may from time to time be fixed by the Board or such committee without other notice than the schedule prepared by the Secretary or the resolution or other action of the Board or committee establishing the time and place of such regular meetings.

2.07. *Special Meetings.* Special meetings of the Board of Directors may be called by or at the request of the Board of Directors, the Executive Committee, the Chairman of the Board, the President, any committee designated by the Board with specific authority to do such or any two (2) directors. Special meetings of any committee may be called by or at the request of the foregoing persons or the chairman of the committee. The persons calling any special meeting of the Board of Directors or committee may fix any place, either within or without the State of Wisconsin, as the place for holding any special meeting called by them, and if no other place is fixed the place of meeting shall be the principal business office of the corporation.

2.08. *Meetings by Telephone or Other Communication Technology.* (a) Any or all directors may participate in a regular or special meeting of the Board of Directors or in a committee meeting by, or conduct the meeting through the use of, telephone or any other means of communication by which either: (i) all participating directors may simultaneously hear each other during the meeting or (ii) all communication during the meeting is immediately transmitted to each participating director, and each participating director is able to immediately send messages to all other participating directors.

(b) If a meeting will be conducted through the use of any means described in paragraph (a), all participating directors shall be informed that a meeting is taking place at which official business may be transacted. A director participating in a meeting by any means described in paragraph (a) is deemed to be present in person at the meeting.

2.09. *Notice of Meetings.* Notice of each meeting of the Board of Directors (unless otherwise provided in or pursuant to Section 2.06 of these Bylaws) shall be given by written notice delivered personally or mailed or given by telephone or telegram to each director at his business address or at such other address as such director shall have designated in writing filed with the Secretary, in each case not less than 6 hours prior thereto. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company; if by telephone, at the time the call is completed. Whenever any notice whatever is required to be given to any director of the corporation under the Articles of Incorporation, Bylaws or any provision of law, a waiver thereof in writing, signed at any time, whether before or after the time of

their estates, families, dependents or beneficiaries on account of prior services rendered by such directors, officers and employees to the corporation, and (c) provide for or assist

meeting, by the director entitled to such notice, shall be deemed equivalent to the giving of such notice. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting and objects thereat to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in the notice or waiver of notice of such meeting.

2.10. *Quorum.* Except as otherwise provided by the Wisconsin Business Corporation Law or these Bylaws, a majority of the number of directors as provided in or pursuant to Section 2.01 shall constitute a quorum of the Board of Directors, and a majority of the number of directors appointed to serve on a committee shall constitute a quorum of the committee. If at any meeting of the Board of Directors or any committee thereof there shall be less than a quorum present, a majority of the directors present may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall have been obtained, when any business may be transacted which might have been transacted at the meeting as first convened had there been a quorum.

2.11. *Manner of Acting.* The affirmative vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors or any committee thereof unless the affirmative vote of a greater number is otherwise required by the Wisconsin Business Corporation Law, the Articles of Incorporation, the Bylaws or any provision of law.

2.12. *Committees.* The Board of Directors, by resolution adopted by the affirmative vote of a majority of all the directors then in office, may create one or more committees, each committee to consist of two (2) or more directors appointed by the Board of Directors to serve as members of the committee, which to the extent provided in the resolution as initially adopted, and as thereafter supplemented or amended by further resolution adopted by a like vote, may exercise the authority of the Board of Directors. Notwithstanding the foregoing, no committee may: (a) authorize distributions; (b) approve or propose to stockholders action that the Wisconsin Business Corporation Law requires be approved by stockholders; (c) fill vacancies on the Board of Directors or any of its committees, except that the Board of Directors may provide by resolution that any vacancies on a committee shall be filled by the affirmative vote of a majority of the remaining committee members; (d) amend the Articles of Incorporation; (e) adopt, amend or repeal Bylaws; (f) approve a plan of merger not requiring stockholder approval; (g) authorize or approve reacquisition of shares, except according to a formula or method prescribed by the Board of Directors; or (h) authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, except within limits prescribed by the Board of Directors.

Unless otherwise provided by the Board of Directors, members of any committee shall serve at the pleasure of the Board of Directors. The Board of Directors may elect one or more of its members as alternate members of any such committee who may take the place of any absent member or members at any meeting of such committee, upon request by the Chairman of the Board or upon request by the chairperson of such meeting. Each such committee shall fix its own rules (consistent with the Wisconsin Business Corporation Law, the Articles of Incorporation and these Bylaws) governing the conduct of its activities and shall make such reports to the Board of Directors of its activities as the Board of Directors may request. Unless otherwise provided by the Board of Directors in creating a committee, a committee may employ counsel, accountants and other consultants to assist it in the exercise of authority.

The provisions of Section 2.09 shall also apply to notice and waiver of notice of meetings of any committee of the Board of Directors.

2.13. *Compensation.* The Board of Directors, by affirmative vote of a majority of the directors then in office, and irrespective of any personal interest of any of its members, may (a) establish reasonable compensation of all directors for services to the corporation as directors, officers or otherwise, and the manner and time and payment thereof, (b) provide for reasonable pensions, disability or death benefits, and other benefits or payments, to directors, officers and employees and to

their estates, families, dependents or beneficiaries on account of prior services rendered by such directors, officers and employees to the corporation, and (c) provide for reimbursement of reasonable expenses incurred in the performance of directors' duties.

2.14. *Presumption of Assent.* A director who is present and is announced as present at a meeting of the Board of Directors or a committee thereof at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless (a) the director objects at the beginning of the meeting or promptly upon his or her arrival to holding the meeting or transacting business at the meeting, or (b) the director's dissent or abstention from the action taken is entered in the minutes of the meeting, or (c) the director delivers his or her written notice of dissent or abstention to the presiding officer of the meeting before the adjournment thereof or to the corporation immediately after the adjournment of the meeting, or (d) the director dissents or abstains from an action taken, minutes of the meeting are prepared that fail to show the director's dissent or abstention and the director delivers to the corporation a written notice of that failure promptly after receiving the minutes. Such right to dissent or abstain shall not apply to a director who voted in favor of an action.

2.15. *Director Unanimous Consent Without a Meeting.* Any action required or permitted by the Articles of Incorporation, these Bylaws or any provision of law to be taken at a Board of Directors meeting or committee meeting may be taken without a meeting if the action is taken by all members of the Board or committee. The action shall be evidenced by one or more written consents describing the action taken, signed by each director and retained by the corporation. Action taken hereunder is effective when the last director signs the consent, unless the consent specifies a different effective date. A consent signed hereunder has the effect of a unanimous vote taken at a meeting at which all directors or committee members were present, and may be described as such in any document.

ARTICLE III.

OFFICERS

3.01. *Positions.* The officers of the corporation shall include a Chairman of the Board, a Vice Chairman of the Board, a President, the number of Vice Presidents provided for by the Board of Directors, a Treasurer, and a Secretary, each of whom shall be appointed by the Board of Directors. The Board of Directors shall also designate a Chief Executive Officer, a Chief Operating Officer and a Chief Financial Officer. Such other officers and assistant officers as may be deemed necessary may be appointed by the Board of Directors. Any two or more offices may be held by the same person.

3.02. *Resignation and Removal.* An officer shall hold office until he or she resigns, dies, is removed hereunder, or a different person is appointed to the office. An officer may resign at any time by delivering an appropriate written notice to the corporation. The resignation is effective when the notice is delivered, unless the notice specifies a later effective date and the corporation accepts the later effective date. Any officer may be removed from office by the affirmative vote of a majority of the whole Board of Directors at any time, with or without cause and notwithstanding the contract rights, if any, of the person removed. Except as provided in the preceding sentence, the resignation or removal is subject to any remedies provided by any contract between the officer and the corporation or otherwise provided by law. Appointment shall not of itself create contract rights.

3.03. *Vacancies.* A vacancy in any office because of death, resignation, removal or otherwise, shall be filled by the Board of Directors. The Board of Directors may, from time to time, omit to elect one or more officers or may omit to fill a vacancy, and in such case, the designated duties of such officer, unless otherwise provided in these Bylaws, shall be discharged by the Chief Executive Officer or such other officers as he or she may designate.

3.04. *Powers and Duties.* Subject to such limitations as the Board of Directors may from time to time prescribe, the officers of the corporation shall each have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as from time to time may be

conferred by the Chief Executive Officer or the Board of Directors. The Treasurer and the Assistant Treasurers may be required to give bond for the faithful discharge of their duties, in such sum and of such character as the Board of Directors may from time to time prescribe.

ARTICLE IV.

CERTIFICATES FOR SHARES AND THEIR TRANSFER

4.01. *Stock Certificates and Facsimile Signatures.* The certificates for shares of stock of the corporation shall be signed either manually or by facsimile signature by the Chief Executive Officer, the President or a Vice President, and by the Secretary or an Assistant Secretary of the corporation, or any other officer or officers that the Board of Directors designates, and may be sealed with the seal of the corporation.

The certificates for shares shall be countersigned and registered either manually or by facsimile signature in such manner, if any, as the Board of Directors may from time to time prescribe. The transfer agent and the registrar may, but need not be, the same person or agency. In the event that the corporation or its agent is acting in the dual capacity of transfer agent and registrar, a single manual or facsimile signature may be used.

In case any such person acting as an officer, transfer agent or registrar, who has signed, or whose facsimile signature has been placed upon such certificate, shall have ceased to be such officer, transfer agent or registrar, before such certificate is issued, it may be used by the corporation with the same effect as if such person had not ceased to be such at the date of its issue.

4.02. *Transfer of Stock.* The shares of stock of the corporation shall be transferable on the books of the corporation upon request by the holders thereof or by duly authorized attorney, upon surrender and cancellation of certificates for a like number of shares of the same class and series of stock, with duly executed assignment and power of transfer endorsed thereon or attached thereto, and with such proof of the authenticity of the signature as the corporation or its agents may reasonably require.

Prior to due presentment of a certificate for shares for registration of transfer the corporation may treat the registered owner of such shares as the person exclusively entitled to vote, to receive notifications and otherwise to have and exercise all the rights and powers of an owner. Where a certificate for shares is presented to the corporation with a request to register for transfer, the corporation shall not be liable to the owner or any other person suffering loss as a result of such registration of transfer if (a) there were on or with the certificate the necessary endorsements, and (b) the corporation had no duty to inquire into adverse claims or has discharged any such duty. The corporation may require reasonable assurance that said endorsements are genuine and effective and in compliance with such other regulations as may be prescribed by or under the authority of the Board of Directors.

4.03. *Lost, Destroyed or Stolen Certificates.* Where the owner claims that his certificate for shares has been lost, destroyed or wrongfully taken, a new certificate shall be issued in place thereof if the owner (a) so requests before the corporation has notice that such shares have been acquired by a bona fide purchaser, (b) files with the corporation a sufficient indemnity bond and (c) satisfies such other reasonable requirements as may be prescribed by or under the authority of the Board of Directors.

4.04. *Shares Without Certificates.* The Board of Directors may authorize the issuance of any shares of any of its classes or series without certificates. The authorization does not affect shares already represented by certificates until the certificates are surrendered to the corporation. Within a reasonable time after the issuance or transfer of shares without certificates, the corporation shall send the stockholder a written statement that includes (1) all of the information required on share certificates and (2) any transfer restrictions applicable to the shares.

ARTICLE V.

INDEMNIFICATION

5.01. *Mandatory Indemnification.* The corporation shall indemnify to the fullest extent permitted by law any person who is or was a party or threatened to be made a party to any legal proceeding by reason of the fact that such person is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of another enterprise, against expenses (including attorney fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such legal proceeding.

5.02. *Certain Definitions.* As used in this Article V, (a) "indemnify" includes the advancement of expenses upon receipt of an undertaking to repay upon specified conditions, (b) "fullest extent permitted by law" means the fullest extent to which indemnity may lawfully be provided by, pursuant to or consistently with, the provisions of subsections (1) and (2) of Section 180.05** of the Wisconsin Statutes (or any successor provision), a bylaw under subsection (6) of that Section** (or any successor provision) or any other applicable law, whether statutory or otherwise, (c) "person" includes the person's heirs, executors and administrators, (d) "legal proceeding" means any threatened, pending or completed action, suit or proceeding, whether or not by or in right of the corporation, (e) "other enterprise" includes any corporation, partnership, joint venture, trust, dividend reinvestment plan, stock purchase plan, employee benefit plan or other plan or entity, (f) "expenses" include expenses in the enforcement of rights under this Bylaw and any excise taxes assessed with respect to an employee benefit plan and (g) in respect of any of such plans, (i) "serving at the request of the corporation as a director or officer" includes serving at the request of the corporation in any capacity that involves services or duties with respect to the plan or its participants or beneficiaries and (ii) action reasonably believed to be in the interest of such participants or beneficiaries shall be deemed reasonably believed to be in, or not opposed to, the best interests of the corporation.

5.03. *Legal Enforceability.* The rights provided to any person by the terms of this Article V shall be legally enforceable against the corporation by such person, who shall be presumed to have relied on the provisions of this Article V in undertaking or continuing any of the positions with the corporation or other enterprise referred to in Section 5.01.

5.04. *Limitation on Modification or Termination.* No modification or termination of this Article V shall be effected which would impair any rights hereunder arising at any time out of events occurring prior to such modification or termination.

5.05. *Non-Exclusive Bylaw.* This Article V is not intended be to exclusive and accordingly shall not be construed as impairing in any way the power and authority of the corporation, to the extent legally permissible without regard to this Article V, in its discretion to indemnify or agree to indemnify, or to purchase insurance indemnifying, any employee, agent or other person.

ARTICLE VI.

OTHER INDEMNIFICATION PROVISIONS

6.01. *Indemnification for Successful Defense.* Within twenty (20) days after receipt of a written request pursuant to Section 6.03, the corporation shall indemnify a director or officer, to the extent he or she has been successful on the merits or otherwise in the defense of a proceeding, for all reasonable expenses incurred in the proceeding if the director or officer was a party because he or she is a director or officer of the corporation.

** The currently applicable statutory provisions are Sections 180.0850 to 180.0859 of the Wisconsin Business Corporation Law.

6.02. *Other Indemnification.* (a) In cases not included under Section 6.01, the corporation shall indemnify a director or officer against all liabilities and expenses incurred by the director or officer in a proceeding to which the director or officer was a party because he or she is a director or officer of the corporation, unless liability was incurred because the director or officer breached or failed to perform a duty he or she owes to the corporation and the breach or failure to perform constitutes any of the following:

(1) A willful failure to deal fairly with the corporation or its stockholders in connection with a matter in which the director or officer has a material conflict of interest.

(2) A violation of criminal law, unless the director or officer had reasonable cause to believe that his or her conduct was lawful or no reasonable cause to believe that his or her conduct was unlawful.

(3) A transaction from which the director or officer derived an improper personal profit.

(4) Willful misconduct.

(b) Determination of whether indemnification is required under this Section or Article V shall be made pursuant to Section 6.05.

(c) The termination of a proceeding by judgment, order, settlement or conviction, or upon a plea of no contest or an equivalent plea, does not, by itself, create a presumption that indemnification of the director or officer is not required under this Section.

6.03. *Written Request.* A director or officer who seeks indemnification under Article V or Sections 6.01 or 6.02 shall make a written request to the corporation.

6.04. *Nonduplication.* The corporation shall not indemnify a director or officer under Sections 6.01 or 6.02 if the director or officer has previously received indemnification or allowance of expenses from any person, including the corporation, in connection with the same proceeding. However, the director or officer has no duty to look to any other person for indemnification.

6.05. *Determination of Right to Indemnification.* (a) Unless otherwise provided by the Articles of Incorporation or by written agreement between the director or officer and the corporation, the director or officer seeking indemnification under Article V or Section 6.02 shall select one of the following means for determining his or her right to indemnification:

(1) By a majority vote of a quorum of the Board of Directors consisting of directors not at the time parties to the same or related proceedings. If a quorum of disinterested directors cannot be obtained, by majority vote of a committee duly appointed by the Board of Directors and consisting solely of two (2) or more directors who are not at the time parties to the same or related proceedings. Directors who are parties to the same or related proceedings may participate in the designation of members of the committee.

(2) By independent legal counsel selected by a quorum of the Board of Directors or its committee in the manner prescribed in sub. (1) or, if unable to obtain such a quorum or committee, by a majority vote of the full Board of Directors, including directors who are parties to the same or related proceedings.

(3) By a panel of three (3) arbitrators consisting of one arbitrator selected by those directors entitled under sub. (2) to select independent legal counsel, one arbitrator selected by the director or officer seeking indemnification and one arbitrator selected by the two (2) arbitrators previously selected.

(4) By an affirmative vote of shares represented at a meeting of stockholders at which a quorum of the voting group entitled to vote thereon is present. Shares owned by, or voted under the control of, persons who are at the time parties to the same or related proceedings, whether as plaintiffs or defendants or in any other capacity, may not be voted in making the determination.

(2) That the director or officer is fairly and reasonably entitled to indemnification in view of

(5) By a court under Section 6.08.

(6) By any other method provided for in any additional right to indemnification.

(b) In any determination under (a), the burden of proof is on the corporation to prove by clear and convincing evidence that indemnification under Article V or Section 6.02 should not be allowed.

(c) A written determination as to a director's or officer's indemnification under Article V or Section 6.02 shall be submitted to both the corporation and the director or officer within 60 days of the selection made under (a).

(d) If it is determined that indemnification is required under Article V or Section 6.02, the corporation shall pay all liabilities and expenses not prohibited by Section 6.04 within ten (10) days after receipt of the written determination under (c). The corporation shall also pay all expenses incurred by the director or officer in the determination process under (a).

6.06. *Advance of Expenses.* Within ten (10) days after receipt of a written request by a director or officer who is a party to a proceeding, the corporation shall pay or reimburse his or her reasonable expenses as incurred if the director or officer provides the corporation with all of the following:

(1) A written affirmation of his or her good faith belief that he or she has not breached or failed to perform his or her duties to the corporation.

(2) A written undertaking, executed personally or on his or her behalf, to repay the allowance to the extent that it is ultimately determined under Section 6.05 that indemnification under Article V or Section 6.02 is not required and that indemnification is not ordered by a court under Section 6.08(b)(2). The undertaking under this subsection shall be an unlimited general obligation of the director or officer and may be accepted without reference to his or her ability to repay the allowance. The undertaking may be secured or unsecured.

6.07. *Limitations on Indemnification.* (a) Regardless of the existence or rights under these Bylaws and additional rights to indemnification under any agreement with the corporation, the corporation shall not indemnify a director or officer, or permit a director or officer to retain any allowance of expenses, unless it is determined by or on behalf of the corporation that the director or officer did not breach or fail to perform a duty he or she owes to the corporation which constitutes conduct under Section 6.02(a)(1), (2), (3) or (4). A director or officer who is a party to the same or related proceedings for which indemnification or an allowance of expenses is sought may not participate in a determination under this subsection.

(b) Sections 6.01 to 6.12 do not affect the corporation's power to pay or reimburse expenses incurred by a director or officer in any of the following circumstances.

(1) As a witness in a proceeding to which he or she is not a party.

(2) As a plaintiff or petitioner in a proceeding because he or she is or was an employee, agent, director or officer of the corporation.

6.08. *Court-Ordered Indemnification.* (a) Except as provided otherwise by written agreement between the director or officer and the corporation, a director or officer who is a party to a proceeding may apply for indemnification to the court conducting the proceeding or to another court of competent jurisdiction. Application shall be made for an initial determination by the court under Section 6.05(a)(5) or for review by the court of an adverse determination under Section 6.05(a) (1), (2), (3), (4) or (6). After receipt of an application, the court shall give any notice it considers necessary.

(b) The court shall order indemnification if it determines any of the following:

(1) That the director or officer is entitled to indemnification under Article V or Sections 6.01 or 6.02.

(2) That the director or officer is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, regardless of whether indemnification is required under Article V or Section 6.02.

(c) If the court determines under (b) that the director or officer is entitled to indemnification, the corporation shall pay the director's or officer's expenses incurred to obtain the court-ordered indemnification.

6.09. *Indemnification and Allowance of Expenses of Employees and Agents.* The corporation shall indemnify an employee of the corporation who is not a director or officer of the corporation, to the extent that he or she has been successful on the merits or otherwise in defense of a proceeding, for all reasonable expenses incurred in the proceeding if the employee was a party because he or she was an employee of the corporation. In addition, the corporation may indemnify and allow reasonable expenses of an employee or agent who is not a director or officer of the corporation to the extent provided by the Articles of Incorporation or these Bylaws, by general or specific action of the Board of Directors or by contract.

6.10. *Insurance.* The corporation may purchase and maintain insurance on behalf of an individual who is an employee, agent, director or officer of the corporation against liability asserted against or incurred by the individual in his or her capacity as an employee, agent, director or officer, regardless of whether the corporation is required or authorized to indemnify or allow expenses to the individual against the same liability under Article V or Sections 6.01, 6.02, 6.06, 6.07 and 6.09.

6.11. *Securities Law Claims.* (a) Pursuant to the public policy of the State of Wisconsin, the corporation shall provide indemnification and allowance of expenses and may insure for any liability incurred in connection with a proceeding involving securities regulation described under (b) to the extent required or permitted under Article V or Sections 6.01 to 6.10.

(b) Article V and Sections 6.01 to 6.10 apply, to the extent applicable to any other proceeding, to any proceeding involving a federal or state statute, rule or regulation regulating the offer, sale or purchase of securities, securities brokers or dealers, or investment companies or investment advisers.

6.12. *Liberal Construction.* In order for the corporation to obtain and retain qualified directors, officers and employees, the foregoing provisions shall be liberally administered in order to afford maximum indemnification of directors, officers and, where Section 6.09 of these Bylaws applies, employees. The indemnification above provided for shall be granted in all applicable cases unless to do so would clearly contravene law, controlling precedent or public policy.

ARTICLE VII.

CONTRACTS, CHECKS, NOTES, BONDS, ETC.

7.01. *Contracts.* The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute or deliver any document or instrument, whether of conveyance or otherwise, in the name of and on behalf of the corporation, and such authorization may be general or confined to specific instances.

7.02. *Checks, Drafts, Etc.* All checks and drafts on the corporation's bank accounts and all bills of exchange and promissory notes, and all acceptances, obligations and other instruments for the payment of money, shall be signed or, in the case of wire transfers, shall be authorized by such officer or officers, employee or employees or agent or agents as shall be thereunto authorized from time to time by the Board of Directors; provided that checks drawn on the corporation's bank accounts may bear the facsimile signature of such officer or officers, employee or employees, or agent or agents as the Board of Directors shall authorize; and provided further that in the case of notes, bonds or debentures issued under a trust instrument of the corporation and required to be signed by two officers of the corporation, the signatures of either or both of such officers may be in facsimile if specifically authorized and directed by the Board of Directors of the corporation and if such notes, bonds or debentures

are required to be authenticated by a corporate trustee which is a party to the trust instrument. In case any such officer who has signed or whose facsimile signature has been placed upon such instrument shall have ceased to be such officer before such instrument is issued, it may be issued by the corporation with the same effect as if such officer had not ceased to be such at the date of its issue.

ARTICLE VIII.

FISCAL YEAR

The fiscal year of the corporation shall begin on the first day of January in each year and shall end on the thirty-first day of December following.

ARTICLE IX.

CORPORATE SEAL

The corporate seal shall have inscribed thereon the name of the corporation and the words "Corporate Seal, June 26, 1981."

ARTICLE X.

EFFECT OF HEADINGS

The descriptive headings and references to Articles and Sections in these Bylaws were formulated, used and inserted herein for convenience only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

ARTICLE XI.

AMENDMENTS

11.01. *By Stockholders.* These Bylaws may be amended or repealed and new Bylaws may be adopted by the stockholders by the vote provided in Section 1.06 of these Bylaws except as specifically provided below or in the Articles of Incorporation. If authorized by the Articles of Incorporation, the stockholders may adopt or amend a Bylaw that fixes a greater or lower quorum requirement or a greater voting requirement for stockholders or voting groups of stockholders than otherwise is provided in the Wisconsin Business Corporation Law. The adoption or amendment of a Bylaw that adds, changes or deletes a greater or lower quorum requirement or a greater voting requirement for stockholders must meet the same quorum requirement and be adopted by the same vote and voting groups required to take action under the quorum and voting requirement then in effect.

11.02. *By Directors.* Except as the Articles of Incorporation may otherwise provide, these Bylaws may also be amended or repealed and new Bylaws may be adopted by the Board of Directors by the vote provided in Sections 2.10 and 2.11, but (a) no Bylaw adopted by the stockholders shall be amended, repealed or readopted by the Board of Directors if such Bylaw provides that it may not be amended, repealed or readopted by the Board of Directors and (b) a Bylaw adopted or amended by the stockholders that fixes a greater or lower quorum requirement or a greater voting requirement for the Board of Directors than otherwise is provided in the Wisconsin Business Corporation Law may not be amended or repealed by the Board of Directors unless the Bylaw expressly provides that it may be amended or repealed by a specified vote of the Board of Directors. Action by the Board of Directors to adopt or amend a Bylaw that changes the quorum or voting requirement for the Board of Directors must meet the same quorum requirement and be adopted by the same vote required to take action under the quorum and voting requirement then in effect, unless a different voting requirement is specified as provided by the preceding sentence. A Bylaw that fixes a greater or lower quorum requirement or a greater voting requirement for stockholders or voting groups of stockholders than otherwise is provided in the Wisconsin Business Corporation Law may not be adopted, amended or repealed by the Board of Directors.

11.03. *Implied Amendments.* Any action taken or authorized by the stockholders or by the Board of Directors, which would be inconsistent with the Bylaws then in effect but is taken or authorized by a vote that would be sufficient to amend the Bylaws so that the Bylaws would be consistent with such action, shall be given the same effect as though the Bylaws had been temporarily amended or suspended so far, but only so far, as is necessary to permit the specific action so taken or authorized.

11.04. *Vote Required for Certain Amendments.* Notwithstanding anything in these Bylaws to the contrary, the provisions of Section 1.09, Sections 2.01, 2.02, 2.04, and 2.09, Article V and this Section 11.04***, may be amended only by the affirmative vote of at least 80% of the aggregate number of votes which the holders of the then outstanding shares of Common Stock and Preferred Stock, voting together as a class, are entitled to cast in an election of directors.

*** These article and section references correspond to the designations in these Bylaws, as renumbered. As originally adopted, the references were to Section 8 of Bylaw I, Sections 1, 2, 4 and 7 of Bylaw II, Bylaw IV and Section 3 of Bylaw X, respectively, the provisions of which are included herein without change except for renumbering.

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
NORTHERN POWER WISCONSIN CORP.
(a Wisconsin corporation)

These Restated Articles of Incorporation supersede and take the place of the existing Articles of Incorporation and all prior amendments thereto and restatements thereof.

ARTICLE I

NAME, REGISTERED OFFICE AND AGENT

The name of this corporation shall be NORTHERN POWER WISCONSIN CORP. At the time of the adoption of these Articles, the address of the registered office of the Corporation is 44 East Mifflin Street, Madison, Wisconsin 53703 and its registered agent at such address is C T CORPORATION SYSTEM.

ARTICLE II

PURPOSE

The corporation is organized to engage in any lawful activity within the purposes for which a corporation may be organized under the WBCL, including but not limited to acquiring, maintaining and operating facilities by or through which the corporation can provide communication, transportation, water, light, heat, or power to the public and to acquire and hold rights and franchises for the occupation and use of property for providing public utility services.

ARTICLE III

DURATION

The period of duration of this Corporation shall be perpetual.

ARTICLE IV

DIRECTORS

1. *Board of Directors.* The management of this Corporation shall be vested in a Board of Directors composed of not less than three (3) and not more than seventeen (17) members, who shall be elected by the stockholders of the Corporation in the manner provided by the Bylaws, which may provide that the directors shall be divided into three classes as contemplated in Section 180.0806 of the Wisconsin Statutes or any successor provision. It shall not be necessary that directors be stockholders in the Corporation. The number of directors shall be fixed from time to time by the Bylaws, and such number may be increased or decreased within the above limits in such manner as may be provided by the Bylaws. Vacancies in the Board caused by an increase in the number of directors or by death, resignation, disqualification, or other cause, may be filled by the remaining directors or by the stockholders at an annual or special meeting, as may be provided by the Bylaws.

ARTICLE V

DESCRIPTION OF CAPITAL STOCK

The total authorized number of shares that may be issued by the Corporation and that the Corporation will henceforth be authorized to have is one hundred sixty-seven million (167,000,000) of the par value per share hereinafter set forth.

distributable to the holders of all shares of Preferred Stock of all series shall be apportioned among them ratably in proportion to the amounts to which they are, respectively, entitled in accordance with

A description of the classes of shares and a statement of the number of shares in each class and the relative rights, voting power, and preferences granted to and restrictions imposed upon the shares of each class are as follows:

1. *Authorized Number and Classes of Shares.* Such shares shall be divided into two classes to be designated, respectively, Preferred Stock and Common Stock. The total authorized number of shares of Preferred Stock is seven million (7,000,000) having a par value of one hundred dollars ($100) per share, and the total authorized number of shares of Common Stock is one hundred sixty million (160,000,000) having a par value of two dollars and fifty cents ($2.50) per share.

2. *Issuance and Terms of Preferred Stock.* The Preferred Stock may be issued in series, each of which series shall have such distinctive designation as may be fixed by the Board of Directors prior to the issuance or allotment of any share of such series, provided that such designation shall in each case include the words "Preferred Stock". The Board of Directors is hereby authorized, within the limitations and restrictions hereinafter stated and within the limits of the WBCL, to fix from time to time, in respect of shares of Preferred Stock at the time unallotted, the dividend rates and times of payment, the redemption price, and liquidation price or preference as to assets in voluntary liquidation of the shares of any series of Preferred Stock (except the series designated "Cumulative Preferred Stock, $3.60 Series," in respect of which such provisions are hereinafter set forth) and the number of shares constituting any series of Preferred Stock.

3. *Preferences of Preferred Stock.*

a. *Dividends.* The holders of shares of Preferred Stock, irrespective of the series thereof, shall be entitled to receive in preference to the Common Stock, when and as declared by the Board of Directors of the Corporation, out of its net earnings or surplus, cumulative dividends at such rate as shall have been fixed for the series of which such shares are a part, and no more, payable to shareholders of record on such dates and for such dividend periods as shall be fixed by the Board of Directors of the Corporation. So long as dividends are in default in whole or in part on a series of Preferred Stock for any prior dividend period for such series of Preferred Stock, any dividends on the Preferred Stock shall be divided among the outstanding series of Preferred Stock for which dividends are accumulated and unpaid for any prior dividend period applicable thereto in proportion to the aggregate amounts that then would be distributable to the holders of Preferred Stock of each such series if all dividends accumulated thereon and unpaid for all prior dividend periods applicable thereto were paid and declared thereon. Dividends on each share of Preferred Stock shall begin to accrue on the first day of the dividend period during which the original issue of a certificate for such share shall occur; provided, however, that, in the case of any series of Preferred Stock issued in exchange for a series of preferred stock, par value $2.50 per share of Northern States Power Company, a Minnesota corporation, which was created after May 6, 1970, the Board of Directors, in its discretion, may fix the date of original issue of the shares of such series as the date from which dividends shall accrue.

b. *Liquidation and Dissolution.* In the event of any distribution of assets of the Corporation other than by dividends from net earnings or surplus, whether upon voluntary liquidation or dissolution or upon involuntary liquidation or dissolution of the Corporation, the holders of the shares of Preferred Stock shall be entitled, in preference to the Common Stock, to one hundred dollars ($100) per share in the case of involuntary liquidation or dissolution and to such amount per share in the case of voluntary liquidation or dissolution (which may differ from that payable in involuntary liquidation or dissolution) as shall have been fixed by the Board of Directors for the shares of the series of which they are a part, plus in each case an amount equal to all dividends accumulated and unpaid thereon, and no more. The consolidation or merger of this Corporation with or into any other corporation or corporations shall not be deemed to be distribution of assets or liquidation or dissolution of the Corporation within the meaning of any provisions hereof.

If upon any such distribution of assets of the Corporation the assets distributable among the holders of the Preferred Stock of all series shall be insufficient to pay in full the amounts to which the holders of Preferred Stock of all series are entitled under the foregoing provisions, the amount

Board of Directors, and the common shareholders, voting separately as a class, shall be entitled to

distributable to the holders of all shares of Preferred Stock of all series shall be apportioned among them ratably in proportion to the amounts to which they are, respectively, entitled in accordance with such foregoing provisions.

c. *Dividend Arrearages* Dividends may be paid upon the Common Stock only when dividends have been paid, or declared and set apart for payment in full, on the Preferred Stock of all series from the date on which dividends thereon began to accrue to the beginning of the current dividend periods, but whenever all such dividends have been paid, or declared and funds set apart for the payment thereof in full, upon the Preferred Stock of all series then dividends upon the Common Stock may be declared, payable then or thereafter out of any net earnings or surplus then remaining. The holders of Preferred Stock shall not be entitled to receive any amounts upon any distribution of the assets of the Corporation other than by dividends from net earnings or surplus in excess of the amount to which they are, respectively, entitled in accordance with the foregoing provisions hereof, but after the payment of such amounts in accordance with the provisions hereinabove set forth, the holders of Common Stock, subject to the rights of holders of stock of any other class hereafter authorized, shall receive all further amounts in distribution of such assets of the Corporation.

4. *Redemption of Preferred Stock.* The Corporation, at its option, may at any time and from time to time redeem the whole or any part of the Preferred Stock of any series or all series, upon at least thirty days' previous notice by mail or publication given to the holders of record of the shares to be redeemed or upon such other period and form of notice as shall be fixed by the Board of Directors in the resolution establishing such series, by paying for each share to be redeemed the redemption price which shall have been fixed, as herein provided, for the shares of the series of which it is a part plus in each case an amount equal to the dividends upon such shares so to be redeemed at the rate or rates fixed with respect to such shares from the date or dates on which dividends on such shares began to accrue to the date fixed for the redemption thereof less the amount of dividends theretofore paid thereon, such payment to be made only on presentation and surrender for cancellation of the certificate or certificates representing the share or shares so called for redemption properly endorsed or assigned by the owner of record thereof. If less than all the outstanding shares of the Preferred Stock are to be redeemed, the shares to be redeemed shall be determined by the Board of Directors of the Corporation, either by lot, or by redemption pro rata, as the Board of Directors see fit. If the notice of redemption hereinabove provided for shall have been given as hereinabove provided and if on or before the redemption date specified in such notice funds necessary for the redemption of the shares or shares to be redeemed shall have been set apart, as a trust fund, so as to be available therefor, then notwithstanding that any certificate for the shares of Preferred Stock so to be redeemed shall not have been surrendered for cancellation, the shares represented thereby from and after the date of redemption so specified shall no longer be deemed outstanding and the right to receive dividends thereon shall cease to accrue and all rights of the holders of the shares to be redeemed as shareholders of the Corporation, except the right to receive the redemption price without interest upon endorsement and surrender of the certificates for said shares so redeemed, shall cease and terminate.

5. *Voting Rights.*

a. *Number of Votes.* The holders of the Preferred Stock (other than Preferred Stock of the series designated "Cumulative Preferred Stock, $3.60 Series") shall be entitled to one vote for each share thereof held by them, the holders of Preferred Stock heretofore or hereafter issued of the series designated "Cumulative Preferred Stock, $3.60 Series" shall be entitled to three votes for each share thereof held by them, and the holders of the Common Stock shall be entitled to one vote for each share thereof held by them; provided, however, that:

(i) If and when dividends payable on the Preferred Stock of any series at the time outstanding are in default in an amount equivalent to the amount payable thereon during the immediately preceding twelve month period, and until such default shall have been remedied as hereinafter provided, the preferred shareholders, voting as a class and without regard to series, shall be entitled to elect the smallest number of directors necessary to constitute a majority of the full

election of directors after any accrual of the special right of the preferred shareholders to elect a majority of the Board of Directors, the absence of a quorum of the preferred shareholders shall

Board of Directors, and the common shareholders, voting separately as a class, shall be entitled to elect the remaining directors of the Corporation. Upon accrual of such special right of the Preferred Stock, a meeting of the preferred and the common shareholders for the election of directors shall be held upon notice promptly given as provided in the Bylaws for a special meeting by the President or the Secretary of the Corporation. If within fifteen days after the accrual of such special right of the Preferred Stock the President and the Secretary of the Corporation shall fail to call such meeting, then such meeting shall be held upon notice, as provided in the Bylaws for a special meeting, given by the holders of not less than 1,000 shares of the Preferred Stock after filing with the Corporation of notice of their intention to do so. The terms of office of all persons who may be directors of the Corporation at the time shall terminate upon the election of a majority of the Board of Directors by the preferred shareholders, whether or not the common shareholders shall at the time of such termination have elected the remaining directors of the Corporation; thereafter during the continuance of such special right of the Preferred Stock to elect a majority of the Board of Directors, the holders of such stock, voting as a class, shall be entitled to elect a majority of the Board of Directors and the holders of the Common Stock, voting separately as a class, shall be entitled to elect the remaining directors of the corporation; and all directors so elected, whether at such special meeting or any adjournment thereof, or at any subsequent annual meeting for the election of directors, held during the continuance of such special right, shall hold office until the next succeeding annual election and until their respective successors, elected by the preferred shareholders, voting as a class, and the common shareholders, voting as a class, are elected and qualified, unless their terms of office shall be sooner terminated as hereinafter provided. However, if and when all dividends then in default on the Preferred Stock shall thereafter be paid (and such dividends shall be declared and paid out of any funds legally available therefor as soon as reasonably practicable), the Preferred Stock shall thereupon be divested of such special right herein provided for to elect a majority of the Board of Directors, but subject always to the same provisions for the vesting of such special right in such stock in the case of any similar future default or defaults, and the election of directors by the preferred and common shareholders, voting without regard to class, shall take place at the next succeeding annual meeting for the election of directors, or at any adjournment thereof. The terms of office of all persons who may be directors of the Corporation at the time of such divestment shall terminate upon the election of the directors at such annual meeting or adjournment thereof.

b. *First Meeting for Election of Directors.* At the first meeting for the election of directors after any accrual of the special right of the preferred shareholders to elect a majority of the Board of Directors, as provided above, and at any subsequent annual meeting for the election of directors held during the continuance of such special right, the presence in person or by proxy of the holders of record of a majority of the outstanding shares of Preferred Stock without regard to series shall be necessary to constitute a quorum for the election of the directors whom the preferred shareholders are entitled to elect, and the presence in person or by proxy of the holders of record of a majority of the outstanding shares of Common Stock shall be necessary to constitute a quorum for the election of the directors whom the common shareholders are entitled to elect. If at any such meeting there shall not be such a quorum of the preferred shareholders, the meeting shall be adjourned from time to time without notice other than announcement at the meeting until such quorum shall have been obtained; provided that, if such quorum shall not have been obtained within ninety (90) days from the date of such meeting as originally called (or, in the case of any annual meeting held during the continuance of such special right, from the date fixed for such annual meeting), the presence in person or by proxy of the holders of record of one-third of the outstanding shares of the Preferred Stock, without regard to series, shall then be sufficient to constitute a quorum for the election of the directors whom such shareholders are then entitled to elect. The absence of a quorum of the preferred shareholders as a class or of the common shareholders as a class shall not, except as hereinafter provided for, prevent or invalidate the election by the other class of shareholders of the directors whom they are entitled to elect, if the necessary quorum of shareholders of such other class is present in person or represented by proxy at any such meeting or any adjournment thereof. However, at the first meeting for the

c. *Acts which Include Redemption of Preferred Stock.* No vote or consent of the holders of any

election of directors after any accrual of the special right of the preferred shareholders to elect a majority of the Board of Directors, the absence of a quorum of the preferred shareholders shall prevent the election of directors by the common shareholders, until a quorum of the preferred shareholders shall be obtained.

c. *Cumulative Voting.* The holders of shares of stock of any class entitled to vote at a meeting for the election of directors shall have the right to cumulate their votes at such election in the manner provided by the WBCL.

6. *Special Voting Rights of Preferred Stock.*

a. *Act Requiring Majority Vote of Preferred Stock.* So long as any of the Preferred Stock is outstanding, the Corporation shall not, without the consent (given in writing or by vote at a meeting duly called for the purpose in accordance with the provisions of the Bylaws) of the holders of a majority of the total number of shares of such stock, without regard to series, present or represented by proxy at such meeting, at which meeting a quorum as hereinafter provided shall be present or represented by proxy;

(i) issue any unsecured notes, debentures, or other securities representing unsecured indebtedness, or assume any such unsecured securities, for purposes other than the refunding of outstanding unsecured securities theretofore issued or assumed by the Corporation or the redemption or other retirement of outstanding shares of one or more series of the Preferred Stock, if, immediately after such issue or assumption, the total principal amount of all unsecured notes, debentures, or other securities representing unsecured indebtedness issued or assumed by the Corporation and then outstanding (including unsecured securities then to be issued or assumed) would exceed twenty percent (20%) of the aggregate of (a) the total principal amount of all bonds or other securities representing secured indebtedness issued or assumed by the Corporation and then to be outstanding, and (b) the capital and surplus of the Corporation (including all earned surplus, paid-in surplus, capital surplus, or other surplus of the Corporation) as then to be stated on the books of account of the Corporation; or

(ii) merge or consolidate with or into any other corporation or corporations, unless such merger or consolidation, or the issuance of assumption of all securities to be issued or assumed in connection with any such merger or consolidation, shall have been ordered, approved, or permitted by the Securities and Exchange Commission under the provisions of the Public Utility Holding Company Act of 1935 or by any successor commission or regulatory authority of the United States of America having jurisdiction in the premises; provided that the provisions of this clause (ii) shall not apply to a purchase or other acquisition by the Corporation of the franchises or other assets of another corporation, or otherwise apply in any matter which does not involve a merger or consolidation.

b. *Quorum of Preferred Stockholders.* For the purpose of this Section 6, the presence in person or by proxy of the holders or record of a majority of the outstanding shares of Preferred Stock, without regard to series, shall be necessary to constitute a quorum; provided, that if such quorum shall not have been obtained at such meeting or at any adjournment thereof within thirty (30) days from the date of such meeting as originally called, the presence in person or by proxy of the holders of record of one-third (1/3) of the outstanding shares of such stock, without regard to series, shall then be sufficient to constitute a quorum; and provided further that in the absence of a quorum, such meeting or any adjournment thereof may be adjourned from time to time by the officer or officers of the Corporation who shall have called the meeting (but at intervals of not less than seven days unless all shareholders present or represented by proxy shall agree to a shorter interval) without notice other than announcement at the meeting until a quorum as above provided shall be obtained.

c. *Acts which Include Redemption of Preferred Stock.* No vote or consent of the holders of any series of the Preferred Stock shall be required, however, if, at or prior to the issue of any such securities representing unsecured indebtedness, or such consolidation, merger, or sale, provision is made for the redemption or other retirement of all shares of such series then outstanding.

d. *Additional to Other Voting Requirements.* The provisions set forth in this Section 6 are in addition to any other vote required by any provision of the Articles of Incorporation of the Corporation, as amended, or applicable statute, and shall be so construed.

7. *Issuance in Amount of Preferred Stock.* So long as any of the Preferred Stock is outstanding, the Corporation shall not, without the consent (given by vote at a meeting duly called for the purpose in accordance with the provisions of the Bylaws) of the holders of a majority of the total number of shares of such stock then outstanding, without regard to class or series, present or represented by proxy at such meeting, increase the total authorized amount of Preferred Stock (other than as authorized by this Article V) or authorize any other preferred stock ranking on a parity with the Preferred Stock as to assets or dividends (other than through the reclassification of then authorized but unissued shares of Preferred Stock into shares of such other preferred stock).

8. *Issuance of Stock Preferred over Preferred Stock.* So long as any of the Preferred Stock is outstanding, the Corporation shall not, without the consent (given by vote at a meeting duly called for the purpose in accordance with the provisions of the Bylaws) of the holders of at least sixty-six and two-thirds per cent (66-⅔%) of the total number of shares of Preferred Stock, without regard to series, then outstanding, present or represented by proxy at such meeting, authorize any class of stock which shall be preferred as to assets or dividends over the Preferred Stock; or, without the consent of the holders of at least sixty-six and two-thirds per cent (66-⅔%) of the total number of shares of Preferred Stock then outstanding, given as above provided in this Section 8, amend the Articles of Incorporation, to change the express terms and provisions of the Preferred Stock in any manner substantially prejudicial to the holders thereof.

9. *Effecting and Validating Additional Stock or Securities Convertible into Stock.* So long as any shares of Preferred Stock are outstanding, the consent of the holders of at least two-thirds (2/3) of the Preferred Stock at the time outstanding, voting as a class and without regard to series, given in person or by proxy, either in writing or by vote at any meeting called for the purpose, shall be necessary for effecting or validating the issue of any additional shares of Preferred Stock (other than and not exceeding 275,000 shares of the Cumulative Preferred Stock, $3.60 Series), or any shares of stock, or of any security convertible into stock, of any class ranking on a parity with the Preferred Stock, unless

(i) the net income of the Corporation (determined as hereinafter provided) for any twelve consecutive calendar months within the fifteen calendar months immediately preceding the month within which the issuance of such additional shares is authorized by the Board of Directors of the Corporation shall have been in the aggregate not less than one and one-half times the sum of the interest requirements for one year on all of the indebtedness of the Corporation to be outstanding at the date of such proposed issue and the full dividend requirements for one year on all shares of Preferred Stock, and all other stock, if any, ranking prior to or on a parity with the Preferred Stock, to be outstanding at the date of such proposed issue, including the shares then proposed to be issued but excluding any such indebtedness and any such shares proposed to be retired in connection with such proposed issue. For purposes of calculating the dividend requirements for one year applicable to any series of Preferred Stock proposed to be issued which will have dividends determined according to an adjustable, floating or variable rate, the dividend rate used shall be the higher of (A) the dividend rate applicable to such series of Preferred Stock on the date of such calculation, or (B) the average dividend rate payable on all series of Preferred Stock outstanding during the twelve month period immediately preceding the date of such calculation. For purposes of calculating the dividend or interest requirements for one year applicable to any series of Preferred Stock or indebtedness outstanding at the date of such proposed issue and

having dividends or interest determined according to an adjustable, floating or variable rate, the dividend or interest rate used shall be: (A) if such series of Preferred Stock or indebtedness has been outstanding for at least twelve months, the actual amount of dividends or interest paid on account of such series of Preferred Stock or indebtedness for the twelve month period immediately preceding the date of such calculation, or (B) if such series of Preferred Stock or indebtedness has been outstanding for less than twelve months, the higher of (1) the dividend or interest rate applicable to such series of Preferred Stock or indebtedness on the date of such calculation or (2) the average dividend or interest rate payable on all series of Preferred Stock or indebtedness outstanding during the twelve month period immediately preceding the date of such calculation. "Net income" for any period for the purpose of this Section 9 shall be computed by adding to the net income of the Corporation for said period, determined in accordance with generally accepted accounting practices, as adjusted by action of the Board of Directors of the Corporation as hereinafter provided, the amount deducted for interest before arriving at such net income (adjusted as above provided). In determining such net income for any period, there shall be deducted the provisions for depreciation and depletion as recorded on such books or the minimum amount required therefor under the provisions of any then existing trust indenture or supplements thereto of the Corporation, whichever is larger. In the determination of such net income, the Board of Directors of the Corporation may, in the exercise of due discretion, make adjustments by way of increase or decrease in such net income to give effect to changes therein resulting from any acquisition of properties or to any redemption, acquisition, purchase, sale, or exchange of securities by the Corporation either prior to the issuance of any shares of Preferred Stock, or stock, or securities convertible into stock, ranking on a parity therewith then to be issued or in connection therewith; and

(ii) the aggregate of the capital of the Corporation applicable to all stock of any class ranking junior to the Preferred Stock, plus the surplus of the Corporation, shall be not less than the aggregate amount payable upon involuntary liquidation, dissolution, or winding up of the affairs of the Corporation to the holders of all shares of Preferred Stock and of any shares of stock of any class ranking on a parity therewith to be outstanding immediately after such proposed issue, excluding from such computation all indebtedness and stock to be retired through such proposed issue. No portion of the surplus of the Corporation utilized to satisfy the foregoing requirements shall be available for dividends (other than dividends payable in stock of any class ranking junior to the Preferred Stock) or other distributions upon or in respect of shares of stock of the Corporation of any class ranking junior to the Preferred Stock for the purchase of shares of such junior stock until such number of additional shares of Preferred Stock or of stock, or securities convertible into stock, ranking on a parity with the Preferred Stocks are retired or until and to the extent that the capital applicable to such junior stock shall have been increased.

10. *Dividends on Common Stock.* So long as any shares of the Preferred Stock are outstanding, the Corporation shall not pay any dividends on its Common Stock (other than dividends payable in Common Stock) or make any distribution on or purchase or otherwise acquire for value any of its Common Stock (each such payment, distribution, purchase and/or acquisition being herein referred to as a "Common Stock dividend"), except to the extent permitted by the following provisions of this Section 10.

a. No Common Stock dividend shall be declared or paid in an amount which, together with all other Common Stock dividends declared in the year ending on (and including) the date of the declaration of such Common Stock dividend, would in the aggregate exceed fifty per cent (50%) of the net income of the Corporation for the period consisting of the twelve consecutive calendar months ending on the last day of the second calendar month next preceding the declaration of such Common Stock dividend after deducting from such net income, dividends accruing on any preferred stock of the Corporation during such period, if at the end of such period the ratio (herein referred to as the "capitalization ratio") of the sum of (1) the capital represented by the Common Stock (including

premiums on capital stock) and (2) the surplus accounts, of the Corporation, to the sum of (1) the total capital and (2) the surplus accounts, of the Corporation (after adjustment of the surplus accounts to reflect payment of such Common Stock dividend) would be less than twenty per cent (20%).

b. If such capitalization ratio, determined as aforesaid shall be twenty per cent (20%) or more, but less than twenty-five per cent (25%) no Common Stock dividend shall be declared or paid in an amount which, together with all other Common Stock dividends declared in the year ending on [and including] the date of the declaration of such Common Stock dividend, would in the aggregate exceed seventy-five per cent (75%) of the net income of the Corporation for the period consisting of the twelve consecutive calendar months ending on the last day of the second calendar month next preceding the declaration of such Common Stock dividend after deducting from such net income, dividends accruing on any preferred stock of the Corporation during such period; and

c. If such capitalization ratio, determined as aforesaid, shall be in excess of twenty-five per cent (25%), no Common Stock dividend shall be declared or paid which would reduce such capitalization ratio to less than twenty-five per cent (25%) except to the extent permitted by the next preceding paragraphs (a) and (b) hereof. For the purpose of this condition:

(i) The total capital of the Corporation shall be deemed to consist of the aggregate of (1) the principal amount of all outstanding indebtedness of the Corporation maturing more than one year after the date of issue thereof and (2) the par value of or the stated capital applicable to all outstanding capital stock (including premiums on capital stock) of all classes of the Corporation. All indebtedness and capital stock owned by the Corporation shall be excluded in determining total capital. Surplus accounts shall be deemed to include all earned surplus, paid-in surplus, capital surplus, or any other surplus of the Corporation.

(ii) Such surplus accounts upon which capitalization ratios are computed shall be adjusted to eliminate (1) the amount, if any, by which fifteen per cent (15%) of the gross operating revenues of the Corporation (calculated in the manner provided in the covenants relating to payment of Common Stock dividends embodied in the indentures and supplemental indentures securing the mortgage bonds of the Corporation) for the entire period from July 1, 1946, to the end of the second calendar month immediately preceding the date of the proposed payment of Common Stock dividends exceeds the total amount expended by the Corporation during such period for maintenance and repairs and the total provision made by the Corporation during such period for depreciation, all as shown by the books of the Corporation, and (2) any amounts on the books of the Corporation known or estimated, if not known, to represent the excess, if any, of recorded value over original cost of used and useful utility plant and other property, and any item set forth on the asset side of the balance sheet of the Corporation as a result of accounting convention, such as unamortized debt discount and expense, capital stock discount and expense, and the excess, if any, of the aggregate amount payable on involuntary dissolution, liquidation, or winding up of the Corporation upon all outstanding shares of preferred stock of all series over the aggregate stated or par value of such shares, unless any such amount or item, as the case may be, is being amortized or is being provided for by a reserve; and

(iii) In computing net income of the Corporation applicable to the Common Stock of the Corporation for any particular twelve (12) months' period for the purposes of this condition, operating expenses, among other things, shall include the greater of (1) the provision for depreciation for such period as recorded on the books of the Corporation or (2) the amount by which fifteen percent (15%) of the gross operating revenues of the Corporation for such period (calculated in the manner provided in the above mentioned covenants relating to payment of Common Stock dividends) exceeds the total amount expended by the Corporation during such periods for maintenance and repairs as shown by the books of the Corporation.

11. *Acceptance of Shares.* In consideration of the issue by the Corporation, and the acceptance by the holders thereof, of shares of the capital stock of the Corporation, each and every present and future holder of shares of the Preferred Stock, the Common Stock and of any stock hereafter authorized of the Corporation shall be conclusively deemed, by acquiring or holding such shares, to have

expressly consented to all and singular the terms and provisions of this Article V and to have agreed that the voting rights of such holder and the restrictions and qualifications thereof shall be as set forth in this Article.

12. *Outstanding Stock or Evidence of Indebtedness.* No share of stock or evidence of indebtedness shall be deemed to be "outstanding," as that term is used in this Article V, if, prior to or concurrently with the event in reference to which a determination as to the amount thereof outstanding is to be made, the requisite funds for the redemption thereof shall be deposited in trust for that purpose and the requisite notice for the redemption thereof shall be given or the depositary of such funds shall be irrevocably authorized and directed to give or complete such notice of redemption.

13. *Right of Unissued Stock or Other Securities.* No holder of any stock of the Corporation shall be entitled, as of right, to purchase or subscribe for any part of any unissued shares of stock of the Corporation or for any additional shares of stock, of any class or series, which may at any time be issued, whether now or hereafter authorized, or for any rights, options, or warrants to purchase or receive shares of stock or for any bonds, certificates of indebtedness, debentures, or other securities convertible into shares of stock, or any class or series thereof; but any such unissued or additional shares, rights, options, or warrants or convertible securities of the Corporation may, from time to time, be issued and disposed of by the Board of Directors to such persons, firms, corporations, or associations, and upon such terms, as the Board of Directors may, in its discretion, determine, without offering any part thereof to any shareholders of any class or series then of record; and any shares, rights, options or warrants or convertible securities which the Board of Directors may at any time determine to offer to shareholders for subscription may be offered to holders of shares of any class or series at the time existing, to the exclusion of holders of shares of any or all other classes or series at the time existing, in each case as the Board of Directors may, in its discretion, determine.

14. *Series of Preferred Stock.*

a. *Cumulative Preferred Stock, $3.60 Series.* Anything herein to the contrary notwithstanding, there shall be and is hereby created a series of preferred stock which is hereby designated "Cumulative Preferred Stock, $3.60 Series," dividends on which shares of Cumulative Preferred Stock, $3.60 Series, shall be payable, if declared, on the 15th days of January, April, July and October of each year; which dividends shall be cumulative from the first day of the respective quarter-yearly period in which the respective shares of such series shall have been originally issued, the term "quarter-yearly period" as used herein referred to the period from July 1, 1946, to and including September 30, 1946, and thereafter to each quarter-yearly period of three (3) consecutive months, beginning with October 1, 1946; the dividend rate of which series is hereby fixed at Three Dollars and Sixty Cents ($3.60) per share per annum; the redemption price of the shares of which series is hereby fixed at One Hundred and Five Dollars and Seventy-Five Cents ($105.75) per share in case of redemption on or prior to September 30, 1951; One Hundred and Four Dollars and Seventy-Five Cents ($104.75) per share in case of redemption subsequent to September 30, 1951, and on or prior to September 30, 1956; and One Hundred and Three Dollars and Seventy-Five Cents ($103.75) per share in case of redemption subsequent to September 30, 1956, in each case plus the amount payable thereon in accordance with the provisions hereof equal to the cumulative dividends accrued and unpaid thereon; the amount which the shares of such series are entitled to receive in preference to the Common Stock upon any distribution of assets other than by dividends from net earnings or surplus upon voluntary liquidation or dissolution of the Corporation is hereby fixed at the then redemption price thereof, plus the amount payable thereon in accordance with the provisions hereof equal to the cumulative dividends accrued and unpaid thereon; the amount which the shares of such series are entitled to receive in preference to the Common Stock upon any distribution of assets, other than by dividends from net earnings or surplus, upon any involuntary liquidation or dissolution of the Corporation is hereby fixed at One Hundred Dollars ($100) per share, plus the amount payable thereon in accordance with the provisions hereof equal to the cumulative dividends accrued and unpaid thereon.

b. *Cumulative Preferred Stock, $4.10 Series.*

(i) There be and there hereby is created from the authorized and unallotted shares of Preferred Stock of the Company, a new series of Preferred Stock of the Company which is hereby designated "Cumulative Preferred Stock, $4.10 Series," and the number of shares constituting said new series is hereby fixed at 175,000 shares.

(ii) The dividend rate of the shares of said new series is hereby fixed at $4.10 per share per annum; dividends on said shares shall be payable on the 15th day of January, April, July and October for the quarter-yearly period ending with the last day of the preceding month, when and as declared by the Board of Directors.

(iii) The redemption price of the shares of said new series is hereby fixed at $105.50 per share in case of redemption on or prior to December 31, 1955; $104.50 per share in case of redemption subsequent to December 31, 1955 and on or prior to December 31, 1960; $103.50 per share in case of redemption subsequent to December 31, 1960 and on or prior to December 31, 1965; and $102.50 per share in case of redemption subsequent to December 31, 1965; plus in each case an amount equal to the dividends at the rate of $4.10 per share per annum from the date dividends on the shares to be redeemed began to accrue to the date fixed for redemption thereof less the amount of dividends theretofore paid thereon.

(iv) The amount which the shares of said new series are entitled to receive in preference to the Common Stock upon any distribution of assets, other than by dividends from net earnings or surplus, upon any involuntary liquidation or dissolution of the corporation is hereby fixed at $100 per share plus an amount equal to all dividends accumulated and unpaid thereon and the amount which the shares of said new series are entitled to receive in preference to the Common Stock upon any distribution of assets, other than by dividends from net earnings or surplus, upon voluntary liquidation or dissolution of the corporation is hereby fixed as the then redemption price, including an amount equal to all dividends accumulated and unpaid thereon.

c. *Cumulative Preferred Stock, $4.08 Series.*

(i) There be and there hereby is created from the authorized and unallotted shares of Preferred Stock of the Company, a new series of Preferred Stock of the Company which is hereby designated "Cumulative Preferred Stock, $4.08 Series," and the number of shares constituting said new series is hereby fixed at 150,000 shares.

(ii) The dividend rate of the shares of said new series is hereby fixed at $4.08 per share per annum; dividends on said shares shall be payable on the 15th day of January, April, July and October for the quarter-yearly period ending with the last day of the preceding month, when and as declared by the Board of Directors.

(iii) The redemption price of the shares of said new series is hereby fixed at $105 per share in case of redemption on or prior to December 31, 1959; $104 per share in case of redemption subsequent to December 31, 1959 and on or prior to December 31, 1964; $103 per share in case of redemption subsequent to December 31, 1964 and on or prior to December 31, 1969; and $102 per share in case of redemption subsequent to December 31, 1969; plus in each case an amount equal to the dividends at the rate of $4.08 per share per annum from the date dividends on the shares to be redeemed began to accrue to the date fixed for redemption thereof less the amount of dividends theretofore paid thereon.

(iv) The amount which the shares of said new series are entitled to receive in preference to the Common Stock upon any distribution of assets, other than by dividends from net earnings or surplus, upon voluntary liquidation or dissolution of the corporation is hereby fixed as the then redemption price, including an amount equal to all dividends accumulated and unpaid thereon.

d. *Cumulative Preferred Stock, $4.11 Series.*

(i) There be and there hereby is created from the authorized and unallotted shares of Preferred Stock of the Company, a new series of Preferred Stock of the Company which is hereby designated "Cumulative Preferred Stock, $4.11 Series," and the number of shares constituting said new series is hereby fixed at 200,000 shares.

(ii) The dividend rate of the shares of said new series is hereby fixed at $4.11 per share per annum; dividends on said shares shall be payable on the 15th day of January, April, July and October for the quarter-yearly period ending with the last day of the preceding month, when and as declared by the Board of Directors.

(iii) The redemption prices of the shares of said new series are hereby fixed at $105.732 per share in case of redemption on or prior to December 31, 1959; $104.732 per share in case of redemption subsequent to December 31, 1959 and on or prior to December 31, 1964; and $103.732 per share in case of redemption subsequent to December 31, 1964; plus in each case an amount equal to the dividends at the rate of $4.11 per share per annum from the date dividends on the shares to be redeemed began to accrue to the date fixed for redemption thereof less the amount of dividends theretofore paid thereon.

(iv) The amount which the shares of said new series are entitled to receive in preference to the Common Stock upon any distribution of assets, other than by dividends from net earnings or surplus, upon voluntary liquidation or dissolution of the corporation is hereby fixed as the then redemption price, plus an amount equal to all dividends accumulated and unpaid thereon.

e. *Cumulative Preferred Stock, $4.16 Series.*

(i) There be and there hereby is created from the authorized and unallotted shares of Preferred Stock of the Company, a new series of Preferred Stock of the Company which is hereby designated "Cumulative Preferred Stock, $4.16 Series," and the number of shares constituting said new series is hereby fixed at 100,000 shares.

(ii) The dividend rate of the shares of said new series is hereby fixed at $4.16 per share per annum; dividends on said shares shall be payable on the 15th day of January, April, July and October for the quarter-yearly period ending with the last day of the preceding month, when and as declared by the Board of Directors.

(iii) The redemption prices of the shares of said new series are hereby fixed at $106.25 per share in case of redemption on or prior to December 31, 1961; $105.75 per share in case of redemption subsequent to December 31, 1961 and on or prior to December 31, 1966; $104.75 per share in case of redemption subsequent to December 31, 1966 and on or prior to December 31, 1971; and $103.75 per share in case of redemption subsequent to December 31, 1971; plus in each case an amount equal to the dividends at the rate of $4.16 per share per annum from the date dividends on the shares to be redeemed began to accrue to the date fixed for redemption thereof, less the amount of dividends theretofore paid thereon.

(iv) The amount which the shares of said new series are entitled to receive in preference to the Common Stock upon any distribution of assets, other than by dividends from net earnings or surplus, upon voluntary liquidation or dissolution of the corporation is hereby fixed as the then redemption price, plus an amount equal to all dividends accumulated and unpaid thereon.

f. *Cumulative Preferred Stock $4.56 Series.*

(i) There be and there hereby is created from the authorized and unallotted shares of Preferred Stock of the Company, a new series of Preferred Stock of the Company which is hereby designated "Cumulative Preferred Stock, $4.56 Series," and the number of shares constituting said new series is hereby fixed at 150,000 shares.

(ii) The dividend rate of the shares of said new series is hereby fixed at $4.56 per share per annum; dividends on said shares shall be payable on the 15th day of January, April, July and October for the quarter-yearly period ending with the last day of the preceding month, when and as declared by the Board of Directors.

(iii) The redemption prices of the shares of said new series are hereby fixed at $105.69 per share in case of redemption on or prior to December 31, 1969; $104.75 per share in case of redemption subsequent to December 31, 1969 and on or prior to December 31, 1974; $103.81 per share in case of redemption subsequent to December 31, 1974 and on or prior to December 31, 1979; and $102.47 per share in case of redemption subsequent to December 31, 1979; plus in each case an amount equal to the dividends at the rate of $4.56 per share per annum from the date dividends on the shares to be redeemed began to accrue to the date fixed for redemption thereof, less the amount of dividends theretofore paid thereon.

(iv) The amount which the shares of said new series are entitled to receive in preference to the Common Stock upon any distribution of assets, other than by dividends from net earnings or surplus, upon voluntary liquidation or dissolution of the corporation is hereby fixed as the then redemption price, including an amount equal to all dividends accumulated and unpaid thereon.

g. *Cumulative Preferred Stock, $6.80 Series.*

(i) There be and there hereby is created from the authorized and unallotted shares of Preferred Stock of the Company, a new series of Preferred Stock of the Company which is hereby designated "Cumulative Preferred Stock, $6.80 Series," and the number of shares constituting said new series is hereby fixed at 200,000 shares.

(ii) The dividend rate of the shares of said new series is hereby fixed at $6.80 per share per annum; dividends on said shares shall be payable on the 15th day of January, April, July and October for the quarter-yearly period ending with the last day of the preceding month, when and as declared by the Board of Directors.

(iii) The redemption prices of the shares of said new series are hereby fixed at $106.29 per share in case of redemption on or prior to December 31, 1973; $105.59 per share in case of redemption subsequent to December 31, 1973 and on or prior to December 31, 1978; $104.89 per share in case of redemption subsequent to December 31, 1978 and on or prior to December 31, 1983; and $103.19 per share in case of redemption subsequent to December 31, 1983; plus in each case an amount equal to the dividends at the rate of $6.80 per share per annum from the date dividends on the shares to be redeemed begin to accrue to the date fixed for redemption thereof, less the amount of dividends theretofore paid thereon; provided, however, that the shares of said new series shall not be redeemable prior to May 1, 1973 from the proceeds of any refunding of shares of said new series through the incurring of debt, or through the issuance of preferred stock ranking equally with or prior to the shares of said new series as to dividends or on liquidation, if such debt has an effective interest cost or such preferred stock has an effective dividend cost to the Company of less than the effective dividend cost to the Company of the said new series.

(iv) The amount which the shares of said new series are entitled to receive in preference to the Common Stock upon any distribution of assets, other than by dividends from net earnings or surplus, upon voluntary liquidation or dissolution of the corporation is hereby fixed as the then redemption price, plus an amount equal to all dividends accumulated and unpaid thereon.

h. *Cumulative Preferred Stock, $7.00 Series.*

(i) There be and there hereby is created from the authorized and unallotted shares of Preferred Stock of the Company, a new series of Preferred Stock of the Company which is hereby designated "Cumulative Preferred Stock $7.00 Series," and the number of shares constituting said new series is hereby fixed at 200,000 shares.

(ii) The dividend rate of the shares of said new series is hereby fixed at $7.00 per share per annum; dividends on said shares shall be payable on the 15th day of January, April, July and October for the quarter-yearly period ending with the last day of the preceding month, when and as declared by the Board of Directors.

(iii) The redemption prices of the shares of said new series are hereby fixed at $108.45 per share in case of redemption on or prior to December 31, 1974; $106.70 per share in case of redemption subsequent to December 31, 1974 and on or prior to December 31, 1979; $104.95 per share in case of redemption subsequent to December 31, 1979 and on or prior to December 31, 1984; and $103.20 per share in case of redemption subsequent to December 31, 1984; plus in each case an amount equal to the dividends at the rate of $7.00 per share per annum from the date dividends on the shares to be redeemed begin to accrue to the date fixed for redemption thereof, less the amount of dividends theretofore paid thereon; provided, however, that the shares of said new series shall not be redeemable prior to January 1, 1974 from the proceeds of any refunding of shares of said new series through the incurring of debt, or through the issuance of preferred stock ranking equally with or prior to the shares of said new series as to dividends or on liquidation, if such debt has an effective interest cost or such preferred stock has an effective dividend cost to the Company of less than the effective dividend cost to the Company of the said new series.

(iv) The amount which the shares of said new series are entitled to receive in preference to the Common Stock upon any distribution of assets, other than by dividends from net earnings or surplus, upon voluntary liquidation or dissolution of the corporation is hereby fixed as the then redemption price, plus an amount equal to all dividends accumulated and unpaid thereon.

i. *Cumulative Preferred Stock, Adjustable Rate Series A.*

(i) There be and there hereby is created from the authorized and unallocated shares of Cumulative Preferred Stock of the Company, a new series of Cumulative Preferred Stock of the Company which is hereby designated "Cumulative Preferred Stock, Adjustable Rate Series A" and the number of shares constituting said new series is hereby fixed at 300,000 shares.

(ii) The dividend rate of the shares of said new series of Cumulative Preferred Stock is hereby fixed at: (A) 6.15% per annum for the initial dividend period from and including the date of original issuance through June 30, 1986 and (B) the Applicable Rate, as hereinafter defined, from time to time in effect, for each subsequent dividend period; dividends on said shares, when and as declared by the Board of Directors, shall be payable on the 15th day of January, April, July and October for the quarter-yearly period ending with the last day of the preceding month; except that the dividend period for the first such dividend shall begin with and include the date of original issuance; the dividends payable on said new series of Cumulative Preferred Stock for the period from and including the date of original issuance of said new series of Cumulative Preferred Stock to and including June 30, 1986 and for any period less than a full quarterly dividend period shall be computed on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed in the period for which the dividends are payable; the dividends payable for each full quarterly dividend period commencing after June 30, 1986 shall be computed by dividing the Applicable Rate for such dividend period by four (rounded to the nearest one-hundredth of a percent) and applying such computed rate against the par value per share of said new series of Cumulative Preferred Stock.

The Applicable Rate with respect to each dividend period will be calculated as promptly as practicable by the Company according to the appropriate method described herein. The Company will cause notice of such Applicable Rate to be enclosed with, or mailed concurrently with, the dividend payment checks next mailed to the holders of shares of said new series of Cumulative Preferred Stock.

Applicable Rate. Except as provided below in this paragraph, the "Applicable Rate" for any dividend period will be equal to 76% of the highest of: (A) the Treasury Bill Rate, (B) the Ten Year Constant Maturity Rate and (C) the Thirty Year Constant Maturity Rate (each as hereinafter defined)

Period as defined below), published by the Federal Reserve Board during the Calendar Period immedi-

for such dividend period. If the Company determines, in good faith, that for any reason one or more of (A) the Treasury Bill Rate, (B) the Ten Year Constant Maturity Rate, and (C) the Thirty Year Constant Maturity Rate cannot be determined for any dividend period, then the Applicable Rate for such dividend period shall be based on the higher of whichever such rates can be so determined. If the Company determines, in good faith, that neither (A) the Treasury Bill Rate, (B) the Ten Year Constant Maturity Rate nor (C) the Thirty Year Constant Maturity Rate can be determined for any dividend period, then the Applicable Rate in effect for the preceding dividend period shall be continued for such dividend period. Notwithstanding anything to the contrary herein, the Applicable Rate for any dividend shall not be less than 5.50% per annum or greater than 10.25% per annum.

Treasury Bill Rate. Except as provided below in this paragraph, the "Treasury Bill Rate" for each dividend period will be the arithmetic average of the two most recently weekly per annum market discount rates (or the one weekly per annum market discount rate, if only one such rate shall be published during the relevant Calendar Period, as defined below) for three-month U.S. Treasury Bills, published by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") during the Calendar Period immediately prior to the last ten calendar days of the June, September, December or March, next preceding the dividend period for which the dividend rate on the shares of the new series of Cumulative Preferred Stock is being determined. If the Federal Reserve Board does not publish such a weekly per annum market discount rate during such Calendar Period, then the Treasury Bill Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum market discount rates (or the one weekly per annum market discount rate, if only one such rate shall be published during such Calendar Period) for three-month U.S. Treasury Bills, published during such Calendar Period by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Company. If a per annum market discount rate for three-month U.S. Treasury Bills shall not be published by the Federal Reserve Board or by any Federal Reserve Bank or by any U.S. Government department or agency during such Calendar Period, then the Treasury Bill Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum market discount rates (or the one weekly per annum market discount rate, if only one such rate shall be published during such Calendar Period) for all of the U.S. Treasury Bills then having maturities of not less than 80 days nor more than 100 days, published during such Calendar Period by the Federal Reserve Board or, if the Federal Reserve Board shall not publish such rates, by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Company. If the Company determines, in good faith, that no such U.S. Treasury Bill rates are published as provided above during such Calendar Period, then the Treasury Bill Rate for such dividend period shall be the arithmetic average of the per annum market discount rates based upon the closing bids during such Calendar Period for each of the issues of marketable non-interest bearing U.S. Treasury securities with a maturity of not less than 80 days nor more than 100 days from the date of each such quotation, as chosen and quoted daily, for each business day in New York City (or less frequently if daily quotations shall not be generally available), to the Company by at least three recognized dealers in U.S. Government securities selected by the Company. If the Company determines, in good faith, that for any reason the Company cannot determine the Treasury Bill Rate for any dividend period as provided above in this paragraph, then the Treasury Bill Rate for such dividend period shall be the arithmetic average of the per annum market discount rates based upon the closing bids during such Calendar Period for each of the issues of marketable interest-bearing U.S. Treasury securities with a maturity of not less than 80 days nor more than 100 days from the date of each such quotation, as chosen and quoted daily for each business day in New York City (or less frequently if daily quotations shall not be generally available) to the Company by at least three recognized dealers in U.S. Government securities selected by the Company. The weekly per annum market discount rate for three-month U.S. Treasury Bills shall be the secondary market rate.

Ten Year Constant Maturity Rate. Except as provided below in this paragraph, the "Ten Year Constant Maturity Rate" for each dividend period shall be the arithmetic average of the two most recent weekly per annum Ten Year Average Yields as hereinafter defined (or the one weekly per annum Ten Year Average Yield, if only one such Yield shall be published during the relevant Calendar

any dividend period as provided above in this paragraph, then the

Period as defined below), published by the Federal Reserve Board during the Calendar Period immediately prior to the last ten calendar days of the June, September, December or March, next preceding the dividend period for which the dividend rate on the shares of the new series of Cumulative Preferred Stock is being determined. If the Federal Reserve Board does not publish such a weekly per annum Ten Year Average Yield during such Calendar Period, then the Ten Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum Ten Year Average Yields (or the one weekly per annum Ten Year Average Yield, if only one such Yield shall be published during such Calendar Period), published during such Calendar Period by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Company. If a per annum Ten Year Average Yield shall not be published by the Federal Reserve Board or by any Federal Reserve Bank or by any U.S. Government department or agency during such Calendar Period, then the Ten Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum average yields to maturity (or the one weekly per annum average yield to maturity, if only one such yield shall be published during such Calendar Period) for all of the actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities, as defined below) then having maturities of not less than eight years nor more than twelve years, published during such Calendar Period by the Federal Reserve Board or, if the Federal Reserve Board shall not publish such yields, by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Company. If the Company determines in good faith that for any reason the Company cannot determine the Ten Year Constant Maturity Rate for any dividend period as provided above in this paragraph, then the Ten Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the per annum average yields to maturity based upon the closing bids during such Calendar Period for each of the issues of actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities) with a final maturity date not less than eight years nor more than twelve years from the date of each such quotation, as chosen and quoted daily for each business day in New York City (or less frequently if daily quotations shall not be generally available) to the Company by at least three recognized dealers in U.S. Government securities selected by the Company.

Thirty Year Constant Maturity Rate. Except as provided below in this paragraph, the "Thirty Year Constant Maturity Rate" for each dividend period shall be the arithmetic average of the two most recent weekly per annum Thirty Year Average Yields as hereinafter defined (or the one weekly per annum Thirty Year Average Yield, if only one such Yield shall be published during the relevant Calendar Period as defined below), published by the Federal Reserve Board during the Calendar Period immediately prior to the last ten calendar days of the June, September, December or March, next preceding the dividend period for which the dividend rate on the shares of the new series of Cumulative Preferred Stock is being determined. If the Federal Reserve Board does not publish such a weekly per annum Thirty Year Average Yield during such Calendar Period, then the Thirty Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum Thirty Year Average Yields (or the one weekly per annum Thirty Year Average Yield, if only one such Yield shall be published during such Calendar Period), published during such Calendar Period by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Company. If a per annum Thirty Year Average Yield shall not be published by the Federal Reserve Board or by any Federal Reserve Bank or by any U.S. Government department or agency during such Calendar Period, then the Thirty Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum average yields to maturity (or the one weekly per annum average yield to maturity, if only one such Yield shall be published during such Calendar Period) for all of the actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities) than having maturities of not less than twenty-eight nor more than thirty years, published during such Calendar Period by the Federal Reserve Board or, if the Federal Reserve Board shall not publish such yields, by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Company. If the Company determines in good faith that for any reason the Company cannot determine the Thirty Year Constant Maturity Rate for

for which the dividends are payable; the dividends payable for each full quarterly dividend period commencing after June 30, 1987 shall be computed by dividing the Applicable Rate for such dividend

any dividend period as provided above in this paragraph, then the Thirty Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the per annum average yields to maturity based upon the closing bids during such Calendar Period for each of the issues of actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities) with a final maturity date not less than twenty-eight years nor more than thirty years from the date of each such quotation, as chosen and quoted daily for each business day in New York City (or less frequently if daily quotations shall not be generally available) to the Company by at least three recognized dealers in U.S. Government securities selected by the Company.

Certain Definitions. As used herein: (A) the term "Calendar Period" means a period of fourteen calendar days; (B) the term "Special Securities" means securities which can, at the option of the holder, be surrendered at face value in payment of any Federal estate tax or which provide tax benefits to the holder and are priced to reflect such tax benefits or which were originally issued at a deep or substantial discount; (C) the term "Ten Year Average Yield" means the average yield to maturity for actively traded marketable U.S. Treasury fixed interest rate securities (adjusted to constant maturities of ten years); and (D) the term "Thirty Year Average Yield" means the average yield to maturity for actively traded marketable U.S. Treasury fixed interest rate securities (adjusted to constant maturities of thirty years).

(iii) The redemption prices of the shares of said new series of Cumulative Preferred Stock are hereby fixed at (A) $106.15 per share in case of redemption on or prior to June 30, 1991; (B) $103.00 per share in case of redemption subsequent to June 30, 1991, and on or prior to June 30, 1996; and (C) $100.00 per share in case of redemption subsequent to June 30, 1996, plus in each case an amount equal to the dividends at the respective Applicable Rates (as defined above) per share per annum from the date dividends on the shares of the new series of Cumulative Preferred Stock to be redeemed began to accrue to the date fixed for redemption thereof, less the amount of dividends theretofore paid thereon; provided, however, that the shares of said new series of Cumulative Preferred Stock shall not be redeemable, directly or indirectly, prior to July 1, 1991 with the proceeds from borrowed funds, or from the issuance of any preferred stock ranking prior to or on a parity with the shares of said new series of Cumulative Preferred Stock as to dividends or on liquidation, having an effective cost to the Company, computed in accordance with generally accepted financial practice, of less than 6.15% per annum.

(iv) The amount which the shares of said new series of Cumulative Preferred Stock are entitled to receive in preference to the Common Stock upon any distribution of assets, other than by dividends from net earnings or surplus, upon voluntary liquidation or dissolution of the Company is hereby fixed as the then redemption price, plus an amount equal to all dividends accumulated and unpaid thereon.

j. *Cumulative Preferred Stock, Adjustable Rate Series B.*

(i) There be and there hereby is created from the authorized and unallotted shares of Cumulative Preferred Stock of the Company, a new series of Cumulative Preferred Stock of the Company which is hereby designated "Cumulative Preferred Stock, Adjustable Rate Series B" and the number of shares constituting said new series is hereby fixed at 650,000 shares.

(ii) The dividend rate of the shares of said new series of Cumulative Preferred Stock is hereby fixed at: (A) 6.80% per annum for the initial dividend period from and including the date of original issuance through June 30, 1987 and (B) the Applicable Rate, as hereinafter defined, from time to time in effect, for each subsequent dividend period; dividends on said shares, when and as declared by the Board of Directors, shall be payable on the 15th day of January, April, July and October of each year for the quarterly period ending with the last day of the preceding month; except that the dividend period for the first such dividend shall begin with and include the date of original issuance; the dividends payable on said new series of Cumulative Preferred Stock for the period from and including the date of original issuance of said new series of Cumulative Preferred Stock to and including June 30, 1987 and for any period less than a full quarterly dividend period shall be computed on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed in the period

provided above in this paragraph, then the Treasury Bill Rate for such dividend period shall be the

for which the dividends are payable; the dividends payable for each full quarterly dividend period commencing after June 30, 1987 shall be computed by dividing the Applicable Rate for such dividend period by four (rounded to the nearest one-hundredth of a percent) and applying such computed rate against the par value per share of said new series of Cumulative Preferred Stock.

The Applicable Rate with respect to each dividend period will be calculated as promptly as practicable by the Company according to the appropriate method described herein. The Company will cause notice of such Applicable Rate to be enclosed with, or mailed concurrently with, the dividend payment checks next mailed to the holders of shares of said new series of Cumulative Preferred Stock.

Applicable Rate. Except as provided below in this paragraph, the "Applicable Rate" for any dividend period will be equal to 78% of the highest of: (A) the Treasury Bill Rate, (B) the Ten Year Constant Maturity Rate and (C) the Thirty Year Constant Maturity Rate (each as hereinafter defined) for such dividend period. If the Company determines, in good faith, that for any reason one or more of (A) the Treasury Bill Rate, (B) the Ten Year Constant Maturity Rate, and (C) the Thirty Year Constant Maturity Rate cannot be determined for any dividend period, then the Applicable Rate for such dividend period shall be based on the higher of whichever such rates can be so determined. If the Company determines, in good faith, that neither (A) the Treasury Bill Rate, (B) the Ten Year Constant Maturity Rate nor (C) the Thirty Year Constant Maturity Rate can be determined for any dividend period, then the Applicable Rate in effect for the preceding dividend period shall be continued for such dividend period. Notwithstanding anything to the contrary herein, the Applicable Rate for any dividend period shall not be less than 5.50% per annum or greater than 11.00% per annum.

Treasury Bill Rate. Except as provided below in this paragraph, the "Treasury Bill Rate" for each dividend period will be the arithmetic average of the two most recent weekly per annum market discount rates (or the one weekly per annum market discount rate, if only one such rate shall be published during the relevant Calendar Period, as defined below) for three-month U.S. Treasury Bills, published by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") during the Calendar Period immediately prior to the last ten calendar days of the June, September, December or March, next preceding the dividend period for which the dividend rate on the shares of the new series of Cumulative Preferred Stock is being determined. If the Federal Reserve Board does not publish such a weekly per annum market discount rate during such Calendar Period, then the Treasury Bill Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum market discount rates (or the one weekly per annum market discount rate, if only one such rate shall be published during such Calendar Period) for three-month U.S. Treasury Bills, published during such Calendar Period by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Company. If a per annum market discount rate for three-month U.S. Treasury Bills shall not be published by the Federal Reserve Board or by any Federal Reserve Bank or by any U.S. Government department or agency during such Calendar Period, then the Treasury Bill Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum market discount rates (or the one weekly per annum market discount rate, if only one such rate shall be published during such Calendar Period) for all of the U.S. Treasury Bills then having maturities of not less than 80 days nor more than 100 days, published during such Calendar Period by the Federal Reserve Board or, if the Federal Reserve Board shall not publish such rates, by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Company. If the Company determines, in good faith, that no such U.S. Treasury Bill rates are published as provided above during such Calendar Period, then the Treasury Bill Rate for such dividend period shall be the arithmetic average of the per annum market discount rates based upon the closing bids during such Calendar Period for each of the issues of marketable non-interest bearing U.S. Treasury securities with a maturity of not less than 80 days nor more than 100 days from the date of each such quotation, as chosen and quoted daily, for each business day in New York City (or less frequently if daily quotations shall not be generally available), to the Company by at least three recognized dealers in U.S. Government securities selected by the Company. If the Company determines, in good faith, that for any reason the Company cannot determine the Treasury Bill Rate for any dividend period as

during such Calendar Period by any Federal Reserve Bank or by any U.S. Government department or

provided above in this paragraph, then the Treasury Bill Rate for such dividend period shall be the arithmetic average of the per annum market discount rates based upon the closing bids during such Calendar Period for each of the issues of marketable interest-bearing U.S. Treasury securities with a maturity of not less than 80 days nor more than 100 days from the date of each such quotation, as chosen and quoted daily for each business day in New York City (or less frequently if daily quotations shall not be generally available) to the Company by at least three recognized dealers in U.S. Government securities selected by the Company. The weekly per annum market discount rate for three-month U.S. Treasury Bills shall be the secondary market rate.

Ten Year Constant Maturity Rate. Except as provided below in this paragraph, the "Ten Year Constant Maturity Rate" for each dividend period shall be the arithmetic average of the two most recent weekly per annum Ten Year Average Yields as hereinafter defined (or the one weekly per annum Ten Year Average Yield, if only one such Yield shall be published during the relevant Calendar Period as defined below), published by the Federal Reserve Board during the Calendar Period immediately prior to the last ten calendar days of the June, September, December or March next preceding the dividend period for which the dividend rate on the shares of the new series of Cumulative Preferred Stock is being determined. If the Federal Reserve Board does not publish such a weekly per annum Ten Year Average Yield during such Calendar Period, then the Ten Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum Ten Year Average Yields (or the one weekly per annum Ten Year Average Yield, if only one such Yield shall be published during such Calendar Period), published during such Calendar Period by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Company. If a per annum Ten Year Average Yield shall not be published by the Federal Reserve Board or by any Federal Reserve Bank or by any U.S. Government department or agency during such Calendar Period, then the Ten Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum average yields to maturity (or the one weekly per annum average yield to maturity, if only one such yield shall be published during such Calendar Period) for all of the actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities, as defined below) then having maturities of not less than eight years nor more than twelve years, published during such Calendar Period by the Federal Reserve Board or, if the Federal Reserve Board shall not publish such yields, by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Company. If the Company determines in good faith that for any reason the Company cannot determine the Ten Year Constant Maturity Rate for any dividend period as provided above in this paragraph, then the Ten Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the per annum average yields to maturity based upon the closing bids during such Calendar Period for each of the issues of actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities) with a final maturity date not less than eight years nor more than twelve years from the date of each such quotation, as chosen and quoted daily for each business day in New York City (or less frequently if daily quotations shall not be generally available) to the Company by at least three recognized dealers in U.S. Government securities selected by the Company.

Thirty Year Constant Maturity Rate. Except as provided below in this paragraph, the "Thirty Year Constant Maturity Rate" for each dividend period shall be the arithmetic average of the two most recent weekly per annum Thirty Year Average Yields as hereinafter defined (or the one weekly per annum Thirty Year Average Yield, if only one such Yield shall be published during the relevant Calendar Period as defined below), published by the Federal Reserve Board during the Calendar Period immediately prior to the last ten calendar days of the June, September, December or March next preceding the dividend period for which the dividend rate on the shares of the new series of Cumulative Preferred Stock is being determined. If the Federal Reserve Board does not publish such a weekly per annum Thirty Year Average Yield during such Calendar Period, then the Thirty Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum Thirty Year Average Yields (or the one weekly per annum Thirty Year Average Yield, if only one such Yield shall be published during such Calendar Period), published

during such Calendar Period by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Company. If a per annum Thirty Year Average Yield shall not be published by the Federal Reserve Board or by any Federal Reserve Bank or by any U.S. Government department or agency during such Calendar Period, then the Thirty Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the two most recent weekly per annum average yields to maturity (or the one weekly per annum average yield to maturity, if only one such Yield shall be published during such Calendar Period) for all of the actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities) then having maturities of not less than twenty-eight nor more than thirty years, published during such Calendar Period by the Federal Reserve Board or, if the Federal Reserve Board shall not publish such yields, by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Company. If the Company determines in good faith that for any reason the Company cannot determine the Thirty Year Constant Maturity Rate for any dividend period as provided above in this paragraph, then the Thirty Year Constant Maturity Rate for such dividend period shall be the arithmetic average of the per annum average yields to maturity based upon the closing bids during such Calendar Period for each of the issues of actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities) with a final maturity date not less than twenty-eight years nor more than thirty years from the date of each such quotation, as chosen and quoted daily for each business day in New York City (or less frequently if daily quotations shall not be generally available) to the Company by at least three recognized dealers in U.S. Government securities selected by the Company.

Certain Definitions. As used herein: (A) the term "Calendar Period" means a period of fourteen calendar days; (B) the term "Special Securities" means securities which can, at the option of the holder, be surrendered at face value in payment of any Federal estate tax or which provide tax benefits to the holder and are priced to reflect such tax benefits or which were originally issued at a deep or substantial discount; (C) the term "Ten Year Average Yield" means the average yield to maturity for actively traded marketable U.S. Treasury fixed interest rate securities (adjusted to constant maturities of ten years); and (D) the term "Thirty Year Average Yield" means the average yield to maturity for actively traded marketable U.S. Treasury fixed interest rate securities (adjusted to constant maturities of thirty years).

(iii) The redemption prices of the shares of said new series of Cumulative Preferred Stock are hereby fixed at (A) $106.80 per share in case of redemption on or before May 31, 1992; (B) $103.00 per share in case of redemption subsequent to May 31, 1992, and on or prior to May 31, 1995; and (C) $100.00 per share in case of redemption subsequent to May 31, 1995, plus in each case an amount equal to the dividends at the respective Applicable Rates (as defined above) per share per annum from the date dividends on the shares of the new series of Cumulative Preferred Stock to be redeemed began to accrue to the date fixed for redemption thereof, less the amount of dividends theretofore paid thereon; provided, however, that the shares of said new series of Cumulative Preferred Stock shall not be redeemable, directly or indirectly, prior to May 31, 1992 with the proceeds from borrowed funds, or from the issuance of any preferred stock ranking prior to or on a parity with the shares of said new series of Cumulative Preferred Stock as to dividends or on liquidation, having an effective cost to the Company, computed in accordance with generally accepted financial practice, of less than 6.80% per annum.

(iv) The amount which the shares of said new series of Cumulative Preferred Stock are entitled to receive in preference to the Common Stock upon any distribution of assets, other than by dividends from net earnings or surplus, upon voluntary liquidation or dissolution of the Company is hereby fixed as the then redemption price, plus an amount equal to all dividends accumulated and unpaid thereon.

ARTICLE VI

LIMITATION OF DIRECTOR LIABILITY

A director of the Corporation shall not be personally liable to the Corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except to the extent provided by applicable law for (i) liability based on a breach of the duty of loyalty to the Corporation or the shareholders; (ii) liability for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; (iii) liability based on the payment of an improper dividend or an improper repurchase of the Corporation's stock under Section 180.0833 of the Wisconsin Business Corporation Law or for liability arising under Section 551.59 of the Wisconsin Statutes for the unlawful sale of securities; (iv) liability for any transaction from which the director derived an improper personal benefit; or (v) liability for any act or omission occurring prior to May 28, 1987. If the Wisconsin Business Corporation Law is further amended to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the Corporation in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by any amendment to the Wisconsin Business Corporation Law. Any repeal or modification of this Article by the shareholders of the Corporation shall not adversely affect any limitation on the personal liability of a director of the Corporation existing at the time of such repeal or modification.

ARTICLE VII

AMENDMENT OF BYLAWS

Authority to make and alter the Bylaws of the Corporation is hereby vested in the Board of Directors of the Corporation, subject to the power of the stockholders to change or repeal such Bylaws; provided, however, the Board of Directors shall not make or alter any bylaw fixing their number, qualifications, classifications or term of office.

q. *"Fair Market Value"* means, except as provided in Sections 5(j) and 6(b)(ii)(2), as of any given date, the mean between the highest and lowest reported sales prices of the Common Stock

PRIMERGY STOCK INCENTIVE PLAN

Section 1. *Purpose; Definitions.*

The purpose of the Plan is to give the Company and its Affiliates a competitive advantage in attracting, retaining and motivating officers and employees and to provide the Company and its Affiliates with the ability to provide incentives more directly linked to the profitability of the Company's businesses, increases in shareholder value and enhancement of performance relative to customers.

For purposes of the Plan, the following terms are defined as set forth below:

a. *"Affiliate"* means (i) a corporation at least fifty percent of the common stock or voting power of which is owned, directly or indirectly by the Company, and (ii) any other corporation or other entity controlled by the Company and designated by the Committee from time to time as such.

b. *"Award"* means a Stock Appreciation Right, Stock Option, Restricted Stock or Performance Units.

c. *"Award Cycle"* shall mean a period of consecutive fiscal years or portions thereof designated by the Committee over which Performance Units are to be earned.

d. *"Board"* means the Board of Directors of the Company.

e. *"Change in Control"* and *"Change in Control Price"* have the meanings set forth in Sections 9(b) and (c), respectively.

f. *"Code"* means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

g. *"Commission"* means the Securities and Exchange Commission or any successor agency.

h. *"Committee"* means the Committee referred to in Section 2.

i. *"Common Stock"* means common stock, par value $.01 per share, of the Company.

j. *"Company"* means Primergy Corporation, a Wisconsin corporation.

k. *"Covered Employee"* shall mean a participant designated prior to the grant of shares of Restricted Stock or Performance Units by the Committee who is or may be a "covered employee" within the meaning of Section 162(m)(3) of the Code in the year in which Restricted Stock or Performance Units are taxable to such participant.

l. *"Disability"* means permanent and total disability as determined under procedures established by the Committee for purposes of the Plan.

m. *"Disinterested Person"* shall mean a member of the Board who qualifies as a disinterested person as defined in Rule 16b-3(c)(2), as promulgated by the Commission under the Exchange Act, or any successor definition adopted by the Commission, and as an "outside director" for purposes of Section 162(m) of the Code.

n. *"Effective Time"* means the Effective Time as defined in the Merger Agreement.

o. *"Early Retirement"* of an employee means Termination of Employment with the Company or an Affiliate at a time when the employee is entitled to early retirement benefits pursuant to the early retirement provisions of the applicable pension plan of such employer.

p. *"Exchange Act"* means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.

Section 2. *Administration.*

The Plan shall be administered by the Compensation Committee of the Board or such other

q. *"Fair Market Value"* means, except as provided in Sections 5(j) and 6(b)(ii)(2), as of any given date, the mean between the highest and lowest reported sales prices of the Common Stock on the New York Stock Exchange Composite Tape or, if not listed on such exchange, on any other national securities exchange on which the Common Stock is listed or on NASDAQ. If there is no regular public trading market for such Common Stock, the Fair Market Value of the Common Stock shall be determined by the Committee in good faith.

r. *"Incentive Stock Option"* means any Stock Option designated as, and qualified as, an "incentive stock option" within the meaning of Section 422 of the Code.

s. *"Merger Agreement"* means the Amended and Restated Agreement and Plan of Merger by and among Northern States Power Company, Wisconsin Energy Corporation, Northern Power Wisconsin Corp. and WEC Sub Corp., dated as of April 28, 1995, as amended and restated as of July 26, 1995.

t. *"Non-Qualified Stock Option"* means any Stock Option that is not an Incentive Stock Option.

u. *"Normal Retirement"* of an employee means Termination of Employment with the Company or an Affiliate at a time when the employee is entitled to retirement benefits pursuant to the applicable pension plan of such employer.

v. *"Performance Goals"* means the performance goals established by the Committee prior to the grant of Restricted Stock or Performance Units that are based on the attainment of goals relating to one or more of the following: earnings per share, market share, stock price, sales, costs, net operating income, cash flow, retained earnings, return on equity, results of customer satisfaction surveys, aggregate product price and other product price measures, safety record, service reliability, demand-side management (including conservation and load management), operating and maintenance cost management, energy production availability, and individual performance measures. Such Performance Goals also may be based upon the attainment of specified levels of performance of the Company or one or more Affiliates under one or more of the measures described above relative to the performance of other corporations. With respect to Covered Employees, all Performance Goals shall be objective performance goals satisfying the requirements for "performance-based compensation" within the meaning of Section 162(m)(4) of the Code, and shall be set by the Committee within the time period prescribed by Section 162(m) of the Code and related regulations.

w. *"Performance Units"* means an award made pursuant to Section 8.

x. *"Plan"* means the Primergy Stock Incentive Plan, as set forth herein and as hereinafter amended from time to time.

y. *"Restricted Stock"* means an award granted under Section 7.

z. *"Retirement"* means Normal or Early Retirement.

aa. *"Rule 16b-3"* means Rule 16b-3, as promulgated by the Commission under Section 16(b) of the Exchange Act, as amended from time to time.

bb. *"Stock Appreciation Right"* means a right granted under Section 6.

cc. *"Stock Option"* means an option granted under Section 5.

dd. *"Termination of Employment"* means the termination of the participant's employment with the Company and any Affiliate. A participant employed by an Affiliate shall also be deemed to incur a Termination of Employment if the Affiliate ceases to be an Affiliate and the participant does not immediately thereafter become an employee of the Company or another Affiliate.

In addition, certain other terms used herein have definitions given to them in the first place in which they are used.

in any one calendar year. Shares subject to an Award under the Plan may be authorized and unissued shares or may be treasury shares. No participant may be granted Performance Units in any one

Section 2. *Administration.*

The Plan shall be administered by the Compensation Committee of the Board or such other committee of the Board as the Board may from time to time determine, composed solely of not less than two Disinterested Persons, each of whom shall be appointed by and serve at the pleasure of the Board. The Committee shall have plenary authority to grant Awards pursuant to the terms of the Plan to officers and employees of the Company and its Affiliates. Among other things, the Committee shall have the authority, subject to the terms of the Plan:

(a) to select the officers and employees to whom Awards may from time to time be granted;

(b) to determine whether and to what extent Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock and Performance Units or any combination thereof are to be granted hereunder;

(c) to determine the number of shares of Common Stock to be covered by each Award granted hereunder;

(d) to determine the terms and conditions of any Award granted hereunder (including, but not limited to, the option price (subject to Section 5(a)), any vesting condition, restriction or limitation (which may be related to the performance of the participant, the Company or any Affiliate) and any vesting acceleration or forfeiture waiver regarding any Award and the shares of Common Stock relating thereto, based on such factors as the Committee shall determine;

(e) to modify, amend or adjust the terms and conditions of any Award, at any time or from time to time, including but not limited to Performance Goals; *provided, however,* that the Committee may not adjust upwards the amount payable to a designated Covered Employee with respect to a particular award upon the satisfaction of applicable Performance Goals;

(f) to determine to what extent and under what circumstances Common Stock and other amounts payable with respect to an Award shall be deferred; and

(g) to determine under what circumstances an Award may be settled in cash or Common Stock under Sections 5(j) and 8(b)(i).

The Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable, to interpret the terms and provisions of the Plan and any Award issued under the Plan (and any agreement relating thereto) and to otherwise supervise the administration of the Plan.

The Committee may act only by a majority of its members then in office, except that the members thereof may (i) delegate to an officer of the Company the authority to make decisions pursuant to paragraphs (c), (f), (g), (h) and (i) of Section 5 (provided that no such delegation may be made that would cause Awards or other transactions under the Plan to cease to be exempt from Section 16(b) of the Exchange Act) and (ii) authorize any one or more of their number or any officer of the Company to execute and deliver documents on behalf of the Committee.

Any determination made by the Committee or pursuant to delegated authority pursuant to the provisions of the Plan with respect to any Award shall be made in the sole discretion of the Committee or such delegate at the time of the grant of the Award or, unless in contravention of any express term of the Plan, at any time thereafter. All decisions made by the Committee or any appropriately delegated officer pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company and its Affiliates and Plan participants.

Section 3. *Common Stock Subject to Plan; Other Limitations.*

The total number of shares of Common Stock reserved and available for issuance under the Plan shall be 12,000,000; *provided,* that not more than 3 million of such shares shall be issued as Restricted Stock. No participant may be granted Awards covering in excess of 100,000 shares of Common Stock

Stock Options granted under the Plan shall be subject to the following terms and conditions and

in any one calendar year. Shares subject to an Award under the Plan may be authorized and unissued shares or may be treasury shares. No participant may be granted Performance Units in any one calendar year payable in cash in an amount that would exceed $1,000,000.

Subject to Section 7(c)(iv), if any shares of Restricted Stock are forfeited for which the participant did not receive any benefits of ownership (as such phrase is construed by the Commission or its staff), or if any Stock Option (and related Stock Appreciation Right, if any) terminates without being exercised, or if any Stock Appreciation Right is exercised for cash, shares subject to such Awards shall again be available for distribution in connection with Awards under the Plan.

In the event of any change in corporate capitalization, such as a stock split, or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Company, the Committee or Board may make such substitution or adjustments in the aggregate number and kind of shares reserved for issuance under the Plan, in the number, kind and option price of shares subject to outstanding Stock Options and Stock Appreciation Rights, in the number and kind of shares subject to other outstanding Awards granted under the Plan and/or such other equitable substitution or adjustments as it may determine to be appropriate in its sole discretion; *provided, however,* that the number of shares subject to any Award shall always be a whole number. Such adjusted option price shall also be used to determine the amount payable by the Company upon the exercise of any Stock Appreciation Right associated with any Stock Option.

Section 4. *Eligibility.*

Officers and employees of the Company and its Affiliates who are responsible for or contribute to the management, growth and profitability of the business of the Company and its Affiliates are eligible to be granted Awards under the Plan. No grant shall be made under this Plan to a director who is not an officer or a salaried employee.

Section 5. *Stock Options.*

Stock Options may be granted alone or in addition to other Awards granted under the Plan and may be of two types: Incentive Stock Options and Nonqualified Stock Options. Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

The Committee shall have the authority to grant any optionee Incentive Stock Options, Nonqualified Stock Options or both types of Stock Options (in each case with or without Stock Appreciation Rights); *provided, however,* that grants hereunder are subject to the aggregate limit on grants to individual participants set forth in Section 3. Incentive Stock Options may be granted only to employees of the Company and its subsidiaries (within the meaning of Section 424(f) of the Code). To the extent that any Stock Option is not designated as an Incentive Stock Option or even if so designated does not qualify as an Incentive Stock Option, it shall constitute a Nonqualified Stock Option.

Stock Options shall be evidenced by option agreements, the terms and provisions of which may differ. An option agreement shall indicate on its face whether it is intended to be an agreement for an Incentive Stock Option or a Nonqualified Stock Option. The grant of a Stock Option shall occur on the date the Committee by resolution selects an individual to be a participant in any grant of a Stock Option, determines the number of shares of Common Stock to be subject to such Stock Option to be granted to such individual and specifies the terms and provisions of the Stock Option. The Company shall notify a participant of any grant of a Stock Option, and a written option agreement or agreements shall be duly executed and delivered by the Company to the participant. Such agreement or agreements shall become effective upon execution by the Company and the participant.

Anything in the Plan to the contrary notwithstanding, no term of the Plan relating to Incentive Stock Options shall be interpreted, amended or altered nor shall any discretion or authority granted under the Plan be exercised so as to disqualify the Plan under Section 422 of the Code or, without the consent of the optionee affected, to disqualify any Incentive Stock Option under such Section 422.

Nonqualified Stock Option, pursuant to a gift to such optionee's children, whether directly or

Stock Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions as the Committee shall deem desirable:

(a) *Option Price.* The option price per share of Common Stock purchasable under a Stock Option shall be determined by the Committee and set forth in the option agreement, and shall not be less than the Fair Market Value of the Common Stock subject to the Stock Option on the date of grant.

(b) *Option Term.* The term of each Stock Option shall be fixed by the Committee, but no Incentive Stock Option shall be exercisable more than 10 years after the date the Stock Option is granted.

(c) *Exercisability.* Except as otherwise provided herein, Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee. If the Committee provides that any Stock Option is exercisable only in installments, the Committee may at any time waive such installment exercise provisions, in whole or in part, based on such factors as the Committee may determine. In addition, the Committee may at any time accelerate the exercisability of any Stock Option.

(d) *Method of Exercise.* Subject to the provisions of this Section 5, Stock Options may be exercised, in whole or in part, at any time during the option term by giving written notice of exercise to the Company specifying the number of shares of Common Stock subject to the Stock Option to be purchased.

Such notice shall be accompanied by payment in full of the purchase price by certified or bank check or such other instrument as the Company may accept. If approved by the Committee, payment in full or in part may also be made in the form of unrestricted Common Stock already owned by the optionee of the same class as the Common Stock subject to the Stock Option and, in the case of the exercise of a Nonqualified Stock Option, Restricted Stock subject to an Award hereunder which is of the same class as the Common Stock subject to the Stock Option (based, in each case, on the Fair Market Value of the Common Stock on the date the Stock Option is exercised); *provided, however,* that, in the case of an Incentive Stock Option, the right to make a payment in the form of already owned shares of Common Stock of the same class as the Common Stock subject to the Stock Option may be authorized only at the time the Stock Option is granted.

If payment of the option exercise price of a Nonqualified Stock Option is made in whole or in part in the form of Restricted Stock, the number of shares of Common Stock to be received upon such exercise equal to the number of shares of Restricted Stock used for payment of the option exercise price shall be subject to the same forfeiture restrictions to which such Restricted Stock was subject, unless otherwise determined by the Committee.

In the discretion of the Committee, payment for any shares subject to a Stock Option may also be made by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds to pay the purchase price, and, if requested by the Company, the amount of any federal, state, local or foreign withholding taxes. To facilitate the foregoing, the Company may enter into agreements for coordinated procedures with one or more brokerage firms.

No shares of Common Stock shall be issued until full payment therefor has been made. Subject to any forfeiture restrictions that may apply if a Stock Option is exercised using Restricted Stock, an optionee shall have all of the rights of a shareholder of the Company holding the class or series of Common Stock that is subject to such Stock Option (including, if applicable, the right to vote the shares and the right to receive dividends), when the optionee has given written notice of exercise, has paid in full for such shares and, if requested, has given the representation described in Section 13(a).

(e) *Nontransferability of Stock Options.* No Stock Option shall be transferable by the optionee other than (i) by will or by the laws of descent and distribution or (ii) in the case of a

month period, any unexercised Stock Option held by such optionee shall, notwithstanding the

Nonqualified Stock Option, pursuant to a gift to such optionee's children, whether directly or indirectly or by means of a trust or partnership or otherwise, if expressly permitted under the applicable option agreement. All Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee or by the guardian or legal representative of the optionee, it being understood that the terms "holder" and "optionee" include the guardian and legal representative of the optionee named in the option agreement and any person to whom an option is transferred by will or the laws of descent and distribution or, in the case of a Nonqualified Stock Option, a gift permitted under the applicable option agreement.

(f) *Termination by Death.* Unless otherwise determined by the Committee, if an optionee's employment terminates by reason of death, any Stock Option held by such optionee may thereafter be exercised, to the extent then exercisable, or on such accelerated basis as the Committee may determine, for a period of one year (or such other period as the Committee may specify in the option agreement) from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter.

(g) *Termination by Reason of Disability.* Unless otherwise determined by the Committee, if an optionee's employment terminates by reason of Disability, any Stock Option held by such optionee may thereafter be exercised by the optionee, to the extent it was exercisable at the time of termination, or on such accelerated basis as the Committee may determine, for a period of three years (or such shorter period as the Committee may specify in the option agreement) from the date of such termination of employment or until the expiration of the stated term of such Stock Option, whichever period is the shorter; *provided, however,* that if the optionee dies within such three-year period (or such shorter period), any unexercised Stock Option held by such optionee shall, notwithstanding the expiration of such three-year (or such shorter) period, continue to be exercisable to the extent to which it was exercisable at the time of death for a period of 12 months from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter. In the event of termination of employment by reason of Disability, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as a Nonqualified Stock Option.

(h) *Termination by Reason of Retirement.* Unless otherwise determined by the Committee, if an optionee's employment terminates by reason of Retirement, any Stock Option held by such optionee may thereafter be exercised by the optionee, to the extent it was exercisable at the time of such Retirement, or on such accelerated basis as the Committee may determine, for a period of three years (or such shorter period as the Committee may specify in the option agreement) from the date of such termination of employment or until the expiration of the stated term of such Stock Option, whichever period is the shorter; *provided, however,* that if the optionee dies within such three-year (or such shorter) period any unexercised Stock Option held by such optionee shall, notwithstanding the expiration of such three-year (or such shorter) period, continue to be exercisable to the extent to which it was exercisable at the time of death for a period of 12 months from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter. In the event of termination of employment by reason of Retirement, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as a Nonqualified Stock Option.

(i) *Other Termination.* Unless otherwise determined by the Committee, if an optionee incurs a Termination of Employment for any reason other than death, Disability or Retirement, any Stock Option held by such optionee shall thereupon terminate, except that such Stock Option, to the extent then exercisable, or on such accelerated basis as the Committee may determine, may be exercised for the lesser of three months from the date of such Termination of Employment or the balance of such Stock Option's stated term if such Termination of Employment of the optionee is involuntary; *provided, however,* that if the optionee dies within such three-

A Stock Appreciation Right may be exercised by an optionee in accordance with Section 6(b)

month period, any unexercised Stock Option held by such optionee shall, notwithstanding the expiration of such three-month period, continue to be exercisable to the extent to which it was exercisable at the time of death for a period of 12 months from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter. Notwithstanding the foregoing, if an optionee incurs a Termination of Employment at or after a Change in Control (as defined in Section 9(b)), other than by reason of death, Disability or Retirement, any Stock Option held by such optionee shall be exercisable for the lesser of (1) six months and one day from the date of such Termination of Employment, and (2) the balance of such Stock Option's stated term. In the event of Termination of Employment, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as a Nonqualified Stock Option.

(j) *Cashing Out of Stock Option.* On receipt of written notice of exercise, the Committee may elect to cash out all or part of the portion of the shares of Common Stock for which a Stock Option is being exercised by paying the optionee an amount, in cash or Common Stock, equal to the excess of the Fair Market Value of the Common Stock over the option price times the number of shares of Common Stock for which the Option is being exercised on the effective date of such cash-out.

Cash-outs pursuant to this Section 5(j) relating to Options held by optionees who are actually or potentially subject to Section 16(b) of the Exchange Act shall comply with the "window period" provisions of Rule 16b-3, to the extent applicable, and, in the case of cash-outs of Non-Qualified Stock Options held by such optionees, the Committee may determine Fair Market Value under the pricing rule set forth in Section 6(b)(ii)(2).

(k) *Change in Control Cash-Out.* Notwithstanding any other provision of the Plan, during the 60-day period from and after a Change in Control (the "Exercise Period"), unless the Committee shall determine otherwise at the time of grant, an optionee shall have the right, whether or not the Stock Option is fully exercisable and in lieu of the payment of the exercise price for the shares of Common Stock being purchased under the Stock Option and by giving notice to the Company, to elect (within the Exercise Period) to surrender all or part of the Stock Option to the Company and to receive cash, within 30 days of such notice, in an amount equal to the amount by which the Change in Control Price per share of Common Stock on the date of such election shall exceed the exercise price per share of Common Stock under the Stock Option (the "Spread") multiplied by the number of shares of Common Stock granted under the Stock Option as to which the right granted under this Section 5(k) shall have been exercised; *provided, however,* that if the Change in Control is within six months of the date of grant of a particular Stock Option held by an optionee who is an officer or director of the Company and is subject to Section 16(b) of the Exchange Act no such election shall be made by such optionee with respect to such Stock Option prior to six months from the date of grant. However, if the end of such 60-day period from and after a Change in Control is within six months of the date of grant of a Stock Option held by an optionee who is an officer or director of the Company and is subject to Section 16(b) of the Exchange Act, such Stock Option shall be cancelled in exchange for a cash payment to the optionee, effected on the day which is six months and one day after the date of grant of such Option, equal to the Spread multiplied by the number of shares of Common Stock granted under the Stock Option.

Section 6. *Stock Appreciation Rights.*

(a) *Grant and Exercise.* Stock Appreciation Rights may be granted in conjunction with all or part of any Stock Option granted under the Plan. In the case of a Nonqualified Stock Option, such rights may be granted either at or after the time of grant of such Stock Option. In the case of an Incentive Stock Option, such rights may be granted only at the time of grant of such Stock Option. A Stock Appreciation Right shall terminate and no longer be exercisable upon the termination or exercise of the related Stock Option.

A Stock Appreciation Right may be exercised by an optionee in accordance with Section 6(b) by surrendering the applicable portion of the related Stock Option in accordance with procedures established by the Committee. Upon such exercise and surrender, the optionee shall be entitled to receive an amount determined in the manner prescribed in Section 6(b). Stock Options which have been so surrendered shall no longer be exercisable to the extent the related Stock Appreciation Rights have been exercised.

(b) *Terms and Conditions.* Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined by the Committee, including the following:

(i) Stock Appreciation Rights shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate are exercisable in accordance with the provisions of Section 5 and this Section 6; *provided, however,* that a Stock Appreciation Right shall not be exercisable during the first six months of its term by an optionee who is actually or potentially subject to Section 16(b) of the Exchange Act, except that this limitation shall not apply in the event of death or Disability of the optionee prior to the expiration of the six-month period.

(ii) Upon the exercise of a Stock Appreciation Right, an optionee shall be entitled to receive an amount in cash, shares of Common Stock or both equal in value to the excess of the Fair Market Value of one share of Common Stock over the option price per share specified in the related Stock Option multiplied by the number of shares in respect of which the Stock Appreciation Right shall have been exercised, with the Committee having the right to determine the form of payment.

In the case of Stock Appreciation Rights relating to Stock Options held by optionees who are actually or potentially subject to Section 16(b) of the Exchange Act, the Committee:

(1) may require that such Stock Appreciation Rights be exercised for cash only in accordance with the applicable "window period" provisions of Rule 16b-3; and

(2) in the case of Stock Appreciation Rights relating to Nonqualified Stock Options, may provide that the amount to be paid in cash upon exercise of such Stock Appreciation Rights during a Rule 16b-3 "window period" shall be based on the highest of the daily means between the highest and lowest reported sales prices of the Common Stock on the New York Stock Exchange or other national securities exchange on which the shares are listed or on NASDAQ, as applicable, on any day during such "window period."

(iii) Stock Appreciation Rights shall be transferable only to permitted transferees of the underlying Stock Option in accordance with Section 5(e).

(iv) Upon the exercise of a Stock Appreciation Right, the Stock Option or part thereof to which such Stock Appreciation Right is related shall be deemed to have been exercised for the purpose of the limitation set forth in Section 3 on the number of shares of Common Stock to be issued under the Plan, but only to the extent of the number of shares as to which the Stock Appreciation Right is exercised at the time of exercise.

Section 7. *Restricted Stock.*

(a) *Administration.* Shares of Restricted Stock may be awarded either alone or in addition to other Awards granted under the Plan. The Committee shall determine the officers and employees to whom and the time or times at which grants of Restricted Stock will be awarded, the number of shares to be awarded to any participant (subject to the aggregate limit on grants to individual participants set forth in Section 3), the conditions for vesting, the time or times within which such Awards may be subject to forfeiture and any other terms and conditions of the Awards, in addition to those contained in Section 7(c).

The Committee shall in the case of Covered Employees, and may in the case of other Participants, condition the vesting of Restricted Stock upon the attainment of Performance Goals established

before or at the time of grant. The Committee may, in addition to requiring satisfaction of any applicable Performance Goals, also condition vesting upon the continued service of the participant. The provisions of Restricted Stock Awards (including the applicable Performance Goals) need not be the same with respect to each recipient.

(b) *Awards and Certificates.* Shares of Restricted Stock shall be evidenced in such manner as the Committee may deem appropriate, including book-entry registration or issuance of one or more stock certificates. Any certificate issued in respect of shares of Restricted Stock shall be registered in the name of such participant and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award, substantially in the following form:

"The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Primergy Stock Incentive Plan and a Restricted Stock Agreement. Copies of such Plan and Agreement are on file at the offices of Primergy Corporation at ."

The Committee may require that the certificates evidencing such shares be held in custody by the Company until the restrictions thereon shall have lapsed and that, as a condition of any Award of Restricted Stock, the participant shall have delivered a stock power, endorsed in blank, relating to the Common Stock covered by such Award.

(c) *Terms and Conditions.* Shares of Restricted Stock shall be subject to the following terms and conditions:

(i) Subject to the provisions of the Plan (including Section 5(d)) and the Restricted Stock Agreement referred to in Section 7(c)(vi), during the period, if any, set by the Committee, commencing with the date of such Award for which such participant's continued service is required (the "Restriction Period"), and until the later of (i) the expiration of the Restriction Period and (ii) the date the applicable Performance Goals (if any) are satisfied, the participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber shares of Restricted Stock. Within these limits, the Committee may provide for the lapse of restrictions based upon period of service in installments or otherwise and may accelerate or waive, in whole or in part, restrictions based upon period of service or upon performance; *provided, however,* that in the case of Restricted Stock with respect to which a participant is a Covered Employee, any applicable Performance Goals have been satisfied.

(ii) Except as provided in this paragraph (ii) and Section 7(c)(i) and the Restricted Stock Agreement, the participant shall have, with respect to the shares of Restricted Stock, all of the rights of a shareholder of the Company holding the class or series of Common Stock that is the subject of the Restricted Stock, including, if applicable, the right to vote the shares and the right to receive any cash dividends. If so determined by the Committee in the applicable Restricted Stock Agreement and subject to Section 13(f) of the Plan, (1) cash dividends on the class or series of Common Stock that is the subject of the Restricted Stock Award shall be automatically deferred and reinvested in additional Restricted Stock, held subject to the vesting of the underlying Restricted Stock, or held subject to meeting Performance Goals applicable only to dividends, and (2) dividends payable in Common Stock shall be paid in the form of Restricted Stock of the same class as the Common Stock with which such dividend was paid, held subject to the vesting of the underlying Restricted Stock, or held subject to meeting Performance Goals applicable only to dividends.

(iii) Except to the extent otherwise provided in the applicable Restricted Stock Agreement, any applicable employment agreement and Sections 7(c)(i), 7(c)(iv) and 9(a)(ii), upon a participant's Termination of Employment for any reason during the Restriction Period or before the applicable Performance Goals are satisfied, all shares still subject to restriction shall be forfeited by the participant.

(iv) Except to the extent otherwise provided in Section 9(a)(ii), in the event that a participant retires or such participant's employment is involuntarily terminated, the Committee shall have the discretion to waive in whole or in part any or all remaining restrictions (other than, in the case of Restricted Stock with respect to which a participant is a Covered Employee, satisfaction of the applicable Performance Goals unless the participant's employment is terminated by reason of death or Disability) with respect to any or all of such participant's shares of Restricted Stock.

(v) If and when the applicable Performance Goals are satisfied and the Restriction Period expires without a prior forfeiture of the Restricted Stock, unlegended certificates for such shares shall be delivered to the participant upon surrender of the legended certificates.

(vi) Each Award shall be confirmed by, and be subject to the terms of, a Restricted Stock Agreement.

Section 8. *Performance Units.*

(a) *Administration.* Performance Units may be awarded either alone or in addition to other Awards granted under the Plan. Performance Units may be denominated in shares of Common Stock or cash, or may represent the right to receive dividend equivalents with respect to shares of Common Stock, as the Committee shall determine. The Committee shall determine the officers and employees to whom and the time or times at which Performance Units shall be awarded, the form and number of Performance Units to be awarded to any participant (subject to the aggregate limit on grants to individual participants set forth in Section 3), the duration of the Award Cycle and any other terms and conditions of the Award, in addition to those contained in Section 8(b).

The Committee shall condition the settlement of Performance Units upon the attainment of Performance Goals. The provisions of such Awards (including the applicable Performance Goals) need not be the same with respect to each recipient.

(b) *Terms and Conditions.* Performance Units Awards shall be subject to the following terms and conditions:

(i) Subject to the provisions of the Plan and the Performance Unit Agreement referred to in Section 8(b)(vi), Performance Units may not be sold, assigned, transferred, pledged or otherwise encumbered during the Award Cycle. At the expiration of the Award Cycle, the Committee shall evaluate actual performance in light of the Performance Goals for such Award and shall determine the number of Performance Units granted to the participant which have been earned and the Committee may then elect to deliver cash, shares of Common Stock, or a combination thereof, in settlement of the earned Performance Units, in accordance with the terms thereof.

(ii) Except to the extent otherwise provided in the applicable Performance Unit Agreement and Sections 8(b)(iii) and 9(a)(iii), upon a participant's Termination of Employment for any reason during the Award Cycle or before the applicable Performance Goals are satisfied, the rights to the shares still covered by the Performance Units Award shall be forfeited by the participant.

(iii) Except to the extent otherwise provided in Section 9(a)(iii), in the event that a participant's employment is involuntarily terminated, the Committee shall have the discretion to waive in whole or in part any or all remaining payment limitations (other than, in the case of Performance Units with respect to which a participant is a Covered Employee, satisfaction of the applicable Performance Goals unless the participant's employment is terminated by reason of death or Disability) with respect to any or all of such participant's Performance Units.

(iv) A participant may elect to further defer receipt of the Performance Units payable under an Award (or an installment of an Award) for a specified period or until a specified event, subject in each case to the Committee's approval and to such terms as are determined by the Committee (the "Elective Deferral Period"). Subject to any exceptions adopted by the Committee, such election must generally be made prior to commencement of the Award Cycle for the Award (or for such installment of an Award).

(v) If and when the applicable Performance Goals are satisfied and the Elective Deferral Period expires without a prior forfeiture of the Performance Units, payment in accordance with Section 8(b)(i) hereof shall be made to the participant.

(vi) Each Award shall be confirmed by, and be subject to the terms of, a Performance Unit Agreement.

Section 9. *Change in Control Provisions.*

(a) *Impact of Event.* Notwithstanding any other provision of the Plan to the contrary, in the event of a Change in Control:

(i) Any Stock Options and Stock Appreciation Rights outstanding as of the date such Change in Control is determined to have occurred and not then exercisable and vested shall become fully exercisable and vested to the full extent of the original grant.

(ii) The restrictions applicable to any Restricted Stock shall lapse, and such Restricted Stock shall become free of all restrictions and become fully vested and transferable to the full extent of the original grant.

(iii) All Performance Units shall be considered to be earned and payable in full and any deferral or other restriction shall lapse and such Performance Units shall be settled in cash as promptly as is practicable.

(b) *Definition of Change in Control.* For purposes of the Plan, a "Change in Control" shall mean the happening of any of the following events:

(i) An acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (1) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); excluding, however, the following: (1) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (2) any acquisition by the Company, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (4) any acquisition by any corporation pursuant to a transaction which complies with clauses (1), (2) and (3) of subsection (iii) of this Section 9(b); or

(ii) A change in the composition of the Board such that the individuals who, as of the Effective Time, constitute the Board, after giving effect to the reconstitution of the Board in accordance with the Merger Agreement (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; *provided, however,* for purposes of this Section 9(b), that any individual who becomes a member of the Board subsequent to the Effective Time, whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, *provided further,* that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so considered as a member of the Incumbent Board; or

(iii) The approval by the shareholders of the Company of a reorganization, merger, consolidation, share exchange or sale or other disposition of all or substantially all of the assets of the Company ("Corporate Transaction") or, if consummation of such Corporate Transaction is subject, at the time of such approval by shareholders, to the consent of any government or governmental agency, the obtaining of such consent (either explicitly or implicitly by consummation); excluding, however, such a Corporate Transaction pursuant to which (1) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 60% of, respectively, the outstanding shares of common stock, and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (2) no Person (other than the Company, any employee benefit plan (or related trust) of the Company or such corporation resulting from such Corporate Transaction) will beneficially own, directly or indirectly, 20% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors except to the extent that such ownership existed prior to the Corporate Transaction and (3) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction; or

(iv) The approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(c) *Change in Control Price.* For purposes of the Plan, "Change in Control Price" means the higher of (i) the highest reported sales price, regular way, of a share of Common Stock in any transaction reported on the New York Stock Exchange Composite Tape or other national exchange on which such shares are listed or on NASDAQ during the 60-day period prior to and including the date of a Change in Control or (ii) if the Change in Control is the result of a tender or exchange offer or a Corporate Transaction, the highest price per share of Common Stock paid in such tender or exchange offer or Corporate Transaction; *provided, however,* that (x) in the case of a Stock Option which (A) is held by an optionee who is an officer or director of the Company and is subject to Section 16(b) of the Exchange Act and (B) was granted within 240 days of the Change in Control, then the Change in Control Price for such Stock Option shall be the Fair Market Value of the Common Stock on the date such Stock Option is exercised or deemed exercised and (y) in the case of Incentive Stock Options and Stock Appreciation Rights relating to Incentive Stock Options, the Change in Control Price shall be in all cases the Fair Market Value of the Common Stock on the date such Incentive Stock Option or Stock Appreciation Right is exercised. To the extent that the consideration paid in any such transaction described above consists all or in part of securities or other non-cash consideration, the value of such securities or other non-cash consideration shall be determined in the sole discretion of the Board.

Section 10. *Loans.*

The Company may make loans to a participant in connection with Awards subject to the following terms and conditions and such other terms and conditions not inconsistent with the Plan as the Committee shall impose from time to time, including without limitation the rate of interest, if any, and whether such loan shall be recourse or non-recourse.

No loan made under the Plan shall exceed the sum of (i) the aggregate price payable with respect to the Award in relation to which the loan is made, plus (ii) the amount of the reasonably estimated combined amounts of Federal and state income taxes payable by the participant.

No loan shall have an initial term exceeding ten (10) years; *provided* that the loans under the Plan shall be renewable at the discretion of the Committee; and *provided, further,* that the indebtedness under each loan shall become due and payable, as the case may be, on a date no later than (i) one year after Termination of Employment due to death, Retirement or Disability, or (ii) the day of Termination of Employment for any reason other than death, Retirement or Disability.

Loans under the Plan may be satisfied by the participant, as determined by the Committee, in cash or, with the consent of the Committee, in whole or in part in the form of unrestricted Common Stock already owned by the participant where such Common Stock shall be valued at Fair Market Value on the date of such payment.

When a loan shall have been made, Common Stock with a Fair Market Value on the date of such loan equivalent to the amount of the loan shall be pledged by the participant to the Company as security for payment of the unpaid balance of the loan. Any portions of such Common Stock may, in the discretion of the Committee, be released from time to time as it deems not to be needed as security.

The making of any loan is subject to satisfying all applicable laws, as well as any regulations and rules of the Federal Reserve Board and any other governmental agency having jurisdiction.

Section 11. *Term, Amendment and Termination.*

The Plan will terminate 10 years after the effective date of the Plan. Under the Plan, Awards outstanding as of such date shall not be affected or impaired by the termination of the Plan.

The Board may amend, alter, or discontinue the Plan, but no amendment, alteration or discontinuation shall be made which would (i) impair the rights of an optionee under a Stock Option or a recipient of a Stock Appreciation Right, Restricted Stock Award or Performance Unit Award theretofore granted without the optionee's or recipient's consent, except such an amendment made to cause the Plan to qualify for the exemption provided by Rule 16b-3, or (ii) disqualify the Plan from the exemption provided by Rule 16b-3. In addition, no such amendment shall be made without the approval of the Company's shareholders to the extent such approval is required by law or agreement.

The Committee may amend the terms of any Stock Option or other Award theretofore granted, prospectively or retroactively, but no such amendment shall impair the rights of any holder without the holder's consent except such an amendment made to cause the Plan or Award to qualify for the exemption provided by Rule 16b-3.

Subject to the above provisions, the Board shall have authority to amend the Plan to take into account changes in law and tax and accounting rules, as well as other developments and to grant Awards which qualify for beneficial treatment under such rules without shareholder approval.

Section 12. *Unfunded Status of Plan.*

It is presently intended that the Plan constitute an "unfunded" plan for incentive and deferred compensation. The Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Common Stock or make payments; *provided, however,* that, unless the Committee otherwise determines, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan.

Section 13. *General Provisions.*

(a) The Committee may require each person purchasing or receiving shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to the distribution thereof. The certificates for such shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer.

APB No. 16 that but for the nature of such grant would otherwise be eligible for such accounting

Notwithstanding any other provision of the Plan or agreements made pursuant thereto, the Company shall not be required to issue or deliver any certificate or certificates for shares of Common Stock under the Plan prior to fulfillment of all of the following conditions:

(1) The listing or approval for listing upon notice of issuance, of such shares on the New York Stock Exchange, Inc., or such other securities exchange as may at the time be the principal market for the Common Stock;

(2) Any registration or other qualification of such shares of the Company under any state or Federal law or regulation, or the maintaining in effect of any such registration or other qualification which the Committee shall, in its absolute discretion upon the advice of counsel, deem necessary or advisable; and

(3) The obtaining of any other consent, approval, or permit from any state or Federal governmental agency which the Committee shall, in its absolute discretion after receiving the advice of counsel, determine to be necessary or advisable.

(b) Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting other or additional compensation arrangements for its employees.

(c) The adoption of the Plan shall not confer upon any employee any right to continued employment nor shall it interfere in any way with the right of the Company or any Affiliate to terminate the employment of any employee at any time.

(d) No later than the date as of which an amount first becomes includible in the gross income of the participant for Federal income tax purposes with respect to any Award under the Plan, the participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any Federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Company, withholding obligations may be settled with Common Stock, including Common Stock that is part of the Award that gives rise to the with holding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the participant. The Committee may establish such procedures as it deems appropriate, including the making of irrevocable elections, for the settlement of withholding obligations with Common Stock.

(e) At the time of grant, the Committee may provide in connection with any grant made under the Plan that the shares of Common Stock received as a result of such grant shall be subject to a right of first refusal pursuant to which the participant shall be required to offer to the Company any shares that the participant wishes to sell at the then Fair Market Value of the Common Stock, subject to such other terms and conditions as the Committee may specify at the time of grant.

(f) The reinvestment of dividends in additional Restricted Stock at the time of any dividend payment shall only be permissible if sufficient shares of Common Stock are available under Section 3 for such reinvestment (taking into account then outstanding Stock Options and other Awards).

(g) The Committee shall establish such procedures as it deems appropriate for a participant to designate a beneficiary to whom any amounts payable in the event of the participant's death are to be paid or by whom any rights of the participant, after the participant's death, may be exercised.

(h) In the case of a grant of an Award to any employee of an Affiliate, the Company may, if the Committee so directs, issue or transfer the shares of Common Stock, if any, covered by the Award to the Affiliate, for such lawful consideration as the Committee may specify, upon the condition or understanding that the Affiliate will transfer the shares of Common Stock to the employee in accordance with the terms of the Award specified by the Committee pursuant to the provisions of the Plan.

(i) Notwithstanding any other provision of the Plan, if any right granted pursuant to this Plan would make a Change in Control transaction ineligible for pooling of interests accounting under

APB No. 16 that but for the nature of such grant would otherwise be eligible for such accounting treatment, the Committee shall have the ability to substitute for the cash payable pursuant to such grant Common Stock (or the common stock of the issuer for which the Common Stock is being exchanged in such Change in Control transaction) with a Fair Market Value equal to the cash that would otherwise be payable hereunder.

(j) The Plan and all Awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Wisconsin, without reference to principles of conflict of laws.

Section 14. *Effective Date of Plan.*

The Plan shall be effective at the Effective Time, but only if it is previously approved by the affirmative vote of a majority of the votes entitled to be cast by the holders of the shares of common stock of Wisconsin Energy Corporation represented at a meeting and entitled to vote thereon (*provided*, that the total vote cast represents over 50% of all the shares of common stock of Wisconsin Energy Corporation entitled to vote) and by the affirmative vote of a majority of the votes entitled to be cast by the holders of the shares of common stock and preferred stock of Northern States Power Company represented at a meeting and entitled to vote thereon, voting as a single class (*provided*, that the total vote cast represents over 50% of the voting power of all the shares of common stock and preferred stock of Northern States Power Company entitled to vote).

ANNEX L

PRIMERGY

MANAGEMENT INCENTIVE COMPENSATION PLAN

I

PURPOSE AND EFFECTIVE TIME

This Primergy Management Incentive Compensation Plan (the "Plan") is designed to provide a significant and flexible economic opportunity to selected officers and employees of the Company and its Affiliates as a reflection of their individual and group contributions to the success of the Company and its Affiliates. Payments pursuant to Section IX of the Plan are intended to qualify under Section 162(m)(4)(C) of the Internal Revenue Code of 1986, as amended, as excluded from the term "applicable employee remuneration" (such payments are hereinafter referred to as "Excluded Income"). The Plan shall be effective at the Effective Time, as defined below, if the shareholder approvals required by Section XII of the Plan are obtained.

II

DEFINITIONS

"Affiliates" means (i) a corporation at least 50% of the common stock or voting power of which is owned, directly or indirectly, by the Company and (ii) any other corporation or other entity controlled by the Company and designated by the Committee from time to time as such.

"Board" shall mean the Board of Directors of the Company.

"Change in Control" shall mean the happening of any of the following events:

(a) An acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (1) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); excluding, however, the following: (i) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this definition; or

(b) A change in the composition of the Board such that the individuals who, as of the Effective Time, constitute the Board, after giving effect to the reconstitution of the Board in accordance with the Merger Agreement (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; *provided, however,* for purposes of this definition, that any individual who becomes a member of the Board subsequent to the Effective Time, whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, *provided further,* that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of

Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so considered as a member of the Incumbent Board; or

(c) The approval by the shareholders of the Company of a reorganization, merger, consolidation, share exchange or sale or other disposition of all or substantially all of the assets of the Company ("Corporate Transaction") or, if consummation of such Corporate Transaction is subject, at the time of such approval by shareholders, to the consent of any government or governmental agency, the obtaining of such consent (either explicitly or implicitly by consummation); excluding, however, such a Corporate Transaction pursuant to which (i) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 60% of, respectively, the outstanding shares of common stock, and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (other than the Company, any employee benefit plan (or related trust) of the Company or such corporation resulting from such Corporate Transaction) will beneficially own, directly or indirectly, 20% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors except to the extent that such ownership existed prior to the Corporate Transaction and (iii) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction; or

(d) The approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committee" shall mean the Compensation Committee of the Board, or such other committee of the Board as the Board may from time to time determine, which, except as specifically decided otherwise by the Board, is composed solely of not less than two Disinterested Persons, each of whom shall be appointed by and serve at the pleasure of the Board.

"Company" shall mean Primergy Corporation, a Wisconsin corporation.

"Covered Employees" shall mean Participants designated by the Committee prior to the award of an Incentive Award opportunity hereunder who are or are expected to be "covered employees" within the meaning of Section 162(m)(3) of the Code for the Incentive Period as to which an Incentive Award hereunder is payable and for whom the Committee intends that amounts payable hereunder constitute Excluded Income.

"Disinterested Person" shall mean a member of the Board who qualifies as an "outside director" for purposes of Section 162(m) of the Code.

"Effective Time" shall mean the Effective Time as defined in the Merger Agreement.

"Incentive Award" shall mean a cash award payable to a Participant pursuant to the terms of the Plan, including a Special Incentive Award.

"Incentive Period" shall mean the period with respect to which a Participant is eligible to earn an Incentive Award.

"Merger Agreement" shall mean the Amended and Restated Agreement and Plan of Merger by and among Northern States Power Company, Wisconsin Energy Corporation, Northern Power Wisconsin Corp. and WEC Sub Corp., dated as of April 28, 1995, as amended and restated as of July 26, 1995.

"Participant" shall have the meaning set forth in Article IV hereof.

"Payment Date" shall mean the date following the conclusion of a particular Incentive Period on which the Committee certifies that applicable Performance Goals have been satisfied and authorizes payment of corresponding Incentive Awards.

"Performance Goals" shall have the meaning set forth in Article IX hereof.

"Special Incentive Award" shall have the meaning set forth in Article IX hereof.

"Target Incentive Award" shall mean the amount determined by multiplying a Participant's base salary as of the last day of the applicable Incentive Period by a percentage designated by the Committee in its sole discretion at the time the award is granted, which percentage need not be the same for each Participant.

III

ADMINISTRATION

The Plan shall be administered by the Committee. In administering the Plan, the Committee may at its option employ compensation consultants, accountants and counsel (who may be the compensation consultants, independent auditors and outside counsel of the Company or an Affiliate) and other persons to assist or render advice to the Committee, all at the expense of the Company. The Committee shall have sole authority to make rules and regulations relating to the administration of the Plan, and any interpretations and decisions of the Committee with respect to the Plan shall be final and binding.

IV

ELIGIBILITY

The Committee shall, in its sole discretion, determine for each Incentive Period those officers and salaried employees of the Company and its Affiliates who shall be eligible to participate in the Plan (the "Participants") for such Incentive Period based upon such Participants' opportunity to have a substantial impact on the operating results of the Company or an Affiliate. Nothing contained in the Plan shall be construed as or be evidence of any contract of employment with any Participant for a term of any length nor shall participation in the Plan in any Incentive Period by any Participant require continued participation by such Participant in any subsequent Incentive Period.

V

DETERMINATION OF INCENTIVE AWARDS

Subject to Article IX hereof, the amount and terms of each Incentive Award to a Participant shall be determined by and in the discretion of the Committee. The Committee may condition the earning of an Incentive Award upon the attainment of specified performance goals, measured over a period ending no later than the end of the applicable Incentive Period. Such performance goals may relate to the Participant or the Company, or any Affiliate, division or department of the Company for or within which the Participant is primarily employed, or upon such other factors or criteria as the Committee shall determine, and may be different for each Participant. Incentive Awards payable under the Plan will consist of a cash award from the Company, based upon a percentage (which may exceed 100%) of the Target Incentive Award and, if applicable, the degree of achievement of such performance goals. Incentive Awards under this Plan for Covered Employees shall be subject to preestablished Performance Goals in accordance with Article IX hereof. Except with respect to Covered Employees, the

Committee may, in its sole discretion, increase or decrease the amount of any Incentive Award payable to a Participant and, in recognition of changed or special circumstances, may award Incentive Awards to Participants even though the Incentive Awards are not earned. Incentive Awards earned or otherwise awarded will be paid as soon as administratively feasible on or after the Payment Date.

VI

TERMINATION OF EMPLOYMENT

In the event that a Participant's employment with the Company and its Affiliates terminates for any reason during the Incentive Period with respect to any Incentive Awards, the balance of any Incentive Award which remains unpaid at the time of such termination shall be payable to the Participant, or forfeited by the Participant, in accordance with the terms of the award granted by the Committee; *provided, however,* that in the case of a Covered Employee, no amount shall be payable pursuant to the Plan unless the Performance Goals are satisfied or the termination of employment of the Covered Employee is due to death or disability. A Participant who remains employed through the Incentive Period but is terminated prior to the Payment Date shall be entitled to receive any Incentive Award payable to such Participant with respect to such Incentive Period.

VII

AMENDMENT AND DISCONTINUANCE

The Board shall have the right to amend, alter, discontinue or otherwise modify the Plan from time to time but no such modification shall, without the consent of the Participant affected, impair any award made prior to the effective date of the modification.

VIII

MISCELLANEOUS

It is presently intended that the Plan constitute an "unfunded" plan for incentive and deferred compensation. The Committee may authorize the creation of trusts or other arrangements to meet the payment obligations created under the Plan; *provided, however,* that, unless the Committee otherwise determines, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan. The Plan shall be governed by and construed in accordance with the laws of the State of Wisconsin, without regard to its principles of conflict of laws.

IX

PROCEDURES FOR CERTAIN DESIGNATED PARTICIPANTS

Incentive Awards under the Plan to Participants who are Covered Employees shall be subject to preestablished Performance Goals as set forth herein. Notwithstanding Article V hereof, the Committee shall not have discretion to modify the terms of awards to such Participants except as specifically set forth in this Article IX.

(a) *Target Bonus.* On or before the 90th day of each Incentive Period, and in any event before 25% or more of the Incentive Period has elapsed, the Committee shall establish in writing specific Performance Goals for the Incentive Period, upon the attainment of which will be conditioned the payment of Incentive Awards ("Special Incentive Awards") to such of the Participants who may be Covered Employees. A Special Incentive Award shall consist of a cash award from the Company to be based upon a percentage (which may exceed 100%) of a Target Incentive Award. The extent, if any, to which a Special Incentive Award will be payable will be based upon the degree of achievement of preestablished Performance Goals over a specified Incentive Period; *provided, however,* that the Committee may, in its sole discretion, reduce the amount which would otherwise be payable with respect to an Incentive Period.

(b) *Incentive Period.* The Incentive Period will be a period of up to twelve months, unless a shorter period is otherwise selected and established in writing by the Committee at the time the Performance Goals are established with respect to such Incentive Period.

(c) *Performance Goals.* The Performance Goals established by the Committee at the time a Special Incentive Award is granted will be based on one or more of the following: earnings per share, market share, stock price, sales, costs, net operating income, cash flow, retained earnings, return on equity, results of customer satisfaction surveys, aggregate product price and other product price measures, safety record, service reliability, demand-side management (including conservation and load management), operating and maintenance cost management, energy production availability, and individual performance measures; provided, that all Performance Goals shall be objective performance goals satisfying the requirements for "performance-based compensation" within the meaning of Section 162(m)(4) of the Code. Such Performance Goals also may be based on the attainment of specified levels of performance of the Company and/or any Affiliates under one or more of the measures described above relative to the performance of other corporations.

(d) *Payment of an Incentive Award.* At the time the Special Incentive Award is granted, the Committee shall prescribe a formula to determine the percentage of the Target Incentive Award which may be payable based upon the degree of attainment of the Performance Goals during the Incentive Period. If the minimum Performance Goals established by the Committee are not met, no payment will be made to a Participant who is a Covered Employee. To the extent that the minimum Performance Goals are satisfied or surpassed, and upon written certification by the Committee that the Performance Goals have been satisfied to a particular extent and any other material terms and conditions of the Special Incentive Awards have been satisfied, payment shall be made on the Payment Date in accordance with the prescribed formula based upon a percentage of the Target Incentive Award unless the Committee determines, in its sole discretion, to reduce the payment to be made.

(e) *Maximum Payable.* The maximum amount payable to a Covered Employee under this Plan for any fiscal year of the Company pursuant to this Plan shall be $1,000,000.

X

CHANGE IN CONTROL

Notwithstanding any other provision of this Plan, (i) upon a Change in Control, each Participant who is employed by the Company or an Affiliate immediately before the Change in Control shall be entitled to receive a payment equal to his or her Target Incentive Award for the Incentive Period that includes the date of the Change in Control, and (ii) any additional Incentive Award that becomes payable to such a Participant for that Incentive Period shall be reduced (but not below zero) by the amount of the payment made to such Participant pursuant to clause (i) of this Article X.

XI

DEFERRAL ELECTIONS

The Committee may at its option establish procedures pursuant to which Participants are permitted to defer the receipt of Incentive Awards payable hereunder.

XII

SHAREHOLDER APPROVAL

This Plan shall not become effective with respect to individuals who are Covered Employees unless it shall have been approved by the affirmative vote of a majority of the votes entitled to be cast by the holders of the shares of common stock of Wisconsin Energy Corporation represented at a meeting and entitled to vote thereon and by the affirmative vote of a majority of the total voting power of the shares of common stock and preferred stock of Northern States Power Company present in person or by proxy and entitled to vote thereon.

ANNEX M

DISSENTERS' RIGHTS PROVISIONS OF THE

DISSENTERS' RIGHTS PROVISIONS OF THE MINNESOTA BUSINESS CORPORATION ACT

302A.471 RIGHTS OF DISSENTING SHAREHOLDERS.— Subdivision 1. Actions creating rights. A shareholder of a corporation may dissent from, and obtain payment for the fair value of the shareholder's shares in the event of, any of the following corporate actions:

(a) An amendment of the articles that materially and adversely affects the rights or preferences of the shares of the dissenting shareholder in that it:

(1) alters or abolishes a preferential right of the shares;

(2) creates, alters, or abolishes a right in respect of the redemption of the shares, including a provision respecting a sinking fund for the redemption or repurchase of the shares;

(3) alters or abolishes a preemptive right of the holder of the shares to acquire shares, securities other than shares, or rights to purchase shares or securities other than shares;

(4) excludes or limits the right of a shareholder to vote on a matter, or to cumulate votes, except as the right may be excluded or limited through the authorization or issuance of securities of an existing or new class or series with similar or different voting rights; except that an amendment to the articles of an issuing public corporation that provides that section 302A.671 does not apply to a control share acquisition does not give rise to the right to obtain payment under this section;

(b) A sale, lease, transfer, or other disposition of all or substantially all of the property and assets of the corporation, but not including a transaction permitted without shareholder approval in section 302A.661, subdivision 1, or a disposition in dissolution described in section 302A.725, subdivision 2, or a disposition pursuant to an order of a court, or a disposition for cash on terms requiring that all or substantially all of the net proceeds of disposition be distributed to the shareholders in accordance with their respective interests within one year after the date of disposition;

(c) A plan of merger, whether under this chapter or under chapter 322B, to which the corporation is a party, except as provided in subdivision 3;

(d) A plan of exchange, whether under this chapter or under chapter 322B, to which the corporation is a party as the corporation whose shares will be acquired by the acquiring corporation, if the shares of the shareholder are entitled to be voted on the plan; or

(e) Any other corporate action taken pursuant to a shareholder vote with respect to which the articles, the bylaws, or a resolution approved by the board directs that dissenting shareholders may obtain payment for their shares.

Subd. 2. Beneficial owners. (a) A shareholder shall not assert dissenters' rights as to less than all of the shares registered in the name of the shareholder, unless the shareholder dissents with respect to all the shares that are beneficially owned by another person but registered in the name of the shareholder and discloses the name and address of each beneficial owner on whose behalf the shareholder dissents. In that event, the rights of the dissenter shall be determined as if the shares as to which the shareholder has dissented and the other shares were registered in the names of different shareholders.

(b) In order to receive the fair value of the shares, a dissenting shareholder must demand payment and deposit certificated shares or comply with any restrictions on transfer of uncertificated

(b) A beneficial owner of shares who is not the shareholder may assert dissenters' rights with respect to shares held on behalf of the beneficial owner, and shall be treated as a dissenting shareholder under the terms of this section and section 302A.473, if the beneficial owner submits to the corporation at the time of or before the assertion of the rights a written consent of the shareholder.

Subd. 3. Rights not to apply. Unless the articles, the bylaws, or a resolution approved by the board otherwise provide, the right to obtain payment under this section does not apply to a shareholder of the surviving corporation in a merger, if the shares of the shareholder are not entitled to be voted on the merger.

Subd. 4. Other rights. The shareholders of a corporation who have a right under this section to obtain payment for their shares do not have a right at law or in equity to have a corporate action described in subdivision 1 set aside or rescinded, except when the corporate action is fraudulent with regard to the complaining shareholder or the corporation. (Last amended by Ch. 417, L. '94, eff. 8-1-94.)

302A.473 PROCEDURES FOR ASSERTING DISSENTERS' RIGHTS.— Subdivision 1. Definitions: (a) For purposes of this section, the terms defined in this subdivision have the meanings given them.

(b) "Corporation" means the issuer of the shares held by a dissenter before the corporate action referred to in section 302A.471, subdivision 1 or the successor by merger of that issuer.

(c) "Fair value of the shares" means the value of the shares of a corporation immediately before the effective date of the corporate action referred to in section 302A.471, subdivision 1.

(d) "Interest" means interest commencing five days after the effective date of the corporate action referred to in section 302A.471, subdivision 1 up to and including the date of payment, calculated at the rate provided in section 549.09 for interest on verdicts and judgments.

Subd. 2. Notice of action. If a corporation calls a shareholder meeting at which any action described in section 302A.471, subdivision 1 is to be voted upon, the notice of the meeting shall inform each shareholder of the right to dissent and shall include a copy of section 302A.471 and this section and a brief description of the procedure to be followed under these sections.

Subd. 3. Notice of dissent. If a proposed action must be approved by the shareholders, a shareholder who wishes to exercise dissenters' rights must file with the corporation before the vote on the proposed action a written notice of intent to demand the fair value of the shares owned by the shareholder and must not vote the shares in favor of the proposed action.

Subd. 4. Notice of procedure; deposit of shares. (a) After the proposed action has been approved by the board and, if necessary, the shareholders, the corporation shall send to all shareholders who have complied with subdivision 3 and to all shareholders entitled to dissent if no shareholder vote was required, a notice that contains:

(1) The address to which a demand for payment and certificates of certificated shares must be sent in order to obtain payment and the date by which they must be received;

(2) Any restrictions on transfer of uncertificated shares that will apply after the demand for payment is received;

(3) A form to be used to certify the date on which the shareholder, or the beneficial owner on whose behalf the shareholder dissents, acquired the shares or an interest in them and to demand payment; and

(4) A copy of section 302A.471 and this section and a brief description of the procedures to be followed under these sections.

with powers and authorities the court deems proper, to receive evidence on and recommend the amount of the fair value of the shares. The court shall determine whether the

(b) In order to receive the fair value of the shares, a dissenting shareholder must demand payment and deposit certificated shares or comply with any restrictions on transfer of uncertificated shares within 30 days after the notice was given, but the dissenter retains all other rights of a shareholder until the proposed action takes effect.

Subd. 5. Payment; return of shares. (a) After the corporate action takes effect, or after the corporation receives a valid demand for payment, whichever is later, the corporation shall remit to each dissenting shareholder who has complied with subdivisions 3 and 4 the amount the corporation estimates to be the fair value of the shares, plus interest, accompanied by:

(1) the corporation's closing balance sheet and statement of income for a fiscal year ending not more than 16 months before the effective date of the corporate action, together with the latest available interim financial statements;

(2) an estimate by the corporation of the fair value of the shares and a brief description of the method used to reach the estimate; and

(3) a copy of section 302A.471 and this section, and a brief description of the procedure to be followed in demanding supplemental payment.

(b) The corporation may withhold the remittance described in paragraph (a) from a person who was not a shareholder on the date the action dissented from was first announced to the public or who is dissenting on behalf of a person who was not a beneficial owner on that date. If the dissenter has complied with subdivisions 3 and 4, the corporation shall forward to the dissenter the materials described in paragraph (a), a statement of the reason for withholding the remittance, and an offer to pay to the dissenter the amount listed in the materials if the dissenter agrees to accept that amount in full satisfaction.

The dissenter may decline the offer and demand payment under subdivision 6. Failure to do so entitles the dissenter only to the amount offered. If the dissenter makes demand, subdivisions 7 and 8 apply.

(c) If the corporation fails to remit payment within 60 days of the deposit of certificates or the imposition of transfer restrictions on uncertificated shares, it shall return all deposited certificates and cancel all transfer restrictions. However, the corporation may again give notice under subdivision 4 and require deposit or restrict transfer at a later time.

Subd. 6. Supplemental payment; demand. If a dissenter believes that the amount remitted under subdivision 5 is less than the fair value of the shares plus interest, the dissenter may give written notice to the corporation of the dissenter's own estimate of the fair value of the shares, plus interest, within 30 days after the corporation mails the remittance under subdivision 5, and demand payment of the difference. Otherwise, a dissenter is entitled only to the amount remitted by the corporation.

Subd. 7. Petition; determination. If the corporation receives a demand under subdivision 6, it shall, within 60 days after receiving the demand, either pay to the dissenter the amount demanded or agreed to by the dissenter after discussion with the corporation or file in court a petition requesting that the court determine the fair value of the shares, plus interest. The petition shall be filed in the county in which the registered office of the corporation is located, except that a surviving foreign corporation that receives a demand relating to the shares of a constituent domestic corporation shall file the petition in the county in this state in which the last registered office of the constituent corporation was located. The petition shall name as parties all dissenters who have demanded payment under subdivision 6 and who have not reached agreement with the corporation. *The corporation shall, after filing the petition, serve all parties with a summons and copy of the petition under the rules of civil procedure. Nonresidents of this state may be served by registered or certified mail or by publication as provided by law. Except as otherwise provided, the rules of civil procedure apply to this proceeding.* The jurisdiction of the court is plenary and exclusive. The court may appoint appraisers,

with powers and authorities the court deems proper, to receive evidence on and recommend the amount of the fair value of the shares. The court shall determine whether the shareholder or shareholders in question have fully complied with the requirements of this section, and shall determine the fair value of the shares, taking into account any and all factors the court finds relevant, computed by any method or combination of methods that the court, in its discretion, sees fit to use, whether or not used by the corporation or by a dissenter. The fair value of the shares as determined by the court is binding on all shareholders, wherever located. A dissenter is entitled to judgment in cash for the amount by which the fair value of the shares as determined by the court, plus interest, exceeds the amount, if any, remitted under subdivision 5, but shall not be liable to the corporation for the amount, if any, by which the amount, if any, remitted to the dissenter under subdivision 5 exceeds the fair value of the shares as determined by the court, plus interest.

Subd. 8. Costs; fees; expenses. (a) The court shall determine the costs and expenses of a proceeding under subdivision 7, including the reasonable expenses and compensation of any appraisers appointed by the court, and shall assess those costs and expenses against the corporation, except that the court may assess part or all of those costs and expenses against a dissenter whose action in demanding payment under subdivision 6 is found to be arbitrary, vexatious, or not in good faith.

(b) If the court finds that the corporation has failed to comply substantially with this section, the court may assess all fees and expenses of any experts or attorneys as the court deems equitable. These fees and expenses may also be assessed against a person who has acted arbitrarily, vexatiously, or not in good faith in bringing the proceeding, and may be awarded to a party injured by those actions.

(c) The court may award, in its discretion, fees and expenses to an attorney for the dissenters out of the amount awarded to the dissenters, if any. (Last amendment by Ch. 17, L. '93, eff. 8-1-93.)

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 or 15(d) of the
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): April 28, 1995

NORTHERN STATES POWER COMPANY
(Exact name of registrant as specified in charter)

Minnesota
(State or other jurisdiction
of incorporation)

1-3034	41-0448030
(Commission File No.)	(IRS employer identification no.)

414 Nicollet Mall, Minneapolis, Minnesota	55401
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (612) 330-5500

ITEM 5. OTHER EVENTS

MERGER AGREEMENT WITH WISCONSIN ENERGY CORPORATION

Northern States Power Company, a Minnesota corporation ("NSP"), Wisconsin Energy Corporation, a Wisconsin corporation ("WEC"), Northern Power Wisconsin Corp., a Wisconsin corporation and wholly-owned subsidiary of NSP ("New NSP") and WEC Sub Corp., a Wisconsin corporation and wholly-owned subsidiary of WEC ("WEC Sub"), have entered into an Agreement and Plan of Merger, dated as of April 28, 1995 (the "Merger Agreement"), which provides for a strategic business combination involving NSP and WEC in a "merger-of-equals" transaction (the "Transaction"). The Transaction, which was unanimously approved by the Boards of Directors of the constituent companies, is expected to close shortly after all of the conditions to the consummation of the Transaction, including obtaining applicable regulatory approvals, are met or waived. The regulatory approval process is expected to take approximately 12 to 18 months.

In the Transaction, the holding company of the combined enterprise will be registered under the Public Utility Holding Company Act of 1935, as amended. The holding company will be named Primergy Corporation ("Primergy") and will be the parent company of both NSP (which, for regulatory reasons, will reincorporate in Wisconsin) and of WEC's present principal utility subsidiary, Wisconsin Electric Power Company ("WEPCO"), which will be renamed "Wisconsin Energy Company." Wisconsin Energy Company will include the operations of WEC's other present utility subsidiary, Wisconsin Natural Gas Company, which is anticipated to be merged into WEPCO by year-end 1995, pending regulatory approval, as previously planned. It is anticipated that, following the Transaction, NSP's Wisconsin utility subsidiary, Northern States Power, a Wisconsin corporation ("NSP-W") will be merged into Wisconsin Energy Company.

The Merger Agreement, the press release issued in connection therewith and the related Stock Option Agreements (defined below) are filed as exhibits to this report and are incorporated herein by reference. The descriptions of the Merger Agreement and the Stock Option Agreements set forth herein do not purport to be complete and are qualified in their entirety by the provisions of the Merger Agreement and the Stock Option Agreements, as the case may be.

Under the terms of the Merger Agreement, NSP will be merged with and into New NSP and immediately thereafter WEC Sub will be merged with and into New NSP, with New NSP being the surviving corporation. Each outstanding share of Common Stock,

par value $2.50 per share, of NSP will be cancelled and converted into the right to receive 1.626 shares of Common Stock, par value $.01 per share, of Primergy ("Primergy Common Stock"). The outstanding shares of WEC Common Stock, par value $.01 per share, will remain outstanding, unchanged, as shares of Primergy Common Stock. As of the date of the Merger Agreement, NSP had 67.3 million common shares outstanding and WEC had 109.4 million common shares outstanding. Based on such capitalization, the Transaction would result in the common shareholders of NSP receiving 50% of the common equity of Primergy and the common shareholders of WEC owning the other 50% of the common equity of Primergy. Each outstanding share of Cumulative Preferred Stock, par value $100.00 per share, of NSP will be cancelled and converted into the right to receive one share of Cumulative Preferred Stock, par value $100.00 per share, of New NSP with identical rights (including dividend rights) and designations. WEPCO's outstanding preferred stock will remain outstanding and be unchanged in the Transaction.

It is anticipated that Primergy will adopt NSP's dividend payment level adjusted for the exchange ratio. NSP currently pays $2.64 per share annually, and WEC's annual dividend rate is currently $1.47 per share. Based on the exchange ratio and NSP's current dividend rate, the pro forma dividend rate for Primergy would be $1.62 per share.

The Transaction is subject to customary closing conditions, including, without limitation, the receipt of required shareholder approvals of WEC and NSP; and the receipt of all necessary governmental approvals and the making of all necessary governmental filings, including approvals of state utility regulators in Wisconsin, Minnesota and certain other states, the approval of the Federal Energy Regulatory Commission, the Securities and Exchange Commission (the "SEC"), the Nuclear Regulatory Commission, and the filing of the requisite notification with the Federal Trade Commission and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the expiration of the applicable waiting period thereunder. The Transaction is also subject to receipt of assurances from the Internal Revenue Service and opinions of counsel that the Transaction will qualify as a tax-free reorganization, and the assurances from the parties' independent accountants, that the Transaction will qualify as a pooling of interests for accounting purposes. In addition, the Transaction is conditioned upon the effectiveness of a registration statement to be filed by WEC with the SEC with respect to the Primergy Common Stock to be issued in the Transaction and the approval for listing of such shares on the New York Stock Exchange. (See Article VIII of the Merger Agreement.)

Shareholder meetings to vote upon the Transaction will be convened as soon as practicable and are expected to be held in the third or fourth quarter of 1995.

The Merger Agreement contains certain covenants of the parties pending the consummation of the Transaction. Generally, the parties must carry on their businesses in the ordinary course consistent with past practice, may not increase dividends on common stock beyond specified levels, and may not issue any capital stock beyond certain limits. The Merger Agreement also contains restrictions on, among other things, charter and bylaw amendments, capital expenditures, acquisitions, dispositions, incurrence of indebtedness, certain increases in employee compensation and benefits, and affiliate transactions. (See Article VI of the Merger Agreement.)

The Merger Agreement provides that, after the effectiveness of the Transaction (the "Effective Time"), the corporate headquarters and principal executive offices of Primergy and NSP will be located in Minneapolis, Minnesota, and the headquarters of Wisconsin Energy Company will remain in Milwaukee, Wisconsin. Primergy's Board of Directors, which will be divided into three classes, will consist of a total of 12 directors, 6 of whom will be designated by WEC and 6 of whom will be designated by NSP. Mr. James J. Howard, the current Chairman of the Board, President and Chief Executive Officer ("CEO") of NSP, will serve as CEO of Primergy from the Effective Time until the later of 16 months after the Effective Time or the date of the annual meeting of shareholders of Primergy that occurs in 1998, and Chairman of Primergy until the later of July 1, 2000 or two years after he ceases to be CEO. Mr. Abdoo, the current Chairman of the Board, President and CEO of WEC, will serve as Vice Chairman of the Board, President and Chief Operating Officer of Primergy until the date when Mr. Howard ceases to be CEO, at which time he will be entitled to assume the additional role of CEO. Mr. Abdoo will assume the position of Chairman when Mr. Howard ceases to be Chairman.

The Merger Agreement may be terminated under certain circumstances, including (1) by mutual consent of the parties; (2) by any party if the Transaction is not consummated by April 30, 1997 (provided, however, that such termination date shall be extended to October 31, 1997 if all conditions to closing the Transaction, other than the receipt of certain consents and/or statutory approvals by any of the parties, have been satisfied by April 30, 1997); (3) by any party if either NSP's or WEC's shareholders vote against the Transaction or if any state or federal law or court order prohibits the Transaction; (4) by a non-breaching party if there exist breaches of any representations or warranties contained in the Merger Agreement

as of the date thereof which breaches, individually or in the aggregate, would result in a material adverse effect on the breaching party and which is not cured within twenty (20) days after notice; (5) by a non-breaching party if there occur breaches of specified covenants or material breaches of any covenant or agreement which are not cured within twenty (20) days after notice; (6) by either party if the Board of Directors of the other party shall withdraw or adversely modify its recommendation of the Transaction or shall approve any competing transaction; or (7) by either party, under certain circumstances, as a result of a third-party tender offer or business combination proposal which such party's board of directors determines in good faith that their fiduciary duties require be accepted, after the other party has first been given an opportunity to make concessions and adjustments in the terms of the Merger Agreement.

The Merger Agreement provides that if a breach described in clause (4) or (5) of the previous paragraph occurs, then, if such breach is not willful, the non-breaching party is entitled to reimbursement of its out-of-pocket expenses, not to exceed $10 million. In the event of a willful breach, the non-breaching party will be entitled to its out-of-pocket expenses (which shall not be limited to $10 million) and any remedies it may have at law or in equity, provided that if, at the time of the breaching party's willful breach, there shall have been a third party tender offer or business combination proposal which shall not have been rejected by the breaching party and withdrawn by the third party, and within two and one-half years of any termination by the non-breaching party, the breaching party accepts an offer to consummate or consummates a business combination with such third party, then such breaching party, upon the signing of a definitive agreement relating to such a business combination, or, if no such agreement is signed then at the closing of such business combination, will pay to the non-breaching party an additional fee equal to $75 million. The Merger Agreement also requires payment of a termination fee of $75 million (and reimbursement of out-of-pocket expenses) by one party (the "Payor") to the other in certain circumstances, if (i) the Merger Agreement is terminated (x) as a result of the acceptance by the Payor of a third-party tender offer or business combination proposal, (y) following a failure of the shareholders of the Payor to grant their approval to the Transaction or (z) as a result of the Payor's material failure to convene a shareholder meeting, distribute proxy materials and, subject to its board of directors' fiduciary duties, recommend the Transaction to its shareholders; (ii) at the time of such termination or prior to the meeting of such party's shareholders there shall have been a third-party tender offer

or business combination proposal which shall not have been rejected by the Payor and withdrawn by such third party; and (iii) within two and one-half years of any such termination described in clause (i) above, the Payor accepts an offer to consummate or consummates a business combination with such third party. Such termination fee and out-of-pocket expenses referred to in the previous sentence shall be paid upon the signing of a definitive agreement between the Payor and the third party, or, if no such agreement is signed, then at the closing of such third-party business combination. The termination fees payable by NSP or WEC under these provisions and the aggregate amount which could be payable by NSP or WEC upon a required purchase of the options granted pursuant to the Stock Option Agreements (defined below) may not exceed $125 million in the aggregate. (See Article IX of the Merger Agreement.)

Concurrently with the Merger Agreement, the parties have entered into reciprocal stock option agreements (the "Stock Option Agreements") each granting the other an irrevocable option to purchase up to that number of shares of common stock of the other company which equals 19.9% of the number of shares of common stock of the other company outstanding on April 28, 1995 at an exercise price of $44.075 per share, in the case of NSP common stock, or $27.675 per share, in the case of WEC common stock, under certain circumstances if the Merger Agreement becomes terminable by one party as a result of the other party's breach or as a result of the other party becoming the subject of a third-party proposal for a business combination. Any party whose option becomes exercisable (the "Exercising Party") may request the other party to repurchase from it all or any portion of the Exercising Party's option at the price specified in the Stock Option Agreements. (See the Stock Option Agreements.)

A preliminary estimate indicates that the Transaction will result in net savings of approximately $2.0 billion in costs over 10 years. It is anticipated that the synergies created by the Transaction will allow the companies to implement a modest reduction in electric retail rates followed by a rate freeze for electric retail customers through the year 2000. The allocation of the net savings between ratepayers and shareholders of NSP will be determined by various regulatory agencies.

Both NSP and WEC recognize that the divestiture of their existing gas operations and certain non-utility operations is a possibility under the new registered holding company structure, but will seek approval from the SEC to maintain such businesses. If divestiture is ultimately required, the SEC has

historically allowed companies sufficient time to accomplish divestitures in a manner that protects shareholder value.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) EXHIBITS. The following exhibits are filed herewith:

(2)-1	Agreement and Plan of Merger, dated as of April 28, 1995, by and among Northern States Power Company, Wisconsin Energy Corporation, Northern Power Wisconsin Corp. and WEC Sub Corp. ("Merger Agreement")[1]
2	WEC Stock Option Agreement, dated as of April 28, 1995, by and among Northern States Power Company and Wisconsin Energy Corporation
3	NSP Stock Option Agreement, dated as of April 28, 1995, by and among Wisconsin Energy Corporation and Northern States Power Company
4	Committees of the Board of Directors of Primergy Corporation (Exhibit 7.13 to the Agreement and Plan of Merger)
5	Form of Employment Agreement of James J. Howard (Exhibit 7.15.1 to the Agreement and Plan of Merger)
6	Form of Employment Agreement with Richard A. Abdoo (Exhibit 7.15.2 to the Agreement and Plan of Merger)
7	Form of Amended and Restated Articles of Incorporation of Northern Power Wisconsin Corp. (Exhibit 7.20(b) to the Agreement and Plan of Merger)
(99)-1	Press Release, dated May 1, 1995, of Northern States Power Company

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1 The registrant agrees to furnish supplementally any omitted exhibit to the Commission upon request.

NORTHERN STATES POWER COMPANY

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NORTHERN STATES POWER COMPANY

(Registrant)

Date: May 3, 1995

/s/ EDWARD J. MCINTYRE
Edward J. McIntyre, Vice President and Chief Financial Officer

NORTHERN STATES POWER COMPANY

EXHIBIT INDEX

Current Report on Form 8-K
Report Dated May 3, 1995

Exhibit Number	
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(99)-1	Press Release, dated May 1, 1995, of Northern States Power Company.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Schedule 13D

Under the Securities Exchange Act of 1934

WISCONSIN ENERGY CORPORATION
(Name of Issuer)

Common Stock, $0.01 par value
(Title of Class of Securities)

976657106
(CUSIP Number)

Gary R. Johnson, Esq.
Vice President, General Counsel and Secretary
Northern States Power Company
414 Nicollet Mall
Minneapolis, Minnesota 55401
(612) 330-7623
(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

Copy to:

Seth A. Kaplan, Esq.
Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, New York 10019
(212) 403-1000

April 28, 1995
(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this Schedule because of Rule 13d-1(b)(3) or (4), check the following box: [ ]

Check the following box if a fee is being paid with this statement: [X]

CUSIP No. 976657106

1. NAME OF REPORTING PERSON
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON.

Northern States Power Company
I.R.S. Identification No. 41-044030

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) _____
(b) _____

3. SEC USE ONLY

4. SOURCE OF FUNDS

WC/OO

5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e)

N/A

6. CITIZENSHIP OR PLACE OF ORGANIZATION

State of Minnesota

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

7. SOLE VOTING POWER

21,773,726*

8. SHARED VOTING POWER

0

9. SOLE DISPOSITIVE POWER

21,773,726*

10. SHARED DISPOSITIVE POWER

0

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* Beneficial ownership disclaimed. See Item 5 below.

11. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

21,773,726*

12. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

N/A

13. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

16.6%

14. TYPE OF REPORTING PERSON

CO

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* Beneficial ownership disclaimed. See Item 5 below.

Item 1. Security and Issuer.

This statement relates to the common stock, par value $0.01 per share (the "Common Stock"), of Wisconsin Energy Corporation, a Wisconsin corporation (the "Company"). The principal executive offices of the Company are located at 231 West Michigan Street, P.O. Box 2949, Milwaukee, Wisconsin 53201.

Item 2. Identity and Background.

(a)-(c) and (f) This statement is being filed by Northern States Power Company, a Minnesota corporation ("NSP"). The principal executive offices of NSP are located at 414 Nicollet Mall, Minneapolis, Minnesota 55401.

NSP is predominantly an operating public utility engaged in the generation, transmission and distribution of electricity throughout a 49,000 square mile service area and the transportation and distribution of natural gas in approximately 148 communities within this area. NSP serves customers in Minnesota, Wisconsin, North Dakota, South Dakota and Michigan.

As to each of the executive officers and directors of NSP, the name, business address, present principal occupation or employment and the name and principal address of any corporation or other organization in which such employment is indicated, are set forth on Schedule I hereto. Each of such persons is a citizen of the United States except for Douglas W. Leatherdale, who is a Canadian citizen.

(d) During the last five years, neither NSP nor, to the best of NSP's knowledge, any of the individuals named in Schedule I hereto, has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors).

(e) During the last five years, neither NSP nor, to the best of NSP's knowledge, any of the individuals named in Schedule I hereto, has been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

Item 3. Source and Amount of Funds or Other Consideration.

Concurrently with entering into the Merger Agreement (defined in Item 4 below), NSP was granted the Option (defined in Item 4 below). None of the triggering events permitting exercise of the Option have occurred as of the date of this Schedule 13D. In the event that the Option becomes exercisable and NSP wishes to purchase for cash the Company Common Stock subject thereto, NSP will fund the exercise price from working capital or through other sources, which could include borrowings.

Item 4. Purpose of Transaction.

The Company, NSP, Northern Power Wisconsin Corp., a Wisconsin corporation and wholly-owned subsidiary of NSP ("New NSP"), and WEC Sub Corp., a Wisconsin corporation and wholly-owned subsidiary of WEC ("WEC Sub"), have entered into an Agreement and Plan of Merger, dated as of April 28, 1995 (the "Merger Agreement"), which provides for a strategic business combination involving NSP and the Company in a 'merger-of-equals" transaction (the "Transaction"). The Transaction, which was unanimously approved by the Boards of Directors of the constituent companies, is expected to close shortly after all of the conditions to the consummation of the Transaction, including obtaining applicable regulatory approvals, are met or waived. The regulatory approval process is expected to take approximately 12 to 18 months.

In the Transaction, the holding company of the combined enterprise will be registered under the Public Utility Holding Company Act of 1935, as amended. The holding company will be named Primergy Corporation ("Primergy") and will be the parent company of both NSP (which, for regulatory reasons, will reincorporate in Wisconsin) and of the Company's present principal utility subsidiary, Wisconsin Electric Power Company ("WEPCO"), which will be renamed "Wisconsin Energy Company." Wisconsin Energy Company will include the operations of the Company's other present utility subsidiary, Wisconsin Natural

Gas Company, which is anticipated to be merged into WEPCO by year-end 1995, pending regulatory approval, as previously planned. It is anticipated that, following the Transaction, NSP's Wisconsin utility subsidiary, Northern States Power, a Wisconsin corporation ("NSP-W"), will be merged into Wisconsin Energy Company.

The Merger Agreement is incorporated herein by reference to Exhibit (2)-1 to NSP's Current Report on Form 8-K dated April 28, 1995 (the "April 28, 1995 Form 8-K"), as filed with the Securities and Exchange Commission (the "SEC") on May 3, 1995. The description of the Merger Agreement set forth herein does not purport to be complete and is qualified in its entirety by the provisions of the Merger Agreement.

Under the terms of the Merger Agreement, NSP will be merged with and into New NSP and immediately thereafter WEC Sub will be merged with and into New NSP, with New NSP being the surviving corporation. Each outstanding share of common stock, par value $2.50 per share, of NSP will be cancelled and converted into the right to receive 1.626 shares of common stock, par value $.01 per share, of Primergy ("Primergy Common Stock"). The outstanding shares of Common Stock will remain outstanding and unchanged, as shares of Primergy Common Stock. As of the date of the Merger Agreement, NSP had 67.3 million common shares outstanding and the Company had 109.4 million common shares outstanding. Based on such capitalization, the

Transaction would result in the common shareholders of NSP receiving 50% of the common equity of Primergy and the common shareholders of the Company owning the other 50% of the common equity of Primergy. Each outstanding share of Cumulative Preferred Stock, par value $100.00 per share, of NSP will be cancelled and converted into the right to receive one share of Cumulative Preferred Stock, par value $100.00 per share, of New NSP with identical rights (including dividend rights) and designations. WEPCO's outstanding preferred stock will remain outstanding and be unchanged in the Transaction.

The Transaction is subject to customary closing conditions, including, without limitation, the receipt of required shareholder approvals of the Company and NSP; and the receipt of all necessary governmental approvals and the making of all necessary governmental filings, including approvals of state utility regulators in Wisconsin, Minnesota and certain other states, the approval of the Federal Energy Regulatory Commission, the SEC, the Nuclear Regulatory Commission, and the filing of the requisite notification with the Federal Trade Commission and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the expiration of the applicable waiting period thereunder. The Transaction is also subject to receipt of assurances from the Internal Revenue Service and opinions of counsel that the Transaction will qualify as a tax-free reorganization, and the

assurances from the parties' independent accountants, that the Transaction will qualify as a pooling of interests for accounting purposes. In addition, the Transaction is conditioned upon the effectiveness of a registration statement to be filed by the Company with the SEC with respect to the Primergy Common Stock to be issued in the Transaction and the approval for listing of such shares on the New York Stock Exchange. (See Article VIII of the Merger Agreement.) Shareholder meetings to vote upon the Transaction will be convened as soon as practicable and are expected to be held in the third or fourth quarter of 1995.

The Merger Agreement contains certain covenants of the parties regarding the conduct of the business pending the consummation of the Transaction. Generally, the parties must carry on their businesses in the ordinary course consistent with past practice, may not increase dividends on common stock beyond specified levels, and may not issue any capital stock beyond certain limits. The Merger Agreement also contains restrictions on, among other things, charter and bylaw amendments, capital expenditures, acquisitions, dispositions, incurrence of indebtedness, certain increases in employee compensation and benefits, and affiliate transactions. (See Article VI of the Merger Agreement.)

The Merger Agreement provides that, after the effectiveness of the Transaction (the "Effective Time"), the

corporate headquarters and principal executive offices of Primergy and NSP will be located in Minneapolis, Minnesota, and the headquarters of Wisconsin Energy Company will remain in Milwaukee, Wisconsin. Primergy's Board of Directors, which will be divided into three classes, will consist of a total of 12 directors, 6 of whom will be designated by the Company and 6 of whom will be designated by NSP. Mr. James J. Howard, the current Chairman of the Board, President and Chief Executive Officer ("CEO") of NSP, will serve as CEO of Primergy from the Effective Time until the later of 16 months after the Effective Time or the date of the annual meeting of shareholders of Primergy that occurs in 1998, and Chairman of Primergy until the later of July 1, 2000 or two years after he ceases to be CEO. Mr. Richard A. Abdoo, the current Chairman of the Board, President and CEO of the Company, will serve as Vice Chairman of the Board, President and Chief Operating Officer of Primergy until the date when Mr. Howard ceases to be CEO, at which time he will be entitled to assume the additional role of CEO. Mr. Abdoo will assume the position of Chairman when Mr. Howard ceases to be Chairman.

The Merger Agreement may be terminated under certain circumstances, including (1) by mutual consent of the parties; (2) by any party if the Transaction is not consummated by April 30, 1997 (provided, however, that such termination date shall be extended to October 31, 1997 if all conditions to closing

the Transaction, other than the receipt of certain consents and/or statutory approvals by any of the parties, have been satisfied by April 30, 1997); (3) by any party if either NSP's or the Company's shareholders vote against the Transaction or if any state or federal law or court order prohibits the Transaction; (4) by a non-breaching party if there exist breaches of any representations or warranties contained in the Merger Agreement as of the date thereof, which breaches, individually or in the aggregate, would result in a material adverse effect on the breaching party and which is not cured within twenty (20) days after notice; (5) by a non-breaching party if there occur breaches of specified covenants or material breaches of any covenant or agreement which are not cured within twenty (20) days after notice; (6) by either party if the Board of Directors of the other party shall withdraw or adversely modify its recommendation of the Transaction or shall approve any competing transaction; or (7) by either party, under certain circumstances, as a result of a third-party tender offer or business combination proposal which such party, pursuant to its directors' fiduciary duties, is, in the opinion of such party's counsel and after the other party has first been given an opportunity to make concessions and adjustments in the terms of the Merger Agreement, required to accept.

The Merger Agreement provides that if a breach described in clause (4) or (5) of the previous paragraph occurs,

then, if such breach is not willful, the non-breaching party is entitled to reimbursement of its out-of-pocket expenses, not to exceed $10 million. In the event of a willful breach, the non-breaching party will be entitled to its out-of-pocket expenses (which shall not be limited to $10 million) and any remedies it may have at law or in equity, provided that if, at the time of the breaching party's willful breach, there shall have been a third party tender offer or business combination proposal which shall not have been rejected by the breaching party and withdrawn by the third party, and within two and one-half years of any termination by the non-breaching party, the breaching party accepts an offer to consummate or consummates a business combination with such third party, then such breaching party, upon the signing of a definitive agreement relating to such a business combination, or, if no such agreement is signed then at the closing of such business combination, will pay to the non-breaching party an additional fee equal to $75 million. The Merger Agreement also requires payment of a termination fee of $75 million (and reimbursement of out-of-pocket expenses) by one party (the "Payor") to the other in certain circumstances, if (i) the Merger Agreement is terminated (x) as a result of the acceptance by the Payor of a third-party tender offer or business combination proposal, (y) following a failure of the shareholders of the Payor to grant their approval to the Transaction or (z) as a result of the Payor's material failure

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to convene a shareholder meeting, distribute proxy materials and, subject to its board of directors' fiduciary duties, recommend the Transaction to its shareholders; (ii) at the time of such termination or prior to the meeting of such party's shareholders there shall have been a third-party tender offer or business combination proposal which shall not have been rejected by the Payor and withdrawn by such third party; and (iii) within two and one-half years of any such termination described in clause (i) above, the Payor accepts an offer to consummate or consummates a business combination with such third party. Such termination fee and out-of-pocket expenses referred to in the previous sentence shall be paid upon the signing of a definitive agreement between the Payor and the third party, or, if no such agreement is signed, then at the closing of such third-party business combination. The termination fees payable by NSP or the Company under these provisions and the aggregate amount which could be payable by NSP or the Company upon a required purchase of the options granted pursuant to the Stock Option Agreements (as defined below) may not exceed $125 million in the aggregate. (See Article IX of the Merger Agreement.)

It is anticipated that Primergy will adopt NSP's dividend payment level adjusted for the exchange ratio. NSP currently pays $2.64 per share annually, and the Company's annual dividend note is currently $1.47 per share. Based on the

exchange ratio and NSP's current dividend rate, the pro forma dividend rate for Primergy would be $1.62 per share.

The Merger Agreement provides that the Restated Articles of Incorporation and the bylaws of the Company will be amended in a manner to be agreed between NSP and the Company and, as so amended, will be the Articles of Incorporation and bylaws of Primergy.

Concurrently with entering into the Merger Agreement, the Company and NSP entered into reciprocal stock option agreements each granting the other, for no additional consideration, an irrevocable option to purchase under certain circumstances up to that number of shares of common stock of the other company which equals 19.9% of the number of shares of common stock of the other company outstanding on April 28, 1995 (the "Stock Option Agreements"). Specifically, under the WEC Stock Option Agreement, the Company granted NSP an irrevocable option to purchase (the "Option") up to 21,773,726 shares (subject to adjustment for changes in capitalization) of Common Stock at an exercise price of $27.675 per share under certain circumstances if the Merger Agreement becomes terminable by NSP as a result of the Company's breach and as a result of the Company becoming the subject of a third-party proposal for a business combination. The exercise price is payable, at NSP's election, in cash or shares of NSP Common Stock. If the Option becomes exercisable, NSP may request the Company to repurchase

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from NSP all or any portion of the Option (or if the Option is exercised, to repurchase from NSP all or any portion of the acquired shares of Common Stock) at the price specified in the WEC Stock Option Agreement.

Each party to the Stock Option Agreements agreed to vote, prior to April 28, 2000, any shares of the capital stock of the other party acquired pursuant to the Stock Option Agreements or otherwise beneficially owned by such party on each matter submitted to a vote of shareholders of such other party for and against such matter in the same proportion as the vote of all other shareholders of such other party is voted for and against such matter.

The Stock Option Agreements provide that, prior to April 28, 2000, neither party may sell, assign, pledge or otherwise dispose of or transfer the shares it acquires pursuant to the Stock Option Agreements (collectively, the "Restricted Shares") except as specifically provided for in the Stock Option Agreements. In addition to the repurchase rights mentioned above, subsequent to the termination of the Merger Agreement, the parties have the right to have such shares of the other party registered under the Securities Act of 1933 for sale in a public offering, unless the issuer of the shares elects to repurchase them at their then market value. The Stock Option Agreements also provide that, following the termination of the Merger Agreement, either party may sell any

Restricted Shares pursuant to a tender or exchange offer approved or recommended, or otherwise determined to be fair and in the best interests of such other party's shareholders, by a majority of the Board of Directors of such other party.

The Stock Option Agreements are incorporated herein by reference to Exhibits (2)-2 and (2)-3 of NSP's Current Report on Form 8-K dated April 28, 1995 (the "April 28, 1995 Form 8-K"), as filed with the Securities and Exchange Commission (the "SEC") on May 3, 1995. The description of the Stock Option Agreements set forth herein does not purport to be complete and is qualified in its entirety by the provisions of the Stock Option Agreements.

Pursuant to a Letter Agreement dated January 17, 1995 between NSP and the Company, as amended by a Letter Agreement dated April 26, 1995 (together, the "Confidentiality Agreement"), for a period commencing on January 17, 1995 and ending two years from the date of termination of the Merger Agreement, the parties have agreed (other than as contemplated in the Merger Agreement or Stock Option Agreements), not to (i) acquire any material portion of the other party's assets or businesses or in excess of 1% of any class of securities issued by the other party; (ii) seek or propose a business combination with the other party or any of its subsidiaries; (iii) seek or propose to influence or control the management or policies of the other party; or (iv) enter into or propose any discussions,

negotiations, arrangements or understandings with any third party with respect to any of the foregoing. The Confidentiality Agreement is filed as an Exhibit to this Schedule and is incorporated herein by reference. The description of the Confidentiality Agreement set forth herein does not purport to be complete and is qualified in its entirety by the provisions of the Confidentiality Agreement.

Both NSP and the Company recognize that the divestiture of their existing gas operations and certain non-utility operations is a possibility under the new registered holding company structure, but will seek approval from the SEC to maintain such businesses. If divestiture is ultimately required, the SEC has historically allowed companies sufficient time to accomplish divestitures in a manner that protects shareholder value.

Except as set forth in this Item 4, the Merger Agreement or the WEC Stock Option Agreement, neither NSP nor, to the best of NSP's knowledge, any of the individuals named in Schedule I hereto, has any plans or proposals which relate to or which would result in any of the actions specified in clauses (a) through (j) of Item 4 of Schedule 13D.

Item 5. Interest in Securities of the Issuer.

(a)-(b) By reason of its execution of the WEC Stock Option Agreement, pursuant to Rule 13d-3(d)(1)(i) promulgated under the Exchange Act, NSP may be deemed to have sole voting

and dispositive power with respect to the Common Stock subject to the Option and, accordingly, may be deemed to beneficially own 21,773,726 shares of Common Stock, or approximately 16.6% of the Common Stock outstanding on April 28, 1995 assuming exercise of the Option. However, NSP expressly disclaims any beneficial ownership of the 21,773,726 shares of Common Stock which are obtainable by NSP upon exercise of the Option, because the Option is exercisable only in the circumstances set forth in Item 4, none of which has occurred as of the date hereof. Furthermore, even if events did occur which rendered the Option exercisable, NSP believes it would be a practical impossibility to obtain the regulatory approvals necessary to acquire shares of Common Stock pursuant to the Option within 60 days.

Except as set forth above, neither NSP nor, to the best of NSP's knowledge, any of the individuals named in Schedule I hereto, owns any Common Stock.

(c) Except as set forth above, neither NSP nor, to the best of NSP's knowledge, any of the individuals named in Schedule I hereto, has effected any transaction in the Common Stock during the past 60 days.

(d) So long as NSP has not purchased the Common Stock subject to the Option, NSP does not have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, any of the Common Stock.

(e) Inapplicable.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer.

The Merger Agreement contains certain customary restrictions on the conduct of the business of the Company pending the Merger, including certain customary restrictions relating to the Common Stock. Except as provided in the Merger Agreement, the WEC Stock Option Agreement or the Confidentiality Agreement, or as set forth herein, neither NSP nor, to the best of NSP's knowledge, any of the individuals named in Schedule I hereto, has any contracts, arrangement, understandings or relationships (legal or otherwise), with any person with respect to any securities of the Company, including, but not limited to, transfer or voting of any securities, finder's fees, joint ventures, loan or option arrangements, puts or calls, guarantees of profits, division of profits or losses, or the giving or withholding of proxies.

Item 7. Material to be Filed as Exhibits.

NSP (Commission File No. 1-3034) hereby incorporates into this Schedule the following exhibits by reference to the filing set forth below:

(2)-1 Agreement and Plan of Merger, dated as of April 28, 1995, by and among Northern States Power Company,

Wisconsin Energy Corporation, Northern Power Wisconsin Corp. and WEC Sub Corp. (Exhibit (2)-1 to NSP's April 28, 1995 Form 8-K.)

-2 WEC Stock Option Agreement, dated as of April 28, 1995, by and among Northern States Power Company and Wisconsin Energy Corporation. (Exhibit (2)-2 to NSP's April 28, 1995 Form 8-K.)

-3 NSP Stock Option Agreement, dated as of April 28, 1995, by and among Wisconsin Energy Corporation and Northern States Power Company. (Exhibit (2)-3 to NSP's April 28, 1995 Form 8-K.)

-4 Committees of the Board of Directors of Primergy Corporation. (Exhibit (2)-4 to NSP's April 28, 1995 Form 8-K.)

-5 Form of Employment Agreement of James J. Howard. (Exhibit (2)-5 to NSP's April 28, 1995 Form 8-K.)

-6 Form of Employment Agreement of Richard A. Abdoo. (Exhibit (2)-6 to NSP's April 28, 1995 Form 8-K.)

(99)-1 Press Release, dated May 1, 1995, of Wisconsin Energy Corporation. (Exhibit (99)-1 to NSP's April 28, 1995 Form 8-K.)

The following exhibits are filed herewith:

-7 Letter Agreement, dated January 17, 1995, between Northern States Power Company and Wisconsin Energy Corporation.

-8 Letter Agreement, dated April 26, 1995, between Northern States Power Company and Wisconsin Energy Corporation amending Letter Agreement dated January 17, 1995.

SIGNATURE

After reasonable inquiry and to the best of its knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

Dated: May 8, 1995

NORTHERN STATES POWER COMPANY

By /s/Gary R. Johnson
Gary R. Johnson
Vice President, General
Counsel and Secretary

SCHEDULE I

DIRECTORS AND EXECUTIVE OFFICERS
OF NORTHERN STATES POWER COMPANY

The name, business address or residence, present principal occupation or employment, and the name, principal business and address of any corporation or other organization in which such employment is conducted, of each of the directors and executive officers of Northern States Power Company, a Minnesota corporation ("NSP"), is set forth below. If no business address is given, the director's or officer's address is Northern States Power Company, 414 Nicollet Mall, Minneapolis, Minnesota 55401. Unless otherwise indicated, each occupation set forth opposite an executive officer's name refers to employment with NSP.

Name	Present Principal Occupation or Employment and Address
H. Lyman Bretting	President and Chief Executive Officer C.G. Bretting Manufacturing Company, Inc. 3401 East Main Street Ashland, WI 54806
David A. Christensen	President and Chief Executive Officer Raven Industries, Inc. 205 East Sixth Street P.O. Box 5107 Sioux Falls, SD 57117-5107
W. John Driscoll	Retired effective June 30, 1994 as Chairman of the Board Rock Island Company First National Banks Building, Ste. 2090 332 Minnesota Street St. Paul, MN 55101
Dale L. Haakenstad	Retired effective December 31, 1989 as President and Chief Executive Officer Western States Life Insurance Company 1207 26 Avenue South, Apt. 16 Fargo, ND 58103

Allen F. Jacobson	Retired effective November 1, 1991 as Chairman and Chief Executive Officer Minnesota Mining and Manufacturing Company 3050 Minnesota World Trade Center 30 East Seventh Street St. Paul, MN 55101
Richard M. Kovacevich	President and Chief Executive Officer Norwest Corporation Norwest Center 90 South 7th Street Sixth & Marquette Minneapolis, MN 55479-1062
Douglas W. Leatherdale	Chairman, President and Chief Executive Officer The St. Paul Companies, Inc. 385 Washington Street St. Paul, MN 55102
John E. Pearson	Retired effective January 31, 1992 as Chairman, The NWNL Companies, Inc. and Northwestern National Life Insurance Company 4900 IDS Tower 80 South 8th Street Minneapolis, MN 55402
G. M. Pieschel	Chairman Farmers and Merchants State Bank 101 No. Marshall P.O. Box 126 Springfield, MN 56087
Margaret R. Preska	Distinguished Service Professor Minnesota State Universities 1175 W. Wabasha Winona, MN 55987
A. Patricia Sampson	Consultant Dr. Sanders and Associates 3385 Sycamore Lane Plymouth, MN 55441
Edwin M. Theisen	Retired effective November 30, 1994 as President and Chief Operating Officer

	5725 Evergreen Lane Plymouth, MN 55442-1571
James J. Howard	Chairman of the Board, President and Chief Executive Officer
Douglas D. Antony	President - NSP Generation
Arland D. Brusven	Vice President - Finance
Jackie A. Currier	Vice President and Treasurer
Gary R. Johnson	Vice President and General Counsel
Cynthia L. Lesher	Vice President - Human Resources
Edward J. McIntyre	Vice President and Chief Financial Officer
Thomas A. Micheletti	Vice President - Public & Government Affairs
John A. Noer	President & CEO Northern States Power Company

(WISCONSIN)
100 North Barstow Street
Eau Clair, WI 54701

David H. Peterson	Chairman, President & CEO NRG Energy, Inc. 1221 Nicollet Mall, Suite #700 Minneapolis, MN 55403
Roger D. Sandeen	Vice President, Controller and Chief Information Officer
Robert H. Schulte	Vice President - Customer Service
Loren L. Taylor	President - NSP Electric
Edward L. Watzl	Vice President - Nuclear Generation
Keith H. Wietecki	President - NSP Gas

NORTHERN STATES POWER COMPANY
SCHEDULE 13D
EXHIBIT INDEX

Exhibit Number	Exhibit	Page
(2)-1	Agreement and Plan of Merger, dated as of April 28, 1995, by and among Northern States Power Company, Wisconsin Energy Corporation, Northern Power Wisconsin Corp. and WEC Sub Corp. (Incorporated by reference to Exhibit (2)-1 to NSP's April 28, 1995 Form 8-K.)	
-2	WEC Stock Option Agreement, dated as of April 28, 1995, by and among Northern States Power Company and Wisconsin Energy Corporation. (Incorporated by reference to Exhibit (2)-2 to NSP's April 28, 1995 Form 8-K.)	
-3	NSP Stock Option Agreement, dated as of April 28, 1995, by and among Wisconsin Energy Corporation and Northern States Power Company. (Incorporated by reference to Exhibit (2)-3 to NSP's April 28, 1995 Form 8-K.)	
-4	Committees of the Board of Directors	

of Primergy Corporation. (Incorporated by reference to Exhibit (2)-4 to NSP's April 28, 1995 Form 8-K.)

-5 Form of Employment Agreement of James J. Howard. (Incorporated by reference to Exhibit (2)-5 to NSP's April 28, 1995 Form 8-K.)

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eotsn/northstate/04350.001/95edgar/130.file2

EXHIBIT 7

[LETTERHEAD OF NORTHERN STATES POWER COMPANY]

January 17, 1995

Jerry G. Remmel
Vice President, Treasurer
and Chief Financial Officer
Wisconsin Energy Corporation
231 West Michigan Street
Milwaukee, WI 53201

Dear Mr. Remmel:

In connection with your and our consideration of a possible transaction (the "Transaction") between us and/or our shareholders and you and/or your shareholders, you have requested information concerning us and we have requested information concerning you. For the purposes of this letter agreement ("Agreement"), you or we may each sometimes hereinafter be referred to as the "Receiving Party" when the recipient of information, or the "Providing Party" when the provider of information, as the context may require. As a condition to the Providing Party furnishing information to the Receiving Party, its subsidiaries, affiliates (as such term is used in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), directors, officers, employees, representatives or agents (all of such persons hereinafter referred to as "representatives"), the Receiving Party agrees that all Evaluation Material (as such term is defined below) which is furnished by the Providing Party to the Receiving Party or its representatives before or after the date of this letter will be treated in accordance with the provisions of this Agreement and to take or to abstain from taking certain other actions set forth in this Agreement.

As used herein, "Evaluation Material" means all data, reports, interpretations, forecasts and records (whether in oral or written form, electronically stored or otherwise) containing or otherwise reflecting information concerning the Transaction provided by the Providing Party or its representatives to the Receiving Party or its representatives pursuant to the provisions of this Agreement, and all notes, analyses, compilations, studies or other documents in tangible form (whether in written form, electronically stored or otherwise), whether prepared by the Providing Party, the Receiving Party or their respective representatives or others which contain or otherwise reflect such information. Notwithstanding the foregoing, the term Evaluation Material does not include information which (i) is already in the possession of the Receiving Party, provided that such information was not supplied to the Receiving Party by, or on behalf of, the Providing Party, and provided further that such information is not known to the Receiving Party to be subject to another confidentiality agreement with or other obligation of secrecy to the Providing Party, or (ii) is or becomes generally available to the public other than as a result of a disclosure by the Receiving Party or any of the Receiving Party's directors, officers, employees, agents, advisers or representatives in violation of this Agreement, or (iii) becomes available to the Receiving Party on a non-confidential basis from a source other than the Providing Party, provided that the Receiving Party has no knowledge that such source is bound by a confidentiality agreement with or other obligation of secrecy to the Providing Party with respect to the information.

The Receiving Party agrees that the Evaluation Material will be used solely for the purpose of evaluating the possible Transaction, and that, subject to the next paragraph, such information will be kept strictly confidential by the Receiving Party and its representatives, provided that any of such information may be disclosed by the Receiving Party to its representatives who need to know such information for the purpose of evaluating the possible Transaction (it being understood that such representatives shall be informed by the Receiving Party of the confidential nature of such information and shall be instructed by the Receiving Party to treat such information confidentially and that the Receiving Party will be responsible if they should fail to comply with the terms of this Agreement).

In addition, you and we agree not to disclose, and will cause our representatives not to disclose to any person other than our representatives, either the fact that you and we are considering any possible Transaction or that information has been provided to you or us, or that discussions or negotiations are taking place concerning any possible Transaction, or any of the terms, conditions or other facts with respect to any possible Transactions, including the status thereof. The foregoing does not prohibit disclosures of the status of any discussions between you and us which either believes, based on advice of counsel, to be required by law to be disclosed, but in such event each of us will consult with the other party and its counsel in advance of such disclosure about the need for, and the exact text of, any such disclosure. If either of us is requested or required by applicable law (by interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) to disclose any Evaluation Material, such party will provide the other party with immediate notice of such request or requirement so that the other party may consider seeking a protective order or other appropriate relief. If in the absence of a protective order or the receipt of a waiver hereunder either of us is nonetheless compelled to disclose any Evaluation Material to any tribunal or any other person or else stand liable for contempt or suffer other legal censure or penalty, such party may disclose such information to such tribunal or other party without liability hereunder, provided that such party agrees to furnish only that portion of the Evaluation Material which it is advised by counsel is legally required and that it shall use its best efforts to obtain assurance that confidential treatment will be accorded to any Evaluation Material that is disclosed.

For a period commencing on the date hereof and ending two years from the date hereof, each of us and our respective affiliates (as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") will not (and we and they will not assist or encourage others to request permission to), directly or indirectly, unless specifically requested in writing in advance by the other party's Board of Directors:

1. acquire or agree, offer, seek or propose to acquire (or request permission to do so), ownership (as defined in Rule 13d-3 under the Exchange Act) of any material portion of the other party's assets or businesses or in excess of one

percent of any class of securities issued by the other party, or any rights or options to acquire such ownership (including from a third party) or offer, seek or propose a merger, consolidation or other business combination with the other party or any of the other party's subsidiaries; or

2. seek or propose to influence or control the management or policies of the other party, including by making or in any way participating in the solicitation of proxies or consents; or

3. enter into or propose any discussions, negotiations, arrangements or understanding with any third party with respect to any of the foregoing.

If any time during the period between the date of this Agreement and the earlier of (x) the date that a definitive agreement with respect to the Transaction is executed and (y) the date that discussions with respect thereto are terminated, either of us is approached by any third party concerning participation in a transaction involving the assets or businesses or securities issued by the other party, such party will promptly inform the other party of the nature of such contact and the parties thereto. Neither of us will request that any of the provisions of this paragraph or the preceding paragraph be amended or waived.

Although each of us will endeavor to include in the Evaluation Material information which we believe to be relevant for the purpose of investigation of the other party, each of us acknowledges that neither of us nor any of our respective directors, officers, employees, agents, representatives or advisers has made or makes any representation or warranty as to the accuracy or completeness of the Evaluation Material. Subject to the terms of any definitive agreement we may reach, each of us agrees that neither party nor our respective directors, officers, employees, agents, representatives or advisers shall have any liability to the other party or any of its representatives or advisers resulting from the use of the Evaluation Material.

If we do not proceed with a Transaction in a reasonable time or if either of us so requests, the Receiving Party will promptly either redeliver to the Providing Party all copies of extracts or other reproductions of Evaluation Material delivered to the Receiving Party (or destroy such material and certify such destruction to the Providing Party) and will destroy all memoranda, notes and other materials (whether written, electronic or otherwise) prepared by the Receiving Party or its directors, officers, employees, agents, advisers or representatives based on or reflecting the information in the Evaluation Material. Following such redelivery or destruction, the receiving Party will deliver to the Providing Party, upon request, a certification in writing by an officer of the Receiving Party who has supervised such redelivery or destruction.

Each of us agrees that unless and until a definitive agreement regarding the Transaction has been executed, neither we nor you will be under any legal obligation of any kind with respect to any Transaction by virtue of this Agreement or any other written or oral expression with respect to any Transaction.

Each of us agrees that money damages would not be a sufficient remedy for any breach of the agreements in this Agreement by either of us or our respective directors, officers, employees, agents, advisers or representatives and that the aggrieved party will be entitled to injunctive relief, specific performance and/or any other appropriate equitable remedies for any such breach. Such remedies shall not be deemed to be exclusive, but shall be in addition to all other remedies available at law or in equity. In addition, if successful the aggrieved party will be entitled to payment of its legal fees and disbursements, court costs and other expenses of enforcing, defending or otherwise protecting its interests hereunder.

Any person who at any time after the date hereof becomes a representative of either of us shall be deemed to be such party's representative for the purposes of this Agreement, regardless of whether such person was such party's representative on the date hereof; all references to affiliates and subsidiaries contained in this Agreement shall apply with equal force and effect to any and all representatives of such referenced affiliates or subsidiaries.

EXHIBIT 8

This Agreement shall be governed by and construed in accordance with the laws of the State of New York without giving effect to its conflict of laws, principles or rules.

If you are in agreement with the foregoing, please so indicate by signing and returning one copy of this Agreement. This Agreement may be executed by telecopy with original to follow.

Very truly yours,

NORTHERN STATES POWER COMPANY

By: /s/ Edward J. McIntyre
Edward J. McIntyre
Vice President and
Chief Financial Officer

Confirmed and agreed to as
of the date of this letter:

WISCONSIN ENERGY CORPORATION

By: /s/ Jerry G. Remmel
Jerry G. Remmel
Vice President, Treasurer
and Chief Financial Officer

EXHIBIT 8

Northern States Power Company
414 Nicollet Mall
Minneapolis, MN 55401

April 26, 1995

Wisconsin Energy Corporation
231 West Michigan Street
P.O. Box 2949
Milwaukee, WI 53201

Attention: Mr. Jerry G. Remmel

Dear Jerry:

This letter confirms that discussions between our two companies, Northern States Power Company ("NSP") and Wisconsin Energy Corporation ("WEC") with respect to a possible business combination transaction resumed effective as of April 19, 1995.

This letter shall be deemed to amend the letter agreement dated January 17, 1995 between NSP and WEC (the "Confidentiality Agreement"), by inserting after the phrase "two years from the date hereof" in the first two lines of the fifth paragraph of the Confidentiality Agreement the parenthetical "(or, in the event a definitive agreement with respect to a Transaction is entered into between us, two years from the date of termination of such agreement)". Except as stated herein, the Confidentiality Agreement remains in full force and effect.

NSP and WEC also confirm that any Evaluation Material (as defined in the Confidentiality Agreement) provided from April 19, 1995 is covered by the terms of the Confidentiality Agreement.

Very truly yours,

NORTHERN STATES POWER COMPANY

By: /s/ Edward J. McIntyre
Edward J. McIntyre
Vice President and Chief Financial Officer

Confirmed and agreed to as of the date of this letter:

WISCONSIN ENERGY CORPORATION

By: /s/ Jerry G. Remmel
Jerry G. Remmel
Chief Financial Officer

Northern States Power Company
414 Nicollet Mall
Minneapolis, MN 55401

April 26, 1995

Wisconsin Energy Corporation
231 West Michigan Street
P.O. Box 2949
Milwaukee, WI 53201

Attention: Mr. Jerry G. Remmel

Dear Jerry:

This letter confirms that discussions between our two companies, Northern States Power Company ("NSP") and Wisconsin Energy Corporation ("WEC") with respect to a possible business combination transaction resumed effective as of April 19, 1995.

This letter shall be deemed to amend the letter agreement dated January 17, 1995 between NSP and WEC (the "Confidentiality Agreement"), by inserting after the phrase "two years from the date hereof" in the first two lines of the fifth paragraph of the Confidentiality Agreement the parenthetical "(or, in the event a definitive agreement with respect to a Transaction is entered into between us, two years from the date of termination of such agreement)". Except as stated herein, the Confidentiality Agreement remains in full force and effect.

NSP and WEC also confirm that any Evaluation Material (as defined in the Confidentiality Agreement) provided from April 19, 1995 is covered by the terms of the Confidentiality Agreement.

Very truly yours,

NORTHERN STATES POWER COMPANY

By: /s/ Edward J. McIntyre
Edward J. McIntyre
Vice President and Chief
Financial Officer

Confirmed and agreed to as of
the date of this letter:

WISCONSIN ENERGY CORPORATION

By: /s/ Jerry G. Remmel
Jerry G. Remmel
Chief Financial Officer

202-55-22418

FORM 3

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(f) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number	3235-0104
Expires:	February 28, 1994
Estimated average burden hours per response	0.5

1. Name and Address of Reporting Person	2. Date of Event Requiring Statement (Month/Day/Year)	4. Issuer Name and Ticker or Trading Symbol	
Northern States Power Company	4/28/95	Wisconsin Energy Corporation (WEC)	
(Last) (First) (Middle)	3. IRS or Social Security Number of Reporting Person (Voluntary)	5. Relationship of Reporting Person to Issuer (Check all applicable)	6. If Amendment, Date of Original (Month/Day/Year)
414 Nicollet Mall	41-0448030	___ Director ___ Officer (give title below)	X 10% Owner ___ Other (specify below)
(Street)			
Minneapolis MN 55401			
(City) (State) (Zip)			

Table I — Non-Derivative Securities Beneficially Owned

1. Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
Common Stock, $0.01 Par Value Per Share	None		

RECD B.P.O.
MAY 8 1995
037

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

(Print or Type Responses)

(Over)

SEC 1473 (3/91)

ATTACHMENT D.Q-3

FORM 3 (continued) Table II — Derivative Securities Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year)		3. Title and Amount of Securities Underlying Derivative Security (Instr. 4)		4. Conversion or Exercise Price of Derivative Security	5. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 5)	6. Nature of Indirect Beneficial Ownership (Instr. 5)
	Date Exercisable	Expiration Date	Title	Amount or Number of Shares			
Option to Purchase Common Stock (1)	(1)	(1)	Common Stock $0.01 Par Value Per Share	21,773,725 (1)	$27.675	D	

Explanation of Responses: (1) Concurrently with entering into an Agreement and Plan of Merger, dated as of April 28, 1995, by and among Wisconsin Energy Corporation ("WEC"), Northern States Power Company ("NSP"), Northern Power Wisconsin Corp. and WEC Sub Corp. (the "Merger Agreement"), which provides for a strategic business combination involving WEC and NSP in a "merger-of-equals" transaction (the "Transaction"), WEC granted NSP an irrevocable option (the "Option") to purchase up to 19.9% of its shares of Common Stock at April 28, 1995 (21,773,726 shares, which is subject to adjustment for changes in capitalization) at an exercise price of $27.675 per share under certain circumstances if the Merger Agreement becomes terminable as a result of WEC's breach or as a result of WEC becoming the subject of a third party proposal for a business combination. The Option will terminate on the earlier of (i) the effective time of the Transaction under the Merger Agreement, (ii) the termination of the Merger Agreement pursuant to its terms (other than a termination following a specified business combination) or (iii) 180 days following any termination of the Merger Agreement upon or during the continuance of a specified business combination. Because the Option is not presently exercisable, and since if it were to become exercisable acquisition of the WEC Common Stock thereunder would be subject to regulatory approval, NSP expressly disclaims beneficial ownership of the shares of WEC Common Stock subject to the Option.

NORTHERN STATES POWER COMPANY

Gary R. Johnson 5/6/95

**Signature of Reporting Person Date

Gary R. Johnson, Vice President
General Counsel and Secretary

ATTACHMENT D.Q-4

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1994 Commission file number: 1-3034

NORTHERN STATES POWER COMPANY

(Exact name of Registrant as specified in its charter)

Minnesota	41-0448030
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
414 Nicollet Mall, Minneapolis, Minnesota	55401
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 612-330-5500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, $2.50 Par Value	New York Stock Exchange, Chicago Stock Exchange and Pacific Stock Exchange
Cumulative Preferred Stock, $100 Par Value each	
Preferred Stock $ 3.60 Cumulative	New York Stock Exchange
Preferred Stock $ 4.08 Cumulative	New York Stock Exchange
Preferred Stock $ 4.10 Cumulative	New York Stock Exchange
Preferred Stock $ 4.11 Cumulative	New York Stock Exchange
Preferred Stock $ 4.16 Cumulative	New York Stock Exchange
Preferred Stock $ 4.56 Cumulative	New York Stock Exchange
Preferred Stock $ 6.80 Cumulative	New York Stock Exchange
Preferred Stock $ 7.00 Cumulative	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ___

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___.

As of March 15, 1995, the aggregate market value of the voting common stock held by non-affiliates of the Registrant was $2,907,829,319 and there were outstanding 66,931,937 shares of common stock, $2.50 par value.

Documents Incorporated by Reference
None

Index

	Page No.
PART I	
Item 1 - Business	1
UTILITY REGULATION AND REVENUES	
General	1
Revenues	1
Rate Programs	2
Rate Matters by Jurisdiction	2
Ratemaking Principles in Minnesota and Wisconsin	3
Fuel and Purchased Gas Adjustment Clauses	6
ELECTRIC UTILITY OPERATIONS	
Competition	7
Capability and Demand	8
Energy Sources	10
Fuel Supply and Costs	10
Nuclear Power Plants - Licensing, Operation and Waste Disposal	12
Electric Operating Statistics	14
GAS UTILITY OPERATIONS	
Competition	14
Capability and Demand	16
Gas Supply and Costs	16
Gas Operating Statistics	18
NRG ENERGY, INC	18
OTHER SUBSIDIARIES	20
ENVIRONMENTAL MATTERS	21
CAPITAL SPENDING AND FINANCING	25
EMPLOYEES AND EMPLOYEE BENEFITS	26
EXECUTIVE OFFICERS	27
Item 2 - Properties	29
Item 3 - Legal Proceedings	29
Item 4 - Submission of Matters to a Vote of Security Holders	30
PART II	
Item 5 - Market for Registrant's Common Equity and Related Stockholder Matters	30
Item 6 - Selected Financial Data	31
Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 8 - Financial Statements and Supplementary Data	44
Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	70
PART III	
Item 10 - Directors and Executive Officers of the Registrant	71
Item 11 - Executive Compensation	74
Item 12 - Security Ownership of Certain Beneficial Owners and Management	78
Item 13 - Certain Relationships and Related Transactions	78
PART IV	
Item 14 - Exhibits, Financial Statement Schedules, and Reports on Form 8-K	79
SIGNATURES	85

PART I
Item 1 - Business

Northern States Power Company (the Company) was incorporated in 1909 under the laws of Minnesota. Its executive offices are located at 414 Nicollet Mall, Minneapolis, Minnesota 55401. (Phone 612-330-5500). The Company has two significant subsidiaries, Northern States Power Company, a Wisconsin corporation (the Wisconsin Company) and NRG Energy, Inc (NRG), a Delaware corporation; and several other subsidiaries, including Cenergy, Inc, a Minnesota corporation, and Viking Gas Transmission Company, a Delaware corporation (Viking). (See "NRG Energy, Inc." and "Other Subsidiaries" herein for further discussion of these subsidiaries.) The Company and its subsidiaries collectively are referred to herein as NSP.

NSP is predominantly an operating public utility engaged in the generation, transmission and distribution of electricity throughout a 49,000 square mile service area and the transportation and distribution of natural gas in approximately 148 communities within this area. Viking is a regulated natural gas transmission company that operates a 500-mile interstate natural gas pipeline. In addition to utility businesses, NRG manages several of NSP's non-regulated energy subsidiaries.

The Company serves customers in Minnesota, North Dakota and South Dakota. The Wisconsin Company serves customers in Wisconsin and Michigan. Of the approximately 3 million people served by the Company and the Wisconsin Company, the majority are concentrated in the Minneapolis-St. Paul metropolitan area. In 1994, about 61% of NSP's electric retail revenue was derived from sales in the Minneapolis-St. Paul metropolitan area and about 56% of retail gas revenue came from sales in the St. Paul area. (For business segment information, see Note 18 of Notes to Financial Statements under Item 8.)

NSP's utility businesses are experiencing some of the challenges currently common to regulated electric and gas utility companies, namely, increasing competition for customers, increasing pressure to control costs to operate and construct facilities, uncertainties in regulatory processes, increasing costs of compliance with environmental laws and regulations, and uncertainties related to permanent disposal of nuclear fuel. In May 1994, the Minnesota Legislature approved a plan for temporary storage of used nuclear fuel, if the Company satisfies certain responsibilities, which should eliminate for several years the uncertainty surrounding continued operation of its nuclear plants. (See Management's Discussion and Analysis under Item 7 and Notes 16 and 17 of Notes to Financial Statements under Item 8 for further discussion of this matter.)

NRG was active in the international energy market through partnership and joint venture investments in 1994. NRG acquired partial ownership positions in the MIBRAG mbH coal and power complex and in the 900 megawatt (Mw) Schkopau power plant both near Leipzig, Germany. NRG is also the operator and 37.5% owner of the 1,680 Mw Gladstone Power Station in Queensland, Australia. (See additional discussions of business acquisitions and non-regulated operations in the "NRG Energy, Inc." and "Other Subsidiaries" sections, herein, and in Notes 4 and 5 of Notes to Financial Statements under Item 8.)

UTILITY REGULATION AND REVENUES

General

Retail sales rates, services and other aspects of the Company's operations are subject to the jurisdiction of the Minnesota Public Utilities Commission (MPUC), the North Dakota Public Service Commission (NDPSC), and the South Dakota Public Utilities Commission (SDPUC) within their respective states. The MPUC also possesses regulatory authority over aspects of the Company's financial activities including security issuances, property transfers when the asset value is in excess of $100,000, mergers with other utilities, and transactions between the regulated Company and non-regulated affiliates. In addition, the MPUC reviews and approves the Company's electric resource plans for meeting customers' future electric energy needs. The Wisconsin Company is subject to regulation of similar scope by the Public Service Commission of Wisconsin (PSCW) and the Michigan Public Service Commission (MPSC). In addition, each of the state commissions certifies the need for new generating plants and transmission lines of designated capacities to be located within the respective states before the facilities may be sited and built.

Wholesale rates for electric energy sold in interstate commerce, wheeling rates for energy transmission in interstate commerce, the wholesale gas transportation rates of Viking, and certain other activities of the Company, the Wisconsin Company and Viking are subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC). NSP also is subject to the jurisdiction of other federal, state and local agencies in many of its activities. (See "Environmental Matters" herein.)

The Minnesota Environmental Quality Board (MEQB) is empowered to select and designate sites for new power plants with a capacity of 50 Mw or more and routes for transmission lines with a capacity of 200 kilovolts (Kv) or more, and to evaluate such sites and routes for environmental compatibility. The MEQB may designate sites or routes from those proposed by power suppliers or those developed by the MEQB. No such power plant or transmission line may be constructed in Minnesota except on a site or route designated by the MEQB.

NSP is unable to predict the impact on its operating results from the future regulatory activities of any of the above agencies. To the best of its ability, NSP works to understand and comply with all rules and regulations issued by the various agencies.

Revenues

NSP's financial results depend on its ability to obtain adequate and timely rate relief from the various regulatory bodies, its ability to control costs and the success of its non-regulated activities. NSP's 1994 utility operating revenues, excluding intersystem non-firm electric sales to other utilities of $89 million and miscellaneous revenues of $58 million, were subject to regulatory jurisdiction as follows:

	Authorized Return on Common Equity @ December 31, 1994		Percent of Total Revenues
	Electric	Gas	(Electric & Gas)
Retail:			
Minnesota Public Utilities Commission	11.47%	11.47%	73.3%
Public Service Commission of Wisconsin	11.4	11.4	14.7
North Dakota Public Service Commission	11.50	14.0	5.3
South Dakota Public Utilities Commission	*		3.1
Michigan Public Service Commission	12.25		0.6
Sales for Resale - Wholesale, Viking Gas and Interstate Transmission Federal Energy Regulatory Commission	*	*	3.0
Total			100.0%

* Settlement proceeding, based upon revenue levels granted with no specified return.

Rate Programs

Rate increases requested and granted in previous years from various jurisdictions were as follows (note that 1992, 1993 and 1994 amounts represent annual increases effective in these years, while previous years represent annual increases requested in those years even if effective in a subsequent year):

	Annual Increase (Decrease)	
Year	Requested	Granted
	(Millions of dollars)	
1990	19.5	11.2
1991	118.7	68.0
1992	—	—
1993	166.6	101.5
1994	(1.0)	(1.0)

The following table summarizes the status of rate increases for rates effective in 1994:

	Annual Increase/(Decrease)			
	Requested	Updated Request	Granted	Status
	(Millions of dollars)			
Electric				
North Dakota-Retail	1.2		1.2	Order Issued 12/29/93
North Dakota-Refund	(3.6)		(3.6)	Order Issued 11/09/94
Gas				
Wisconsin-Retail	1.4	1.7	1.4	Order Issued 12/23/93
Total 1994 Rate Program	(1.0)		(1.0)	

Rate Matters by Jurisdiction

Minnesota Public Utilities Commission (MPUC)

On Jan. 31, 1994, the Minnesota Department of Public Service, the Office of the Minnesota Attorney General and the Minnesota Energy Consumers intervenor groups filed an appeal with the Minnesota Court of Appeals of the MPUC's determination on the allowed return on equity granted to the Company in final 1993 electric and gas rate orders. On Aug. 2, 1994, the Court affirmed the final rate orders issued in January 1994 for these rate cases. This appeal process is now completed. As a result of this decision, no adjustments or changes are required to rates charged to customers or to revenues recorded by the Company.

In 1991, the Minnesota legislature passed a law which granted the MPUC discretionary authority to approve a rate adjustment clause for changes in certain costs (including property taxes, fees and permits) incurred by Minnesota public utilities. The MPUC may approve a utility's use of the rate adjustment clause for billing customers if certain conservation expenditure levels are met. On Oct. 4, 1994, the Company filed for approval of the use of the adjustment clause for billing its gas customers, beginning in January 1995, for increases in property taxes. The potential gas revenue increase from this filing was approximately $2.0 million. At a hearing held on Feb. 23, 1995, the MPUC turned down the Company's request. The Company may ask the MPUC to reconsider this decision.

On Oct. 28, 1994 the Company filed with the MPUC a petition for a miscellaneous rate change approving the implementation of an annual recovery mechanism for deferred electric Conservation Improvement Program (CIP) expenses. On Feb. 23, 1995, the MPUC voted to approve recovery of $41 million under a new rate adjustment clause for the period May 1995 through June 1996. Thereafter, the Company would be required to request a new cost recovery level annually. The Company estimates it will receive an additional $24 million in revenues in 1995. This increased recovery results from a corresponding increase in conservation expenses and avoids a significant delay between the incurring of costs and recovery in rates.

On Oct. 5, 1994, as part of a response to 1994 legislation related to fuel storage at the Prairie Island nuclear plant, the Company filed a miscellaneous rate change proposal with the MPUC which reflects a 50% discount on the first 300 kilowatt hours (Kwh) consumed each month by qualified low-income residential customers. The Company proposed that the discount be effective beginning with the October 1994 billing month for qualifying customers, and that rate adjustments designed to recover from other customers the costs of the discount be effective Jan. 4, 1995. The MPUC approved the filing on Dec. 5, 1994. The ruling also eliminated the Conservation Rate Break and restructured the rates between customer classes, but does not significantly change overall revenue levels.

By September 1 of each year, the Company is required by Minnesota statute to submit to the MPUC an annual report of the Purchased Gas Adjustments (PGA) for each customer class by month for the previous year commencing July 1 and ending June 30. The report verifies whether the utility is calculating the adjustments properly and implementing them in a timely manner. In addition, the MPUC review includes an analysis of procurement policies, cost-minimizing efforts, rule variances in effect or requested, retail transportation gas volumes, independent auditors' reports, and the impact of market forces on gas costs for the coming year. The MPUC has the authority to disallow certain costs if it deems the utility was not prudent in its gas procurement activities. The Department of Public Service (DPS) has recommended a $1.1 million cost recovery disallowance. This filing is pending MPUC action.

Gas utilities in Minnesota are also required to file for a change in design day demand, to redistribute demand percentages among classes, or exchange one form of demand for another. The Company filed in October 1994 to increase its demand entitlements due to projected increases in firm customer count, to decrease the Minnesota

jurisdictional allocation of total demand entitlements and to recover the demand entitlement costs associated with the increase in transportation and storage levels in its monthly PGA's. This filing is pending MPUC approval.

No general rate filings are anticipated in Minnesota in 1995.

North Dakota Public Service Commission (NDPSC)

On Dec. 29, 1993, the Company received approval from the NDPSC to increase base rates $1.2 million, or 1.2%, to recover 1994 cost increases associated with power purchased from the Manitoba Hydro-Electric Board. The additional costs consist of demand charges related to 500 Mw of firm capacity for four months. Eight months of the annual demand costs, which took effect May 1, 1993, were included in the Company's previous rate increase granted in April 1993. The $1.2 million annual increase was implemented Jan. 5, 1994.

On Aug. 9, 1994 the Company applied to the NDPSC for a rate reduction of $3.6 million in annual electric revenues. The reduction reflects a correction in cost allocations to the North Dakota jurisdiction. The Company also requested authority to make refunds to customers to effectively implement the reduction as of June 1, 1994. On Nov. 9, 1994, the NDPSC approved the proposed rate reduction. In January 1995, the NDPSC held a hearing on the possibility of retroactive refunds for the period Jan. 1, 1989, through June 1, 1994, but has not yet reached a decision. The ultimate outcome of this proceeding is not determinable at this time.

On Nov. 1, 1994 NSP received approval of its proposed Economic Development Rider (EDR) by the NDPSC. The rider allows NSP's North Dakota operations (NSP-ND) to offer discounted rates to new customers, or on load expansions by existing customers, for a period of five years. The customer's load must be at least 50 kilowatts (Kw). The rider is closely tied to the state's Partnership in Assisting Community Expansion (PACE) program, which offers low interest rates on business development loans. The EDR will enable NSP-ND to remain competitive with neighboring energy providers, most of which have rate discount incentives to attract new customers. At this time, the amount of the discounts is not expected to have a material affect on the Company's financial results.

No general rate filings are anticipated in North Dakota in 1995.

South Dakota Public Utilities Commission (SDPUC)

There were no general rate filings in South Dakota in 1994 and none are anticipated in 1995

Public Service Commission of Wisconsin (PSCW)

In June 1993, the Wisconsin Company filed with the PSCW for a $1.4 million annual increase in gas retail rates to be effective Jan. 1, 1994. In Aug. 1993, the Wisconsin Company increased its request to $1.7 million to amortize recovery of a portion of the acquisition premium paid by the Company for Viking in recognition of reduced delivered gas costs. In Dec. 1993, the PSCW issued an order approving a $1.4 million increase on an annual basis in the Wisconsin Company's gas rates, including the amortization. These rate changes took effect on Jan. 1, 1994.

The Wisconsin Company filed a proposal for a new high load factor rate with the PSCW in November 1994 to be effective Jan. 1, 1995. Under the proposal, qualifying customers would receive a credit on their bills of up to 3 percent, depending on load factor. This is expected to reduce 1995 revenues for the Wisconsin Company by approximately $1.0 million.

The Wisconsin Company will file a general rate case in June 1995, for rates effective in 1996, as required by the PSCW biennial filing requirement.

Retail Rate Recovery of Viking Acquisition Costs

During 1993, the Company and the Wisconsin Company requested regulatory approval in Minnesota, North Dakota, Wisconsin and Michigan to recover in retail gas rates a portion of the acquisition cost paid for Viking in recognition of reduced retail delivered gas costs made possible by the acquisition of Viking. The PSCW approved in the Wisconsin Company's gas rates recovery of a total of $1.8 million over the five-year period 1994-98. On March 23, 1994, the NDPSC authorized, without any change in rates, the amortization of $150,000 in annual jurisdictional expense for Viking acquisition costs over a 15 year period starting in June of 1993. On Nov. 21, 1994 the MPUC rejected PGA recovery of jurisdictional expense for Viking acquisition costs (amounting to $1.5 million annually), but ruled the Company could seek recovery in its next gas general rate case. Viking's expenses will include approximately $2 million in annual acquisition cost amortization each year until 2008.

Electric Transmission Tariffs and Settlement (FERC)

In 1990, the Company filed a transmission services tariff for certain transmission customers. New rates were effective under the filing, subject to refund, for the period Dec. 29, 1990 through Oct. 31, 1994. The Company has recorded an estimated liability at Dec. 31, 1994 for potential transmission rate refunds under this tariff based on the FERC order dated Sept. 21, 1993. Since a rehearing of the order was granted and is currently pending, transmission rates for this period are not yet final.

The FERC announced a new transmission pricing policy effective Oct. 26, 1994. The new policy introduces greater flexibility in transmission pricing structure. It established five principles of transmission pricing including guidelines on coverage of revenue requirements, comparability of transmission service, balance of efficiency, fairness and practicality.

In March 1994, the Company filed a revised open access transmission tariff with the FERC. On May 25, 1994, the FERC accepted the filing with the new rates effective Nov. 1, 1994, subject to refund. The FERC also ruled the tariff would be subject to the requirement that the Company offer transmission service using terms and conditions comparable to its own use of the system. The Company recently reached a settlement in principle with several parties involved in this proceeding. The settlement agreement includes a transmission tariff that complies with the FERC transmission pricing policy which calls for comparability of service and pricing, network service, and unbundling of ancillary charges such as scheduling and load following. The Company anticipates acceptance of the settlement offer in 1995. The revenue effect on the Company is an increase of approximately $200,000 per year. The new tariff allows the Company to comply with transmission pricing provisions of open access transmission required by the Energy Policy Act of 1992.

Minnesota Wholesale Rate Proceedings (FERC)

In 1990, 16 of the Company's 19 municipal wholesale customers in Minnesota began reviewing their long-term power supply options. Eight customers created a joint action group, the Minnesota Municipal Power Agency (MMPA), to serve their future power supply needs. An additional wholesale customer became an associate member of the MMPA. In 1992 these nine municipal customers notified the Company of their intent to terminate their power supply agreements with the Company effective July 1995 or July 1996. These nine customers represent approximately $29 million in annual revenues and a maximum demand load of approximately 155 Mw.

In Oct. 1993, the MMPA filed a complaint with the FERC under new Section 211 of the Federal Power Act alleging that the Company had not bargained in good faith toward a transmission service agreement which would allow MMPA to deliver power supply to its members starting July 1, 1995, when some of the municipalities' supply agreements with the Company expire. On Jan. 26, 1994, the FERC in a proposed order ruled that the Company had bargained in good faith, as required by Section 211, but ordered the Company and MMPA to negotiate for sixty days to attempt to resolve remaining issues. The Commission accepted a settlement agreement in 1994. The MMPA customers agreed to pay the rate then in effect for firm transmission service. Following FERC acceptance of the pending transmission tariff, the MMPA customers will be charged the new tariff unit rates.

In 1992 and 1993, the Company signed long-term power supply agreements with the remaining 10 of its current 19 municipal customers in Minnesota. The agreements commit the customers to purchase power from the Company for up to 13 years (through 2005) at fixed rates to increase by up to 3% per year. The 10 customers represent a maximum demand load of approximately 59 Mw and provide approximately $10 million in annual revenue. The FERC accepted formula rates effective Jan. 1, 1994, by order dated Feb. 23, 1994.

Other Wholesale Rate Proceedings (FERC)

In Dec. 1993 the Company, in compliance with a FERC order in the Central Maine case requiring that the Commission approve all interstate, inter-utility contracts, filed over 300 such contracts with the FERC for review. The Commission established 76 separate dockets for review. Absent FERC acceptance, the contracts could have been declared null and void, possibly resulting in full refunds for all amounts paid. The FERC has accepted 75 dockets with little or no change. The remaining docket is expected to be accepted. The Company anticipates full resolution of the Central Maine compliance filings in 1995.

The Wisconsin Company plans to announce market-based pricing options for existing and potential wholesale customers in 1995. The wholesale customers have new opportunities to purchase power from power suppliers other than NSP. With open transmission access, they have the opportunity to purchase power from any producer and request that, on a comparable basis, the power be delivered from the producer to their municipality.

In May, 1994, the Wisconsin Company offered its municipal wholesale customers a discount of one to two percent off the FERC authorized rate for a long-term full requirements commitment between five and ten years with comparable cancellation notices. Five of the ten municipal wholesale customers signed up for the discounts. The total annual decrease in revenues is approximately $0.1 million.

Ratemaking Principles in Minnesota and Wisconsin

Since the MPUC assumed jurisdiction of Minnesota electric and gas rates in 1975, several significant regulatory precedents have evolved. The MPUC accepts the use of a forecast test year that corresponds to the period when rates are put into effect and allows collection of interim rates subject to refund. The use of a forecast test year and interim rates minimizes regulatory lag.

The MPUC must order interim rates within 60 days of a rate case filing. Minnesota statutes allow interim rates to be set using (1) updated expense and rate base items similar to those previously allowed, and (2) a return on equity equal to that granted in the last MPUC order for the utility. The MPUC must make a determination on the application within 10 months after filing. If the final determination does not permit the full amount of the interim rates, the utility must refund the excess revenue collected, with interest. To the extent final rates exceed interim rates, the final rates become effective at the time of the order and retroactive recovery of the difference is not permitted. Generally, the Company may not increase its rates more frequently than every 12 months.

Minnesota law allows Construction Work in Progress (CWIP) in a utility's rate base instead of recording Allowance for Funds Used During Construction (AFC) in revenue requirements for rate proceedings. The MPUC has exercised this option to a limited extent so that cash earnings are allowed on small and short-term projects that do not qualify for AFC. (For the Company's policy regarding the recording of AFC, see Note 1 of Notes to Financial Statements under Item 8.)

The PSCW has a biennial filing requirement for processing rate cases and monitoring utilities' rates. By June 1 of each odd-numbered year, the Wisconsin Company must submit filings for calendar test years beginning the following January 1. The filing procedure and subsequent review generally allow the PSCW sufficient time to issue an order effective with the start of the test year.

The PSCW reviews each utility's cash position to determine if a current return on CWIP will be allowed. The PSCW will allow either a return on CWIP or capitalization of AFC at the adjusted overall cost of capital. The Wisconsin Company currently capitalizes AFC on production and transmission CWIP at the FERC formula rate and on all other CWIP at the adjusted overall cost of capital.

Fuel and Purchased Gas Adjustment Clauses in Effect

The Company's retail electric and Wisconsin Company wholesale rate schedules provide for adjustments to billings and revenues for changes in the cost of fuel and purchased energy. Although the lag in implementing the billing adjustment is approximately 60 days, an estimate of the adjustment is recorded as unbilled revenue in the month costs are incurred. The Company's wholesale customers remaining with NSP do not have a fuel clause provision in their contracts. The contracts instead provide a fixed rate with an escalation factor. The Wisconsin Company calculates the wholesale electric fuel adjustment factor for the current month based on estimated fuel costs for that month. The estimated fuel cost is adjusted to actual the following month.

The Wisconsin Company's automatic retail electric fuel adjustment clause for Wisconsin customers was eliminated effective in 1986. The clause was replaced by a limited-issue filing procedure. Under the procedure, an annual deviation in fuel costs of 2% and a monthly deviation of 8% will allow filing for a change in rates limited to the fuel issue. The adjustment approved is calculated on an annual basis, but applied prospectively.

Gas rate schedules for the Company and the Wisconsin Company include a purchased gas adjustment (PGA) clause that provides for rate adjustments for changes in the current unit cost of purchased gas compared to the last costs included in rates.

The Wisconsin Company's gas and retail electric rate schedules for Michigan customers include Gas Cost Recovery Factors and Power Supply Cost Recovery Factors, which are based on 12 month projections. After each 12 month period, a reconciliation is submitted whereby over-collections are refunded and any under-collections are collected from the customers.

Viking is a transportation-only interstate pipeline and provides no sales services. As a result, Viking terminated its PGA clause effective Nov. 1, 1993. Natural gas fuel for compressor station operations is provided in-kind by transportation service customers.

ELECTRIC UTILITY OPERATIONS

Competition

NSP's electric sales are subject to competition in some areas from municipally owned systems, rural cooperatives and, in certain respects, other private utilities and cogenerators. Electric service also increasingly competes with other forms of energy. The degree of competition may vary from time to time, depending on relative costs and supplies of other forms of energy. Although NSP cannot predict the extent to which its future business may be affected by supply, relative cost or promotion of other electricity or energy suppliers, NSP believes that it will be in a position to compete effectively.

NSP has proposed to fill future needs for new generation through competitive bid solicitations. The use of competitive bidding to select future generation sources allows the Company to take advantage of the developing competition in this sector of the industry. The Company's proposal, which has been approved by the MPUC, allows NRG to bid in response to Company solicitations for proposals and the Company is seeking permission to include an NSP regulated alternative in the future.

Management intends to obtain regulatory approval in all retail jurisdictions to use a single bid process to meet resource needs for the entire integrated system. The Company's competitive bidding proposal has been approved by both the MPUC and PSCW.

In Oct. 1992, the President signed into law the Energy Policy Act of 1992 (Energy Act). The Energy Act amends the Public Utility Holding Company Act of 1935 (1935 Act) and the Federal Power Act. Among many other provisions, the Energy Act is designed to promote competition in the development of wholesale power generation in the electric utility industry. It exempts a new class of independent power producers from regulation under the 1935 Act. The Energy Act also allows the FERC to order wholesale "wheeling" by public utilities to provide utility and non-utility generators access to public utility transmission facilities. The provision allows the FERC to set prices for wheeling, which will allow utilities to recover certain costs. The costs would be recovered from the companies receiving the services, rather than the utilities' retail customers. The market-based power agreement filings with FERC (as discussed in "Utility Regulation and Revenues", herein) reflect the trend toward increasing transmission access under the Energy Act. The Energy Act's ultimate impact on NSP cannot be predicted.

In 1994, the FERC issued proposed rulemaking to address the rate treatment of potential "stranded investment" costs which may result as the electric energy market becomes more competitive. The FERC is soliciting comments on options for recovery of transition costs associated with existing electric investments for which competitive market pricing might not provide recovery. NSP is evaluating the FERC proposal to determine the potential effects on operating results and customer rates and has responded to the FERC individually and through an industry group. The FERC has not reached a final decision, and the effects of the proposed rulemaking currently are not known.

Many states are currently considering retail competition. While the topic of retail competition has been discussed in the Company's jurisdictions, no legislation or regulatory initiatives have been formally introduced. The PSCW has asked each utility in the state for comments regarding retail competition. In response to the request, the Wisconsin Company filed the following recommendations. Competition should be phased in for retail markets by customer classes, with all customers having choice of supplier by 2001. The generation segment of the industry should be deregulated by 2001. Prudent stranded costs should be recovered prior to the advent of retail wheeling. Finally, utilities and other competitors should have a level playing field for issues such as obligation to serve, eminent domain, requirements for demand side management, funding of social programs, opening of retail markets to competition and other issues. Also, as an outcome of the responses to the PSCW, a task force was formed by the PSCW to analyze the industry restructuring necessary in the state of Wisconsin. A goal of this task force is to have a list of recommended legislative changes to the Wisconsin Legislature for the 1996 session.

The Michigan Public Service Commission has determined that Michigan should recodify statutes governing energy production. They will be working with the governor's office to initiate that process. Michigan also has a retail wheeling experiment, limited to its two largest utilities and customers larger than $50 million, currently

underway. The Wisconsin Company's customers are not included in this experiment which is currently being challenged in court.

Retail competition represents yet another development of a competitive electric industry. Management plans to continue its ongoing efforts to be a low-cost supplier of electricity and an active participant in the more competitive market for electricity expected as a result of the Energy Act. Actions the Company is pursuing to position for the competitive environment include: creative partnership solutions with strategic customers including communities; focusing on the unique needs of national account customers; competitive pricing alternatives; improved reliability; implementation of the first service guarantees in the region; ease of customer access including 24 hour, 7 days/week operation; substantial customer convenience and flexibility improvements via a new Customer Service System which includes appointment scheduling upon first contact, improved outage call response, and a wide array of new billing options; and aggressive cost management.

Capability and Demand

Assuming normal weather, NSP expects its 1995 summer peak demand to be 7,229 Mw. NSP's 1995 summer capability is estimated to be 8,942 Mw, net of contract sales including 1,153 Mw (including reserves) of contracted purchases from the Manitoba Hydro-Electric Board, a Canadian Crown Corporation (Manitoba Hydro) and 868 Mw of other contracted purchases. The estimate assumes 7,682 Mw of thermal generating capability and 1,438 Mw of hydro and wind generating capability. Of the total summer capability, NSP has committed 178 Mw for sales to other utilities. Of the estimated net capability, including the interconnection with Manitoba Hydro, 30% has been installed during the last 10 years.

NSP's 1994 maximum demand of 7,101 Mw occurred on June 14, 1994. Resources available at that time included 6,859 Mw of Company-owned capability and 1,860 Mw of purchased capability net of contracted sales. Due to the Mid-Continent Area Power Pool's (MAPP) penalty for reserve margin shortfalls and to be prepared for weather uncertainty at the lowest potential cost, NSP carried a reserve margin for 1994 of 23%. The minimum reserve margin requirement as determined by the members of the MAPP, of which NSP is a member, is 15%. (See Note 17 of Notes to Financial Statements under Item 8 for more discussion of power agreement commitments.)

The Company added to its generating facilities in 1994. On Sept. 24, 1994, the Angus Anson 232 Mw gas-fired combustion turbines were placed in service near Sioux Falls, South Dakota. The total cost of this project was approximately $72 million.

The Company is continuing an extensive reliability program that includes preventive maintenance on transmission and distribution power lines, improvements to existing equipment, and testing and implementing new technology. Reliability to NSP's large customers improved 14% in 1994, through a focused program to reduce the number of outages caused by lightning, human errors, animals and trees. In 1994, a service guarantee program was implemented to ensure on-time service installation and construction site restoration.

In 1994, NSP signed a long term power purchase contract with LSP-Cottage Grove for 245 Mw of annual capacity for thirty years. LSP-Cottage Grove was awarded the contract from a competitive negotiated process ordered by the MPUC which considered six different vendors and projects. The purchase will be from a natural gas-fired combined cycle facility that NSP can dispatch as system requirements dictate. The MPUC requested the Minnesota Department of Public Service (DPS) to review the reasonableness of the price NSP is paying LSP-Cottage Grove for the capacity and energy. In December 1994 the DPS issued its report concluding that the contract prices are appropriate. On Feb. 2, 1995 the MPUC determined that the contract was at or below NSP's avoided cost. The pricing considers both capacity and energy. NSP expects the LSP-Cottage Grove facility to be available in May 1997.

The Company filed an electric resource plan with the MPUC in 1993. The plan shows how the Company intends to meet the increased energy needs of its electric customers and includes an approximate schedule of the timing of such needs. The plan contains: conservation programs to reduce the Company's peak demand and conserve overall electricity use; economic purchases of power; and programs for maintaining reliability of existing plants. It also includes an approximate schedule of timing of such needs. The plan does not anticipate the need for additional base-load generating plants during the balance of this century and assumes that all existing generating facilities will continue operating through their license period or useful life.

The MPUC approved the Company's resource plan on July 15, 1994, but directed the Company to make a compliance filing addressing the MPUC's proposed modifications. These modifications reflect changes due to the Prairie Island legislation enacted in 1994 and the inclusion of updated information that became available after the

resource plan was filed. The Company submitted the compliance filing on Dec. 13, 1994. The revisions submitted in the compliance filing do not significantly alter the Company's resource plan filed in 1993.

The following resource needs were included in the resource plan. The plan does not specify the precise technology to meet these needs, but does suggest energy source options.

Cumulative Mw Resource Needs By Type vs. Base of 1993

	1996	2000	2004	2008
Peak	0-500	0-500	300-1,100	600-1,800
Intermediate	0-0	0-700	300-1,000	900-1,000
Base	0	0	0-300	200-1,400
Demand Side Management	500	1,200	1,700	2,000
Total	500-1,000	1,200-2,400	2,300-4,100	3,700-6,200

The resource plan proposes to satisfy the above resource needs through a combination of the following options:

Sources of Energy to Meet Needs

- Continued operation of existing generation facilities.
- Demand reduction of 2,000 Mw by 2008 through conservation and load management.
- 425 Mw of wind generation in service by 2002.
- 125 Mw of biomass generation in service by 2002.
- Increased reliance on hydro power under contracts from Manitoba Hydro.
- Standby generation and cogeneration at customer sites when mutually beneficial to both NSP and the customer.
- Purchase of 245 Mw of natural gas-fired combined cycle generation.
- Competitive bidding to fill additional needs for new generation.

In connection with the approval of fuel storage facilities at the Company's Prairie Island generation plant, legislation was enacted in 1994 which established certain resource commitments, as discussed in Note 17 to the Financial Statements under Item 8. The Company has taken steps to comply with the requirements of these resource commitments. 25 Mw of third party wind generation has been fully operational since May 1, 1994 and is performing as expected. All significant permit applications have been filed for another 100 Mw to be in service by November of 1996. The Company filed a proposal with the MPUC in January 1995 for the first 50 Mw of biomass generation. In addition, the Company announced its plan to seek significant public input in its exploration for an alternate interim used nuclear fuel storage site in Goodhue County, Minnesota. The Company's construction commitments disclosed in Note 17 to the Financial Statements include the known effects of the 1994 Prairie Island legislation. The impact of the legislation on power purchase commitments is not yet determinable.

The MPUC has begun a proceeding to establish values representing environmental costs imposed by electric generation that are not part of the price of electricity. These values are known as environmental externalities. The values, expected to be established later in 1995, will be applied by the MPUC in resource planning proceedings to determine the total social cost of different generating options to supply the growing demand for electricity. Depending on the values established and the manner in which they are applied, externalities could significantly affect resources available to NSP to meet future demands for electricity.

The Company continues to implement various Demand Side Management (DSM) programs designed to improve load factor and reduce the Company's power production cost and system peak demands, thus reducing or delaying the need for additional investment in new generation and transmission facilities. The Company currently offers a broad range of DSM programs to all customer sectors, including information programs, rebate and financing programs, and rate incentive programs. These programs are designed to respond to customer needs and focus on increasing value of service that, over the long term, will help its customer base become more stable, energy efficient and competitive. During 1994, the Company's programs accomplished approximately 183 Mw of system peak demand reduction. Since 1986, the Company's DSM programs have achieved 1,012 Mw of summer peak demand reduction, which is equivalent to 14% of its 1994 summer peak demand. The Company's operating goals, which go beyond the resource plan guideline above, are to offset peak electric demand by 1,100 Mw by 1995 and 1,700 Mw by 2000. The Company continues to focus on improving the cost-effectiveness of its DSM programs through market research studies, program evaluations and changes to its program mix.

In 1994, the MPUC improved the Company's cost recovery and incentives for DSM by allowing recovery of a portion of the lost margins due to DSM impacts on electric revenues. This lost margin recovery, subject to annual review by the MPUC, was approximately $3 million in 1994. In addition, the MPUC allowed the Company to earn another $4 million in DSM investment returns through an incentive program that rewards the attainment of specified conservation goals.

Energy Sources

For the year ended Dec. 31, 1994, 47% of NSP's Kwh requirements was obtained from coal generation and 28% was obtained from nuclear generation. Purchased and interchange energy provided 21%, including 15% from Manitoba Hydro; NSP's hydro and other fuels provided the remaining 4%. The fuel resources for NSP's generation based on Kwh were coal (59%), nuclear (36%), renewable and other fuels (5%).

The following is a summary of NSP's electric power output in millions of Kwh for the past three years:

	1994	1993	1992
Thermal plants	32,710	33,130	30,467
Hydro plants	922	1,001	1,024
Purchased and interchange	9,054	8,541	8,187
Total	42,686	42,672	39,678

Many of NSP's power purchases from other utilities are coordinated through the regional power organization MAPP, pursuant to an agreement dated March 31, 1972, with amendments filed in 1994. NSP is one of 49 participants in MAPP consisting of 10 investor-owned systems, eight generation and transmission cooperatives, three public power districts, seven municipal systems, the Department of Energy's Western Area Power Administration and 20 Associate Participants. The MAPP agreement provides for the members to coordinate the installation and operation of generating plants and transmission line facilities. The terms and conditions of the MAPP agreement and transactions between MAPP members are subject to the jurisdiction of the FERC. The 1972 MAPP agreement, as amended, was accepted for filing by the FERC on Dec. 15, 1994.

Fuel Supply and Costs

Coal and nuclear fuel will continue to dominate NSP's regulated utility fuel requirements for generating electricity. It is expected that approximately 98 percent of NSP's fuel requirements, on a Btu basis, will be provided by these two fuels over the next several years, leaving 2 percent of NSP's annual fuel requirements for generation to be provided by other fuels (including natural gas, oil, refuse derived fuel, waste materials, renewable sources and wood). The actual fuel mix for 1994 and the estimated fuel mix for 1995 and 1996 are as follows:

	Fuel Use on Btu Basis		
	1994	(Est) 1995	(Est) 1996
Coal	60.9%	61.1%	63.1%
Nuclear	37.4%	37.1%	35.1%
Other	1.7%	1.8%	1.8%

The Company normally maintains between 20 and 45 days of coal inventory depending on the plant site. The Company has long-term contracts providing for the delivery of up to 100 percent of its 1995 coal requirements. Coal delivery may be subject to short-term interruptions or reductions due to transportation problems, weather and availability of equipment.

The Company expects that more than 98% of the coal it burns in 1995 will have a sulfur content of less than 1 percent. The Company has contracts with three Montana coal suppliers, Westmoreland Resources, Western Energy, Big Sky Coal Company and three Wyoming suppliers, Rochelle Coal Company, Antelope Coal Company and Black Thunder Coal Company, for a maximum total of 60 million tons of low-sulfur coal for the next 5 years. These arrangements are sufficient to meet the requirements of existing coal-fired plants. They also permit the Company to purchase additional coal when such purchase would improve fuel economics and operations. The Company has options from suppliers for over 100 million tons of coal with a sulfur content of less than 1 percent that could be available for future generating needs. The plants in the Minneapolis-St. Paul area are about 800 miles

from the mines in Montana and 1,000 miles from the mines in Wyoming. Coal delivered by rail provides the Company with an economical source of fuel.

The estimated coal requirements of the Company at its major coal-fired generating plants for the periods indicated and the coal supply for such requirements are as follows:

Plant	Maximum Annual Demand (Tons)	Amount Covered by Contract (Tons)	Contract Expiration Date	Approximate Sulfur Content (%)(2)	State Sulfur Dioxide Emission Limit Pounds Per MBTU* Input
Black Dog	1,200,000	1,200,000	(1)	0.5	1.3(3)
High Bridge	800,000	800,000	(1)	0.5	3.0
Allen S. King	2,000,000	2,000,000	(1)	0.9	1.6
Riverside	1,300,000	1,300,000	(1)	0.7	2.5(4)
Sherco	8,000,000	8,000,000	(1)	0.5	0.9(5)
	13,300,000	13,300,000(6)			

*MBTU = Million British Thermal Units

Notes:

(1) Contract expiration dates vary between 1995 and 2005 for western coal, which can provide up to 100% of the required fuel supply for the designated generating unit. Spot market purchases of other western coal, and other fuels will provide the remaining fuel requirements when such purchases would improve fuel economics. The Company is also burning petroleum coke as a source of fuel.

(2) This percentage represents the average blended sulfur content of the combination of fuels typically burned at each plant.

(3) The Black Dog Fluidized Bed (Unit 2) SO_2 limit is 1.2 lb/MBTU.

(4) The SO_2 limitation at Riverside Unit 8 is 2.5 lb/MBTU. The limitation for units 6 and 7 is currently 0.9 lb SO_2 /MBTU.

(5) Compliance with air pollution control permit and applicable air quality regulations requires use of limestone scrubbers to achieve 70% SO_2 removal and a maximum limit of SO_2 emission to 0.96 lb/MBTU during any 90-day period for Units 1 and 2. For Unit 3, the SO_2 emission limit is 0.60 lb/MBTU.

(6) Annual requirements are expected to range from 11.0 to 13.3 million.

The Company's current fuel oil inventory is adequate to meet anticipated 1995 requirements. Additional oil may be provided through spot purchases from two local refineries and other domestic sources.

To operate the Company's nuclear generating plants, the Company secures contracts for uranium concentrates, uranium conversion, uranium enrichment and fuel fabrication. The contract strategy involves a portfolio of spot, medium and long-term contracts for uranium, conversion and enrichment. Current contracts are flexible and cover between 70% and 100% of uranium, conversion and enrichment requirements through the year 1997. These contracts expire at varying times between 1997 and 2005. The overlapping nature of contract commitments will allow the Company to maintain 70% to 100% coverage beyond 1997, if appropriate. The Company expects sufficient uranium, conversion and enrichment to be available for the total fuel requirements of its nuclear generating plants. Fuel fabrication is 100% committed through the year 2003. The Company expects the unit cost of fuel to produce electricity with these nuclear facilities will be lower than the comparable cost of fuel to produce electricity with any other currently available fuel sources for the sustained operation of a generation facility. The cost of nuclear fuel, including disposal, is recovered in the customer price of the electricity sold by the Company.

The Company's fuel costs for the past three years are shown below:

	Fuel Costs * Per Million Btu Year Ended December 31		
	1992	1993	1994
Coal**	$ 1.22	$ 1.17	$1.22
Nuclear***	.43	.41	.47
Composite All Fuels	.93	.90	.93

* Fuel adjustment clauses in its electric rate schedules or statutory provisions enable NSP to adjust for fuel cost changes. (See "Utility Regulation and Revenues - Fuel and Purchased Gas Adjustment Clauses" under Item 1.)

** Includes refuse-derived fuel and wood.

*** See Note 1 to the Financial Statements under Item 8 for an explanation of the Company's nuclear fuel amortization policies.

Nuclear Power Plants - Licensing, Operation and Waste Disposal

The Company operates two nuclear generating plants: the single unit, 539 Mw Monticello Nuclear Generating Plant and the Prairie Island Nuclear Generating Plant with two units totaling 1,025 Mw. The Monticello Plant received its 40-year operating license from the Nuclear Regulatory Commission (NRC) on Sept. 1, 1970, and commenced operation on June 30, 1971. Prairie Island Units 1 and 2 received their 40-year operating licenses on Aug. 9, 1973, and Oct. 29, 1974, respectively, and commenced operation on Dec. 16, 1973, and Dec. 21, 1974, respectively.

The Prairie Island and Monticello nuclear plants currently hold the Institute of Nuclear Power Operations' (INPO) top rating for plant operations and training. The Company is one of only two utilities in the nation to achieve INPO's top rating simultaneously at all of its nuclear plants.

The Company previously operated the Pathfinder Plant near Sioux Falls, SD as a nuclear plant from 1964 until 1967, after which it was converted to an oil and gas-fired peaking plant. The nuclear portions were placed in a safe storage condition in 1971, and the Company began decommissioning in 1990. Most of the plant's nuclear material, which was contained in the reactor building and fuel handling building, was removed during 1991. Decommissioning activities cost approximately $13 million and have been expensed. A few millicuries of residual contamination remains in the operating plant.

Operating nuclear power plants produce gaseous, liquid and solid radioactive wastes. The discharge and handling of such wastes are controlled by federal regulation. For commercial nuclear power plants, high-level radioactive waste includes used nuclear fuel. Low-level radioactive wastes are produced from other activities at a nuclear plant. They consist principally of demineralizer resins, paper, protective clothing, rags, tools and equipment that have become contaminated through use in the plant.

A 1980 federal law places responsibility on each state for disposal of its low-level radioactive waste. The law encourages states to form regional agreements or compacts to dispose of regionally generated waste. Minnesota is a member of the Midwest Interstate Low-Level Radioactive Waste Compact Commission. Following the expulsion of Michigan from the Midwest Compact in 1991 for failing to make progress, Ohio was designated the host state. The State of South Carolina closed its disposal facility to out-of-region waste on July 1, 1994. Ohio is projecting completion of the low-level radioactive waste disposal facility in 2005. The Company, along with all other low-level radioactive waste generators in the Midwest Compact, will need to store low-level radioactive waste onsite in the interim.

The federal government has the responsibility to dispose of domestic used nuclear fuel and other high-level radioactive wastes. The Nuclear Waste Policy Act of 1982 requires the Department of Energy (DOE) to implement a program for nuclear waste management including the siting, licensing, construction and operation of repositories for domestically produced used nuclear fuel from civilian nuclear power reactors and other high-level radioactive wastes.

The Company has contracted with the DOE for the disposal of used nuclear fuel. The DOE charges a quarterly disposal fee based on nuclear electric generation sold. This fee ranges from approximately $10 million to $12 million per year, which NSP recovers from its customers in cost-of-energy rate adjustments. In 1985, NSP paid the DOE a one-time fee of $95 million for fuel used prior to April 7, 1983.

In 1979 the Company began expanding the used nuclear fuel storage facilities at its Monticello Plant by replacement of the racks in the storage pool. Also, in 1987, the Company completed the shipment of 1,058 spent fuel assemblies from the Monticello Plant to a General Electric storage facility in Morris, Illinois. As a result, the plant now has sufficient pool storage capacity to operate until 2008. Storage availability for operation beyond 2008 is not assured at this time.

In 1976 the Company began expanding the used nuclear fuel storage facilities at its Prairie Island Plant by replacement of the racks in the storage pool. Total capacity was increased from 210 fuel assemblies to 1,386 fuel assemblies. The used nuclear fuel storage facilities at the Company's Prairie Island Plant are expected to reach full capacity during 1995. In May 1994 additional on-site dry cask fuel storage facilities were approved by the Minnesota Legislature which are expected to provide sufficient storage capacity to operate the plant until at least 2002, provided the Company satisfies certain responsibilities. Seventeen dry cask containers, each of which can store approximately one-half year's used fuel, can become available as follows: five immediately in 1994; four more in 1996 if an application for an alternative storage site is filed, an effort to locate such a site is made and 100 MW of wind generation is available or contracted for construction; and the final eight in 1999 unless the specified alternative site is not operational or under construction, certain resource commitments are not met or the Minnesota Legislature revokes its approval.

An updated nuclear decommissioning study and nuclear plant depreciation capital recovery request was filed with the MPUC in July 1994 for the Company's nuclear power plants. Although management expects to operate the Prairie Island plant units through the end of its useful lives, the requested capital recovery would allow for the plant to be fully depreciated, including the accrual and recovery of decommissioning costs, about six years earlier than the end of its useful life. The proposed cost recovery period has been reduced because of the uncertainty regarding the spent fuel storage situation. On Jan. 25, 1995 the MPUC issued an order approving this filing. On Feb. 14, 1995 the North American Water Office (NAWO) filed a petition for reconsideration with the MPUC to change the capital recovery period for Prairie Island, so that the plant is fully depreciated by 2002. The petition concerns the issue of used nuclear fuel storage after 2002. A decision by the MPUC is expected by the end of 1995.

During the past several years, the NRC has issued a number of regulations, bulletins and orders that require analyses, modification and additional equipment at commercial nuclear power plants. The Company has spent $528 million since 1971, and approximately $6 million, $11 million and $53 million for 1994, 1993 and 1992, respectively. In addition, the Company expects to expend an additional $2 million for currently required NRC analyses, modification and additional equipment. The NRC is engaged in various ongoing studies and rulemaking activities that may impose additional requirements upon commercial nuclear power plants. Management is unable to predict any new requirements or their impact on the Company's facilities and operations.

See Note 16 to the Financial Statements under Item 8 for further discussion of nuclear fuel disposal issues and information on decommissioning of the company's nuclear facilities. Also, see Note 17 to the Financial Statements under Item 8 for a discussion of the Company's nuclear insurance and potential liabilities under the Price-Anderson liability provisions of the Atomic Energy Act of 1954.

Electric Operating Statistics

The following table summarizes the revenues, sales and customers from NSP's electric transmission and distribution business:

	1994	1993	1992	1991	1990
Revenues (thousands)					
Residential					
With space heating	$ 66 962	$ 68 222	$ 63 376	$ 67 878	$ 62 823
Without space heating	616 821	583 371	534 676	568 672	522 580
Small commercial and industrial	351 287	327 888	312 581	315 946	299 392
Large commercial and industrial	824 195	780 444	718 712	713 177	671 621
Street lighting and other	28 936	29 214	29 764	30 720	29 549
Total retail	1 888 201	1 789 139	1 659 109	1 696 393	1 585 965
Sales for resale	146 239	159 498	137 962	145 008	137 965
Miscellaneous	32 204	26 279	26 245	21 837	25 161
Total	$ 2 066 644	$1 974 916	$ 1 823 316	$ 1 863 238	$ 1 749 091
Sales (millions of kilowatt-hours)					
Residential					
With space heating	1 076	1 094	1 041	1 141	1 068
Without space heating	8 227	7 998	7 640	8 226	7 805
Small commercial and industrial	5 585	5 307	5 224	5 330	5 180
Large commercial and industrial	17 874	17 117	16 365	16 286	15 847
Street lighting and other	334	344	372	386	385
Total retail	33 096	31 850	30 642	31 369	30 305
Sales for resale	6 733	8 044	6 530	6 083	6 281
Total	39 829	39 904	37 172	37 452	36 586
Customer accounts (Dec. 31)					
Residential					
With space heating	76 050	75 644	74 939	74 646	74 623
Without space heating	1 146 578	1 131 928	1 119 354	1 104 772	1 091 291
Small commercial and industrial	142 858	141 446	140 768	139 266	138 066
Large commercial and industrial	8 172	8 114	7 904	7 758	7 442
Street lighting and other	4 836	4 813	4 627	7 662	7 435
Total retail	1 378 494	1 361 945	1 347 592	1 334 104	1 318 857
Sales for resale	70	71	74	72	78
Total	1 378 564	1 362 016	1 347 666	1 334 176	1 318 935

GAS UTILITY OPERATIONS

Competition

NSP provides retail gas service in portions of eastern North Dakota and northwestern Minnesota, the eastern portions of the Twin Cities metro area, and other regional centers in Minnesota (Mankato, St. Cloud and Winona) and Wisconsin (Eau Claire, La Crosse and Ashland). NSP is directly connected to four interstate natural gas pipelines serving these regions: Northern Natural Gas Company (Northern), Viking, Williston Basin Interstate Pipeline Company (Williston) and Great Lakes Transmission Limited Partnership (Great Lakes). Approximately 90 percent of NSP's retail gas customers are served from the Northern pipeline system.

During 1992 and 1993, the FERC issued a series of orders (together called Order 636) that addressed interstate natural gas pipeline restructuring. This restructuring required all interstate pipelines, including those serving NSP, to "unbundle" each of the services they provide: sales, transportation, storage and ancillary services. To comply with Order 636, NSP executed new pipeline transportation service and gas supply agreements effective Nov. 1, 1993, as discussed below. While these new agreements create a new form of contractual obligation, NSP believes the new agreements provide flexibility to respond to future changes in the retail natural gas market. NSP expects its financial risk under the new transportation agreements to be no greater than the risk faced under the previous long-term full requirements gas supply contracts with interstate pipelines.

As a result of the changes in the natural gas industry in the last decade, culminating in Order 636, the natural gas supply network throughout North America has been transformed into an integrated gas supply grid where NSP purchases natural gas from numerous suppliers, directly contracts for transportation service on directly connected and upstream pipelines, and is able to flexibly deliver the supplies to any NSP retail gas service territory. In

addition, NSP directly contracts for underground storage and owns and operates several liquified natural gas and propane-air peak shaving facilities. NSP's diversified supply and transportation contracts, as well as underground storage and peak shaving facilities, provide NSP with the ability to meet customer needs with a reliable and economic natural gas supply.

Order 636 ended the traditional pipeline sales service function effective Nov. 1, 1993. This is a significant change for the natural gas industry. Traditionally, the pipeline sales function met two important needs for local distribution companies (LDCs) such as NSP, which serve primarily weather-sensitive space heating markets: (1) reliability of supply and (2) flexibility to meet varying load conditions in response to day-to-day weather variations. NSP believes the new unbundled services under Order 636 have to date proved to be as reliable and flexible as the traditional sales service.

The implementation of Order 636 applies additional competitive pressure on all LDCs to keep gas supply and transmission prices for their large customers competitive because of the alternatives now available to these customers. Like gas LDCs, these customers now have expanded ability to buy gas directly from suppliers and arrange pipeline and LDC transportation service. NSP has provided unbundled transportation service since 1987. Transportation service does not currently have an adverse effect on earnings because NSP's sales and transportation rates have been designed to make NSP economically indifferent as to whether it sells or transports gas. However, some transportation customers may have greater opportunities or incentives to physically bypass the LDC distribution system. NSP has arranged its gas supply and transportation portfolio in anticipation that it may be required to terminate its retail merchant sales function. Overall, NSP expects Order 636 will enhance its ability to remain competitive and allow it to increase certain of its margins by providing an increased selection of services to its customers.

Order 636 allows interstate pipelines to negotiate with customers to recover up to 100 percent of prudently incurred "transition costs" attributable to Order 636 restructuring. Recoverable transition costs can include "buy down" and "buy out" costs for remaining gas supply and upstream pipeline transportation agreements, unrecovered deferred gas purchase costs, and the cost to dispose of regulated assets no longer needed because of the termination of the merchant function (e.g., financial losses on the sale of regulated storage facilities).

NSP's primary gas supplier, Northern, is in the process of determining the final amount of transition costs to be passed on to customers as a result of Order 636 restructuring. Northern's restructuring provided for the assignment of a significant portion of Northern's gas supply and upstream contract obligations. This solution was beneficial because Northern's customers contracted directly for obligations, rather than paying to buy out of those obligations and then contracting with the same gas suppliers and pipelines to replace the merchant function. The total transition costs recoverable for the remaining unassigned agreements is limited to $78 million. In addition, Northern may seek transition cost recovery for certain other costs, subject to prudency review. Northern's total Order 636 transition costs, to be passed on to all of its customers, are estimated to be approximately $100 million. Northern will recover the prudent transition costs by amortizing the amount over a period of several years, and including the amortized costs as a component of its transportation charges. NSP estimates that it will be responsible for less than $12 million of Northern's transition costs, spread over a period of approximately five years, which began Nov. 1, 1993. To date, NSP's regulatory commissions have approved recovery of restructuring charges in retail gas rates.

NSP has no significant Order 636 transition cost responsibilities to its other pipeline suppliers. FERC has ruled that NSP has no transition cost obligation to Williston for its primary transportation service since it was never a gas sales customer of that pipeline. Viking incurred no Order 636 transition costs. NSP does not have significant transportation service on ANR Pipeline and Great Lakes subject to transportation cost charges under pricing in effect after Order 636.

The gas services available to NSP's customers were enhanced beginning in 1993 through the acquisitions of Viking in June 1993 and the assets of a gas marketing business by a new NSP subsidiary, Cenergy, Inc, in October 1993. Viking provides NSP with continued access to competitive interstate natural gas transportation. Cenergy can provide more customized value-added energy services to retail gas customers without increasing costs within the regulated retail gas distribution business. See the Other Subsidiaries section herein for further discussion of Viking and Cenergy.

The NSP gas operations area has taken significant steps to position itself to take on the additional responsibilities and take advantage of the new market opportunities resulting from the restructuring of the natural gas industry. In addition to construction of new pipeline interconnections, modernization of its propane-air peaking

facilities, and fundamental changes to its supply portfolio including underground storage. NSP installed a state-of-the-art delivery management system in July 1994.

NSP's gas utility took advantage of opportunities to expand into new service territory during 1994. NSP extended service to 15,300 customers in 13 new communities. In addition to exploring new growth opportunities available, NSP is also focusing on conversion of potential customers who are located near NSP's gas mains but are not hooked up to receive the service. NSP estimates there are approximately 18,000 potential customers that fall into this category.

The largest 1994 expansion project occurred in Crow Wing and Cass counties in north central Minnesota. Outside the St Paul-Minneapolis area, these counties are experiencing the fastest growth of all counties in Minnesota. The project included laying approximately 550 miles of pipeline in 10 of the cities in the Brainerd Lakes area. The project's net capitalized investment cost was approximately $23 million. Construction began in June 1994 and was completed in November 1994. There were 6,300 new customers signed up under this project as of Dec 31, 1994. The MPUC approved a "new town" rate surcharge for customers in this area to support NSP's capital investment in the project. Subject to continued regulatory approval, the surcharge will be in effect for up to 15 years.

The Company's gas operation has organized a non-utility service offering individuals service contracts on a variety of home appliances. Working in partnership with local independent service contractors, NSP Advantage Service offers 24 hour service. Depending on the level of service contracted, Advantage Service customers have coverage to help avoid the expense and inconvenience of unexpected appliance repairs. This service is being offered to individuals within NSP's service territory.

Capability and Demand

NSP categorizes its gas supply requirements as firm (primarily for space heating customers) or interruptible (commercial/industrial customers with an alternate energy supply). NSP's maximum daily sendout (firm and interruptible) of 686,130 MMBtu for 1994 occurred on Jan. 17, 1994.

NSP's primary gas supply sources are purchases of third-party gas which are delivered under gas transportation service agreements with interstate pipelines. In addition, NSP has contracted with four providers of underground natural gas storage services to meet the heating season and peak day requirements of NSP gas customers. These agreements provide for firm deliverable pipeline capacity of approximately 540,396 MMBtu/day. Using storage reduces the need for firm gas supplies. These storage agreements provide NSP storage for approximately 16% of annual and 32% of peak daily firm requirements. NSP also owns and operates three liquified natural gas (LNG) plants with a storage capacity of 2.53 Bcf equivalent and four propane-air plants with a storage capacity of 1.42 Bcf equivalent to help meet the peak requirements of its firm residential, commercial and industrial customers. These peak shaving facilities have production capacity equivalent to 242,300 Mcf of natural gas per day, or approximately 35% of peak day firm requirements. NSP's LNG and propane-air plants provide a cost-effective alternative to annual fixed pipeline transportation charges to meet the "needle peaks" caused by firm space heating demand on extremely cold winter days.

The cost of gas supply, transportation service and storage service is recovered through the purchased gas adjustment. The average cost of gas and propane held in inventory for the latest test year is allowed in rate base by the MPUC and the PSCW.

A number of NSP's interruptible industrial customers purchase their natural gas requirements directly from producers or brokers for transportation and delivery through NSP's distribution system. The transportation rates have been designed to make NSP economically indifferent as to whether NSP sells and transports gas or only transports gas. However, to the extent contractual terms allow, rates would increase based on changes in transportation and other costs.

Gas Supply and Costs

As a result of Order 636 restructuring, NSP's natural gas supply commitments have been unbundled from its gas transportation and storage commitments. NSP's gas utility actively seeks gas supply, transportation and storage alternatives to yield a diversified portfolio that provides increased flexibility, decreased risk and economical rates. This diversification involves numerous domestic and Canadian supply sources, varied contract lengths, and transportation contracts with seven natural gas pipelines.

Item 1 - Business

The Company's supply options were enhanced in 1992 with the successful completion of a direct interconnection to the Williston system near Fargo, North Dakota. The addition of this direct connection allows the Company more direct access to additional productive gas supply basins in western North Dakota and Wyoming, and provides the Company an alternative to its two traditional pipeline suppliers (Northern and Viking).

Among other things, Order 636 provides for the use of the "straight fixed/variable" rate design that allows pipelines to recover all their fixed costs through demand charges. NSP has firm gas transportation contracts with the following seven pipelines. The contracts expire in various years from 1995 through 2012.

Northern Natural Gas	Great Lakes Transmission Limited Partnership
Williston Basin Interstate	Northern Border Pipeline
Viking Gas Transmission	ANR Pipeline
	TransCanada Gas Pipeline

The agreements with Great Lakes, Northern Border, ANR and TransCanada provide for firm transportation service upstream of Northern Natural and Viking, allowing competition among suppliers at supply pooling points, minimizing commodity gas costs.

In addition to these fixed transportation charge obligations, NSP has entered into firm gas supply agreements that provide for the payment of monthly or annual reservation charges irrespective of the volume of gas purchased. The total annual obligation is approximately $20.4 million. These agreements are beneficial because they allow NSP to purchase the gas commodity at a high load factor at rates below the prevailing market price reducing the total cost per Mcf.

NSP has certain gas supply and transportation agreements, which include obligations for the purchase and/or delivery of specified volumes of gas, or to make payments in lieu thereof. At Dec. 31, 1994, NSP was committed to approximately $376.5 million in such obligations under these contracts, over the remaining contract terms, which range from the years 1995-2013. These obligations include some of the effects of contract revisions made to comply with Order 636. NSP has negotiated "market out" clauses in its new supply agreements, which reduce NSP's purchase obligations if NSP no longer provides merchant gas service.

NSP purchases firm gas supply from a total of approximately 20 domestic and Canadian suppliers under contracts with durations of one year to 10 years. NSP purchases no more than 20% of its total daily supply from any single supplier. This diversity of suppliers and contract lengths allows NSP to maintain competition from suppliers and minimize supply costs. NSP's objective is to be able to terminate its retail merchant sales function, if either demanded by the marketplace or mandated by regulatory agencies, with no financial cost to NSP.

The state utility commissions in Minnesota, North Dakota, Wisconsin and Michigan allowed NSP to fully recover the costs of these restructured services through purchased gas adjustments to customer rates.

Purchases of gas supply or services by NSP from its Viking pipeline affiliate and Cenergy gas marketing affiliate are subject to approval by the MPUC. The MPUC has approved all the Company's transportation contracts with Viking and a spot gas purchase agreement with Cenergy. Requests for approval between the Company and the Wisconsin Company and between the Company and NSP's generating plants are pending MPUC approval.

The following table summarizes the average cost per MMBtu of gas purchased for resale by NSP's gas distribution business which excludes Viking and Cenergy:

	The Company	Wisconsin Company
1991	$2.50	$2.73
1992	$2.71	$2.80
1993	$3.11	$3.02
1994	$2.59	$3.13

Item 1 - Business

Gas Operating Statistics

The following table summarizes the revenue, sales and customers from NSP's gas business

	1994	1993	1992	1991	1990
Revenues (thousands)					
Residential					
With space heating	$ 204 668	$ 220 828	$ 178 164	$ 179 161	$ 164 039
Without space heating	2 838	2 715	2 523	2 614	2 711
Commercial and industrial					
Firm	120 912	131 431	105 829	105 703	97 015
Interruptible	49 384	52 216	41 612	40 768	43 779
Interstate transmission (Viking)*	14 075	9 019	0	0	0
Miscellaneous **	28 026	12 867	8 078	9 674	7 913
Total	$ 419 903	$ 429 076	$ 336 206	$ 337 920	$ 315 457
Sales (thousands of mcf)					
Residential					
With space heating	38 427	40 946	35 136	37 493	33 465
Without space heating	323	331	323	359	370
Commercial and industrial					
Firm	27 342	28 622	24 273	25 429	22 793
Commercial and industrial	19 373	18 559	15 823	15 813	16 730
Miscellaneous	212	186	108	325	551
Total	85 677	88 644	75 663	79 419	73 893
Other gas delivered (thousands of mcf)					
Interstate transmission (Viking) *	131 074	75 188	0	0	0
Agency, transportation and off-system sales	13 466	8 128	7 332	7 549	6 298
Total	144 540	83 316	7 332	7 549	6 298
Customer accounts (at Dec. 31)					
Residential					
With space heating	351 773	337 868	326 439	314 843	303 402
Without space heating	18 961	19 408	19 841	20 294	21 004
Commercial and industrial	37 140	36 185	35 458	34 663	33 749
Total	407 874	393 461	381 738	369 800	358 155

* Excludes $2.2 million of revenues (16,845 thousands of mcfs) for intercompany sales in 1994
** Includes NSP revenues for agency and transportation services and off-system sales

NRG ENERGY, INC.

NRG Energy, Inc. (NRG) is the Company's subsidiary that develops, builds, acquires, owns and operates several non-regulated energy-related businesses. It was incorporated in Delaware on May 29, 1992 and assumed ownership of the assets of NRG Group, Inc., including its subsidiary companies. The businesses that NRG currently owns or operates generated 1994 revenues of $81 million and had assets of $407 million at Dec. 31, 1994.

NRG conducts business through various subsidiaries, including: NRG International, Inc., Graystone Corporation; Scoria Incorporated; San Joaquin Valley Energy I, Inc.; San Joaquin Valley Energy IV, Inc., NRG Energy Jackson Valley I, Inc.; NRG Energy Jackson Valley II, Inc.; NEO Corporation; NRG Energy Center, Inc. NRG Sunnyside Inc. and NRG Operating Services, Inc.

Operating Businesses

In Dec. 1993, NRG, through a wholly owned foreign subsidiary, agreed to acquire a 33% interest in the coal mining, power generation and associated operations of Mitteldeutsche Braunkohlengesellschaft mbH (MIBRAG), located south of Leipzig, Germany. MIBRAG is a German corporation formed by the German government to hold two open-cast brown coal (lignite) mining operations, a lease on an additional mine, the associated mining rights and rights to future mining reserves, two small industrial power plants and a circulating fluidized bed power plant, a district heating system and coal briquetting and dust production facilities. Under the acquisition agreement, Morrison Knudsen Corporation and PowerGen plc also each acquired a 33% interest in MIBRAG, while the German government retained a one-percent interest in MIBRAG. The investor partners began operating MIBRAG effective Jan. 1, 1994 and the legal closing occurred Aug. 11, 1994. NRG's acquisition investment in MIBRAG, including capitalized development costs, was approximately $16 million.

Item 1 - Business

In March of 1994, NRG, through wholly owned foreign subsidiaries, as part of an unincorporated joint venture with Comalco Limited of Australia (Comalco) and other parties, acquired a 37.5% interest in the Gladstone Power Station, a 1680 Mw coal-fired plant in Gladstone, Queensland, Australia from the Queensland Electricity Commission. A large portion of the electricity generated by the station is sold to Comalco for use in its aluminum smelter, pursuant to long-term power purchase agreements. NRG, through an Australian subsidiary, operates the Gladstone plant. NRG's acquisition investment in the Gladstone project, including capitalized development costs, was approximately $70 million.

NRG operates two refuse-derived fuel (RDF) processing plants and an ash disposal site in Minnesota. The ownership of one plant was transferred by the Company to NRG at the end of 1993. The legal transfer of ownership of the Company's 85% share of the other RDF plant and of the ash disposal site was approved by the serviced counties with transfer to NRG expected in 1995. In 1994, workers at the RDF plants processed more than 730,000 tons of municipal solid waste into approximately 640,000 tons of RDF that was burned at two NSP power plants and at a power plant owned by United Power Association.

NRG also owns and operates three steam lines in Minnesota that provide steam from the Company's power plants to the Waldorf Corporation, the Andersen Corporation and the Minnesota Correctional Facility in Stillwater.

During 1993, the Company formed NEO Corporation, a wholly owned subsidiary, which owns a 50% interest in Minnesota Methane LLC. Minnesota Methane LLC is developing small scale waste to energy facilities utilizing landfill gas. During 1994, the ownership of NEO Corporation was transferred by the Company to NRG. On Dec. 20, 1994, NEO acquired a 50% ownership in STS HydroPower Limited, an independent power producer with 21 Mw of hydroelectric facilities throughout the United States. NEO's acquisition investment in STS was approximately $4 million.

NRG, through wholly owned subsidiaries, owns 45% of the San Joaquin Valley Energy partnership, (SJVEP), which owns four power plants located near Fresno, California with a total capacity of 55 Mw. Through February 1995, the plants operated under long-term Standard Offer 4 (SO4) power sales contracts with Pacific Gas & Electric (PG&E) which expire in 2017. On February 28, 1995 PG&E reached basic agreements with SJVEP to acquire the SO4 contracts. The parties entered into a bridging agreement to cover the period until all regulatory approvals are received for the transaction. The bridging agreement required SJVEP to cease power deliveries to PG&E as of February 28, 1995. The negotiated agreements will result in cost savings for PG&E customers as well as economic benefits for SJVEP. The final impact of this transaction on the financial results of NSP will not be known until the agreements have been approved and all costs associated with the idling of the facilities are known. It is expected that a one-time gain from the transaction will be recorded in the first half of 1995. SJVEP will continue to own and maintain the facilities and will explore all available options.

NRG, through wholly owned subsidiaries, owns 50% of the Jackson Valley Energy partnership, which owns and operates a 15 Mw cogeneration power plant near Sacramento, California. The plant has a long-term power sales agreement with Pacific Gas & Electric through 2014.

NRG, through a wholly owned subsidiary, purchased the assets of the Minneapolis Energy Center (MEC), a downtown Minneapolis district heating and cooling system in August of 1993. The system utilizes steam and chilled water generating facilities to heat and cool buildings for approximately 90 heating and 30 cooling customers. The primary assets include the main plant, with 800,000 lbs/hour of steam capacity and 22,000 tons/hour of chilled water capacity, three satellite plants, two standby plants, six miles of steam lines and two miles of chilled water distribution lines. Existing long-term contracts with MEC customers remain in effect under NRG's ownership.

On Dec. 31, 1994 NRG, through a wholly owned subsidiary, purchased a 50% ownership interest in Sunnyside Cogeneration Associates (SCA), a Utah joint venture (partnership), which owns and operates a 51 Mw waste coal plant in Utah. The acquisition investment by NRG was approximately $11 million. The waste coal plant is currently being operated by a 50% owned NRG partnership.

Scoria Incorporated and Western SynCoal Co., a subsidiary of Montana Power Co., completed construction in January 1992 of a demonstration coal conversion plant designed to improve the heating value of coal by removing moisture, sulfur and ash. The plant, located in Montana, has the ability to produce 300,000 tons of clean coal annually which, when burned, produces emissions in compliance with the Clean Air Act. The fuel may be an alternative to scrubbers for some energy companies. Testing of the plant ended in August 1993 and commercial operations began at that time. NRG's net capitalized investment in the Scoria coal project was written down by $3.5 million in 1994 to reflect reductions in the expected future operating cash flows from the project. NRG continues to evaluate the recoverability of its remaining investment in the Scoria project.

Item 1 - Business

New Business Development

NRG is pursuing several energy-related investment opportunities, including those discussed below, and continues to evaluate other opportunities as they arise. Potential capital requirements for these opportunities are discussed in the "Capital Spending and Financing" section.

On Dec. 10, 1993, NRG, through a wholly owned foreign subsidiary, acquired a 50% interest in a German corporation, Saale Energie GmbH (Saale). Saale owns a 400 Mw share of a 900 Mw power plant currently under construction in Schkopau, Germany, which is near Leipzig. PowerGen plc of the United Kingdom acquired the remaining 50% interest in Saale. Saale was formed to acquire a 41.1% interest in the power plant. VEBA Kraftwerke Ruhr AG of Gelsenkirchen, Germany (VKR), is the builder of the Schkopau plant. VKR owns the remaining 58.9% interest in the power plant and will operate the plant. The plant will be fired by brown coal (lignite) mined by MIBRAG under a long-term contract. Saale has a long-term power sales agreement for its 400 Mw share of the Schkopau facility with VEAG of Berlin, Germany, the company that controls the high-voltage transmission of electricity in the former East Germany. The first unit of the plant is due to be completed by the end of 1995 and the second unit is due to be completed in mid-1996. Through Dec. 31, 1994 NRG had invested $20 million to acquire its interest in Saale including capitalized development costs. NRG's future equity commitment to Saale through 1996 is expected to be no more than $50 million.

On June 10, 1993, NRG, together with the International Finance Corporation (an affiliate of the World Bank), CMS Energy Corporation (the parent company of Consumers Power Company) and later Corporation Andina de Fomento (CAF) formed the Scudder Latin American Trust for Independent Power (Scudder), an investment fund which is intended to invest in the development of new power plants and privatization of existing power plants in Latin America and the Caribbean. The fund has retained Scudder Stevens & Clark as its investment manager. The fund commenced its investment development efforts in September 1993. Each of the four investors has committed $25 million which the fund is seeking to invest over the next five years. The fund has commenced private placement activities to obtain additional investors in the fund, particularly other utility affiliates and institutional investors. As of Dec. 31, 1994, NRG has invested $4 million in Scudder. Scudder has reached agreements to purchase shares of two power plant projects in Latin America.

Graystone Corporation, with several other companies, continues with permitting plans to build the first privately owned uranium enrichment plant in the United States. Construction of the Louisiana plant, which would provide fuel for the nuclear power industry, could begin in 1995. Because of the uncertainty surrounding the ultimate successful operation of this plant, NRG wrote off its $1.5 million investment in Graystone during 1994.

Other

In July 1994, Michigan Cogeneration Partners Limited Partnership (MCP), a partnership between subsidiaries of NRG and Cogentrix Energy, Inc., reached an agreement with Consumers Power Company (Consumers), an electric utility headquartered in Jackson, Michigan, to terminate the power sales contract related to a 65 megawatt congeneration facility being developed by MCP in Parchment, Michigan. The agreement to terminate the contract required Consumers to make a payment to MCP of $29.8 million. As a result, NRG has recorded a net pretax gain from the termination of this contract of $9.7 million, which increased NSP's earnings by approximately nine cents per share in the third quarter of 1994.

OTHER SUBSIDIARIES

Viking Gas Transmission Company

In June 1993, the Company acquired 100 percent of the stock of Viking Gas Transmission Company (Viking) from Tenneco Gas, a unit of Tenneco Inc., in Houston, Texas. Viking, which is now a wholly owned subsidiary of the Company, owns and operates a 500-mile interstate natural gas pipeline serving portions of Minnesota, Wisconsin and North Dakota with a capacity of approximately 400 million cubic feet per day. The Viking pipeline currently serves 10 percent of NSP's gas distribution system needs. Viking currently operates exclusively as a transporter of natural gas for third-party shippers under authority granted by the FERC. Rates for Viking's transportation services are regulated by FERC. See "Rate Matters by Jurisdiction" herein regarding rate recovery requested for a portion of the acquisition cost paid by NSP to acquire Viking.

Cenergy, Inc.

NSP's non-regulated wholly owned subsidiary, Cenergy, Inc., commenced operations in October 1993 through the acquisition from bankruptcy of selected assets of Centran Corporation, a natural gas marketing company.

Cenergy, in addition to marketing natural gas, provides customized value-added energy services to retail customers, both inside NSP service territory and on a national basis through its offices in Houston, TX; Louisville, KY; Chesapeake, VA; Dallas, TX; Corpus Christi, TX; Chicago, IL; and Pittsburgh, PA. Cenergy offers customers many energy products and services including: utility billing analysis, end-use gas marketing, risk management, construction, energy services consulting and administrative services. The MPUC has approved an affiliate transaction contract, whereby Cenergy may make natural gas sales at market based rates (determined by competitive bids) to NSP for resale to retail gas customers.

On Dec. 1, 1994 the FERC approved Cenergy's application to sell electric power (except electricity generated by NSP) in the United States, giving NSP an opportunity to enter the increasingly deregulated and competitive electric market. Cenergy is one of the first utility affiliates to obtain this approval from FERC. NSP is allowing open access to its electric transmission lines by other electric power providers throughout North America. Cenergy's initiative to buy and sell deregulated electricity is consistent with NSP's objective to embrace competition, which will benefit NSP customers and shareholders

On January 19, 1995 Cenergy and Atlantic Energy Enterprises signed a memorandum of understanding to establish Atlantic CNRG Services LLC, a new subsidiary of both companies. Each company will own 50% of the new venture that will develop new and expanded natural gas and electric energy products and services, primarily in the Northeast region.

Eloigne Company

In 1993, the Company established Eloigne Company (Eloigne), to identify and develop affordable housing investment opportunities. Eloigne's principal business is the acquisition of a broadly diversified portfolio of rental housing projects which qualify for low income housing tax credits under federal tax law. As of Dec. 31, 1994, approximately $19 million had been invested in Eloigne projects. Tax credits recognized in 1994 as a result of these investments were approximately $2.0 million.

ENVIRONMENTAL MATTERS

NSP's policy is to proactively prevent adverse environmental impacts by regularly monitoring operations to ensure the environment is not adversely affected, and take timely corrective actions where past practices have had a negative impact on the environment. Significant resources are dedicated to environmental training, monitoring and compliance matters. NSP strives to maintain compliance with all applicable environmental laws.

In general, the Company has been experiencing a trend toward increasing environmental monitoring and compliance costs, which has caused and may continue to cause slightly higher operating expenses and capital expenditures. The Company has spent approximately $700 million on capitalized environmental improvements to new and existing facilities since 1968. The Company expects to incur approximately $15 million in capital expenditures and approximately $9 million in operating expenses for compliance with environmental regulations in 1995. The precise timing and amount of future environmental costs are currently unknown. (For further discussion of environmental costs, see "Environmental Matters" under Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 7, and Note 17 to the Financial Statements under Item 8.)

Permits

NSP is required to seek renewals of environmental operating permits for its facilities at least every five years. NSP believes that it is in compliance, in all material respects, with environmental permitting requirements.

Waste Disposal

The onsite storage pool for used nuclear fuel at the Company's Monticello Nuclear Generating Plant is expected to provide sufficient storage capacity to operate the plant until 2008.

The onsite storage pool for used nuclear fuel at the Company's Prairie Island Nuclear Generating Plant (Prairie Island) was filled during refueling in June 1994, so adequate space for a subsequent refueling was no longer available. In anticipation of this, the Company, in 1989, proposed construction of a temporary onsite dry cask storage facility for used nuclear fuel at Prairie Island. The Minnesota Legislature (Legislature) considered the dry

cask storage issue during its 1994 legislative session as required by a Minnesota Court of Appeals ruling in June 1993.

On May 10, 1994, the Governor of the State of Minnesota (Governor) signed into law a bill passed by the Legislature on May 6, 1994. The law authorizes the Company to install 17 dry casks at Prairie Island, which should provide storage capacity to allow operation until at least 2002 and 2003 for units 1 and 2 respectively, if the Company satisfies certain responsibilities. The Company executed an agreement with the governor concerning the renewable energy and alternative siting commitments contained in the new law and is now authorized to install the first increment of five casks. The second increment of four casks would be available if the Minnesota Environmental Quality Board finds that by Dec. 31, 1996, the Company has applied to the Nuclear Regulatory Commission for an alternative site license for the temporary used nuclear fuel storage facility, used good faith in locating an alternative site and has committed to build or purchase 100 megawatts of wind generation. The final increment of eight casks would be available unless prior to June 1, 1999, the Legislature specifically revokes the authorization for the final eight casks. The Legislature can revoke the authorization if an alternative storage site is not operational or under construction, or the Company fails to meet certain renewable energy commitments, including the increased use of wind power and biomass generation facilities by Dec. 31, 1998. (See Notes 16 and 17 of Notes to Financial Statements under Item 8 for further discussion of this matter.)

During 1994, NSP and a group of 30 other utilities and two private firms formed a consortium to establish a temporary used nuclear waste storage site. On March 9, 1995 the Mescalero Apache tribal members, in a second referendum, voted in favor of proceeding with a temporary used nuclear fuel storage site on reservation lands in New Mexico. The consortium is preparing to invest $135 million to prepare a license application, conduct environmental studies, pay host fees to the Mescalero tribe and construct a storage facility that could open in 2002.

The Company and NRG have contractual commitments to convert municipal solid waste to boiler fuel and burn the fuel to generate electricity. NRG owns and/or operates two resource recovery plants that produce RDF from the waste. The RDF is burned at the Company's Red Wing and Wilmarth plants in the Company's service area, the French Island plant in the Wisconsin Company's service area, and the Elk River plant owned by United Power Association. Processing and burning RDF provides an additional economical source of electric capacity and energy, which is beneficial to NSP's electric customers. The Company's commitment to this program enables counties to meet state-mandated goals to reduce the amount of solid waste now going to landfills. In addition, the program provides for increased materials recovery and increased use of municipal solid waste as an energy source.

NSP has met or exceeded the removal and disposal requirements for polychlorinated biphenyl (PCB) equipment as required by state and federal regulations. NSP has removed nearly all known PCB capacitors from its distribution system. NSP also has removed nearly all known network PCB transformers and equipment in power plants containing PCBs. NSP continues to test and dispose of PCB-contaminated mineral oil and equipment in accordance with regulations. PCB-contaminated mineral oil is detoxified and reused or burned for energy recovery at permitted facilities. Any future cleanup or remediation costs associated with past PCB disposal practices is unknown at this time.

Air Emissions Control And Monitoring

In September 1994, the U.S Environmental Protection Agency (EPA) proposed new air emission guidelines for municipal waste combustors. These proposed guidelines are expected to be finalized in September 1995. Once the federal guidelines are finalized, the MPUC will update Minnesota state waste combustor rules to meet or be more restrictive than the final federal guidelines. The deadline for complying with these rules is June 1997. To meet the new federal and state requirement, the Company must install additional pollution control and monitoring equipment at the Red Wing plant and additional monitoring equipment at the Wilmarth plant. The Company is evaluating equipment to meet the requirements. Equipment may cost between $6 million and $10 million.

The Clean Air Act, including the Amendments of 1990, (the "Clean Air Act") impose stringent limits on emissions of sulfur dioxide and nitrogen oxides by electric utility generating plants. These limits will be phased in beginning in 1995. The majority of the rules implementing this complex legislation are finalized. No capital expenditures are anticipated to comply with the sulfur dioxide emission limits of the Clean Air Act. Based on revisions to the sulfur dioxide portion of the program, NSP's emission allowance allocations for the years 1995-1999 were dramatically reduced from prior rulemaking. In 1994, $5 million was spent and it is expected that approximately $7 million will be spent on equipment at generation facilities to reduce emissions of nitrogen oxides for compliance with the Clean Air Act over the next 4 years. The Sherburne County Generating Plant's (Sherco) unit 2 Low NOx Burner Technology was upgraded in 1994 to further reduce its emissions of nitrogen oxides. The

same upgrade is scheduled for Sherco unit 1 in 1998. Other expenditures may be necessary upon EPA's finalization of remaining rules. Capital expenditures will be required for opacity compliance in 1995-1999 at certain facilities as discussed below.

As a part of its Clean Air Act compliance effort, the Company will test a type of air quality control device called a wet electrostatic precipitator at the Sherco generating plant. The equipment will be installed in 1995 inside one of the existing acid gas scrubber modules. Testing, anticipated to be completed in 1996, will determine the equipment's operational requirements and ability to reduce particulate emissions and opacity. The equipment is being examined as one option to lower opacity from Sherco units 1 and 2, as required by the EPA. Until testing is completed, it is unknown whether the equipment will result in full compliance with air quality standards. Total costs for equipment to reduce particulate emissions and opacity range from $90 million for the equipment being tested to approximately $300 million for other technology options.

In December 1994, the Wisconsin Company completed installation of a control center monitoring system at the Bay Front generating plant in Ashland, Wisconsin. The control center which will monitor emission from the four generating units, was mandated by the Clean Air Act. The total cost of the project was approximately $1.3 million.

The Company has conducted testing for air toxics at its major facilities and shared these results with state and federal agencies. The Company also conducted research on ways to reduce mercury emissions. This information has also been shared with state and federal agencies. The Clean Air Act requires the EPA to look at issuing rules for air toxic emissions from electric utilities. A report on this is due from the EPA to Congress in 1995. There is continued interest at the Minnesota Legislature to pass legislation restricting emissions of air toxics in the state. The Company cannot predict what impact these rules will have if passed.

Water Quality Monitoring

In compliance with federal and state laws and state regulatory permit requirements, and also in conformance with the Company's corporate environmental policy, the Company has installed environmental monitoring systems at all coal and RDF ash landfills and coal stockpiles to assess and monitor the impact of these facilities on the quality of ground and surface waters. Degradation of water quality in the state is prohibited by law and requires remedial action for restoration to an agreed upon acceptable clean-up level. Estimates of the cost of implementation of overall water quality monitoring does not have a material impact on NSP's operating results.

The pending reauthorization of the Federal Clean Water Act will probably result in more stringent water quality rules, regulations and standards that will result in slightly greater operating costs for NSP facilities.

Site Remediation

Through the end of 1994, the Company had been designated by the EPA or state environmental agencies as a "potentially responsible party" (PRP) for 10 waste disposal sites to which the Company allegedly sent hazardous materials. Under applicable law, the Company, along with each PRP, could be held jointly and severally liable for the total site remediation costs. Those costs have been estimated at $122 million for all 10 PRP sites. In the event additional remediation is necessary or unexpected costs are incurred, the amount could be in excess of $122 million. The Company is not aware of the other parties inability to pay, nor does it know if responsibility for any of the sites is disputed by any party.

Settlement with the EPA, state environmental agencies and other PRPs has been reached for six of these waste disposal sites for reimbursement of the past costs and expected future costs of remedial action. By reaching early settlement, the Company avoided litigation costs, increased costs of investigation and remediation and possible penalties that could have resulted and substantially increased the Company's allocation.

For the remaining four sites, neither the amount of cleanup costs nor the final method of their allocation among all designated PRP's has been determined. However, the current estimate of the Company's share of future remediation costs for all four sites is approximately $1.0 million, which was recorded as a liability at Dec. 31, 1994.

Until final settlement, neither the amount of cleanup costs nor the final method of their allocation among all designated PRPs can be determined. While it is not feasible to determine the precise outcome of these matters, amounts accrued represent the best current estimate of the Company's future liability for the cleanup costs of these sites. It is the Company's practice to vigorously pursue and, if necessary, litigate with insurers to recover costs. Through litigation, the Company has recovered from other PRPs a portion of the remedial costs paid to date.

Management also believes that costs incurred in connection with the sites, which are not recovered from insurance carriers or other parties, may be recoverable in future ratemaking.

In February 1995 a settlement was reached regarding one of the four sites for which the Company had been designated a PRP. The Company's allocation of costs approximated the liability accrued at Dec. 31, 1994.

Both the Company and the Wisconsin Company have received notices for requests for information concerning groundwater contamination at a landfill site in Wisconsin. While neither the Company nor the Wisconsin Company have been named PRP's, both companies voluntarily joined a group of other parties to address the contamination at this site. A preliminary estimate of total remediation costs at the site is approximately $6 million. The Company's and Wisconsin Company's share of this cost is currently estimated to be approximately 1%. In addition, the administrator of a group of PRP's has notified the Wisconsin Company that it might be responsible for cleanup of a solid and hazardous waste landfill site. The Wisconsin Company contends that it did not dispose of hazardous wastes in the subject landfill during the time period in question. Because neither the amount of cleanup costs nor the final method of their allocation among all designated PRP's has been determined, it is not feasible to predict the outcome of the matter at this time.

On March 2, 1995, the Wisconsin Department of Natural Resources (WDNR) notified the Wisconsin Company that it is a PRP at a creosote/coal tar contamination site in Ashland, WI. The Wisconsin Company has informed the WDNR of its belief that two sites exist. The first site, formerly a coal gas plant site, is NSP property. The second site is adjacent to the NSP site and is not owned by the Wisconsin Company. An existing condition report has been completed on an adjacent site. An estimate of site remediation costs, and the extent of the Wisconsin Company's responsibility, if any, for sharing such costs, is not known at this time. Investigations are underway to determine the Wisconsin Company's responsibility as well as that of predecessor companies contributing to the contamination on the adjacent site. The current estimate of the Wisconsin Company's share of future remediation costs at the NSP site is less than $750,000. This estimate is not based upon a formal remediation investigation and feasibility study. To the Wisconsin Company's knowledge, no study has been completed for the adjacent site that describes remedial alternatives and clean-up cost estimates. The Wisconsin Company intends to seek rate recovery of significant costs it incurs associated with the clean-up of either Ashland Site.

On March 13, 1995, the Minnesota Pollution Control Agency (MPCA) notified the Company that it intends to seek reimbursement from the Company for costs incurred at a disposal site in Rosemount, Minnesota. The Company has commenced an investigation to determine its involvement with the site. The MPCA has sought reimbursement of $139,000 from all parties. The extent of the Company's responsibility, if any, for sharing such costs, is not known at this time.

The Company is continuing to investigate 15 properties either presently or previously owned by the Company that were, at one time, sites of gas manufacturing or storage plants, or coal gas pipelines. The purpose of this investigation is to determine if waste materials are present, if such materials constitute an environmental or health risk, if the Company has any responsibility for remedial action and if recovery under the Company's insurance policies can contribute to any remediation costs. The total cost of remediation of these sites is expected to range from $14 million to approximately $18 million, including $5.3 million which has been paid to date. The Company has commenced remediation efforts at five of the 15 sites. One of the active sites has been completed, while the remaining four are in various stages of remediation. Monitoring continues at the completed site. In addition, the Company has been notified that two other sites will require remediation, and a study will be conducted to determine the cost of clean up. No agreement or consent order has been negotiated to perform any extensive site investigations or clean-up at the other eight sites. Based upon information currently available with regard to these sites, management believes that accruals recorded represent the best current estimate of the costs of any required clean-up or remedial actions for former gas operating sites of the Company. Management believes costs incurred in connection with the sites that are not recovered from insurance carriers or other parties may be allowable costs for future ratemaking purposes. In 1994 the Company received approval of deferred accounting for certain investigation and remediation expenses. The ultimate rate treatment of any costs deferred will be determined in the Company's next general gas rate case. (See Note 17 of Notes to the Financial Statements under Item 8 for further discussion of this matter.)

NSP has not developed any specific site restoration and exit plans for its fossil fuel plants, hydroelectric plants or substation sites as it currently intends to operate at these sites indefinitely. If such plans were developed in the future, NSP would intend to treat the costs as a removal cost of retirement in utility plant and include them in depreciation accruals. Removal cost estimates used to record depreciation expense are designed to recover the future cost to remove existing plant assets. Factors used to develop these estimates include historical expenses as well as engineering estimates.

Item 1 - Business

Contingencies

In October 1992, the Company disclosed to the MPCA, the EPA and the NRC that its reports on halogen content of water discharged at the Company's Prairie Island nuclear generating plant were based on estimates of halogen content rather than actual physical samples of water discharged as required by the plant's permit. Even though the water discharges at the plant did not exceed the halogen levels allowed under the permit, the applicable state and federal statutes would permit the imposition of fines, the institution of criminal sanctions, and/or injunctive relief for the reporting violations. Corrective actions were taken by the Company. The Company and the MPCA are currently negotiating a Stipulation Agreement to address monitoring procedures used at Prairie Island between January and September 1992 that allegedly did not comply with the permits. The MPCA is alleging noncompliance with permit terms and conditions and is proposing a civil penalty of $105,436.

Electric and magnetic fields (sometimes referred to as EMF) surround electric wires and conductors of electricity such as electrical tools, household wiring, appliances, electric distribution lines, electric substations and high-voltage electric transmission lines. NSP owns and operates many of these types of facilities. Some studies have found statistical associations between surrogates of EMF and some forms of cancer. The nation's electric utilities, including NSP, have participated in the sponsorship of more than $50 million in research to determine the possible health effects of EMF. Through its participation with the Electric Power Research Institute, NSP will continue its investigation and research with regard to possible health effects posed by exposure to EMF. No litigation has been commenced or claims asserted against NSP for adverse health effects related to EMF. However, several immaterial claims have been asserted against NSP for diminution of property values due to EMF. No litigation has commenced or is expected from these claims.

Both regulatory requirements and environmental technology change rapidly. Accordingly, NSP cannot presently estimate the extent to which it may be required by law, in the future, to make additional capital expenditures or to incur additional operating expenses for environmental purposes. NSP also cannot predict whether future environmental regulations might result in significant reductions in generating capacity or efficiency or otherwise affect NSP's income, operations or facilities.

CAPITAL SPENDING AND FINANCING

NSP's capital spending program is designed to assure that there will be adequate generating and distribution capacity to meet the future electric and gas needs of its utility service area, and to fund investments in non-regulated businesses. NSP continually reassesses needs and, when necessary, appropriate changes are made in the capital expenditure program.

Total NSP capital expenditures (including allowance for funds used during construction and excluding business acquisitions) totaled $409 million in 1994, compared to $362 million in 1993 and $428 million in 1992. These capital expenditures include gross additions to utility property of $387 million, $357 million (excluding Viking property acquired) and $423 million for years ended 1994, 1993 and 1992, respectively. Internally generated funds could have provided approximately 69% of all capital expenditures for 1994, 99% for 1993 and 49% for 1992.

NSP's utility capital expenditures (including allowance for funds used during construction) are estimated to be $383 million for 1995 and $1.9 billion for the five years ended Dec. 31, 1999. Included in NSP's projected utility capital expenditures is $51 million in 1995 and $267 million during the five years ended Dec. 31, 1999, for nuclear fuel for NSP's three existing nuclear units. The remaining capital expenditures through 1999 are for many utility projects, none of which are extraordinarily large relative to the total capital expenditure program. Internally generated funds from utility operations are expected to equal approximately 85% of the 1995 utility capital expenditures and approximately 95% of the 1995-1999 utility capital expenditures. Internally generated funds from all operations are expected to equal approximately 60% and 80% respectively, of the total capital expenditures anticipated for 1995 and the five-year period 1995-1999. The foregoing estimates of utility capital expenditures and internally generated funds may be subject to substantial changes due to unforeseen factors, such as changed economic conditions, competitive conditions, resource planning, new government regulations, changed tax laws and rate regulation.

In addition to capital expenditures, NSP invested $137 million in 1994 and $184 million in 1993 to acquire interests in non-regulated businesses and Viking. Investments in 1993 included business acquisitions of $159 million. (See "NRG Energy, Inc." and "Other Subsidiaries" herein.) NSP continues to evaluate opportunities to enhance its competitive position and shareholder returns through strategic acquisitions of existing businesses. Long-term financing may be required for acquisitions that NSP consummates.

Although they may vary depending on the success, timing, and level of involvement in planned and future projects, potential capital requirements for investments in existing and additional non-regulated projects are estimated

to be $153 million in 1995 and $623 million for the five-year period 1995-1999. The majority of these non-regulated capital requirements relate to equity investments (excluding costs financed by project debt) in NRG's projects, as discussed previously. The remainder consists mainly of affordable housing investments by Eloigne Company. Equity investments by NRG and Eloigne would be funded through their own internally generated funds, equity investments by NSP, or long-term debt issued by the subsidiary. Such equity investments by NSP are expected to be financed on a long-term basis through NSP's internally generated funds or through NSP's issuance of common stock.

EMPLOYEES AND EMPLOYEE BENEFITS

At year end 1994 the total number of full- and part-time employees of NSP was approximately 2,670. NSP is represented by five local IBEW labor unions. On May 2, 1994 the IBEW members voted to ratify a three year labor agreement retroactive to Jan. 1, 1994. Labor and employee benefit costs are not expected to be materially affected by the terms of the new agreement.

NSP recently reviewed employee and retiree benefits and implemented the following changes effective in 1994. These changes support NSP's goal of providing market-based benefits.

Active nonbargaining medical premium increases: A two-year cost sharing strategy for medical benefits for nonbargaining employees was implemented in 1994. The strategy consisted of employees contributing 10% in 1994 and 20% in 1995 of the total medical cost.

Retiree medical premium increases: Retiree medical premiums were increased in 1994 for existing and future retirees. For existing qualifying retirees, pension benefits have been increased to offset some of the premium increase. For future retirees, a six-year cost-sharing strategy was implemented with retirees paying 15 percent of the total cost of health care in 1994, increasing to a total of 40% in 1999.

Nonbargaining pension plan lump sum option changes: Prior to 1994, nonbargaining employees had the option to receive their pension in either a lump sum or in monthly installments. Beginning in 1994, nonbargaining employees can choose a lump sum distribution in 25% increments upon termination of employment. Employees taking less than 100 percent will receive the rest of their benefits in monthly installments. At the end of 1994, this benefit was modified to allow a lump sum option only on the portion of pension benefit earned through Dec. 31, 1994.

401(k) changes: NSP currently offers eligible employees a 401(k) Retirement Savings Plan. In 1994 NSP matched employees' pre-tax 401(k) contribution up to $500 per year for nonbargaining employees and up to $400 per year for bargaining employees. In 1994, NSP's matching contribution was $2.6 million. In 1995, NSP's annual match will increase to $700 for nonbargaining employees. Under the terms of the bargaining agreement implemented in 1994, NSP's annual match for bargaining employees will increase to $500 in 1995 and $600 in 1996.

Wage increases: No base wage scale increases were implemented in January 1994. Effective in 1994, NSP implemented a market-based pay structure for nonbargaining employees. NSP's new pay system uses salary surveys that indicate how local and regional companies pay their employees for comparable positions. In January 1995, nonbargaining employees received an average wage scale increase of 3.5%, while bargaining employees received a 2% base wage increase and 1.5% lump sum payment. As part of the new labor agreement, bargaining employees are no longer included in the Company's incentive compensation plan.

projects, potential capital requirements for investments in existing and additional non-regulated projects are estimated

EXECUTIVE OFFICERS*

Name	Age	Present Positions and Business Experience During the Past Five Years
James J Howard	59	Chairman of the Board, President and Chief Executive Officer since 12/1/94; Chairman of the Board and Chief Executive Officer from 7/01/90 to 11/30/94; and prior thereto Chairman of the Board, President and Chief Executive Officer.
Douglas D Antony	52	President - NSP Generation since 9/07/94; Vice President - Nuclear Generation from 1/01/93 to 9/06/94; General Manager - Monticello Nuclear Site from 9/01/90 to 12/31/92; and prior thereto Plant Manager - Monticello.
Loren L Taylor	48	President - NSP Electric since 10/27/94; Vice President - Customer Operations from 1/01/93 to 10/26/94; Vice President - Transmission and Inter-Utility Services from 11/01/89 to 12/31/92: and prior thereto Vice-President Human Resources.
Keith H Wietecki	45	President - NSP Gas since 1/11/93; Vice President - Corporate Strategy from 1/01/93 to 1/10/93; Vice President - Electric Marketing & Sales from 4/25/90 to 12/31/92; and prior thereto Vice President - Electric Marketing and Customer Service.
Arland D Brusven	62	Vice President - Finance since 7/01/94; Vice President - Finance and Treasurer from 1/01/93 to 6/30/94; Vice President and Treasurer from 9/01/90 to 12/31/92; and prior thereto Secretary and Financial Counsel.
Jackie A Currier	43	Vice President and Treasurer since 7/01/94; Vice President - Corporate Strategy from 1/11/93 to 6/30/94; Director - Corporate Finance and Assistant Treasurer from 9/17/92 to 1/10/93; Director - Corporate Finance from 6/01/90 to 9/16/92; and prior thereto General Manager - Budget & Control.

* As of 3/01/95

EXECUTIVE OFFICERS *

Name	Age	Present Positions and Business Experience During the Past Five Years
Gary R Johnson	48	Vice President & General Counsel since 11/01/91; and prior thereto Vice President - Law
Cynthia L Lesher	46	Vice President - Human Resources since 3/01/92; Director - Power Supply Human Resources from 8/15/91 to 2/29/92; Manager - White Bear Lake Area from 5/21/90 to 8/14/91; and prior thereto Manager - Metro Credit.
Edward J McIntyre	44	Vice President and Chief Financial Officer since 1/01/93; President and Chief Executive Officer of Northern States Power Company (a Wisconsin corporation), a wholly owned subsidiary of the Company from 7/01/90 to 12/31/92; and prior thereto Vice President - Gas Utility.
Thomas A Micheletti	48	Vice President - Public and Government Affairs since 10/27/94; Vice President - General Counsel and Secretary of NRG Energy, Inc. a wholly owned subsidiary of the Company from 5/11/94 to 10/26/94; Vice President-General Counsel, NRG from 9/15/93 to 5/10/94; and prior thereto Group Vice President for Minnesota Power and Light Company, a public utility located in Duluth, MN.
Roger D Sandeen	49	Vice President, Controller and Chief Information Officer since 4/22/92; and prior thereto Vice President and Controller.
Robert H Schulte	42	Vice President - Customer Service since 1/01/93; Vice President - Rates and Corporate Strategy from 7/01/90 to 12/31/92; and prior thereto General Manager - South Dakota Region.
Edward L Watzl	55	Vice President - Nuclear Generation since 9/07/94, Prairie Island Site General Manager from 9/01/90 to 9/07/94; and prior thereto Plant Manager - Prairie Island.

* As of 3/01/95

Item 2 - Properties

The Company's major electric generating facilities consist of the following:

Station and Unit	Fuel	Installed	1994 Capability (Mw)	1994 Output (Millions of Kwh)
Sherburne				
Unit 1	Coal	1976	712	3 988.2
Unit 2	Coal	1977	712	3 981.4
Unit 3	Coal	1987	514	4 139.6
Prairie Island				
Unit 1	Nuclear	1973	513	3 715.5
Unit 2	Nuclear	1974	512	4 552.9
Monticello	Nuclear	1971	539	3 956.3
King	Coal	1968	567	3 561.7
Black Dog				
4 Units	Coal	1952-1960	463	1 371.4
High Bridge				
2 Units	Coal	1956-1959	262	1 056.6
Riverside				
2 Units	Coal	1964-1987	366	1 745.9
Other	Various	Various	1,921	1 562.3

NSP's electric generating facilities provided 79% of its Kwh requirements in 1994. The current generating facilities are expected to be adequate base load sources of electric energy until 2004-2008, as detailed in the Company's electric resource plan filed with the MPUC in 1993. All of NSP's major generating stations are located in Minnesota on land owned by the Company.

At Dec. 31, 1994, NSP had transmission and distribution lines as follows:

Voltage	Length (Pole Miles)
500Kv	265
345Kv	730
230Kv	285
161Kv	340
115Kv	1,560
Less than 115 Kv	31,530

NSP also has approximately 300 transmission and distribution substations with capacities greater than 10,000 kilovoltamperes (Kva) and approximately 270 with capacities less than 10,000 Kva.

Manitoba Hydro, Minnesota Power Company and the Company completed the construction of a 500-Kv transmission interconnection between Winnipeg, Manitoba, Canada, and the Minneapolis-St Paul, Minnesota, area in May 1980. NSP has a contract with Manitoba Hydro-Electric Board for 500 Mw of firm power utilizing this transmission line. In addition, the Company is interconnected with Manitoba Hydro through a 230 Kv transmission line completed in 1970. (Also, see Note 17 of Notes to Financial Statements under Item 8.)

The gas properties of NSP include about 7,756 miles of natural gas transmission and distribution mains. NSP natural gas mains include approximately 102 miles with a capacity in excess of 275 pounds per square inch (psi) and approximately 7,654 miles with a capacity of less than 275 psi. In addition, Viking owns a 500-mile interstate natural gas pipeline serving portions of Minnesota, Wisconsin and North Dakota.

Virtually all of the utility plant of the Company and the Wisconsin Company are subject to the lien of their first mortgage bond indentures pursuant to which they have issued first mortgage bonds.

Item 3 - Legal Proceedings

In the normal course of business, various lawsuits and claims have arisen against NSP. Management, after consultation with legal counsel, has recorded an estimate of the probable cost of settlement or other disposition for such matters.

Item 3 - Legal Proceedings

On July 22, 1993, a natural gas explosion occurred on the Company's distribution system in St. Paul, Minn. Total damages are estimated to exceed $1 million. The Company has a self-insured retention deductible of $1 million, with general liability coverage of $150 million, which includes coverage for all injuries and damages. While 12 lawsuits have been filed, including one proposed class action suit, the litigation following this accident is at a preliminary stage pending a report from the National Transportation Safety Board and the ultimate costs to the Company are unknown at this time.

On July 14, 1993, the Company filed a lawsuit in U.S. District Court for the District of Minnesota. The suit was filed in the interest of the Company's ratepayers against Westinghouse Electric Corp. (Westinghouse), the manufacturer of the Prairie Island steam generators, because of problems with the steam generators' susceptibility to corrosion. The Company seeks to recover the past and future costs of inspections, maintenance, modifications and repairs made to the Prairie Island steam generators and related systems as a result of Westinghouse defects. The defects are "serious" in that they have caused the Company to incur significant expenditures in order to ensure that Prairie Island is a safe and economically efficient generating station. The scheduling order requires discovery to be completed by Oct. 1, 1995. NSP and Westinghouse must be ready for trial by Feb. 1, 1996. Safety has not been, nor will be, compromised in any way as a result of the defects because the plant has been and continues to be well-maintained. The steam generator problem is less severe at Prairie Island than at most other plants with the same model steam generator. This is due to specific plant design features, including; a lower reactor coolant water temperature than most of the other plants. Other reasons are due to the higher standards used at Prairie Island in such areas as water chemistry and preventative maintenance. Based on analysis done, it is the Company's best estimate that the steam generators can be maintained so replacement will not be necessary before the units' 40-year operating licenses expire.

On June 20, 1994, the Company and 13 other major utilities filed a lawsuit against the Department of Energy (DOE) in an attempt to clarify the DOE's obligation to accept spent nuclear fuel beginning in 1998. The suit was filed in the U.S. Court of Appeals, Washington, D.C. The primary purpose of the lawsuit is to ensure the Company and its customers receive timely storage of used nuclear fuel.

For a discussion of other environmental proceedings, see "Environmental Matters" under Item 1, incorporated herein by reference. For a discussion of proceedings involving NSP's utility rates, see "Utility Regulation and Revenues" under Item 1, incorporated herein by reference.

Item 4 - Submission of Matters to a Vote of Security Holders

None

PART II

Item 5 - Market for Registrant's Common Equity and Related Stockholder Matters

Quarterly Stock Data

The Company's common stock is listed on the New York Stock Exchange (NYSE), Chicago Stock Exchange (CHX) and the Pacific Stock Exchange (PSE). Following are the reported high and low sales prices based on the NYSE Composite Transactions for the quarters of 1994 and 1993 and the dividends declared per share during those quarters:

	1994			1993		
	High	Low	Dividends	High	Low	Dividends
First Quarter	$43 7/8	$40 1/8	$.645	$47	$42 1/4	$.630
Second Quarter	43 5/8	38 3/4	.660	46 7/8	42 7/8	.645
Third Quarter	43 7/8	40 3/8	.660	47 7/8	44 3/4	.645
Fourth Quarter	47	41 7/8	.660	46 3/8	40 1/8	.645

Item 5 - Market for Registrant's Common Equity and Related Stockholder Matters

The Company's Restated Articles of Incorporation and First Mortgage Bond Trust Indenture provide for certain restrictions on the payment of cash dividends on common stock. At Dec. 31, 1994, the payment of cash dividends on common stock was not restricted.

	1994	1993	1992	1991	1990
Shareholders of record at year-end	85 263	86 404	72 525	72 704	73 867
Book value per share at year-end	$28.35	$27.32	$25.91	$25.21	$24.42

Shareholders of record as of March 15, 1995 were 85,256.

Item 6 - Selected Financial Data

	1994	1993	1992	1991	1990	1984
	(Dollars in millions except per share data)					
Utility operating revenues	$2 486.5	$2 404.0	$2 159.5	$2 201.1	$2 064.5	$1 775.6
Utility operating expenses	$2 178.2	$2 100.1	$1 903.5	$1 895.6	$1 775.7	$1 532.4
Income from continuing operations before accounting change	$243.5	$211.7	$160.9	$207.0	$193.0	$189.8
Net income	$243.5	$211.7	$206.4	$224.1	$195.5	$192.1
Earnings available for common stock	$231.1	$197.2	$190.3	$206.1	$177.3	$178.8
Average number of common and equivalent shares outstanding (000's)	66 845	65 211	62 641	62 566	62 541	61,663
Earnings per average common share:						
Continning operations before accounting change	$3.46	$3.02	$2.31	$3.02	$2.79	$2.86
Total	$3.46	$3.02	$3.04	$3.29	$2.83	$2.90
Dividends declared per share	$2.625	$2.565	$2.495	$2.395	$2.295	$1.585
Total assets	$5 953.6	$5 587.7	$5 142.5	$4 918.8	$4 931.6	$3 741.7
Long-term debt	$1 463.4	$1 291.9	$1 299.9	$1 233.9	$1 239.5	$1 142.5
Ratio of earnings (from continuing operations before accounting change, excluding undistributed equity income and including AFC) to fixed charges	4.0	4.0	3.2	3.9	3.7	5.0

Notes:

1) Operating revenues and operating expenses in all years prior to 1992 have been restated to exclude the results of discontinued telephone operations.

2) In 1992, the Company changed its method of accounting for revenue recognition to begin recording unbilled revenue.

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Northern States Power Company, a Minnesota corporation (the Company), has two significant subsidiaries, Northern States Power Company, a Wisconsin corporation (the Wisconsin Company), and NRG Energy, Inc., a Delaware corporation (NRG). The Company also has several other subsidiaries, including Viking Gas Transmission Company (Viking) and Cenergy, Inc., (Cenergy). The Company and its subsidiaries collectively are referred to herein as NSP.

FINANCIAL RESULTS AND OBJECTIVES

1994 Financial Results

NSP's 1994 earnings per share were $3.46, an increase of 44 cents, or 14.6 percent, over the $3.02 earned in 1993. Sales growth in the core electric and gas utility businesses offset continuing unfavorable weather and higher operating costs, for a modest increase in utility earnings. In 1994, non-regulated businesses contributed a material portion of NSP's earnings for the first time, with 14.2 percent of NSP's earnings per share being derived from non-regulated operations. Most of this non-regulated earnings growth was generated from investments in energy projects in Germany and Australia. Investor returns also were enhanced in 1994 by an increase in the dividend rate, as discussed below.

NSP remained financially strong in 1994, as evidenced by continued high operating cash flows and interest coverage. NSP maintained its double A first mortgage bond ratings with all rating agencies during 1994 except Moody's Investors Services (Moody's). Moody's downgraded NSP's first mortgage bond ratings to A1 based on its interpretation of provisions of a Minnesota law enacted in 1994 regarding the Prairie Island nuclear generating plant used fuel storage project. (See discussion of this legislation in Notes 16 and 17 to the Financial Statements.)

Total Return

Dividend increases plus stock price appreciation comprise total return to NSP's investors. NSP increased its common dividend rate by more than 2 percent in 1994 and maintained a steady stock price despite a general industry decline in utility stock prices. Since the beginning of 1985, the total return on NSP's common stock has averaged 14.3 percent per year. The total return for the Standard & Poor's (S&P) composite stock index for 500 industrial companies has averaged 14.4 percent per year for the same period.

Financial Objectives

NSP's financial objectives are:

- **To provide investor returns in the top one-fourth of the utility industry as measured by a three-year average return on equity.** NSP's average return on equity (including the cumulative effect of the 1992 accounting change for unbilled revenues) for the three years ending in 1994 was 11.9 percent. Due largely to unusually mild weather in 1992, this return was below the three-year average of the top one-fourth of the industry (approximately 12.8 percent).

- **To increase dividends on a regular basis and maintain a long-term average payout ratio in the range of 65 to 75 percent.** The objective payout ratio is based on long-term earnings expectations. In June 1994, NSP's annualized common dividend rate was increased by 6 cents per share, or 2.3 percent, from $2.58 to $2.64. The dividend payout ratio was 76 percent in 1994. NSP's goal is to return to the objective range through growth in earnings.

- **To maintain continued financial strength with a double A bond rating.** The Company's first mortgage bonds continued to be rated AA- by S&P, AA- by Duff & Phelps, Inc., and AA by Fitch Investors Service, Inc. In 1994, Moody's downgraded NSP's first mortgage bond ratings from Aa2 to A1 based on its interpretations of a Minnesota law enacted in 1994 regarding the Prairie Island nuclear generating plant used fuel storage project. First mortgage bonds issued by the Wisconsin Company carry comparable ratings. NSP's pretax interest coverage ratio, based on income without Allowance for Funds Used During Construction (AFC), was 3.9 in 1994. A capital structure consisting of 47.5 percent common equity at year-end 1994, including both regulated and non-regulated operations, contributes to NSP's financial flexibility and strength.

- **To provide 20 percent of NSP earnings from non-regulated businesses by the year 2000.** NSP expects to meet this goal through growing profitability of existing non-regulated businesses and through the addition of new non-regulated businesses. Non-regulated businesses provided 14.2 percent of NSP's earnings in 1994.

- **To maintain long-term average annual earnings growth of 5 percent.** Non-regulated operations are expected to provide a significant portion of NSP's earnings growth in the foreseeable future. In 1994, total earnings increased 14.6 percent over 1993, with non-regulated earnings contributing most of that earnings growth.

Business Strategies

NSP's management is proactive in shaping the new business environment in which it will be operating. Management's business strategies include:

- **Focusing on the core energy business.** The electric utility industry is becoming more complex as customers, as well as utilities and federal and state regulators, promote competition. To remain successful in this more complex environment, NSP will maintain its focus on its core energy-related activities.

- **Providing reliable, low-cost, environmentally responsible energy.** Whether energy is produced through NSP's regulated utility or through its non-regulated businesses, three general concepts provide a focus for its energy businesses: reliable energy, low-cost energy and environmentally responsible energy.

- **Responding to customer needs.** Customers will have an increasing number of options for meeting their energy needs, and there will be competition among energy companies for the privilege of serving those customers. NSP will work with its customers to develop innovative products and services that benefit both the customer and NSP.

- **Increasing non-regulated investments and earnings.** As evidenced by the financial objectives for earnings growth, non-regulated businesses will be an important part of NSP's future. Deregulation in the utility industry is expected to provide new investment opportunities in non-regulated businesses. Participation in these opportunities is expected to improve the profitability of NSP.

RESULTS OF OPERATIONS AND LIQUIDITY AND CAPITAL RESOURCES

The following discussion and analysis by management focuses on those factors that had a material effect on NSP's financial condition and results of operations during 1994 and 1993. It should be read in conjunction with the accompanying Financial Statements and Notes thereto. Trends and contingencies of a material nature are discussed to the extent known and considered relevant.

RESULTS OF OPERATIONS

1994 Compared with 1993 and 1992

NSP's 1994 earnings per share were $3.46, up 44 cents from the $3.02 earned in 1993 and up $1.15 from the $2.31 earned before accounting changes in 1992. Regulated utility businesses generated earnings per share of $2.97 in 1994, $2.93 in 1993, and $2.33 (before accounting changes) in 1992. Non-regulated businesses generated earnings per share of 49 cents in 1994 and 9 cents in 1993, and a loss per share of 2 cents in 1992. The results of the regulated utility businesses and the non-regulated businesses are discussed in more detail below. In addition to the revenue and expense changes, 1994 earnings per share were impacted by a higher average number of common and equivalent shares outstanding. Common and equivalent shares increased in 1994 and 1993 due to stock issuances, including a general offering of 2.6 million shares in May 1993.

Utility Operating Results

Electric Revenues Sales to retail customers, which account for more than 90 percent of NSP's electric revenue, increased 3.9 percent in 1994 and 4.0 percent in 1993. Cool summer weather reduced sales in 1992 and, to a lesser extent, in 1994 and 1993. During 1994, NSP added 16,549 retail electric customers, a 1.2-percent increase. Total sales of electricity decreased 0.2 percent in 1994. The decrease is due to lower sales to other utilities (as discussed later), mostly offset by increases in sales to retail customers and municipal utilities.

On a weather-adjusted basis, sales to retail customers increased an estimated 3.4 percent in 1994 and 2.1 percent in 1993. Retail sales growth for 1995 is estimated to be 3.0 percent over 1994, or 2.2 percent on a weather-adjusted basis.

Sales to other utilities decreased 21.6 percent in 1994 after increasing 30.5 percent in 1993 when there was higher demand from utilities in flood-stricken Midwestern states. The 1993 increase also reflected the impact of ice damage to transmission lines in Iowa, which limited sales in 1992.

The table below summarizes the principal reasons for the electric revenue changes during the past two years.

(Millions of dollars)	1994 vs 1993	1993 vs 1992
Retail sales growth (excluding weather impacts)	$56	$32
Estimated impact of weather on retail sales volume	8	34
Rate changes	17	74
Sales to other utilities	(20)	20
Fuel adjustment clause	23	(2)
Other	8	(6)
Total revenue increase	$92	$152

NSP's electric revenues are adjusted for changes in fuel and purchased energy costs from amounts currently included in approved base rates through fuel adjustment clauses in all jurisdictions, except as noted below for Wisconsin. While the lag in implementing these billing adjustments is approximately 60 days, an estimate of the adjustments is recorded in unbilled revenue in the month in which costs are incurred. In Wisconsin, the biennial retail rate review process considers changes in electric fuel and purchased energy costs in lieu of a fuel adjustment clause.

Electric Production Expenses Fuel expense for electric generation increased $5.6 million, or 1.8 percent, in 1994 compared with an increase of $19.4 million, or 6.6 percent, in 1993. Total output from NSP's generating plants decreased 1.5 percent in 1994 and increased 8.4 percent in 1993. Fuel expenses were higher in 1994 because of the higher cost of nuclear fuel per megawatt-hour (MWH) due to increased payments to the U.S. Department of Energy (DOE) for decommissioning and decontamination of the DOE's uranium enrichment facilities and nuclear fuel disposal costs. In addition, fossil fuel costs were higher as a result of fewer purchases of coal at the lowest contractual prices due to lower fossil plant output in 1994. These increases were somewhat offset by cost decreases from lower output due to more scheduled fossil plant maintenance outages. The fuel expense increase in 1993 was due to higher output to meet sales demand, partially offset by lower cost of fuel per MWH, which reflects increased use of low-cost purchases, as discussed below.

Purchased power costs increased $41.1 million, or 19.7 percent, in 1994 and $53.0 million, or 34.1 percent, in 1993. The increase in 1994 primarily was due to additional demand expenses of $21 million for the full-year impact of capacity charges from the power purchase agreements with Manitoba Hydro-Electric Board (MH), which went into effect in May 1993, as discussed in Note 17 to the Financial Statements. In addition to demand expenses, purchased power costs increased from more energy purchases and higher prices. Energy purchases increased due to more scheduled plant maintenance outages in 1994. The market pricing of energy purchases increased in 1994 compared to more favorable market pricing in 1993. The increase in purchased power costs in 1993 over 1992 was largely due to a demand expense increase of $42 million for the capacity charges under power purchase agreements with MH. Energy purchased from other utilities increased in 1993 due to economically priced energy available to meet growing retail demand and resale opportunities to other utilities.

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Gas Revenues The majority of NSP's gas sales are categorized as firm (primarily space heating customers) and interruptible (commercial/industrial customers with an alternate energy supply). Firm sales in 1994 decreased 5.4 percent compared with 1993 sales, while firm sales in 1993 increased 17.0 percent over 1992 sales. The 1994 decrease is due largely to warm weather in the last quarter of 1994. Warm weather in the first quarter of 1992 is the main cause for the increase in 1993. NSP added 14,402 firm gas customers in 1994, a 3.7-percent increase.

On a weather-adjusted basis, firm sales are estimated to have decreased 0.7 percent in 1994 and increased 0.9 percent in 1993 (excluding a one-time unbilled revenue adjustment). Firm gas sales in 1995 are estimated to increase by 7.2 percent relative to 1994, with a 5.9-percent increase on a weather-adjusted basis. The 1995 increase includes the impact of additional revenues of approximately $6 million due to a 1994 gas expansion project in north central Minnesota, where 6,300 new customers were signed up for new service as of Dec. 31, 1994.

Interruptible sales of gas increased 4.4 percent in 1994 and 17.3 percent in 1993. Other gas deliveries, including Viking's transmission volumes, increased 73.5 percent in 1994 due to a full year of Viking activity and to sales of gas to off-system customers. Other gas deliveries increased dramatically in 1993 due to the acquisition of Viking.

The table below summarizes the principal reasons for the gas revenue changes during the past two years.

(Millions of dollars)	1994 vs 1993	1993 vs 1992
Sales growth (excluding weather impacts)	$0	$ 17
Estimated impact of weather on firm sales volume	(8)	28
Viking Gas (acquired in June 1993)	5	9
Rate changes	3	9
Sales to off-system customers	14	
Purchased gas adjustment and other	(23)	30
Total revenue increase (decrease)	$(9)	$ 93

NSP's gas revenues are adjusted for changes in purchased gas costs from amounts currently included in approved base rates through purchased gas adjustment clauses in all jurisdictions.

Cost of Gas Sold The cost of gas purchased and transported decreased $18.6 million, or 6.6 percent, in 1994. The decrease reflects lower gas prices and cost recovery adjustments, partially offset by higher sendout volumes primarily for sales of gas to off-system customers. The cost of gas associated with 1994 off-system sales was $12.7 million. In 1993, the cost of gas purchased and transported increased $61.7 million, or 28.0 percent, due to higher sendout volumes and higher purchased gas prices. The average cost per thousand cubic feet (mcf) of NSP-owned gas sold in 1994 was 8.4 percent lower than it was in 1993, when the cost was 8.7 percent higher than it was in 1992. The decrease in 1994 is due mainly to lower market pricing of gas. NSP views most of the increases in 1993 and 1992 as a recovery from unsustainably low wellhead gas prices in 1990 and 1991.

Other Operation, Maintenance and Administrative and General These expenses, in total, increased by $26.5 million, or 4.1 percent, in 1994 compared with a decrease of $27.2 million, or 4.0 percent, in 1993. The 1994 increase is primarily due to higher postretirement health care costs, including amounts deferred from 1993, and higher postemployment costs, as discussed in Note 3 to the Financial Statements. The 1993 decrease was the result of fewer scheduled plant maintenance outages, reduced employee levels and lower administrative costs. The 1993 decrease is net of a $14 million cost increase because wages in 1992 did not include accruals for incentive compensation. (See Note 14 to the Financial Statements for a summary of administrative and general expenses.)

Conservation and Energy Management Costs in 1994 remained comparable with 1993. Costs in 1993 were higher than in 1992 because NSP's regulators approved higher expense levels for conservation and demand-side management efforts.

Depreciation and Amortization The increases in depreciation in 1994 and 1993 reflect higher levels of depreciable plant for all periods and changes in the depreciable lives of certain property in 1994 and 1993. (See Note 1 to the Financial Statements for discussion of depreciation changes and rate filings.)

Property and General Taxes Property and general taxes increased in 1994 and 1993 primarily as a result of higher property tax rates and property additions. In addition, the increase in 1994 partially is due to higher gross earnings taxes, which are a result of higher sales levels.

Utility Income Taxes The variations in income taxes primarily are attributable to fluctuations in pretax book income. Taxes in 1993 also increased about $3 million due to a 1-percent increase in the federal tax rate. (See Note 11 to the Financial Statements for a detailed reconciliation of the statutory tax rate to the effective tax rate.)

Non-operating Items Related to Utility Businesses

Allowance for Funds Used During Construction (AFC) The differences in AFC for the reported periods are attributable to varying levels of construction work in progress and lower AFC rates associated with increased use of lower-cost, short-term borrowings to fund construction.

Other Income and Expense Note 14 to the Financial Statements lists the components of Other Income and Deductions-Net reported on the Consolidated Statements of Income. Other than the operating revenues, expenses and income taxes of non-regulated businesses, as discussed in the next section, non-operating income and expense items related to utility businesses decreased $2.5 million in 1994 and increased $0.8 million in 1993, net of associated income taxes. The 1994 decrease primarily is due to higher expenses for environmental and regulatory contingencies and higher public and government affairs expenses associated with the Prairie Island fuel storage issue, partially offset by interest income associated with the Company's settlement of a federal income tax dispute. The increase in 1993 was due to higher investment income and lower expenses for regulatory contingencies.

Interest Charges (Before AFC) Interest costs recognized for NSP's utility businesses, including amounts capitalized to reflect the financing costs of construction activities, were $107.8 million in 1994, $111.2 million in 1993 and $109.1 million in 1992. The decrease in 1994 reflects the impact of refinancing several higher-rate long-term debt issues in 1993 and 1994. These interest savings were partially offset by interest on higher short-term debt balances and new Viking debt (issued late in 1993). The average short-term debt balance was $204.5 million in 1994, $77.0 million in 1993 and $81.0 million in 1992. The increase in 1993 is due to amortization of refinancing costs, partially offset by interest savings from refinancing long-term debt at lower rates.

Accounting Change Earnings in 1992 included a net-of-tax income item of $45.5 million for the cumulative effect (related to prior years) of changing the Company's revenue recognition method to begin recording estimated unbilled revenues for utility service.

Preferred Dividends Dividends on NSP's preferred stock decreased in 1994 and 1993 primarily due to redemptions of the $7.84 Series Cumulative Preferred Stock in October 1993 and the $8.80 Series Cumulative Preferred Stock in April 1992.

Non-regulated Business Results

NSP's non-regulated operations include many diversified businesses, such as independent power production, gas marketing, industrial heating and cooling, and energy-related refuse-derived fuel (RDF) production. NSP also has investments in affordable housing projects and several income-producing properties. The following discusses NSP's diversified business results in the aggregate.

Operating Revenues and Expenses Because non-regulated operating revenues are less than 10 percent of NSP's consolidated revenues, the net results of non-regulated businesses are reported in Other Income and Deductions-Net on the Consolidated Statements of Income. (Note 14 to the Financial Statements lists the individual components of this line item.) Non-regulated operating revenues increased $151.3 million, or 167 percent in 1994, and $28.1 million, or 45 percent in 1993, due mainly to the impact of gas marketing and industrial heating and cooling businesses acquired during 1993. Non-regulated operating expenses had corresponding increases in 1994 due to the effects of 1993 acquisitions. In addition, such expenses increased in 1994 due to fewer project development costs being capitalized on pending projects in 1994 compared with 1993, and project write-downs, as discussed below. The increase in 1993 non-regulated operating income was due to improved RDF operations, acquired businesses and 1992 project write-downs that did not recur in 1993. Non-regulated operating expenses include charges of $5.0 million in 1994 and $6.8 million in 1992 for previously capitalized development and investment costs to reflect a decrease in the expected future cash flows of certain energy projects.

Equity Income NSP has a less-than-majority equity interest in many non-regulated projects, as discussed in Notes 4 and 5 to the Financial Statements. Consequently, a large portion of NSP's non-regulated earnings is reported as Equity in Earnings of Unconsolidated Investees on the Consolidated Statements of Income. The 1994 increase in equity income primarily is due to new energy projects NRG entered into during 1994 (as discussed in Notes 4 and 5 to the Financial Statements) and to more profitable operations of other energy projects in which NRG has been an investor for several years.

Non-operating Gain In 1994, a cogeneration project in which NRG was a 50-percent investor received a payment from an unrelated utility company that had agreed to purchase the project cogeneration energy as compensation for terminating the energy purchase agreement. Other Income and Deductions-Net includes a pretax gain of $9.7 million for NRG's share of the termination settlement, net of project investment costs.

Interest Expense Interest charges on the Consolidated Statements of Income include interest expense related to non-regulated businesses of $7.3 million in 1994, $2.3 million in 1993 and $0.1 million in 1992. The increases in 1994 and 1993 relate primarily to new non-utility long-term debt issued to finance the 1993 acquisitions of NRG's industrial heating and cooling business (Minneapolis Energy Center), a gas marketing business now operated by Cenergy, and 1994 investments in affordable housing projects by Eloigne Company (a wholly owned subsidiary of the Company). In addition, during 1994 and late 1993, United Power & Land and First Midwest Auto Park, wholly owned subsidiaries of the Company, issued long-term debt secured by non-regulated properties and lowered NSP's equity investment.

Income Taxes Other Income and Deductions-Net reported on the Consolidated Statements of Income (and as shown in Note 14 to the Financial Statements) includes income tax expense (credits) related to non-regulated businesses of $6.4 million in 1994, $3.5 million in 1993 and $(0.3) million in 1992. The increase in 1994 is due mainly to higher income and gains from NRG's energy projects, as discussed above. The 1994 effective tax rate is substantially less than the U.S. federal tax rate due mainly to the tax treatment of income from NRG's international projects and to energy and low-income housing tax credits, as shown in Note 11 to the Financial Statements.

Factors Affecting Results of Operations

NSP's results of operations during 1994 and 1993 were primarily dependent on the operations of the Company's and Wisconsin Company's utility businesses consisting of the generation, transmission and sale of electricity and the distribution, transportation and sale of natural gas. NSP's utility revenues depend on customer usage, which varies with weather conditions, general business conditions, the state of the economy and the cost of energy services. Various regulatory agencies determine the prices for electric and gas service within their respective jurisdictions. In addition, NSP's non-regulated businesses are beginning to contribute significantly to NSP's earnings. The historical and future trends of NSP's operating results have been and are expected to be affected by the following factors:

Competition The Energy Policy Act of 1992 (the Act) is a catalyst for comprehensive and significant changes in the operation of electric utilities, including increased competition. The Act's reform of the Public Utility Holding Company Act (PUHCA) promotes creation of wholesale non-utility power generators and authorizes the Federal Energy Regulatory Commission (FERC) to require utilities to provide wholesale transmission services to third parties. The legislation allows utilities and non-regulated companies to build, own and operate power plants nationally and internationally without being subject to restrictions that previously applied to utilities under the PUHCA. Management believes this legislation will promote the continued trend of increased competition in the electric energy markets.

In 1994, the FERC issued proposed rulemaking to address the rate treatment of potential "stranded investment" costs that could occur as wholesale electric markets become more competitive. The FERC is soliciting comments on options for recovery of transition costs associated with existing electric investments for which competitive market pricing might not provide recovery. NSP is evaluating the FERC proposal to determine the potential effects on operating results and customer rates and has responded to the FERC individually and through an industry group. The FERC has not reached a final decision, and the effects of the proposed rulemaking currently are not known.

NSP filed open access transmission tariffs with the FERC in March 1994. In accepting the filing, the FERC ruled NSP's tariff would be subject to the requirement that NSP offer transmission service to third parties using terms and conditions comparable to its own use of the system on behalf of NSP's traditional retail sales customers. NSP also addressed the following open access issues in its filing: timely responses to good faith transmission requests;

unbundling energy services; and establishing appropriate pricing mechanisms to ensure that cost allocation prevents inter-class subsidies. In addition, the filing allows NSP and its affiliates to use market-based rates to sell capacity and energy. The FERC also announced a new transmission pricing policy statement in October 1994. The new policy introduces greater flexibility in transmission pricing structure. NSP's revenues and earnings are not expected to be materially affected by the FERC's new pricing policies for transmission services. NSP management plans to continue its efforts to be a competitively priced supplier of electricity and an active participant in the competitive market for electricity.

In response to the developing electric industry competition, Cenergy applied for and was granted permission by the FERC to market electricity (except electricity generated by NSP) in the United States, effective Dec. 1, 1994. Cenergy is one of the first affiliates of an electric utility to obtain this approval from the FERC.

Some states are considering proposals to require "retail wheeling", which is the transmission of power generated by a third party to retail customers of another utility. In 1994, NSP filed a response to a proposal by its regulator in Wisconsin outlining the transitional steps necessary to create an open and fair competitive electric market. NSP's position is that all customers should be able to choose their electric supplier by 2001, and that generation also should be deregulated by 2001. NSP proposes that utilities retain operational control of their transmission and distribution systems, and that utilities should be permitted to recover the cost of investments that were authorized under traditional regulation. Regulators in Wisconsin are currently considering what action, if any, they should take regarding electric industry competition.

During 1992 and 1993, the FERC issued a series of orders (together called Order 636) addressing interstate natural gas pipeline service restructuring. This restructuring has "unbundled" each of the services (sales, transportation, storage and ancillary services) traditionally provided by gas pipeline companies. Order 636 ended the traditional pipeline sales service function, which in the past had met local distribution companies' (LDCs) needs for reliability of supply and flexibility for meeting varying load conditions. The implementation of Order 636 has applied more pressure on all LDCs to keep gas supply and transmission pricing for large customers competitive in light of the alternatives now available to these customers. Interstate pipelines have been allowed to recover from their customers 100 percent of prudently incurred transition costs attributable to Order 636 restructuring. NSP estimates that it will be responsible for less than $12 million of transition costs over a five-year period beginning Nov. 1, 1993. To date, NSP's regulatory commissions have approved recovery of these restructuring charges in retail gas rates through the purchased gas adjustment. New service agreements went into effect between NSP and its pipeline transporters on Nov. 1, 1993. NSP does not expect these new agreements under Order 636 to materially affect its cost of gas supply. NSP's acquisitions of Viking and a gas marketing business in 1993 have enhanced its ability to participate in the more competitive gas transportation business. In implementing Order 636, Viking incurred no transition costs.

Regulation NSP's utility rates are approved by the FERC, the Minnesota Public Utilities Commission (MPUC), the North Dakota Public Service Commission, the Public Service Commission of Wisconsin (PSCW), the Michigan Public Service Commission and the South Dakota Public Utilities Commission. Rates are designed to recover plant investment and operating costs and an allowed return on investment, using an annual period upon which rate case filings are based. NSP requests changes in rates for utility services as needed through filings with the governing commissions. The rates charged to retail customers in Wisconsin are reviewed and adjusted biennially. Because rate changes are not requested annually in Minnesota, NSP's primary jurisdiction, changes in operating costs can affect NSP's earnings, shareholders' equity and other financial results. Except for Wisconsin electric operations, NSP's rate schedules provide for cost-of-energy adjustments to billings and revenues for changes in the cost of fuel for electric generation, purchased energy and purchased gas. For Wisconsin electric operations, the biennial retail rate review process considers changes in electric fuel and purchased energy costs in lieu of a cost-of-energy adjustment clause. In addition to changes in operating costs, other factors affecting rate filings are sales growth, conservation and demand-side management efforts and cost of capital.

Rate Changes NSP filed for 1993 rate increases in Minnesota, North Dakota, South Dakota and Wisconsin to offset increasing costs for purchased power commitments, depreciation, property taxes, postretirement benefits and other expenses. NSP received approvals for approximately $102 million of annualized rate increases for retail customers in those states as well as for wholesale customers in Minnesota and Wisconsin. These rate changes increased revenues by approximately $83 million in 1993 and an additional $19 million in 1994.

As discussed in Note 2 to the Financial Statements, filings for rate changes in 1994 did not have a material impact on financial results. No significant general rate filings in any of NSP's utility jurisdictions are expected for 1995. However, the Company requested that the MPUC approve a new rate adjustment clause designed to accelerate recovery of 1994 and expected 1995 deferred electric conservation program costs. This adjustment clause could help reduce the need for filing a general rate increase request for recovery of increases in conservation expenditures. In February 1995, the MPUC voted to approve the new rate adjustment clause for the period May 1995 through June 1996. Thereafter, the Company would be required to request a new cost recovery level annually. The Company estimates it will receive an additional $24 million in revenues in 1995. This increased recovery will result in a corresponding increase in conservation expenses. A final order is expected in March 1995.

Legislative Changes In May 1994, NSP received legislative authorization for dry cask fuel storage facilities at the Company's Prairie Island nuclear generating facility. As a condition of this authorization, the Legislature established several resource commitments for NSP, including wind and biomass generation sources. (See Notes 16 and 17 to the Financial Statements for more information.)

Wholesale Customers In 1992, nine of the Company's 19 municipal wholesale electric customers notified the Company of their intent to terminate their power supply agreements with the Company, effective July 1995 or July 1996. These nine customers currently represent approximately $29 million in annual revenues and a maximum demand load of approximately 155 megawatts (MW).

In 1992 and 1993, the Company signed long-term power supply agreements with the 10 remaining municipal customers. The agreements commit the customers to purchase power from the Company for up to 13 years (through 2005) at fixed rates rising at up to 3 percent per year. The 10 customers represent approximately $10 million in current annual revenue and a maximum demand load of approximately 59 MW. The rates contained in the agreements were accepted by the FERC.

During 1993, the Company signed an electric power agreement to provide Michigan's Upper Peninsula Power Company (UPPCO) with up to 150 MW of baseload service, peaking service options and load regulation service options for 20 years from January 1998 through December 2017. Load regulation service is designed to change the level of power delivery during each hour to match UPPCO's load requirements. UPPCO has nominated 50 MW of base load and 5 MW of winter season peaking power purchases from NSP beginning Jan. 1, 1998. The annual revenue for 1998 is projected to be approximately $11 million to $14 million. The interchange agreement between UPPCO and NSP for this sale was accepted by the FERC. The Michigan Public Utilities Commission must also approve the transaction.

Environmental Matters NSP incurs several types of environmental costs, including nuclear plant decommissioning, storage and ultimate disposal of used nuclear fuel, disposal of hazardous materials and wastes, remediation of contaminated sites and monitoring of discharges into the environment. NSP is recording costs for environmental monitoring and accruals for nuclear plant decommissioning and used nuclear fuel disposal as an ongoing operating expense and has recorded its best estimate of the full obligation for environmental remediation. Because of the continuing trend toward greater environmental awareness and increasingly stringent regulation, NSP has been experiencing a trend toward increasing environmental costs. This trend has caused and may continue to cause slightly higher operating expenses and capital expenditures. Costs charged to NSP's operating expenses for environmental monitoring and disposal of hazardous materials and wastes in 1994 were approximately $7 million and are currently expected to increase to an average annual amount of approximately $12 million for the five-year period 1995-1999. However, the precise timing and amount of environmental costs, including those for site remediation and disposal of hazardous materials, are currently unknown. In 1994, 1993 and 1992, the Company spent about $15 million, $15 million and $20 million, respectively, for capital expenditures on environmental improvements at its utility facilities. In 1995, the Company expects to incur approximately $15 million in capital expenditures for compliance with environmental regulations. (See Notes 16 and 17 to the Financial Statements for further discussion of these and other environmental contingencies that could affect NSP.)

Weather NSP's earnings can be dramatically affected by unusual weather. Mild weather, mainly cool summers, reduced earnings by an estimated 13 cents per share in 1994 and 18 cents per share in 1993. However, this was an improvement over 1992, when a warm winter and the coolest summer in 77 years reduced earnings by an estimated 51 cents per share.

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

LIQUIDITY AND CAPITAL RESOURCES

Acquisitions In 1994, NRG acquired ownership interests in three significant international energy projects (as discussed in Note 4 to the Financial Statements), which increased 1994 earnings by approximately 38 cents per share. NSP also made three other strategically important business acquisitions in 1993, including an interstate natural gas pipeline (Viking), an energy services marketing business (Cenergy) and a steam heating and chilled water cooling system business (Minneapolis Energy Center, now an NRG subsidiary). NSP continues to evaluate opportunities to enhance its competitive position and shareholder returns through strategic business acquisitions.

Impact of Non-regulated Investments NSP's net income in 1994 includes after-tax earnings of $33.0 million, or 49 cents per share, from all non-regulated businesses. As discussed previously, NRG acquired equity interests in three significant energy projects in 1994. NSP expects to continue investing significant amounts in non-regulated projects, including domestic and international power production projects through NRG, as described under "Future Financing Requirements". Depending on the success and timing of involvement in these projects, NSP expects that non-regulated earnings could increase in the future to contribute at least 20 percent of NSP's earnings by the year 2000. The non-regulated projects in which NSP has invested carry a higher level of risk than NSP's traditional utility businesses. Current and future investments in non-regulated projects are subject to uncertainties prior to final legal closing, and continuing operations are subject to foreign government actions, partnership actions or both. The 1994 operating results of NSP's non-regulated businesses may not necessarily be indicative of future operating results.

Accounting Changes Effective Jan. 1, 1994, NSP adopted three new accounting standards for postemployment benefits, fair value accounting for certain investments and employee stock ownership plan transactions. These accounting changes had an immaterial impact on earnings in 1994. (See Note 3 to the Financial Statements for more information on these accounting changes.)

As discussed in Notes 3 and 10 to the Financial Statements, in 1993 NSP changed its accounting for certain postretirement benefits and began recording such benefits on an accrual basis. NSP's utility companies had previously been allowed rate recovery for postretirement benefits as paid. In the 1993 rate increases discussed previously, NSP's utility companies obtained rate recovery for substantially all of the increased costs (approximately $20 million) accrued under Statement of Financial Accounting Standards (SFAS) No. 106 in 1993. Due to rate recovery of higher costs, there was no material impact on NSP's operating results from this accounting change.

NSP currently follows predominant industry practice in recording its environmental liabilities for plant decommissioning and site exit costs as a component of utility plant. The Financial Accounting Standards Board (FASB) is evaluating the financial presentation of these obligations and the related expense accruals, which could require reporting reclassifications as early as 1995. The effects of regulation are expected to minimize or eliminate any impact on operating expenses from potential accounting changes for decommissioning costs. (For further discussion, see Note 16 to the Financial Statements.)

Use of Derivatives Through its subsidiaries, NSP uses derivative financial instruments to manage the risks of fluctuations in foreign currencies and natural gas prices. At Dec. 31, 1994, $93 million in notional amount (i.e. no transfer of principal) of hedge instruments were in place to hedge international investments subject to foreign currency exchange fluctuations, and $16 million in notional amount of futures contracts were in place to hedge the sale of natural gas. NSP also uses interest rate swap agreements to convert fixed rate debt to variable rate debt. At Dec. 31, 1994, NSP had $320 million in notional amount of interest rate swap agreements. (See Note 13 to the Financial Statements for further discussion of NSP's financial instruments and derivatives.)

Non-recurring Items NSP's earnings for 1994 include several non-recurring items. Although their net effect was an earnings increase of only 1 cent per share, individually significant non-recurring items included a gain on termination of a non-regulated cogeneration contract, interest income from the settlement of a federal income tax dispute, a charge for pre-1994 postemployment costs associated with adopting SFAS No. 112, and asset impairment write-downs for certain non-regulated energy projects.

Inflation Historically, certain operating costs, mainly labor and property taxes, have been affected by inflation. Also, inflation has tended to increase the replacement cost of operating facilities, which has increased depreciation expense when replacement facilities are constructed. However, several significant expense items have been less sensitive to inflation, including fuel costs, income taxes and interest expense. Overall, inflation at the levels currently being experienced is not expected to materially affect NSP's prices to customers or returns to shareholders.

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

LIQUIDITY AND CAPITAL RESOURCES

1994 Financing Requirements NSP's need for capital funds is primarily related to the construction of plant and equipment to meet the needs of electric and gas utility customers and to fund equity commitments or other investments in non-regulated businesses. Total NSP utility capital expenditures (including AFC) were $387 million in 1994. Of that amount, $304 million related to replacements and improvements of NSP's electric system and $60 million involved construction of natural gas distribution facilities. NSP companies invested $159 million in non-regulated projects and property in 1994, mainly for equity investments in domestic and international power projects. NRG invested in joint venture projects that acquired electric generating plants in Australia and Germany, and open-cast coal mining operations in Germany. Eloigne Company invested in affordable housing projects, including wholly owned and limited partnership ventures.

1994 Financing Activity During 1994, NSP's primary sources of capital included internally generated funds, long-term debt and short-term debt. The allocation of financing requirements between these capital options is based on the relative cost of each option, regulatory restrictions and the constraints of NSP's long-range capital structure objectives. During 1994, NSP continued to meet its long-range regulated capital structure objective of 45-50 percent common equity and 42-50 percent debt.

Funds generated internally from operating cash flows in 1994 remained sufficient to meet working capital needs, debt service, dividend payout requirements and non-regulated investment commitments, as well as fund a significant portion of construction expenditures. NSP's 1993 cash flows improved over 1992 mainly due to more favorable weather and rate increases. The pretax interest coverage ratio, excluding AFC, was 3.9 in 1994 and 3.9 in 1993. These ratios met NSP's objective range of 3.5-5.0 for interest coverage. Internally generated funds could have provided financing for 69 percent of NSP's capital expenditures for 1994 and 77 percent of the $1.9 billion in capital expenditures incurred for the five-year period 1990-1994.

The Company had approximately $238 million in short-term borrowings outstanding as of Dec. 31, 1994. Throughout 1994, short-term borrowings were used to finance utility capital expenditures and provide for other NSP cash needs.

In 1994, the Company issued $350 million of first mortgage bonds to refinance higher-cost debt issues and reduce short-term debt levels. In addition, United Power & Land issued $10 million of non-utility long-term debt to recapitalize the Company's prior equity investment in the subsidiary. Eloigne Company also issued approximately $8 million of long-term debt to finance affordable housing project investments.

The Company issued 42,567 new shares of common stock in 1994 under NSP's Executive Long-Term Incentive Award Stock Plan. At Dec. 31, 1994, the total number of common shares outstanding was 66,922,144.

NSP's equity investments in non-regulated projects during 1994 were financed through internally generated funds. Project financing requirements, in excess of equity contributions from investors, were satisfied with project debt. Project debt associated with many of NSP's non-regulated investments is not reflected in NSP's balance sheet because the equity method of accounting is used for such investments. (See Note 5 to the Financial Statements.)

Future Financing Requirements Utility financing requirements for 1995-1999 may be affected in varying degrees by numerous factors including load growth, changes in capital expenditure levels, rate increases allowed by regulatory agencies, new legislation, market entry of competing electric power generators, changes in environmental regulations and other regulatory requirements. NSP currently estimates that its utility capital expenditures will be $383 million in 1995 and $1.9 billion for the five-year period 1995-1999. Of the 1995 amount, $322 million is scheduled for electric facilities and $31 million for natural gas facilities. These utility capital expenditure estimates include approximately $190 million of anticipated expenditures for environmental improvements at utility facilities for the five-year period 1995-1999. In addition to utility capital expenditures, expected financing requirements for the 1995-1999 period include approximately $369 million to retire long-term debt and meet first mortgage bond sinking fund requirements.

Through its subsidiaries, NSP expects to invest significant amounts in non-regulated projects in the future. Financing requirements for non-regulated project investments may vary depending on the success, timing and level of involvement in projects currently under consideration. Potential capital requirements for NSP's non-regulated projects and property are estimated to be approximately $153 million in 1995 and approximately $623 million for the five-year period 1995-1999. These amounts include expected NRG investments through 1996 of up to $46 million for an existing German project and Eloigne Company investments of up to $23 million in 1995 and $13 million annually in 1996-1999 for affordable housing projects. Eloigne Company expects to finance approximately 65 percent of these investments in affordable housing projects with equity and approximately 35 percent with long-term debt. In addition to investments in non-regulated projects, NSP continues to evaluate opportunities to enhance shareholder returns and achieve long-term financial objectives through acquisitions of existing businesses. Long-term financing may be required for such investments.

The Company will also have future financing requirements for the portion of nuclear plant decommissioning costs not funded externally. Based on the most recent decommissioning study, these amounts are expected to be approximately $363 million, and are expected to be paid during the years 2010 to 2022.

Future Sources of Financing NSP expects to obtain external capital for future financing requirements by periodically issuing long-term debt, common stock and preferred stock as needed to maintain desired capitalization ratios. Over the long-term, NSP's equity investments in non-regulated projects are expected to be financed through internally generated funds or NSP's issuance of common stock. Financing requirements for the non-regulated projects, in excess of equity contributions from investors, are expected to be fulfilled through project debt. Decommissioning expenses not funded by an external trust are expected to be financed through a combination of internally generated funds, long-term debt and common stock. The extent of external capital required for nuclear decommissioning costs is not known at this time.

NSP's ability to finance its utility construction program at a reasonable cost and to provide for other capital needs depends on its ability to meet investors' return expectations. Financing flexibility is enhanced by providing working capital needs and a high percentage of total capital requirements from internal sources, and having the ability to issue long-term securities and obtain short-term credit. NSP expects to maintain adequate access to securities markets in 1995. Access to securities markets at a reasonable cost is determined in a large part by credit quality. The Company's first mortgage bonds are rated AA- by Standard & Poor's Corporation, A1 by Moody's Investors Service, Inc. (Moody's), AA- by Duff & Phelps, Inc., and AA by Fitch Investors Service, Inc. Ratings for the Wisconsin Company's first mortgage bonds are generally comparable. These ratings reflect the views of such organizations, and an explanation of the significance of these ratings may be obtained from each agency. Moody's downgraded NSP's first mortgage bond ratings to A1 based on its interpretation of provisions of a Minnesota law enacted in 1994 for used nuclear fuel storage at the Prairie Island generating plant. (The other three rating agencies reaffirmed their ratings of NSP's bonds after considering the impact of the legislation on NSP.) As discussed in Notes 16 and 17 to the Financial Statements, the legislation requires NSP to increase its use of renewable energy sources such as wind and biomass power. Moody's has indicated that it believes these sources of power are considerably more costly than the power currently generated and that NSP's electric production costs will increase materially over current levels. NSP acknowledges that electric production costs may increase as a result of the Prairie Island legislation.

The Company's and the Wisconsin Company's first mortgage indentures limit the amount of first mortgage bonds that may be issued. The MPUC and the PSCW have jurisdiction over securities issuance. At Dec. 31, 1994, with an assumed interest rate of 8.5 percent, the Company could have issued about $1.9 billion of additional first mortgage bonds under its indenture, and the Wisconsin Company could have issued about $243 million of additional first mortgage bonds under its indenture.

The Company registered first mortgage bonds with the Securities and Exchange Commission (SEC) in December 1993. Depending on capital market conditions, the Company expects to issue the remaining $250 million of registered but unissued bonds over the next several years to raise additional capital or redeem outstanding securities.

The Company's Board of Directors has approved short-term borrowing levels up to 10 percent of capitalization. The Company has received regulatory approval for $350 million in short-term borrowing levels and plans to keep its credit lines at or above its average level of commercial paper borrowings. Commercial banks presently provide credit lines to the Company of approximately $299 million, which excludes $11 million of credit lines provided to subsidiaries of the Company. These credit lines make short-term financing available in the form of bank loans.

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company's Articles of Incorporation authorize the maximum amount of preferred stock that may be issued. Under these provisions, the Company could have issued all $460 million of its remaining authorized, but unissued, preferred stock at Dec. 31, 1994, and remained in compliance with all interest and dividend coverage requirements.

The level of common stock authorized under the Company's Articles of Incorporation is 160 million shares. Registration Statements filed with the SEC provide for the sale of up to 1.6 million shares of common stock under the Company's Dividend Reinvestment and Stock Purchase Plan (DRSPP), Executive Long-Term Incentive Award Stock Plan, and Employee Stock Ownership Plan (ESOP) as of Dec. 31, 1994. The Company may issue new shares or purchase shares on the open market for its stock plans. (See Note 7 to the Financial Statements for discussion of stock awards outstanding.) The Company does not plan any general public stock offerings in 1995, but may issue new shares for its DRSPP and ESOP plans.

Internally generated funds from utility operations are expected to equal approximately 85 percent of anticipated utility capital expenditures for 1995 and approximately 95 percent of the $1.9 billion in anticipated utility capital expenditures for the five-year period 1995-1999. Internally generated funds from all operations are expected to equal approximately 60 percent and 80 percent, respectively, of the anticipated total capital expenditures for 1995 and the five-year period 1995-1999. Because of NSP's intention to reinvest foreign cash flows in non-U.S. operations, the equity income from international investments currently does not provide operating cash available for U.S. cash requirements such as payment of dividends, domestic capital expenditures and domestic debt service. NSP intends to pursue a diverse portfolio of foreign energy projects with varying levels of cash flows, income and foreign taxation to allow maximum flexibility of foreign cash flows.

Item 8 - Financial Statements and Supplementary Da

Item 8 - Financial Statements and Supplementary Data

See Item 14(a)-1 in Part IV for index of financial statements included herein.

See Note 19 of Notes to Financial Statements for summarized quarterly financial data.

INDEPENDENT AUDITORS' REPORT

To The Shareholders of Northern States Power Company:

We have audited the accompanying consolidated financial statements of Northern States Power Company (Minnesota) and its subsidiaries, listed in the accompanying table of contents in Item 14(a)1. These consolidated financial statements and financial statement schedules are the responsibility of the Companies' management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedules 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 consolidated 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 consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Companies at December 31, 1994 and 1993 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, the Companies changed their method of accounting for postretirement health care costs in 1993.

DELOITTE & TOUCHE LLP
Minneapolis, Minnesota
February 8, 1995

Item 8 - Financial Statements and Supplementary Data

Consolidated Statements of Income

(Thousands of dollars, except per share data)	Year Ended Dec. 31 1994	1993	1992
Utility Operating Revenues			
Electric	$2 066 644	$1 974 916	$1 823 316
Gas	419 903	429 076	336 206
Total	2 486 547	2 403 992	2 159 522
Utility Operating Expenses			
Electric production expenses—fuel and purchased power	570 880	524 126	451 696
Cost of gas purchased and transported	263 443	282 028	220 370
Other operation	311 119	304 675	307 232
Maintenance	170 145	161 413	180 585
Administrative and general	193 818	182 535	187 975
Conservation and energy management	31 231	29 358	17 626
Depreciation and amortization	273 801	264 517	242 914
Property and general taxes	234 564	223 108	204 439
Income taxes	129 228	128 346	90 669
Total	2 178 229	2 100 106	1 903 506
Utility Operating Income	309 318	303 886	256 016
Other Income and Expense			
Equity in earnings of unconsolidated investees	35 863	3 030	2 382
Allowance for funds used during construction—equity	4 548	7 328	8 993
Other income and deductions—net	1 961	5 588	(3 423)
Total	42 372	15 946	7 952
Income Before Interest Charges	350 690	319 832	263 968
Interest Charges			
Interest on long-term debt	97 143	104 714	103 035
Other interest and amortization	17 949	8 848	6 203
Allowance for funds used during construction—debt	(7 868)	(5 470)	(6 198)
Total	107 215	108 092	103 040
Income Before Accounting Change	243 475	211 740	160 928
Accounting Change			
Cumulative effect on prior year of change in accounting principle—unbilled revenues (net of deferred income taxes of $30,594)			45 512
Net Income	243 475	211 740	206 440
Preferred Stock Dividends	12 364	14 580	16 172
Earnings Available for Common Stock	$231 111	$197 160	$190 268
Average number of common and equivalent shares outstanding (000's)	66 845	65 211	62 641
Earnings per average common share:			
Income before accounting change	$3.46	$3.02	$2.31
Cumulative effect of unbilled revenue accounting change			.73
Total	$3.46	$3.02	$3.04
Common Dividends Declared per Share	$2.625	$2.565	$2.495

See Notes to Financial Statements

Item 8 - Financial Statements and Supplementary Data

Consolidated Statements of Cash Flows

(Thousands of dollars)	Year Ended Dec. 31 1994	1993	1992
Cash Flows from Operating Activities:			
Net Income	$243 473	$211 740	$206 440
Adjustments to reconcile net income to cash from operating activities:			
Depreciation and amortization	384 583	286 855	261 457
Nuclear fuel amortization	45 553	43 120	45 129
Deferred income taxes from operations	(2 262)	12 256	5 186
Deferred investment tax credits recognized	(9 591)	(9 223)	(8 446)
Allowance for funds used during construction—equity	(4 543)	(7 328)	(8 993)
Undistributed equity in earnings of unconsolidated investees	(27 427)	(1 142)	(1 006)
Gain from non-regulated project termination settlement	(9 685)		
Cumulative effect of unbilled revenue accounting change—net of tax			(43 512)
Cash provided by (used for) changes in certain working capital items	(8 627)	33 259	(31 478)
Conservation program expenditures - net of amortization	(29 963)	(21 185)	(16 945)
Cash provided by (used for) changes in other assets and liabilities	(1 842)	12 346	2 767
Net Cash Provided by Operating Activities	500 556	560 692	424 595
Cash Flows from Investing Activities:			
Capital expenditures:			
Utility businesses	(387 926)	(356 836)	(423 346)
Non-regulated businesses	(22 268)	(4 859)	(4 459)
Increase (decrease) in construction payables	11 668	2 598	(2 853)
Allowance for funds used during construction—equity	4 543	7 328	8 993
Sale (purchase) of short-term investments—net	(866)	67	1 552
Investment in external decommissioning fund	(42 677)	(32 578)	(27 929)
Proceeds from non-regulated project termination settlement	14 600		
Business acquisitions		(139 385)	
Investments in non-regulated projects and other	(136 816)	(25 957)	2 554
Net Cash Used for Investing Activities	(569 439)	(569 627)	(445 508)
Cash Flows from Financing Activities:			
Change in short-term debt—net issuances (repayments)	132 239	(40 361)	146 561
Proceeds from issuance of long-term debt	367 184	613 120	126 531
Repayment of long-term debt, including reacquisition premiums	(272 897)	(439 106)	(43 344)
Proceeds from issuance of common stock	1 368	183 654	2 940
Redemption of preferred stock, including premium		(36 092)	(35 838)
Dividends paid	(186 568)	(130 220)	(171 355)
Net Cash Provided by Financing Activities	42 126	50 995	30 495
Net Increase (Decrease) in Cash and Cash Equivalents	(16 757)	42 060	(6 417)
Cash and Cash Equivalents at Beginning of Period	57 812	15 752	22 169
Cash and Cash Equivalents at End of Period	$41 055	$57 812	$15 752
Cash Provided by (Used for) Changes in Certain Working Capital Items:			
Accounts receivable and accrued utility revenues	$(1 695)	$(50 403)	$(14 108)
Materials and supplies inventories	(13 462)	13 911	(3 280)
Payables and accrued liabilities (excluding construction payables)	32 550	54 247	5 206
Customer rate refunds	(18 410)	12 235	(11 987)
Other	(15 610)	3 269	(5 309)
Net	$(8 627)	$33 259	$(31 478)
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest (net of amount capitalized)	$106 867	$107 037	$99 669
Income taxes	$170 474	$120 491	$93 032

See Notes to Financial Statements

Item 8 - Financial Statements and Supplementary Data

Consolidated Balance Sheets

(Thousands of dollars)	Dec. 31 1994	1993
Assets		
Utility Plant		
Electric—including construction work in progress: 1994, $117,235; 1993, $174,893	$6 372 317	$6 167 670
Gas	677 233	621 871
Other	262 506	237 293
Total	7 312 056	7 026 834
Accumulated provision for depreciation	(3 116 811)	(2 828 144)
Nuclear fuel—including amounts in process: 1994, $12,505; 1993, $15,358	797 097	749 078
Accumulated provision for amortization	(718 690)	(673 669)
Net utility plant	4 273 652	4 214 099
Current Assets		
Cash and cash equivalents	41 855	57 812
Short-term investments	892	26
Accounts receivable—net of accumulated provision for uncollectible accounts: 1994, $4,072; 1993, $4,476	280 858	266 531
Accrued utility revenues	98 651	111 296
Federal income tax and interest receivable	28 858	20 927
Materials and supplies—at average cost		
Fuel	56 960	41 776
Other	101 878	103 599
Prepayments and other	56 075	40 885
Total current assets	665 227	642 852
Other Assets		
Regulatory assets	357 576	334 354
Non-regulated property—net of accumulated depreciation: 1994, $73,296; 1993, $63,351	172 961	157 615
Investments in non-regulated projects	181 330	45 772
External decommissioning fund and other investments	165 466	121 657
Federal income tax and interest receivable	56 358	
Intangible assets and other	81 001	71 369
Total other assets	1 014 692	730 767
Total	$5 953 571	$5 587 718
Liabilities & Equity		
Capitalization		
Common stockholders' equity	$1 896 967	$1 827 454
Preferred stockholders' equity	240 469	240 469
Long-term debt	1 463 354	1 291 867
Total capitalization	3 600 790	3 359 790
Current Liabilities		
Long-term debt due within one year	16 106	90 618
Other long-term debt potentially due within one year	141 600	141 600
Short-term debt—primarily commercial paper	238 439	106 200
Accounts payable	234 905	210 654
Taxes accrued	178 119	177 853
Interest accrued	28 164	24 110
Dividends payable on common and preferred stocks	47 283	46 195
Accrued payroll, vacation and other	79 029	73 792
Total current liabilities	963 645	871 022
Other Liabilities		
Deferred income taxes	848 870	788 378
Deferred investment tax credits	173 838	187 466
Regulatory liabilities	200 517	243 880
Pension and other benefit obligations	92 514	64 224
Other long-term obligations and deferred income	73 397	72 958
Total other liabilities	1 389 136	1 356 906
Commitments and Contingent Liabilities (See Notes 16 and 17)		
Total	$5 953 571	$5 587 718

See Notes to Financial Statements

Item 8 - Financial Statements and Supplementary Data

Consolidated Statements of Changes in Common Stockholders' Equity

(Dollar amounts in thousands)	Number of Shares Issued	Par Value	Premium	Retained Earnings	Shares Held by ESOP	Cumulative Currency Translation Adjustments
Balance at Dec. 31, 1991	62 541 404	$156 354	$368 821	$1 864 559	$(14 184)	
Net income				206 440		
Dividends declared:						
Cumulative preferred stock at required rates				(16 172)		
Common stock				(156 109)		
Exercise of stock options and other stock awards	56 956	142	2 805			
Preferred stock redemption and stock issuance costs			(7)	(822)		
Repayment of ESOP loan					8 291	
Balance at Dec. 31, 1992	62 598 360	$156 496	$370 819	$1 899 896	$(5 313)	
Net income				211 740		
Dividends declared:						
Cumulative preferred stock at required rates				(14 550)		
Common stock				(168 615)		
Issuances of common stock	4 281 217	10 703	176 296			
Preferred stock redemption and stock issuance costs			(3 345)	(1 069)		
Loan to ESOP to purchase shares					(15 000)	
Repayment of ESOP loan					9 226	
Balance at Dec. 31, 1993	66 879 577	$167 199	$543 770	$1 127 372	$(10 087)	
Net income				243 475		
Dividends declared:						
Cumulative preferred stock at required rates				(12 364)		
Common stock				(175 292)		
Issuances of common stock	42 567	106	1 342			
Stock issuance costs			(80)			
Tax benefit from stock options exercised			843			
Repayment of ESOP loan					7 897	
Currency translation adjustments						$3 186
Balance at Dec. 31, 1994	66 922 144	$167 305	$545 875	$1 183 191	$(2 190)	$3 186

See Notes to Financial Statements

Item 8 - Financial Statements and Supplementary Data

Consolidated Statements of Capitalization

(Thousands of dollars)	Dec. 31 1994	1993
Common Stockholders' Equity		
Common stock-authorized 160,000,000 shares of $2.50 par value; issued shares: 1994, 66,922,144; 1993, 66,879,577	$167 305	$167 199
Premium on common stock	545 875	543 770
Retained earnings	1 183 191	1 127 372
Leveraged common stock held by Employee Stock Ownership Plan (ESOP) - shares at cost: 1994, 59,465; 1993, 239,940	(2 990)	(10 887)
Currency translation adjustments - net	3 586	
Total common stockholders' equity	$1 896 967	$1 827 454
Cumulative Preferred Stock - authorized 7,000,000 shares of $100 par value; outstanding shares: 1994 and 1993, 2,400,000		
Minnesota Company		
$3.60 series, 275,000 shares	$ 27 500	$ 27 500
4.08 series, 150,000 shares	15 000	15 000
4.10 series, 175,000 shares	17 500	17 500
4.11 series, 200,000 shares	20 000	20 000
4.16 series, 100,000 shares	10 000	10 000
4.56 series, 150,000 shares	15 000	15 000
6.80 series, 200,000 shares	20 000	20 000
7.00 series, 200,000 shares	20 000	20 000
Variable Rate series A, 300,000 shares	30 000	30 000
Variable Rate series B, 650,000 shares	65 000	65 000
Total	240 000	240 000
Premium on preferred stock	469	469
Total preferred stockholders' equity	$240 469	$240 469
Long-Term Debt		
First Mortgage Bonds Minnesota Company		
Series due:		
June 1, 1995, 6 1/8%		$30 000
March 1, 1996, 6.2%	$8 800*	8 800*
Aug. 1, 1996, 5 7/8%		45 000
Oct. 1, 1997, 5 7/8%	100 000	100 000
Oct. 1, 1997, 6 1/2%		30 000
May 1, 1998, 6 3/4%		45 000
Feb. 1, 1999, 5 1/2%	200 000	
Dec. 1, 2000, 5 3/4%	100 000	100 000
Oct. 1, 2001, 7 7/8%	150 000	
March 1, 2002, 7 3/8%	50 000	50 000
Feb. 1, 2003, 7 1/2%	50 000	50 000
April 1, 2003, 6 3/8%	80 000	80 000
Jan. 1, 2004, 8 3/8%		75 000
Dec. 1, 2005, 6 1/8%	70 000	70 000
Dec. 1, 1993-2006, 6.57%	22 300**	23 400**
March 1, 2011, Variable Rate	13 700*	13 700*
July 1, 2019, 9 1/8%	98 000	99 000
June 1, 2020, 9 3/8%	70 000	100 000
Total	$1 012 800	$919 900
Less redeemable bonds classified as current (See Note 9)	(13 700)	(13 700)
Less current maturities, including in 1993 the 2004 series bonds redeemed in January 1994	(1 200)	(76 100)
Net	$ 997 900	$830 100

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

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)	Dec. 31 1994	1993
Long-Term Debt-continued		
First Mortgage Bonds Wisconsin Company		
(less reacquired bonds of $490 at Dec. 31, 1994)		
Series due:		
Oct. 1, 2003, 5 3/4%	$49 000	$49 000
April 1, 2021, 9 1/8%	48 818	49 000
March 1, 2023, 7 1/4%	118 000	110 000
Total	199 818	199 000
Less current maturities	(2 910)	
Net	$195 109	$199 000
Guaranty Agreements - Minnesota Company		
Series due:		
Feb. 1, 1993-2003, 5.41%	$ 5 940*	$ 6 100*
May 1, 1993-2003, 5.69%	24 710*	25 250*
Feb. 1, 2003, 7.40%	3 540*	3 500*
Total	34 190	34 850
Less current maturities	(760)	(700)
Net	$33 430	$34 150
Miscellaneous Long-Term Debt		
City of Becker Pollution Control Revenue Bonds-Series due		
Dec. 1, 2005, 7.25%	$ 9 000*	$ 9 000*
April 1, 2007, 6.80%	60 000*	60 000*
March 1, 2019, Variable Rate	27 900*	27 900*
Sept. 1, 2019, Variable Rate	100 000*	100 000*
Anoka County Resource Recovery Bond-Series due		
Dec. 1, 1993-2008, 7.05%	25 150**	26 100**
City of La Crosse, Resource Recovery Bond-Series due		
Nov. 1, 2011, 7 3/4%	18 600**	18 600**
Viking Gas Transmission Company Senior Notes-Series due		
Oct. 31, 2008, 6.4%	29 511	31 644
NRG Energy Center, Inc. (Minneapolis Energy Center) Senior Secured Notes-Series due		
June 15, 2013, 7.31%	81 496	83 518
United Power & Land First Mortgage Notes due		
March 31, 2000, 7.62%	9 371	
Various Affordable Housing Project Mortgage Notes due		
1994-2009, 7.52%-10.0%	7 710	
Employee Stock Ownership Plan Bank Loans due		
1993-1995, Variable Rate		
Other	2 698	10 887
Total	10 734	8 397
Less variable rate Becker bonds classified as current (See Note 9)	382 170	376 646
Less current maturities	(127 900)	(127 900)
Net	(11 256)	(13 818)
	$242 981	$234 928
Unamortized discount on long-term debt-net	(6 978)	(5 711)
Total long-term debt	1 663 354	1 291 867
Total capitalization	$3 699 799	$3 319 790

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

See Notes to Financial Statements

Every five years, the Company also must file an annual [illegible]

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Item 8 - Financial Statements and Supplementary Data

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

System of Accounts Northern States Power Company, a Minnesota corporation (the Company), and two wholly owned subsidiaries of the Company, Northern States Power Company, a Wisconsin corporation (the Wisconsin Company), and Viking Gas Transmission Company (Viking), 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 material companies in which NSP holds a controlling financial interest, including: the Wisconsin Company; NRG Energy, Inc. (NRG); Viking; Cenergy, Inc. (Cenergy); and Eloigne Company. As discussed in Note 5, NSP has investments in partnerships, joint ventures and projects for which the equity method of accounting is applied. All significant intercompany transactions and balances have been eliminated in consolidation except for intercompany and intersegment profits for sales among the electric and gas utility businesses of the Company, the Wisconsin Company and Viking, which are allowed in utility rates. The Company and its subsidiaries collectively are referred to herein as NSP.

Revenues Revenues are recognized based on products and services provided to customers each month. Because utility customer meters are read and billed on a cycle basis, unbilled revenues (and related energy costs) are estimated and recorded for services provided from the monthly meter-reading dates to month-end.

The Company's rate schedules, applicable to substantially all of its utility customers, include cost-of-energy adjustment clauses, under which rates are adjusted to reflect changes in average costs of fuels, purchased energy and gas purchased for resale. As ordered by its primary regulator, Wisconsin Company retail rate schedules include a cost-of-energy adjustment clause for purchased gas but not for electric fuel and purchased energy. The biennial retail rate review process for Wisconsin electric operations considers changes in electric fuel and purchased energy costs in lieu of a cost-of-energy adjustment.

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 overhead costs and allowance for funds used during construction. The cost of units of property retired, plus net removal cost, is charged to the accumulated provision for depreciation and amortization. Maintenance and replacement of items determined to be less than units of property are charged to operating expenses.

Allowance for Funds Used During Construction (AFC) AFC, a non-cash item, is computed by applying a composite pretax rate, representing the cost of capital used to finance utility construction activities, to qualified Construction Work in Progress (CWIP). AFC rates were 5.0 percent in 1994, 7.4 percent in 1993 and 8.0 percent in 1992. The amount of AFC capitalized as a construction cost in CWIP is credited to other income (for equity capital) and interest charges (for debt capital). AFC amounts capitalized in CWIP are included in rate base for establishing utility service rates. In addition to construction-related amounts, AFC is also recorded to reflect returns on capital used to finance conservation programs.

Depreciation For financial reporting purposes, depreciation is computed by applying the straight-line method over the estimated useful lives of various property classes. The Company files with the Minnesota Public Utilities Commission (MPUC) an annual review of remaining lives for electric and gas production properties. The most recent studies, as approved by the MPUC, recommended an increase of approximately $0.5 million and a decrease of approximately $0.9 million for the 1994 and 1993 annual depreciation accruals, respectively. The remaining lives of the Company's nuclear facilities were submitted for review in 1994. The recovery period recommended for the Prairie Island plant was reduced because of the uncertainty regarding used nuclear fuel storage. (See Note 16.) The filing, as approved by the MPUC, increased depreciation by approximately $9.7 million due to the change from previously approved property lives. However, because the annual accruals for projected future decommissioning expenses decreased, the net impact to the Company from 1994 capital recovery filings is a decrease of about $800,000 in annual depreciation and decommissioning expenses, effective Jan. 1, 1994.

Every five years, the Company also must file an average service life filing for transmission, distribution and general properties. The most recent filing, as approved by the MPUC, increased 1993 depreciation by approximately $4.7 million from 1992 levels. In 1994, the Company submitted to the MPUC a depreciation study for the general plant accounts requesting a change in the depreciation calculation method. While a straight-line method is still used, the approved method change affects the level of detail at which depreciation expense is calculated. The impact to 1994 depreciation accruals from the change was a decrease of approximately $1.1 million. Depreciation provisions, as a percentage of the average balance of depreciable utility property in service, were 3.55 percent in 1994, 3.47 percent in 1993 and 3.36 percent in 1992.

Decommissioning NSP records the cost of decommissioning the Company's nuclear generating plants through annual depreciation accruals. The provision for the estimated decommissioning costs has been calculated using an annuity approach designed to provide for full expense accrual (with full rate recovery) of the future decommissioning costs, including reclamation and removal, over the estimated operating lives of the Company's nuclear plants.

Nuclear Fuel Expense The original cost of nuclear fuel is amortized to fuel expense based on energy expended. Nuclear fuel expense also includes assessments from the U.S. Department of Energy (DOE) for future fuel disposal and DOE facility decommissioning, as discussed in Note 16.

Environmental Costs Accruals for environmental costs are recognized when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. When a single estimate of the liability cannot be determined, the low end of the estimated range is recorded. Costs are charged to expense or deferred as a regulatory asset based on expected recovery from customers in future rates, if they relate to the remediation of conditions caused by past operations, or if they are not expected to mitigate or prevent contamination from future operations. Where environmental expenditures relate to facilities currently in use, such as pollution control equipment, the costs may be capitalized and depreciated over the future service periods. Estimated remediation costs are recorded at undiscounted amounts, independent of any insurance or rate recovery, based on prior experience, assessments and current technology. Accrued obligations are regularly adjusted as environmental assessments and estimates are revised, and remediation efforts proceed. For sites where NSP has been designated as one of several potentially responsible parties, the amount accrued represents NSP's estimated share of the cost. NSP intends to treat any future costs related to decommissioning and restoration of its power plants and substation sites as a removal cost of retirement through plant depreciation expense.

Income Taxes NSP records income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109 - Accounting for Income Taxes. (Before 1993, NSP followed SFAS No. 96—Accounting for Income Taxes, resulting in substantially the same accounting as SFAS No. 109.) Under the liability method required by SFAS No. 109, 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 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. Also, regulation has created certain regulatory assets and liabilities related to income taxes, as summarized in Note 12.

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

Foreign Currency Translation The local currencies are generally the functional currency of NSP's foreign operations. Foreign currency denominated assets and liabilities are translated at end-of-period rates of exchange. Income, expense and cash flows are translated at weighted-average rates of exchange for the period. The resulting currency translation adjustments are accumulated and reported as a separate component of shareholders' equity.

Exchange gains and losses that result from foreign currency transactions (e.g. converting cash distributions made in one currency to another currency) are included in the results of operations as a component of equity in earnings of unconsolidated investees. Through Dec. 31, 1994, NSP had not experienced any material translation gains or losses from foreign currency transactions that have occurred since the respective foreign investment dates.

Derivative Financial Instruments NSP's policy is to hedge foreign currency denominated investments as they are made to preserve their U.S. dollar value. NRG has entered into currency hedging transactions through the use of forward foreign currency exchange agreements. Gains and losses on these contracts offset the effect of foreign currency exchange rate fluctuations on the valuation of the investments underlying the hedges. The effect of hedging gains and losses, net of income taxes, is reported with other currency translation adjustments as a separate component of stockholders' equity. NRG is not hedging currency translation adjustments related to operating results. NSP does not speculate in foreign currencies. A second derivative arrangement is the use of natural gas futures contracts by Cenergy to manage the risk of gas price fluctuations. The cost or benefit of natural gas futures contracts is recorded when related sales commitments are fulfilled as a component of Cenergy's non-regulated operating expenses. A third derivative instrument used by NSP is interest rate swaps that convert fixed rate debt to variable rate debt. The cost or benefit of the interest rate swap agreements is recorded as a component of interest expense.

Use of Estimates In recording transactions and balances resulting from business operations, NSP uses estimates based on the best information available. Estimates are used for such items as plant depreciable lives, tax provisions, uncollectible accounts, environmental loss contingencies, unbilled revenues and actuarially determined benefit costs. As better information becomes available (or actual amounts are determinable), the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates. Recent changes in interest rates have resulted in changes to actuarial assumptions used in the benefit cost calculations for postretirement benefits. Also, the depreciable lives of certain plant assets are reviewed and, if appropriate, revised each year, as discussed previously. (See Notes 10 and 16 for more information on the effects of these changes in estimates.)

Cash Equivalents NSP considers investments in certain debt instruments (primarily commercial paper) with an original maturity of three months or less at the time of purchase to be cash equivalents.

Regulatory Deferrals As regulated utilities, the Company, the Wisconsin Company and Viking account for certain income and expense items under the provisions of SFAS No. 71---Accounting for the Effects of Regulation. In doing so, certain costs that would otherwise be charged to expense are deferred as regulatory assets based on expected recovery from customers in future rates. Likewise, certain credits that would otherwise be reflected as income are deferred as regulatory liabilities based on expected flowback to customers in future rates. Management's expected recovery of deferred costs and expected flowback of deferred credits are generally based on specific ratemaking decisions or precedent for each item. Regulatory assets and liabilities are amortized consistent with ratemaking treatment established by regulators. Note 12 describes the nature and amounts of these regulatory deferrals.

Other Assets The purchase of the Minneapolis Energy Center by an NRG subsidiary in 1993 at a price exceeding the underlying fair value of net assets acquired resulted in recorded goodwill. This goodwill and other intangible assets acquired are being amortized using the straight-line method over 30 years. NSP periodically evaluates the recovery of goodwill based on an analysis of estimated undiscounted future cash flows.

Intangible and other assets also include deferred financing costs of approximately $12.9 million at Dec. 31, 1994, which are being amortized over the remaining maturity period of the related debt.

Reclassifications Certain reclassifications have been made to the 1993 and 1992 financial statements to conform with the 1994 presentation. These reclassifications had no effect on net income or earnings per share.

2. Rate Matters

On Aug. 9, 1994, the Company applied to the North Dakota Public Service Commission (NDPSC) for an annual electric rate reduction of $3.6 million. The reduction reflects a correction in cost allocations to the North Dakota jurisdiction. The Company also requested authority to make refunds to customers to effectively implement the reduction as of June 1, 1994. On Nov. 9, 1994, the NDPSC approved the proposed rate reduction, the liability for which has been accrued as of Dec. 31, 1994. In January 1995, the NDPSC held a hearing on the possibility of retroactive refunds for the period Jan. 1, 1989, through June 1, 1994, but has not yet reached a decision. The ultimate outcome of this proceeding is not determinable at this time.

Other rate increases filed in Wisconsin and North Dakota that were effective in 1994 increased revenues by approximately $2.6 million.

3. Accounting Changes

Postemployment Benefits Effective Jan. 1, 1994, NSP adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 112---Employers' Accounting for Postemployment Benefits. This standard required the accrual of certain postemployment costs, such as injury compensation and severance, that are payable in the future. Initially, the Company's pre-1994 injury compensation liability was deferred in a regulatory asset based on a preliminary decision to request amortization through rates over future periods. In October 1994, another Minnesota utility was ordered by the MPUC to defer its pre-1994 SFAS No. 112 liability and amortize it to match a three-year rate recovery period. Since the Company may not file a rate case within the deferral period approved by the MPUC, which ends in 1996, the Company's pre-1994 liability of approximately $9.4 million (8 cents per share) was expensed during 1994.

Fair Value Accounting for Certain Investments Effective Jan. 1, 1994, NSP adopted the provisions of SFAS No. 115---Accounting for Certain Investments in Debt and Equity Securities. This new standard resulted in an increase of approximately $1.4 million in decommissioning investments to present such investments at their market value at Dec. 31, 1994. This increase represents an unrealized gain on investments, which has been deferred as a regulatory liability. The Company anticipates offsetting such gains, when realized, against decommissioning costs in future ratemaking.

Accounting for Employee Stock Ownership Plans (ESOP) Effective Jan. 1, 1994, NSP adopted the American Institute of Certified Public Accountants' Statement of Position (SOP) 93-6. This SOP changed the accounting for compensation expense associated with ESOP plans, and changed how ESOP shares were considered for earnings-per-share calculations. No additional compensation expense was recorded by NSP in 1994 due to the adoption of this SOP. The impact of the reduction in average common shares was immaterial to 1994 earnings per share (an increase in earnings per share of less than 1 cent).

Postretirement Benefits As discussed in Note 10, NSP changed its accounting for postretirement medical and death benefits in 1993. Due to rate recovery of the expense increases, there was no material effect on net income in 1993 or 1994. Of the $20 million in 1993 cost increases over 1992 due to adoption of SFAS No. 106, about $5 million was capitalized, $12 million was deferred to be amortized over rate recovery periods in 1994-1995, and about $3 million was expensed, but essentially offset by rate increases. In 1994, administrative and general expenses increased by approximately $16 million due to the full recognition of accrued SFAS No. 106 costs, including amounts deferred from 1993.

4. Business Acquisitions

Through its subsidiaries, NRG purchased equity interests during 1994 in three significant international projects, two in Germany and one in Australia. One of the investments is a 33-percent interest in Mitteldeutsche Braunkohlengesellschaft mbH (MIBRAG), a German corporation. MIBRAG was formed by the German government to operate coal mines, electric power plants and other energy-related facilities. The other German investment is a 50-percent interest in Saale Energie GmbH (Saale), also a German corporation. Saale owns a 400-megawatt share of a 900-megawatt power plant currently under construction near Schkopau, Germany. The Australian investment is a 37.5-percent interest in a joint venture that acquired a 1,680-megawatt coal-fired power plant in Gladstone, Queensland, Australia, which is operated by an NRG subsidiary. The total acquisition investments in these three projects through 1994, including capitalized development costs, was approximately $100 million. Earnings from equity interests in NRG international projects acquired in 1994 contributed approximately 38 cents per share to NSP's 1994 earnings.

5. Investments Accounted for by the Equity Method

Through its non-regulated subsidiaries, NSP has investments in various international and domestic energy projects and domestic affordable housing and real estate projects. (Before 1994, such investments had been limited to immaterial domestic projects.) The equity method of accounting is applied to such investments because the ownership structure prevents NSP from exercising a controlling influence over operating and financial policies of the projects. A summary of NSP's significant equity-method investments is as follows:

Name	Geographic Area	Economic Interest	Purchased or Placed in Service
Various Independent Power Production Facilities	U.S.A.	45%-50%	July 1991-December 1994
Affordable Housing-Limited Partnerships	U.S.A.	50%-99%	April 1993-December 1994
Rosebud SynCoal Partnership	U.S.A.	50%	August 1993
MIBRAG	Europe	33%	January 1994
Gladstone Power Station	Australia	37.5%	March 1994
Schkopau Power Station	Europe	20.6%	Under Construction
Scudder Latin American Trust for Independent Power Energy Projects	Latin America	6.3%-12.5%	December 1994

Summarized Financial Information of Unconsolidated Investees Summarized financial information for these projects, including interests owned by NSP and other parties, was as follows as of and for the year ended Dec. 31, 1994:

Financial Position (Millions of dollars)		Results of Operations (Millions of dollars)	
Current Assets	$ 514.9	Operating Revenues	$778.4
Other Assets	1,593.8	Operating Income	$128.0
Total Assets	$2,108.7	Net Income	$117.0
Current Liabilities	$ 159.6		
Other Liabilities	1,480.0		
Equity	469.1		
Total Liabilities and Equity	$2,108.7		

6. Cumulative Preferred Stock

The Company has two series of adjustable rate preferred stock. The dividend rates are calculated quarterly and are based on prevailing rates of certain taxable government debt securities indices. At Dec. 31, 1994, the annualized dividend rates were $5.82 for series A and $5.97 for series B.

At Dec. 31, 1994, the various preferred stock series were callable at prices per share ranging from $102.00 to $103.75, plus accrued dividends. In 1993, the Company redeemed all 350,000 shares of its $7.84 series Cumulative Preferred Stock at $103.12 per share. In 1992, the Company redeemed all 250,000 shares of its $8.80 series Cumulative Preferred Stock at $103.35 per share.

7. Common Stock and Incentive Stock Plans

The Company's Articles of Incorporation and First Mortgage Indenture provide for certain restrictions on the payment of cash dividends on common stock. At Dec. 31, 1994, the Company could have paid, without restrictions, additional cash dividends of more than $1 billion on common stock.

NSP has an Executive Long-Term Incentive Award Stock Plan that permits granting non-qualified stock options. The options currently granted may be exercised one year from the date of grant and are exercisable thereafter for up to nine years. The plan also allows certain employees to receive restricted stock and other performance awards. Performance awards are valued in dollars, but are paid in shares based on the market price at the time of payment. Transactions under the various incentive stock programs, which may result in the issuance of new shares, were as follows:

Item 8 - Financial Statements and Supplementary Data

Stock Awards (Thousands of shares)	1994	1993	1992
Outstanding Jan. 1	537.1	528.7	403.3
Options granted	304.0	196.9	201.8
Other stock awards	.2	9.5	.8
Options and awards exercised	(42.6)	(174.3)	(57.0)
Options and awards forfeited	(16.1)	(22.2)	(20.1)
Other	(.2)	(1.5)	(.1)
Outstanding at Dec. 31	782.4	537.1	528.7
Option price ranges:			
Unexercised at Dec. 31	$33.25-$43.50	$33.25-$43.50	$33.25-$40.94
Exercised during the year	$33.25-$43.50	$33.25-$40.94	$33.25-$36.44

Using the treasury stock method of accounting for outstanding stock options, the weighted average number of shares of common stock outstanding for the calculation of primary earnings per share includes any dilutive effects of stock options and other stock awards as common stock equivalents. The differences between shares used for primary and fully diluted earnings per share were not material.

8. Short-Term Borrowings

NSP has approximately $310 million of commercial bank credit lines under commitment fee arrangements. These credit lines make short-term financing available in the form of bank loans and support for commercial paper sales. There were approximately $3.6 million of borrowings against these credit lines, with interest payable at 9.75 percent, at Dec. 31, 1994, and no such borrowings at Dec. 31, 1993. At Dec. 31, 1994 and 1993, the Company had $234.8 million and $106.2 million, respectively, in short-term commercial paper borrowings outstanding. The weighted average interest rate on all short-term borrowings as of Dec. 31, 1994 and Dec. 31, 1993, was 6.1 percent and 3.3 percent, respectively.

9. 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 percent 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, and excluding certain other series totaling $740 million. The Company may, and has, applied property additions in lieu of cash payments on all series, except the 9 1/8 percent Series due July 1, 2019, as permitted by its First Mortgage Indenture. The Wisconsin Company also may apply property additions in lieu of cash on all series as permitted by its First Mortgage Indenture. Except for minor exclusions, all real and personal property is subject to the liens of the first mortgage indentures.

The Company's First Mortgage Bonds Series due March 1, 2011, and the City of Becker Pollution Control Revenue Bonds Series due March 1, 2019, and Sept. 1, 2019, have variable interest rates, which currently change at various periods up to 270 days, based on prevailing rates for certain commercial paper securities or similar issues. The interest rates applicable to these issues averaged 5.9 percent, 4.1 percent and 4.1 percent, respectively, at Dec. 31, 1994. The 2011 series bonds are redeemable upon seven days notice at the option of the bondholder. The Company also is potentially liable for repayment of the 2019 Series Becker Bonds when the bonds are tendered, which occurs each time the variable interest rates change. The principal amount of all three series of these variable rate bonds outstanding represents potential short-term obligations and, therefore, is reported under current liabilities on the balance sheet.

Maturities and sinking-fund requirements on long-term debt are: 1995, $16,106,000; 1996, $18,934,000; 1997, $110,538,000; 1998, $13,541,000; and 1999, $209,888,000.

10. Benefit Plans and Other Postretirement Benefits

Pension Benefits NSP has a non-contributory, defined benefit pension plan that covers substantially all employees. Benefits are based on a combination of years of service, the employee's highest average pay for 48 consecutive months and Social Security benefits.

The funded status of NSP's pension plan as of Dec. 31 is as follows:

(Thousands of dollars)	1994	1993
Actuarial present value of benefit obligation:		
Vested	$571 254	$655 002
Non-vested	120 420	139 346
Accumulated benefit obligation	$691 674	$794 348
Projected benefit obligation	$836 957	$974 160
Plan assets at fair value	1 165 584	1 244 650
Plan assets in excess of projected benefit obligation	(328 627)	(270 490)
Unrecognized prior service cost	(21 538)	(22 580)
Unrecognized net actuarial gain	370 289	315 049
Unrecognized net transitional asset	691	767
Net pension liability recorded	$20 815	$22 746

For regulatory purposes, the Company's pension expense is determined and recorded under the aggregate-cost method. As required by SFAS No. 87---Employers' Accounting for Pensions, the difference between the pension costs recorded for ratemaking purposes and the amounts determined under SFAS No. 87 are recorded as a regulatory liability on the balance sheet. Net annual periodic pension cost includes the following components:

(Thousands of dollars)	1994	1993	1992
Service cost-benefits earned during the period	$27 536	$25 015	$24 080
Interest cost on projected benefit obligation	65 107	71 075	69 853
Actual return on assets	(12 668)	(152 019)	(115 455)
Net amortization and deferral	(82 114)	66 299	39 019
Net periodic pension cost determined under SFAS No. 87	(2 139)	10 370	17 497
Additional costs recognized due to actions of regulators	3 922	5 117	2 741
Net periodic pension cost recognized for ratemaking	$1 783	$15 487	$20 238

The weighted average discount rate used in determining the actuarial present value of the projected obligation was 8 percent in 1994 and 7 percent in 1993. The rate of increase in future compensation levels used in determining the actuarial present value of the projected obligation was 5 percent in 1994 and 1993. Changes made to assumptions for the 1993 valuation decreased 1994 pension costs (determined under SFAS No. 87) by approximately $3 million. Changes made to assumptions for the 1994 valuation are expected to increase 1995 pension costs (determined under SFAS No. 87) by approximately $1 million. The assumed long-term rate of return on assets used for cost determinations under SFAS No. 87 was 8 percent for 1994, 1993 and 1992. Plan assets principally consist of common stock of public companies and U.S. government securities.

Postretirement Health Care NSP has a contributory health and welfare benefit plan that provides health care and death benefits to substantially all employees after their retirement. The plan is intended to provide for sharing the costs of retiree health care between NSP and retirees. For employees retiring after Jan. 1, 1994, a six-year cost-sharing strategy was implemented with retirees paying 15 percent of the total cost of health care in 1994, increasing to a total of 40 percent in 1999.

Effective Jan. 1, 1993, NSP adopted the provisions of SFAS No. 106—Employers' Accounting for Postretirement Benefits Other Than Pensions. SFAS No. 106 requires the actuarially determined obligation for postretirement health care and death benefits to be fully accrued by the date employees attain full eligibility for such benefits, which is generally when they reach retirement age. This is a significant change from NSP's pre-1993 policy of recognizing benefit costs on a cash basis after retirement. In conjunction with the adoption of SFAS No. 106, NSP elected to amortize on a straight-line basis over 20 years the unrecognized accumulated postretirement benefit obligation (APBO) of $215.6 million for current and future retirees. This obligation considered 1994 plan design changes, including Medicare integration, increased retiree cost sharing and managed indemnity measures not in effect in 1993.

months and Social Security benefits.

Item 8 - Financial Statements and Supplementary Data

Before 1993, NSP funded payments for retiree benefits internally. While NSP generally prefers to continue using internal funding of benefits paid and accrued, significant levels of external funding have been required by NSP's regulators, as discussed below, including the use of tax-advantaged trusts. Plan assets held in such trusts as of Dec. 31, 1994, consisted of investments in equity mutual funds and cash equivalents. The funded status of NSP's health care plan as of Dec. 31 is as follows:

(Millions of dollars)	1994	1993
APBO:		
Retirees	$132.3	$120.2
Fully eligible plan participants	21.5	18.8
Other active plan participants	79.4	90.8
Total APBO	233.1	229.8
Plan assets at fair value	8.0	6.1
APBO in excess of plan assets	225.1	223.7
Unrecognized net actuarial gain (loss)	2.3	(1.3)
Unrecognized transition obligation	(194.0)	(204.8)
Net benefit obligation recorded	$ 33.4	$ 17.6

The assumed health care cost trend rates used in measuring the APBO at Dec. 31, 1994 and 1993, respectively, were 11.0 and 14.1 percent for those under age 65, and 7.5 and 8.0 percent for those over age 65. The assumed cost trend rates are expected to decrease each year until they reach 5.5 percent for both age groups in the year 2004, after which they are assumed to remain constant. A 1-percent increase in the assumed health care cost trend rate for each year would increase the APBO by approximately 13 percent as of Dec. 31, 1994. Service and interest cost components of the net periodic postretirement cost would increase by approximately 16 percent with a similar 1-percent increase in the assumed health care cost trend rate. The assumed discount rate used in determining the APBO was 8 percent for Dec. 31, 1994, 7 percent for Dec. 31, 1993, and 8 percent for Jan. 1, 1993, compounded annually. The assumed long-term rate of return on assets used for cost determinations under SFAS No. 106 was 8 percent for 1994 and 1993. While the 1994 assumption changes had no effect on 1994 benefit costs, the effect of the changes in 1995 is expected to be a cost decrease of approximately $1.3 million. Similarly, the assumption changes made for the Dec. 31, 1993, calculations had no effect on 1993 benefit costs, but decreased 1994 costs by approximately $2 million.

In 1992, NSP recognized $12.8 million as the cost attributable to postretirement health care and death benefits based on payments made. The net annual periodic postretirement benefit cost recorded for 1994 and 1993 consists of the following components:

(Millions of dollars)	1994	1993
Service cost-benefits earned during the year	$5.0	$4.4
Interest cost (on service cost and APBO)	16.1	17.5
Actual return on assets	(.2)	(.1)
Amortization of transition obligation	10.8	10.8
Net amortization and deferral	(.3)	.1
Net periodic postretirement health care cost under SFAS No. 106	31.4	32.7
Costs recognized (deferred) due to actions of regulators	4.1	(12.1)
Net periodic postretirement health care cost recognized for ratemaking	$35.5	$20.6

Regulators for NSP's retail and wholesale customers in Minnesota, Wisconsin and North Dakota have allowed full recovery of increased benefit costs under SFAS No. 106, effective in 1993. Increased 1993 accrual costs for Minnesota retail customers are being amortized over the years 1994 through 1996, consistent with approved rate recovery. External funding was required by Minnesota and Wisconsin retail regulators to the extent it is tax advantaged; funding began for Wisconsin in 1993 and must begin by the next general rate filing for Minnesota. For wholesale ratemaking, the FERC has required external funding for all benefits paid and accrued under SFAS No. 106.

(APBO) of $215.6 million for current and future retirees. This obligation considered 1994 plan design changes, including Medicare integration, increased retiree cost sharing and managed indemnity measures not in effect in 1993.

ESOP NSP has a leveraged Employee Stock Ownership Plan (ESOP) that covers substantially all employees. Employer contributions to this non-contributory, defined contribution plan are generally made to the extent NSP realizes a tax savings on its income statement from dividends paid on certain shares held by the ESOP. Contributions to the ESOP in 1994, 1993 and 1992, which represent compensation expense, were $5,695,000, $6,281,000 and $6,415,000, respectively. ESOP contributions have no material effect on NSP earnings because the contributions (net of tax) are essentially offset by the tax savings provided by the dividends paid on ESOP shares. (See Note 11.) Leveraged shares held by the ESOP are allocated to participants when dividends on stock held by the plan are used to repay ESOP loans. Of the 5.4 million shares of the Company's stock that NSP's ESOP currently holds, an average of 111,845 uncommitted leveraged ESOP shares were excluded from earnings-per-share calculations in 1994. The fair value of NSP's leveraged ESOP shares approximated cost at Dec. 31, 1994.

401(k) NSP has a contributory, defined contribution Retirement Savings Plan (the Plan), which complies with section 401(k) of the Internal Revenue Code and covers substantially all employees. Beginning in 1994, NSP matches specified amounts of employee contributions Plan. NSP's matching contributions were $2.6 million in 1994.

11. Income Tax Expense

Total income tax expense from operations differs from the amount computed by applying the statutory federal income tax rate (35 percent in 1994 and 1993, and 34 percent in 1992) to net income before income tax expense. The reasons for the difference are as follows:

(Thousands of dollars)	1994	1993	1992
Tax computed at statutory U.S. federal tax rate	$131 860	$119 868	$84 015
Increases (decreases) in tax from:			
State income taxes net of federal income tax benefit	22 053	20 838	13 421
Tax rate differential on foreign income	(6 750)		
Tax credits recognized	(13 049)	(9 545)	(8 846)
Non-taxable AFC-equity included in book income	(1 592)	(2 565)	(3 058)
Net-of-tax AFC included in book depreciation	4 860	4 403	4 518
Use of the flow-through method for depreciation in prior years	4 651	7 004	5 884
Effect of tax rate changes for plant-related items	(5 715)	(4 648)	(5 202)
Dividends paid on ESOP shares	(2 983)	(3 009)	(3 245)
Other—net	(69)	(1 606)	(1 311)
Total income tax expense from operations	$133 266	$130 740	$86 176
Effective income tax rate	35.4%	38.2%	34.9%
Income taxes are comprised of the following expense (benefit) items:			
Included in utility operating expenses:			
Current federal tax expense	$108 652	$92 099	$69 198
Current state tax expense	34 823	25 787	18 535
Deferred federal tax expense	(3 450)	15 010	8 518
Deferred state tax expense	(1 606)	4 431	2 533
Deferred investment tax credits	(9 191)	(8 981)	(8 115)
Total	129 228	128 346	90 669
Included in other income and expense			
Current federal tax expense	3 959	7 853	1 490
Current state tax expense	923	2 289	613
Current foreign tax expense	219		
Current federal tax credits	(3 548)	(321)	(400)
Deferred federal tax expense	(835)	(6 736)	(4 518)
Deferred state tax expense	(289)	(449)	(1 347)
Deferred foreign tax expense	3 839		
Deferred investment tax credits	(310)	(242)	(331)
Total	4 038	2 394	(4 493)
Total income tax expense from operations	$133 266	$130 740	$86 176

Income before income taxes includes foreign income of $29.7 million in 1994. NSP's management intends to reinvest the earnings of foreign operations indefinitely. Accordingly, U.S. income taxes and foreign withholding taxes have not been provided on the earnings of foreign subsidiary companies. The cumulative amount of undistributed pre-tax earnings of foreign subsidiaries upon which no U.S. income taxes or foreign withholding taxes have been provided is approximately $30.8 million at Dec. 31, 1994. The additional U.S. income tax and foreign withholding tax on the unremitted foreign earnings, if repatriated, would be offset in whole or in part by foreign tax credits. Thus, it is impracticable to estimate the amount of tax that might be payable.

The components of NSP's net deferred tax liability at Dec. 31 were:

(Thousands of dollars)	1994	1993
Deferred tax liabilities		
Differences between book and tax bases of property	$824 332	$792 542
Regulatory assets	144 605	128 991
Tax benefit transfer leases	76 775	87 924
Other	7 854	7 050
Total deferred tax liabilities	$1 053 566	$1 016 507
Deferred tax assets:		
Regulatory liabilities	$81 280	$95 504
Deferred investment tax credits	65 812	73 648
Deferred compensation, vacation and other accrued liabilities not currently deductible	50 572	62 811
Other	18 110	11 341
Total deferred tax assets	$215 774	$243 304
Net deferred tax liability	$837 792	$773 203

12 Regulatory Assets and Liabilities

The following summarizes the individual components of unamortized regulatory assets and liabilities shown on the Consolidated Balance Sheets at Dec. 31:

(Thousands of dollars)	Amortization Period	1994	1993
AFC recorded in plant on a net-of-tax basis*	Plant Lives	$155 102	$165 915
Conservation and energy management programs*	Up to 10 Years	76 902	46 939
Losses on reacquired debt	Term of New Debt	52 514	48 529
Environmental costs	Up to 15 Years	47 779	45 568
Deferred postretirement benefit costs	3-15 Years	9 930	15 514
Unrecovered purchased gas costs	1-2 Years	7 601	3 216
State commission accounting adjustments*	Plant Lives	5 544	6 246
Other	Various	2 204	2 427
Total regulatory assets		$357 576	$334 354
Excess deferred income taxes collected from customers		$75 297	$113 276
Investment tax credit deferrals		110 831	120 123
Pension costs		11 054	6 969
Unrealized gains from decommissioning investments		1 412	
Fuel refunds and other		1 943	3 512
Total regulatory liabilities		$200 517	$243 880

* Earns a return on investment in the ratemaking process.

Market risks associated with these agreements result from short-term interest rate fluctuations. Credit risk

13. Financial Instruments

The estimated Dec. 31 fair values of NSP's recorded financial instruments are as follows:

	1994		1993	
(Thousands of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash, cash equivalents and short-term investments	$41 947	$41 947	$57 838	$57 838
Long-term decommissioning investments	$145 467	$145 467	$101 378	$110 130
Long-term debt, including current portion	$1 621 060	$1 540 595	$1 524 085	$1 584 435

For cash, cash equivalents and short-term investments, the carrying amount approximates fair value because of the short maturity of those instruments. The fair values of the Company's long-term investments in an external nuclear decommissioning fund are estimated based on quoted market prices for those or similar investments. As discussed in Note 3, NSP adopted in 1994 SFAS No. 115, which required certain debt and equity securities to be recorded at their market value. NSP began recording decommissioning fund investments at their market value at that time. The fair value of NSP's long-term debt is estimated based on the quoted market prices for the same or similar issues, or the current rates offered to NSP for debt of the same remaining maturities.

NRG has entered into three forward foreign currency exchange contracts with a counterparty to hedge exposure to currency fluctuations to the extent permissible by hedge accounting requirements. Pursuant to these contracts, transactions have been executed that are designed to protect the economic value in U.S. dollars of NRG's equity investments, denominated in Australian dollars and German deutsche marks (DM). NRG's forward foreign currency exchange contracts, in the notional amount of $93 million, hedge approximately $94 million of foreign currency denominated investments at Dec. 31, 1994. These forward foreign currency exchange contracts are not reflected on NSP's balance sheet. The contracts do require compensating balances of $7 million, which are reflected as other current assets on NSP's balance sheet. The contracts terminate in 2004 and require foreign currency interest payments by either party during each year of the contract. If the contracts had been terminated at Dec. 31, 1994, $4.3 million would have been payable by NRG for currency exchange rate changes to date. Management believes NRG's exposure to credit risk due to non-performance by the counterparty to its forward exchange contracts is not significant, based on the investment grade rating of the counterparty.

Cenergy has entered into natural gas futures contracts in the notional amount of $16.1 million at Dec. 31, 1994. The contract terms range from one month to three years. The contracts are intended to mitigate risk from fluctuations in the price of natural gas that will be required to satisfy sales commitments for future deliveries to customers in excess of Cenergy's natural gas reserves. Cenergy's futures contracts hedge the sale of $16.6 million of natural gas. These futures contracts are not reflected on NSP's balance sheet. Margin balances of $3.4 million at Dec. 31, 1994, were maintained on deposit with brokers and recorded as cash and cash equivalents on NSP's balance sheet. The counterparties to the futures contracts are the New York Mercantile Exchange and major gas pipeline operators. Management believes that the risk of non-performance by these counterparties is not significant. If the contracts had been terminated at Dec. 31, 1994, $1.7 million would have been payable by Cenergy for natural gas price fluctuations to date.

NSP has three interest rate swap agreements with notional amounts totalling $320 million. These swaps were entered into in conjunction with first mortgage bonds. As summarized below, these agreements effectively convert the interest costs of these debt issues from fixed to variable rates based on six-month London Interbank Offered Rates (LIBOR), with the rates changing semiannually.

Series	Notional Amount (millions of dollars)	Term of Swap Agreement	Net Effective Interest Cost at Dec. 31, 1994
5 7/8% Series due Oct. 1, 1997	$100	Maturity	5.69%
5 1/2% Series due Feb. 1, 1999	$200	Maturity	6.68%
7 1/4% Series due March 1, 2023	$ 20	March 1, 1998	7.43%

Market risks associated with these agreements result from short-term interest rate fluctuations. Credit risk related to non-performance of the counterparties is not deemed significant, but would result in NSP terminating the swap transaction and recognizing a gain or loss, depending on the fair market value of the swap. Such agreements are not reflected on NSP's balance sheets. The interest rate swaps serve to hedge the interest rate risk associated with fixed rate debt in a declining interest rate environment. This hedge is produced by the tendency for changes in the fair market value of the swap to be offset by changes in the present value of the liability attributable to the fixed rate debt issued in conjunction with the interest rate swaps. If the interest rate swaps had been discontinued on Dec. 31, 1994, the present value of NSP's additional obligation would have been $26 million, which is offset by a reduction in the present value of the related debt of $27.5 million below carrying value.

14. Detail of Certain Income and Expense Items

Administrative and general (A&G) expense for utility operations consists of the following:

(Thousands of dollars)	1994	1993	1992
A&G salaries and wages	$49 726	$51 601	$48 603
Postretirement medical and injury compensation benefits	41 901	14 995	13 776
Other benefits—all utility employees	38 792	51 860	54 410
Information technology, facilities and administrative support	29 751	30 504	35 139
Insurance and claims	16 771	16 165	18 092
Other	16 877	17 410	17 950
Total	$193 818	$182 535	$187 975

Other income and deductions—net consist of the following:

(Thousands of dollars)	1994	1993	1992
Non-regulated operations:			
Operating revenues and sales	$242 019	$90 654	$62 616
Operating expenses	241 479*	81 403	65 744*
Pretax operating income (loss)	540	9 251	(3 128)
Interest and investment income	10 839	4 522	3 452
Gain on cogeneration contract termination	9 685		
Charitable contributions	(5 037)	(4 752)	(4 585)
Environmental and regulatory contingencies	(4 568)	(100)	(1 300)
Other—net (excluding income taxes)	(5 460)	(939)	(2 355)
Income tax related to all non-operating items—(expense) benefit	(4 038)	(2 394)	4 493
Total	$ 1 961	$ 5 588	$(3 423)

*Includes non-regulated energy project write-downs of $5.0 million in 1994 and $6.8 million in 1992.

15. Joint Plant Ownership

The Company is a participant in a jointly owned 855-megawatt coal-fired electric generating unit, Sherburne County generating station unit No. 3 (Sherco 3), which began commercial operation Nov. 1, 1987. Undivided interests in Sherco 3 have been financed and are owned by the Company (59 percent) and Southern Minnesota Municipal Power Agency (41 percent). The Company is the operating agent under the joint ownership agreement. The Company's share of related expenses for Sherco 3 since commercial operations began are included in Utility Operating Expenses. The Company's share of the gross cost recorded in Utility Plant at Dec. 31, 1994 and 1993, was $585,783,000 and $584,822,000, respectively. The corresponding accumulated provisions for depreciation were $132,092,000 and $114,251,000.

16. Nuclear Obligations

Fuel Disposal NSP is responsible for the temporary storage of used nuclear fuel from the Company's nuclear generating plants. Under a contract with the Company, the DOE is obligated to assume the responsibility for permanent storage or disposal of NSP's used nuclear fuel. The Company has been funding its portion of the DOE's permanent disposal program since 1981. Funding took place through an internal sinking fund until 1983, when the DOE began assessing fuel disposal fees under the Nuclear Waste Policy Act of 1982 based on 0.1 cent per kilowatt-hour sold to customers from nuclear generation. The cumulative amount of such assessments from the DOE to NSP through Dec. 31, 1994, is $218.5 million. Currently, it is not determinable if the amount and method of the DOE's assessments to all utilities will be sufficient to fully fund the DOE's permanent storage or disposal facility.

The DOE has stated in statute and by contract that a storage or permanent disposal facility would be ready to accept used nuclear fuel by 1998. Accordingly, NSP has been, with regulatory and legislative approval, providing its own temporary on-site storage facilities at its Monticello and Prairie Island plants, with a capacity sufficient for used fuel from the plants until at least that date. However, indications from the DOE are that a permanent federal facility will not be ready to accept used fuel from utilities until approximately 2010. Accordingly, NSP is investigating all of its alternatives for used fuel storage until the DOE facility is available. When on-site temporary storage at NSP's nuclear plants reaches approved capacity, the Company could seek interim storage at a contracted private facility. The Company received Minnesota legislative approval in 1994 for additional on-site storage facilities at its Prairie Island plant, provided the Company satisfies certain responsibilities. Seventeen dry cask containers, each of which can store approximately one-half year's used fuel, can become available as follows: five immediately in 1994; four more in 1996 if an application for an alternative storage site is filed, an effort to locate such a site is made and 100 megawatts (MW) of wind generation is available or contracted for construction; and the final eight in 1999 unless the specified alternative site is not operational or under construction, certain resource commitments are not met, or the Minnesota Legislature revokes its approval. (See additional discussion of legislative commitments in Note 17.) With the dry cask storage facilities approved in 1994 for the Prairie Island nuclear generating plant, the Company believes it has adequate storage capacity to continue operation of its nuclear plants until at least 2002 and 2003 for Prairie Island Units 1 and 2, respectively, and 2008 for Monticello. Storage availability for operation beyond these dates is not assured at this time.

Fuel expense includes DOE fuel disposal assessments of $10.6 million, $8.7 million and $6.8 million for 1994, 1993 and 1992, respectively. Disposal expenses reflect reductions of $0.7 million in 1994, $2.6 million in 1993 and $3.7 million in 1992 due to a change in the DOE's basis of charging customers, retroactive to 1983. Nuclear fuel expenses in 1994 and 1993 also include about $5 million and $1 million, respectively, for payments to the DOE for the decommissioning and decontamination of the DOE's uranium enrichment facilities. The DOE's initial assessment of $46 million to the Company was recorded in 1993. This assessment will be payable in annual installments from 1993-2008 and will be expensed on a monthly basis in the 12 months following each payment. The most recent installment paid in 1994 was $3.9 million; future installments are subject to inflation adjustments under DOE rules. The FERC has approved wholesale ratemaking recovery of these assessments as paid through the cost-of-energy adjustment clause. Since the Company's retail regulators currently conform to the FERC's cost-of-energy adjustment clause procedures, the Company also expects recovery of these DOE assessments in retail ratemaking as payments are made each year.

Plant Decommissioning Decommissioning of all Company nuclear facilities is planned for the years 2010-2022, using the prompt dismantlement method. The Company is following industry practice by ratably accruing the costs for decommissioning over the approved cost recovery period and including the accruals in Utility Plant—Accumulated Depreciation, as discussed in Note 1. The Financial Accounting Standards Board is reviewing the accounting and reporting guidelines for decommissioning cost accruals. Until such guidelines require a different presentation, the Company plans to continue reporting plant decommissioning obligations as accumulated depreciation. Consequently, the total decommissioning cost obligation and corresponding asset currently are not recorded in NSP's financial statements. In addition, the Company cannot predict whether new guidelines, if issued, would increase or decrease decommissioning expenses or if the income statement presentation of such expenses would change.

17. Commitments and Contingent Liabilities

Legislative Resource Commitment In 1994, the Minnesota Legislature established

Consistent with cost recovery in utility customer rates, the Company records annual decommissioning accruals based on periodic site-specific cost studies and a presumed level of dedicated funding. Cost studies quantify decommissioning costs in current dollars. Since the costs are expected to be paid in 2010-2022, funding presumes that current costs will escalate in the future at a rate of 4.5 percent per year. The total estimated decommissioning costs that will ultimately be paid, net of income earned by external trust funds, is currently being accrued using an annuity approach over the approved plant recovery period. Under this approach, escalated future costs are discounted to current year dollars using the assumed rate of return on funding, which is currently 6 percent (net of tax) for external funding and approximately 8 percent (net of tax) for internal funding.

The total obligation for decommissioning is currently expected to be funded approximately 82 percent by external funds and 18 percent by internal funds, as approved by the MPUC. Rate recovery of internal funding began in 1971 through depreciation rates for removal expense, and was changed to a sinking fund recovery in 1981. Contributions to the external fund started in 1990 and are expected to continue until plant decommissioning begins. Costs not funded by external trust contributions and related earnings will be funded through internally generated funds and issuance of Company debt or stock. The assets held in trusts as of Dec. 31, 1994, primarily consisted of investments in tax-exempt municipal bonds, common stock of public companies and U.S. government securities.

The following table summarizes the funded status of the decommissioning obligation at Dec. 31, 1994:

(Millions of dollars)	
Estimated future decommissioning costs (undiscounted)	$1,838.1
Effect of discounting future payments	1,053.5
Present value of decommissioning obligation	784.6
External trust fund assets at fair value	145.5
Decommissioning obligation in excess of assets currently held in external trust	$639.1

Decommissioning expenses recognized include the following components:

(Millions of dollars)	1994	1993	1992
Annual decommissioning cost accrual reported as depreciation expense:			
Externally funded	$33.2	$28.4	$27.8
Internally funded (including interest costs)	1.1	14.5	11.9
Interest cost on externally funded decommissioning obligation	3.5	3.7	0.6
Earnings from external trust funds-net	(3.5)	(3.7)	(0.6)
Current year decommissioning accruals-net	$34.3	$42.9	$39.7

At Dec. 31, 1994, the Company has recorded and recovered in rates cumulative decommissioning accruals of $340 million; $158 million has been deposited into external trust funds for such accruals. The Company believes future decommissioning cost accruals will continue to be recovered in customer rates. Decommissioning and interest accruals are included with the accumulated provision for depreciation on the balance sheet. Interest costs and trust earnings are reported in Other Income and Expense on the income statement.

A revision to NSP's 1993 nuclear decommissioning study and nuclear plant depreciation capital recovery request was filed with the MPUC and approved in 1994. Although management expects to operate the Prairie Island units through the end of their licensed lives, the requested capital recovery would allow for the plant to be fully depreciated, including the accrual and recovery of decommissioning costs, about six years earlier than the end of its licensed life. The approved recovery period for Prairie Island has been reduced because of the uncertainty regarding used fuel storage, discussed previously. The updated nuclear decommissioning study supports a decrease in annual cost accruals for decommissioning as well as the shortened recovery period. The combined impact of the request as approved, including the shorter depreciation period and lower decommissioning costs, is a net decrease of about $800,000 in annual depreciation and decommissioning expenses. The revised cost levels approved by the MPUC were recorded in 1994.

	Years	Megawatts

17. Commitments and Contingent Liabilities

Legislative Resource Commitments In 1994, the Minnesota Legislature established several energy resource and other commitments for NSP to fulfill to obtain the Prairie Island temporary nuclear fuel storage facility approval, as discussed in Note 16. The additional resource commitments, which can be built, purchased or (in the case of biomass generation) converted, can be summarized as follows:

Power Type	Megawatts		Deadline
Wind	100*	(Additional)	12/31/96
Wind	225	(Cumulative)	12/31/98
Biomass	50	(Additional)	12/31/98
Wind	200	(Additional)	12/31/02
Biomass	75	(Additional)	12/31/02
Wind	400**	(Additional)	12/31/02

* In addition to 25 MW of wind generation currently installed.
** If required by least-cost planning and resource planning.

Other commitments include applying for, locating and licensing an alternative used fuel storage site, a low-income discount for electric customers, additional required conservation improvement expenditures and various study and reporting requirements to a newly formed legislative electric energy task force. NSP has implemented programs to begin meeting these legislative commitments.

Capital Commitments NSP estimates utility capital expenditures, including acquisitions of nuclear fuel, will be $383 million in 1995 and $1.9 billion for 1995-1999. There also are contractual commitments for the disposal of used nuclear fuel. (See Note 16.)

NRG is contractually committed to additional equity investments in an existing German energy project. Such commitments are for approximately DM 36 million in 1995 and DM 35 million in 1996. The 1995 and 1996 commitments would be approximately $23 million each year, based on exchange rates in effect at Dec. 31, 1994.

Leases Rentals under operating leases were approximately $24.0 million, $27.5 million and $25.1 million for 1994, 1993 and 1992, respectively.

Fuel Contracts NSP has long-term contracts providing for the purchase and delivery of a significant portion of its current coal, nuclear fuel and natural gas requirements. These contracts, which expire in various years between 1995 and 2013, require minimum contractual purchases and deliveries of fuel, and additional payments for the rights to purchase coal in the future. In total, NSP is committed to the minimum purchase of approximately $600 million of coal, $35 million of nuclear fuel and $377 million of natural gas, or to make payments in lieu thereof, under these contracts. In addition, NSP is required to pay additional amounts depending on actual quantities shipped under these agreements. As a result of FERC Order 636, NSP has been very active in developing a mix of gas supply contracts designed to meet its needs for retail gas sales. The contracts are with several suppliers and for various periods of time. Because NSP has other sources of fuel available, and because suppliers are expected to continue to provide reliable fuel supplies, risk of loss from non-performance under these contracts is not considered significant. In addition, NSP's risk of loss (in the form of increased costs) from market price changes in fuel is mitigated through the cost-of-energy adjustment provision of the ratemaking process, which provides for recovery of nearly all fuel costs.

Power Agreements The Company has executed several agreements with the Manitoba Hydro-Electric Board (MH) for hydroelectricity. A summary of the agreements is as follows:

	Years	Megawatts
Participation Power Purchase	1995-2005	500
Seasonal Participation Power Purchase	1995-1996	250
Seasonal Peaking Power Purchase	1995-1996	200
Seasonal Diversity Exchanges:		
Summer exchanges from MH	1995-2014	150
	1997-2016	200
Winter exchanges to MH	1995-2014	150
	1996-2015	200
	2015-2017	400
	2018	200

The cost of the 500-megawatt participation power purchase commitment is based on 80 percent of the costs of owning and operating the Company's Sherco 3 generating plant (adjusted to 1993 dollars). The total estimated future annual capacity costs for all MH agreements range from approximately $66 million to $69 million. Negotiations are under way regarding the interpretation of specific contractual factors relating to the annual cost of the 500-megawatt participation agreement. These commitments, which represent about 21 percent of MH's output capability in 1995, account for approximately 13 percent of the Company's 1995 system capability. The risk of loss from non-performance by MH is not considered significant, and the risk of loss from market price changes is mitigated through cost-of-energy rate adjustments.

The Company and MH jointly have made commitments to provide additional transmission capacity to accomplish the seasonal diversity exchanges and to provide 200 MW of transmission capacity for United Power Association. The Company's agreements with MH call for the addition of facilities that will allow the Company's existing 500-kilovolt line from Winnipeg to the Twin Cities to accommodate the additional levels of transactions. The first two phases of construction, which provide the majority of the benefits to NSP, were completed in 1994. The final phase, which primarily benefits MH, is expected to be completed in May 1995.

The Company has an agreement with Minnkota Power Cooperative (MPC) for the purchase of summer season capacity and energy. From 1995 through 2001, the Company will buy 150 MW of summer season capacity for $12.4 million annually. From 2002 through 2015, the Company will purchase 100 MW of capacity for $10.0 million annually. Under the agreement, energy will be priced against the cost of fuel consumed per megawatt-hour at the Coyote Generating Station in North Dakota. The Company also has three seasonal (summer) purchase power agreements with MPC, Minnesota Power and Iowa-Illinois Gas and Electric Company for the purchase of 331 MW in 1995 and 388 MW in 1996, including reserves. The annual cost of this capacity will be approximately $4 million.

The Company has agreements with several non-regulated power producers to purchase electric capacity and associated energy. The total annual cost of current commitments for non-regulated installed capacity is approximately $20 million for 107 MW in 1995 and 119 MW in 1996. This annual cost will increase to approximately $37 million-$45 million for 1997-2018 and to approximately $25 million-$29 million for 2019-2027 due to a new power purchase agreement. Under this agreement, which was approved by the MPUC in February 1995, the Company will purchase an additional 245 to 262 MW of electric capacity and associated energy from 1997 through 2027.

Nuclear Insurance The Company's public liability for claims resulting from any nuclear incident is limited to $8.9 billion under the 1988 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 $8.7 billion of exposure is funded by the Secondary Financial Protection Program, available from assessments by the federal government in case of a nuclear accident. The Company is subject to assessments of $79.3 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. The maximum funding requirement is $10 million per reactor during any one year.

The Company purchases insurance for property damage and decontamination cleanup costs with coverage limits of $2.0 billion for each of the Company's two nuclear plant sites. The coverage consists of $500 million from American Nuclear Insurers/Mutual Atomic Energy Liability Underwriters (ANI/MAELU) and $1.5 billion from Nuclear Electric Insurance Limited (NEIL). As of Jan. 1, 1995, insurance with ANI/MAELU will change to Nuclear Mutual Limited. The coverage amounts will remain unchanged.

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Item 8 - Financial Statements and Supplementary Data

NEIL provides insurance coverage for the cost of replacement power obtained during certain prolonged accidental outages of nuclear generating units and coverage for property losses in excess of $500 million occurring at nuclear stations. Premiums billed to NSP from NEIL are expensed as paid each year. All companies insured with NEIL are subject to retrospective premium adjustments if losses exceed accumulated reserve funds. Capital has been accumulated in the reserve funds of NEIL to the extent that the Company would have no exposure in case of a single incident under the replacement power coverage and the property damage coverage. However, in each calendar year, the Company could be subject to maximum assessments of approximately $4.6 million (five times the amount of its annual premium) and $26.1 million (7.5 times the amount of its annual premium) if losses exceed accumulated reserve funds under the replacement power and property damage coverages, respectively.

Environmental Contingencies Other long-term liabilities include an accrual of $49 million at Dec. 31, 1994, for estimated costs associated with environmental remediation. Approximately $40 million of the liability relates to a DOE assessment for decommissioning of a federal uranium enrichment facility, as discussed in Note 16. Other estimates have been recorded for expected environmental costs associated with manufactured gas plant sites formerly used by the Company and other waste disposal sites, as discussed below.

These environmental liabilities do not include accruals recorded (and collected from customers in rates) for future nuclear fuel disposal costs or decommissioning costs related to the Company's nuclear generating plants. (See Note 16 for further discussion.)

NSP has not developed any specific site restoration and exit plans for its fossil fuel plants, hydroelectric plants or substation sites because the Company intends to operate at these sites indefinitely. If such plans were developed in the future, NSP would intend to treat restoration and exit costs as a removal cost of retirement in utility plant and include them in depreciation accruals. An estimated removal cost (based on historical experience) is currently included in depreciation expense.

NSP has met or exceeded state and federal removal and disposal requirements for polychlorinated biphenyls (PCB) equipment. NSP has removed nearly all PCB capacitors, transformers and equipment from its distribution system and power plants. Minimal costs are expected to be incurred for future removal and disposal of PCB equipment. PCB-contaminated mineral oil is detoxified and reused or burned for energy recovery at a permitted facility, with minimal cost to NSP. Other than described below, any potential future cleanup or remediation costs for past PCB disposal is unknown at this time.

The Environmental Protection Agency (EPA) or state environmental agencies have designated the Company as a "potentially responsible party" (PRP) for 10 waste disposal sites to which the Company allegedly sent hazardous materials. Under applicable law, the Company, along with each PRP, could be held jointly and severally liable for the total remediation costs of all 10 sites, which are currently estimated at $122 million. If additional remediation is necessary or unexpected costs are incurred, the amount could be in excess of $122 million. The Company is not aware of the other parties' inability to pay, nor does it know if responsibility for any of the sites is disputed by any party. The Company's share of the costs associated with these 10 sites is approximately $2.5 million. Of this amount, about $1.4 million has already been paid in connection with six of the 10 sites for which the Company has settled with the EPA and other PRPs. For the remaining four sites, neither the amount of remediation costs nor the final method of their allocation among all designated PRPs has been determined. However, the Company has recorded an estimate of approximately $1 million for future costs for all four sites, with the estimated payment dates not determinable at this time. While it is not feasible to determine the outcome of these matters, amounts accrued represent the best current estimate of the Company's future liability for the remediation costs of these sites. It is the Company's practice to vigorously pursue and, if necessary, litigate with insurers to recover incurred remediation costs whenever possible. Through litigation, the Company has recovered from other PRPs a portion of the remedial costs paid to date. Management believes costs incurred in connection with the sites, which are not recovered from insurance carriers or other parties, might be allowed recovery in future ratemaking. Until the Company is identified as a PRP, it is not possible for the Company to predict the timing or amount of any costs associated with cleanup sites other than those discussed above.

The Company purchases insurance for property damage and decontamination cleanup costs with coverage limits of $2.0 billion for each of the Company's two nuclear plant sites. The coverage consists of $500 million from American Nuclear Insurers/Mutual Atomic Energy Liability Underwriters (ANI/MAELU) and $1.5 billion from Nuclear Electric Insurance Limited (NEIL). As of Jan. 1, 1995, insurance with ANI/MAELU will change to Nuclear Mutual Limited. The coverage amounts will remain unchanged.

The Wisconsin Company potentially may be involved in the cleanup and remediation at three sites. One site is a solid and hazardous waste landfill site in Eau Claire, Wis. The Wisconsin Company contends that it did not dispose of hazardous wastes in the subject landfill during the time period in question. Because neither the amount of cleanup costs nor the final method of their allocation among all designated PRPs has been determined, it is not feasible to predict the outcome of this matter at this time. The second site, in Ashland, Wis., contains creosote/coal tar contamination. The Wisconsin Company is discussing its potential involvement with the Wisconsin Department of Natural Resources. Investigations are under way to determine the Wisconsin Company's responsibility as well as that of predecessor companies contributing to the contamination. The investigation should also determine the extent and source of the contamination and potential methods for remediation. An estimate of cleanup and remediation costs at these two sites and the extent of the Wisconsin Company's responsibility, if any, for sharing such costs are not known at this time. The third site is a landfill site in Hudson, Wis. which is one of the 10 waste disposal sites discussed previously.

The Company also is continuing to investigate 15 properties, either presently or previously owned by the Company, which were at one time sites of gas manufacturing, gas storage plants or gas pipelines. The purpose of this investigation is to determine if waste materials are present, if such materials constitute an environmental or health risk, if the Company has any responsibility for remedial action and if recovery under the Company's insurance policies can contribute to any remediation costs. Of the 15 gas sites under investigation, the Company already has remediated one site and is actively taking remedial action at four of the sites. In addition, the Company has been notified that two other sites eventually will require remediation, and a study will be conducted to determine the cost of cleanup. The Company has paid $5.3 million to date on these seven active sites. The one remediated site continues to be monitored. The Company currently estimates its liability for the other six active sites to be approximately $8.4 million, with payment expected over the next 11 years. The estimate is based on prior experience and includes investigation, remediation and litigation costs. The possible range of the liability for these six sites could be from $8.4 million to approximately $12 million, depending on the extent of contamination. As for the other eight inactive sites, no liability has been recorded for remediation since at this time the sites require only monitoring. While it is not feasible to determine the precise outcome of all of these matters, the accruals recorded represent the current best estimate of the costs of any required cleanup or remedial actions at these former gas operating sites. Management also believes that costs incurred in connection with the sites, which are not recovered from insurance carriers or other parties, might be allowed recovery in future ratemaking. During 1994, the Company's gas utility received approval for deferred accounting for certain gas remediation costs incurred at four active sites, with final rate treatment of such costs to be determined in the next general gas rate case.

The Clean Air Act, including the Amendments of 1990 (the Clean Air Act), imposes stringent limits on emissions of sulfur dioxide and nitrogen oxides by electric generating plants. These limits will be phased in beginning in 1995. The majority of the rules implementing this complex legislation have been finalized. No additional capital expenditures are anticipated to comply with the sulfur dioxide emission limits of the Clean Air Act. NSP has expended significant amounts over the years to reduce sulfur dioxide emissions at its plants. Based on revisions to the sulfur dioxide portion of the program, NSP's emission allowance allocations for the years 1995-1999 were dramatically reduced. The Company's capital expenditures include some costs for ensuring compliance with the Clean Air Act's other emission requirements; other expenditures may be necessary upon EPA's finalization of remaining rules. Because NSP is only beginning to implement some provisions of the Clean Air Act, its overall financial impact is unknown at this time. Capital expenditures will be required for opacity compliance commencing in 1995 at certain facilities, and such costs are considered in the capital expenditure commitments disclosed previously. NSP plans to seek recovery of these expenditures in future rate proceedings.

Several of NSP's operating facilities have asbestos-containing material, which represents a potential health hazard to people who come in contact with it. Governmental regulations specify the required timing and nature of disposal of asbestos-containing materials. Under such requirements, asbestos not readily accessible to the environment need not be removed until the facilities containing the material are demolished. NSP estimates its future asbestos removal costs will approximate $43 million. Most of these costs will not need to be incurred until current operating facilities are demolished and will be included in the costs of removal for the facilities.

Environmental liabilities are subject to considerable uncertainties that affect NSP's ability to estimate its share of the ultimate costs of remediation and pollution control efforts. Such uncertainties involve the nature and extent of site contamination, the extent of required cleanup efforts, varying costs of alternative cleanup methods and pollution control technologies, changes in environmental remediation and pollution control requirements, the potential effect of technological improvements, the number and financial strength of other potentially responsible parties at multi-party sites and the identification of new environmental cleanup sites. NSP has recorded and/or disclosed its best estimate of expected future environmental costs and obligations, as discussed previously.

Legal Claims In the normal course of business, NSP is a party to routine claims and litigation arising from prior and current operations. NSP is actively defending these matters and has recorded an estimate of the probable cost of settlement or other disposition. In July 1993, a natural gas explosion occurred on the Company's distribution system in St. Paul, Minn. Total damages are estimated to exceed $1 million. The Company has a self-insured retention deductible of $1 million, with general liability coverage of $150 million, which includes coverage for all injuries and damages. While 12 lawsuits have been filed, including one proposed class action, the litigation following this incident is in a preliminary stage, pending a report from the National Transportation Safety Board, and the ultimate costs to the Company are unknown at this time.

18. Segment Information

	Year Ended Dec. 31		
(Thousands of dollars)	1994	1993	1992
Utility operating income before income taxes			
Electric	$399 185	$ 393 758	$ 321 837
Gas	38 361	38 474	24 848
Total operating income before income taxes	$437 546	$ 432 232	$ 346 685
Utility depreciation and amortization			
Electric	$252 322	$ 245 200	$ 225 134
Gas	21 479	19 317	17 780
Total depreciation and amortization	$273 801	$ 264 517	$ 242 914
Capital expenditures			
Electric utility	$303 896	$ 284 239	$ 367 522
Gas utility	60 183	36 312	42 850
Common utility and non-regulated businesses	45 207	41 144	17 443
Total capital expenditures	$409 286	$ 361 695	$ 427 815
Identifiable assets			
Electric utility	$4 634 511	$4 543 286	$4 421 151
Gas utility	556 975	521 595	428 192
Total identifiable assets	5 191 486	5 064 881	4 849 343
Other corporate assets	762 085	522 837	293 118
Total assets	$5 953 571	$5 587 718	$5 142 461

Item 8 - Financial Statements and Supplementary Data

19. Summarized Quarterly Financial Data (Unaudited)

(Thousands of dollars)	Quarter Ended March 31, 1994	June 30, 1994	Sept. 30, 1994	Dec. 31, 1994
Utility operating revenues	$683 462	$581 963	$612 328	$608 794
Utility operating income	83 795	65 526	88 932	68 065*
Net income	65 794	52 808	76 065	48 808*
Earnings available for common stock	62 737	49 751	72 968	45 655*
Earnings per common share	$.94	$.74	$1.09	$.68*
Dividends declared per common share	$.645	$.660	$.660	$.660
Stock prices—high	$43 7/8	$43 5/8	$43 7/8	$47
—low	$40 1/8	$38 3/4	$40 3/8	$41 7/8

(Thousands of dollars)	Quarter Ended March 31, 1993	June 30, 1993	Sept. 30, 1993	Dec. 31, 1992
Utility operating revenues	$640 753	$545 263	$601 924	$616 052
Utility operating income	81 046	59 547	90 076	73 217
Net income	54 481	35 892	67 655	53 712
Earnings available for common stock	50 679	32 149	63 912	50 420
Earnings per common share	$.81	$.50	$.96	$.75
Dividends declared per common share	$.630	$.645	$.645	$.645
Stock prices—high	$47	$46 7/8	$47 7/8	$46 3/8
—low	$42 1/4	$42 7/8	$44 3/4	$40 1/8

* Net of expense recognized of $8.7 million ($5.1 million net of tax), or 8 cents per share, to write off the unamortized deferred costs associated with adopting SFAS No. 112 (See Note 3).

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

During 1994 there were no disagreements with the Company's independent public accountants on accounting procedures or accounting and financial disclosures. As discussed in the Company's Form 8-K filed Dec. 16, 1994, on Dec. 14, 1994 the Company's Board of Directors approved the appointment of the accounting firm of Price Waterhouse LLP as independent accountants for the Registrants beginning in fiscal year 1995, subject to ratification by the shareholders.

PART III

Item 10. Directors and Executive Officers of the Registrant

(a)

CLASS III – Nominees for Terms Expiring in 1998

H. Lyman Bretting Age 58 Director Since 1990 Member of Finance and Power Supply Committees	President and Chief Executive Officer, C.G. Bretting Manufacturing Company, Inc., Ashland, Wisconsin, a manufacturer of napkin and paper towel folding machines. Also director of M&I National Bank of Ashland and Northern States Power Company (Wisconsin), a wholly-owned subsidiary of the Company.
David A. Christensen Age 60 Director Since 1976 Member of Corporate Management and Power Supply Committees	President and Chief Executive Officer, Raven Industries, Inc., Sioux Falls, South Dakota, a manufacturer of reinforced plastics, electronic equipment and sewn products. Also director of Norwest Bank South Dakota, N.A., Norwest Corporation and Raven Industries, Inc.
Allen F. Jacobson Age 68 Director Since 1983 Member of Corporate Management and Power Supply Committees	Retired effective November 1, 1991 as Chairman and Chief Executive Officer, Minnesota Mining and Manufacturing Company (3M). Also director of Abbot Laboratories, Deluxe Corporation, Minnesota Mining and Manufacturing Company, Mobil Corporation, Potlatch Corporation, Prudential Insurance Company of America, Sara Lee Corporation, Silicon Graphics, Inc., U.S. West, Inc., and Valmont Industries, Inc.
Margaret R. Preska Age 57 Director Since 1980 Member of Corporate Management and Power Supply Committees	Distinguished Service Professor, Minnesota State Universities, since February 1, 1992. Prior thereto, President, Mankato State University, Mankato, Minnesota, an educational institution. Also director of Norwest Bank Minnesota South Central, N.A.

CLASS I – Directors Whose Terms Expire In 1996

W. John Driscoll Age 65 Director Since 1974 Member of Audit and Corporate Management Committees	Retired effective June 30, 1994 as Chairman of the Board, Rock Island Company, St. Paul, Minnesota, a private investment company, in which capacity he had served since May 15, 1993. Prior thereto, President. Also director of Comshare Inc., The John Nuveen Company, MIP Properties, Inc., The St. Paul Companies, Inc. and Weyerhaeuser Company.

Item 10. Directors and Executive Officers of the Registrant

Dale L. Haakenstad Age 67 Director Since 1978 Member of Audit and Power Supply Committees	Retired effective December 31, 1989 as President and Chief Executive Officer, Western States Life Insurance Company, Fargo, North Dakota.
James J. Howard Age 59 Director Since 1987 Ex-officio member of all Committees	Chairman, President and Chief Executive Officer of the Company since December 1, 1994. Prior thereto, Chairman of the Board and Chief Executive Officer of the Company since July 1, 1990. Also director of Ecolab Inc., Honeywell Inc., ReliaStar Financial Corp. and Walgreen Company.
John E. Pearson Age 68 Director Since 1983 Member of Corporate Management and Finance Committees	Retired effective January 31, 1992 as Chairman, The NWNL Companies, Inc. and Northwestern National Life Insurance Company, a wholly-owned subsidiary of The NWNL Companies, Inc. in which capacity he had served since July 1, 1991. Prior thereto, Chairman and Chief Executive Officer, The NWNL Companies, Inc., and Northwestern National Life Insurance Company. Also director of Norwest Corporation.
G. M. Pieschel Age 67 Director Since 1978 Member of Audit and Finance Committees	Chairman of the Board, Farmers and Merchants State Bank, Springfield, Minnesota, a commercial bank, since January 14, 1993. Prior thereto, Chief Executive Officer and President of Farmers and Merchants State Bank.

CLASS II – Directors Whose Terms Expire in 1997

Richard M. Kovacevich Age 51 Director Since 1990 Member of Finance and Power Supply Committees	President and Chief Executive Officer, Norwest Corporation, Minneapolis, Minnesota, a holding company for banking institutions, since January 1, 1993. Prior thereto, President and Chief Operating Officer. Also director of Fingerhut Companies, Inc., Northwestern National Life Insurance Company, Norwest Corporation and ReliaStar Financial Corp.
Douglas W. Leatherdale Age 58 Director Since 1991 Member of Audit and Corporate Management Committees	Chairman of the Board, President and Chief Executive Officer, The St. Paul Companies, Inc., a worldwide property and liability insurance organization, since May 1, 1990. Also director of The John Nuveen Company and United HealthCare Corporation.

Item 10. Directors and Executive Officers of the Registrant

A. Patricia Sampson Age 46 Director Since 1985 Member of Audit and Finance Committees	Consultant, Dr. Sanders and Associates, a management and diversity consulting company, since January 1, 1995. Prior thereto, Chief Executive Officer, until December 31, 1994 and Executive Director, until June 1, 1993, Greater Minneapolis Area Chapter of the American Red Cross.
Edwin M. Theisen Age 64 Director Since 1990 Member of Finance and Power Supply Committees	Retired effective November 30, 1994 as President and Chief Operating Officer of the Company. Also director of Firstar Bank of Minnesota, N.A.

(b) Reference is made to "Executive Officers" as of March 1, 1995, in Part I.

(c) The information called for with respect to the identification of certain significant employees is not applicable to the registrant.

(d) There are no family relationships between the directors and executive officers listed above. There are no arrangements nor understandings between any named officer and any other person pursuant to which such person was selected as an officer.

(e) Each of the officers named in Part I was elected to serve in the office indicated until the meeting of the Board of Directors preceding the Annual Meeting of Shareholders in 1995 and until his or her successor is elected and qualified.

(f) There are no legal proceedings involving directors, nominees for directors, or officers.

Compliance with Section 16(a) of the Exchange Act

The Securities Exchange Act of 1934 requires all executive officers and directors to report any changes in the ownership of common stock of the Company to the Securities and Exchange Commission, The New York Stock Exchange and the Company.

Based solely upon a review of these reports and written representations that no additional reports were required to be filed in 1994, the Company believes that all reports were filed on a timely basis.

Item 11. Executive Compensation

Item 11. Executive Compensation

COMPENSATION OF EXECUTIVE OFFICERS

The following table sets forth cash and noncash compensation for each of the last three fiscal years ended December 31, 1994, for services in all capacities to the Company and its subsidiaries, to the Chief Executive Officer, the next four highest compensated executive officers of the Company who were serving as executives at December 31, 1994, and one former executive officer who would have been one of the four most highly compensated officers of the Company during 1994 had he not resigned from the Company before the end of the year.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation			
					Awards		Payouts	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Name and Principal Position	Year	Salary($)	Bonus($)[4]	Other Annual Compensation ($)[4]	Restricted Stock Awards ($)[4]	Number of Securities Underlying Options and SARs (#)	LTIP Payouts ($)[4]	All Other Compensation ($)[4]
James J. Howard	1994	511,300	317,800	3,504	240,311	15,150	0	9,056
Chairman, President &	1993	511,300	231,931	0	129,075	12,782	23,925	11,324
Chief Executive Officer	1992	485,000	0	2,934	0	13,541	0	44,052
Edward J. McIntyre	1994	205,600	102,700	2,465	61,680	5,117	0	6,438
Vice President & Chief	1993	205,600	71,395	7,339	35,595	4,508	7,461	5,081
Financial Officer	1992	199,000	0	5,037	0	4,753	0	27,981
Gary R. Johnson	1994	183,600	81,700	9,945	55,080	4,570	0	3,672
Vice President, General	1993	183,600	53,424	1,315	28,380	3,648	4,525	5,831
Counsel and	1992	168,450	0	6,005	0	3,889	0	6,922
Corporate Secretary								
Loren L. Taylor[1]	1994	174,583	55,000	1,046	40,942	3,455	0	3,166
President, NSP Electric	1993	171,500	32,347	1,202	18,290	2,737	2,728	5,685
	1992	152,750	0	5,361	0	2,669	0	6,609
Douglas D. Antony[2]	1994	163,893	75,100	1,025	41,837	2,942	0	4,419
President, NSP Generation	1993	146,300	61,329	6,517	17,210	2,493	2,087	3,490
	1992	103,344	0	5,097	0	1,168	0	1,982
Edwin M. Theisen[3]	1994	297,367	283,516	10,681	0	8,843	0	7,775
Former President &	1993	324,400	129,452	1,271	65,620	7,240	10,650	6,267
Chief Operating Officer	1992	306,500	0	6,870	0	7,606	0	55,324

(1) Mr. Taylor was elected President, NSP Electric on October 27, 1994 after having served as a vice president in various areas of the Company since 1989.

(2) Mr. Antony was elected President, NSP Generation effective September 7, 1994 after having served as Vice President – Nuclear Generation since January 1993. Prior thereto, Mr. Antony was not an executive officer.

(3) Mr. Theisen retired as President & Chief Operating Officer of the Company on November 30, 1994.

(4) This column consists of awards made to each named executive under the Company's Executive Incentive Plan. Due to Mr. Theisen's retirement during 1994, he additionally received the cash equivalent of the restricted stock award for 1994 in accordance with the Company's LTIP, in the amount of $126,516.

Item 11. Executive Compensation

Item 11. Executive Compensation

(5) This column consists of reimbursements for taxes on certain personal benefits received by the named executives.

(6) Amounts shown in this column reflect the market value of the shares of restricted stock awarded under the LTIP, except with respect to Mr. Antony's additional award (discussed below) and are based on the closing price of the Company's common stock on the date that the awards were made. Restricted shares earned for 1994 under the Company's LTIP were granted on January 25, 1995 based on the performance period ending September 30, 1994. As of December 31, 1994, the named executives held the following as a result of grants under the LTIP: Mr. Howard held 3,097 restricted shares at a market value of $136,268; Mr. McIntyre held 854 restricted shares at a market value of $37,576; Mr. Antony held 413 restricted shares at a market value of $18,172; Mr. Taylor held 454 restricted shares at a market value of $19,976, Mr. Johnson held 680 restricted shares at a market value of $29,957 and Mr. Theisen held 0 restricted shares at a market value of $0. The restricted stock awards vest one year after the date of grant with respect to fifty (50%) of the shares and two years after such date with respect to the remaining shares, conditioned upon the continued employment of the recipient with the Company. Non-preferential dividends are paid on the restricted shares.

Mr. Antony received an additional 2,200 shares of restricted stock during 1994, which as of December 31, 1994, had a market value of $96,800. These additional shares vest with respect to 50% of the shares if Mr. Antony has been continually employed by the Company on October 26, 1996 and with respect to the remainder of the shares if he has been continually employed with the Company on October 26, 1998.

The total number of restricted shares awarded during the years 1992, 1993 and 1994 are as follows: 7,191 shares for Mr. Howard, 1,910 shares for Mr. McIntyre, 2,594 shares for Mr. Antony, 982 shares for Mr. Taylor, 1,473 shares for Mr. Johnson and 3,671 for Mr. Theisen.

(7) The Company had no LTIP payouts in 1994 due to the replacement, by the Corporate Management Committee of the Company's Board of Directors, of dividend equivalent stock appreciation rights (DESARs) formerly awarded under the Company's LTIP, in favor of increased stock options and restricted stock levels.

(8) This column consists of the following: $4,031 was contributed by the Company for the Employee Stock Ownership Plan (ESOP) for Messrs. Howard and Theisen, respectively, $3,807 for Mr. McIntyre, $2,297 for Messrs. Johnson and Taylor, respectively, and $2,642 for Mr. Antony; (The Company contribution on behalf of all ESOP participants, including the named executive officers, was equal to 1.3% of their covered compensation.); the value to each named executive of the remainder of insurance premiums paid under the Officer Survivor Benefit Plan by the Company: $2,320 for Mr. Howard, $227 for Mr. McIntyre, $476 for Mr. Johnson, $0 for Mr. Taylor, $837 for Mr. Antony and $1,418 for Mr. Theisen; imputed income as a result of life insurance paid by the Company on behalf of each named executive: $2,205 for Mr. Howard, $341 for Mr. McIntyre, $399 for Mr. Johnson, $369 for Mr. Taylor, $440 for Mr. Antony and $1,826 for Mr. Theisen; Company matching 401(k) plan contribution of $500 to each named executive; and, earnings accrued under the Company Deferred Compensation Plan to the extent such earnings exceeded the market rate of interest (as prescribed pursuant to the SEC rules), which was $1,563 for Mr. McIntyre and $0 for all other named executives.

Item 11. Executive Compensation

OPTIONS AND STOCK APPRECIATION RIGHTS (SARs)

The following table indicates for each of the named executives (i) the extent to which the Company used stock options and SARs for executive compensation purposes in 1994 and (ii) the potential value of such options and SARs as determined pursuant to the SEC rules.

Options and SARs Granted in 1994

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Name	Options/ SARs Granted[1] (#)	% of Total Options and SARs Granted to Employees in 1994	Exercise or Base Price ($/Sh)	Expiration Date	5%($)[3]	10%($)[3]
J. Howard	15,150 options	4.9%	42.187	1-26-04	401,952	1,018,626
E. McIntyre	5,117 options	1.7%	42.187	1-26-04	135,762	344,047
G. Johnson	4,570 options	1.5%	42.187	1-26-04	121,249	307,269
L. Taylor	3,455 options	1.1%	42.187	1-26-04	91,666	232,300
D. Antony	2,942 options	1.0%	42.187	1-26-04	78,056	197,808
E. Theisen	8,843 options	2.9%	42.187	1-26-04	234,618	594,568
All Shareholders[2]	N/A	N/A	N/A	N/A	1,774,775,230	4,497,470,638

(1) Options were granted on January 26, 1994 and vested on January 26, 1995. No SARs were awarded for 1994.

(2) Potential realizable values during the ten year period commencing January 26, 1994, are based on the market price ($42.187) and the outstanding shares (66,893,377) of common stock of the Company on that date.

(3) The hypothetical potential appreciation shown in columns (f) and (g) for the named executives is required by the SEC rules. The amounts in these columns do not represent either the historical or anticipated future performance of the Company's common stock level of appreciation.

The following table indicates for each of the named executives the number and value of exercisable and unexercisable options and SARs as of December 31, 1994.

Aggregated Option and SAR Exercises in 1994 and FY-End Option/SAR Value

(a)	(b)	(c)	(d)	(e)
Name	Shares Acquired on Exercise(#)	Realized Value($)	Number of Unexercised Options and SARs at 12/31/94 (#) — Exercisable (ex)/ Unexercisable (unex)	Value of Unexercised In-the-Money Options and SARs at 12/31/94 ($) — Exercisable (ex)/ Unexercisable (unex)*
J. Howard	N/A	N/A	52,423 (ex) 15,150 (unex)	291,519 (ex) 27,459 (unex)
E. McIntyre	N/A	N/A	17,401 (ex) 5,117 (unex)	94,769 (ex) 9,274 (unex)
G. Johnson	N/A	N/A	10,559 (ex) 4,570 (unex)	36,588 (ex) 8,281 (unex)
L. Taylor	N/A	N/A	7,673 (ex) 3,455 (unex)	26,687 (ex) 6,262 (unex)
D. Antony	N/A	N/A	5,938 (ex) 2,942 (unex)	26,196 (ex) 5,332 (unex)
E. Theisen	66	3,005	25,529 (ex) 8,843 (unex)	139,385 (ex) 16,023 (unex)

*Share price on December 30, 1994 was $44. Company common stock was not traded on December 31, 1994.

Item 11. Executive Compensation

Pension Plan Table

The following table illustrates the approximate retirement benefits payable to employees retiring at the normal retirement age of 65 years:

Average Compensation (4 Years)	Estimated Annual Benefits for Years of Service Indicated					
	Years of Service					
	5	10	15	20	25	30
$ 50,000	$ 3,500	$ 7,000	$ 10,500	$ 14,500	$ 18,000	$ 21,500
100,000	7,500	15,500	23,000	30,500	38,500	46,000
150,000	11,500	23,500	35,000	47,000	58,500	70,500
200,000	16,000	31,500	47,500	63,500	79,000	95,000
250,000	20,000	40,000	59,500	79,500	99,500	119,500
300,000	24,000	48,000	72,000	96,000	120,000	144,000
350,000	28,000	56,000	84,000	112,500	140,500	168,500
400,000	32,000	64,500	96,500	128,500	161,000	193,000
450,000	36,000	72,500	108,500	145,000	181,000	217,500
500,000	40,500	80,500	121,000	161,500	201,500	242,000
550,000	44,500	89,000	133,000	177,500	222,000	266,500
600,000	48,500	97,000	145,500	194,000	242,500	291,000
650,000	52,500	105,000	157,500	210,500	263,000	315,500
700,000	56,500	113,500	170,000	226,500	283,500	340,000
750,000	60,500	121,500	182,000	243,000	303,500	364,500
800,000	65,000	129,500	194,500	259,500	324,000	389,000
850,000	69,000	138,000	206,500	275,500	344,500	413,500
900,000	73,000	146,000	219,000	292,000	365,000	438,000
950,000	77,000	154,000	231,000	308,500	385,500	462,500

After an employee has reached 30 years of service, no additional years are used in determining pension benefits. The annual compensation used to calculate the average compensation shown in this table is based on the participant's base salary for the year (as shown on the Summary Compensation Table at column (c)) and bonus compensation paid in that same year (as shown on the Summary Compensation Table at column (d); see figure for prior year). The benefit amounts shown are amounts computed in the form of a straight-life annuity. The amounts are not subject to offset for social security or otherwise, except as provided in the employment agreement with Mr. Howard, as described below.

At the end of 1994, each of the executive officers named in the Summary Compensation Table had the following credited service: Mr. Howard, 7.92 years, Mr. Antony, 25.5 years, Mr. Johnson, 16.08 years, Mr. McIntyre, 21.83 years, Mr. Taylor, 21.58 years and Mr. Theisen, 30 years.

An employment agreement with Mr. Howard provides that if employment terminates prior to age 60, he will receive payments from the Company equivalent to benefits he would have earned under the Pension Plan without regard to service and compensation limitations in a minimum annual amount of $22,535. If employment continues past age 60, he and his spouse, if she survives him, will receive combined benefits from the Pension Plan and supplemental Company payments as though he had completed 30 years of service, less the pension benefits earned from a former employer.

Severance Plan

The Company's Severance Plan covers the full-time regular-benefit, nonbargaining employees of the Company, including the named executives, and participating subsidiaries. The Severance Plan provides severance benefits to covered employees whose termination of employment is involuntary and unrelated to unsatisfactory performance. Subject to a maximum of 24 months of pay, a covered employee is eligible to receive monthly payments of two months of base pay plus the greater of two weeks of base pay for each year of service or one week of base pay for each $2,000 of base annual salary. Covered employees are also eligible to receive incentive pay, group insurance benefits and service and compensation credit under the Pension Plan for the period they receive monthly severance benefits. Outplacement services are also provided under the Plan.

PART IV

Item 14 - Exhibits, Financial Statement Schedules and Reports on

*Share price on December 30, 1994 was $44. Company common stock was not traded on December 31, 1994

Item 11. Executive Compensation

DIRECTOR COMPENSATION

Directors not employed by the Company receive a $20,000 annual retainer, or a pro rata portion thereof if service is less than 12 months, and $1,200 for attendance at each Board meeting and $1,000 for each Committee meeting attended. A $2,500 annual retainer is paid to each elected Committee Chairperson. Employees of the Company receive no separate compensation for services as a director. In addition, directors have a deferred compensation and retirement plan in which they can participate. The deferred compensation plan provides for deferral of the director fees until after retirement from the Board of Directors. The retirement plan continues payment of the director's retainer, at the rate in effect for the calendar quarter immediately preceding the director's retirement multiplied by 1.2. Benefits continue for a period equal to the number of calendar quarters served on the Board, up to 40 calendar quarters.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Directors, Nominees and Named Executive Officers

Set forth in the following table is the beneficial ownership of common stock of the Company as of March 15, 1995 for all directors and each of the named executive officers of the Company as defined in the rules of the Securities and Exchange Commission. As of March 15, 1995, the directors and executive officers as a group beneficially owned 85,286 shares, less than 0.14 percent, of the Company's common stock (including shares allocated to the accounts of executive officers in the Executive Long-Term Incentive Award Stock Plan (LTIP) and the Employee Stock Ownership Plan for which they have voting power but not investment power).

H. Lyman Bretting	1,355	G. M. Pieschel	683
David A. Christensen	500	Margaret R. Preska	600
W. John Driscoll	2,000	A. Patricia Sampson	372
Dale L. Haakenstad	682	Douglas D. Antony*	6,721
James J. Howard*	25,875	Gary R. Johnson*	5,773
Allen F. Jacobson	712	Edward J. McIntyre*	8,430
Richard M. Kovacevich	1,000	Loren L. Taylor*	4,893
Douglas W. Leatherdale	300	Edwin M. Theisen*	13,098
John E. Pearson	1,353		

*Shares shown for Messrs. Howard, McIntyre, Johnson, Taylor, Antony and Theisen do not include options to purchase common stock of the Company which are exercisable within 60 days under the Company's LTIP: 65,577 option shares for Mr. Howard, 21,881 option shares for Mr. McIntyre, 14,676 option shares for Mr. Johnson, 10,787 option shares for Mr. Taylor, 8,666 option shares for Mr. Antony and 34,372 option shares for Mr. Theisen.

Item 13. Certain Relationships and Related Transactions

Edwin M. Theisen, a director and former employee of the Company, is currently performing certain consulting services for the Company pursuant to a one-year agreement whereby he receives $15,000 per month in return for such services.

PART IV

Item 14 - Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. Financial Statements

	Page
Included in Part II of this report:	
Independent Auditors' Report.	44
Consolidated Statements of Income for the three years ended December 31, 1994.	45
Consolidated Statements of Cash Flows for the three years ended December 31, 1994.	46
Consolidated Balance Sheets, December 31, 1994 and 1993.	47
Consolidated Statements of Changes in Common Stockholders' Equity for the three years ended December 31, 1994	48
Consolidated Statements of Capitalization, December 31, 1994 and 1993.	49
Notes to Financial Statements.	51

(a) 2. Financial Statement Schedules

Schedules are omitted because of the absence of the conditions under which they are required or because the information required is included in the financial statements or the notes.

Item 14 - Exhibits, Financial Statements Schedules and Reports on Form 8-K

(a) 3. Exhibits

* Indicates incorporation by reference

3.01* Restated Articles of Incorporation and Amendments, effective as of April 2, 1992. (Exhibit 3.01 to Form 10-Q for the quarter ended March 31, 1992, File No. 1-3034).

3.02* Bylaws of the Company as amended January 22, 1992. (Exhibit 3.02 to Form 10-K for the year 1991, File No. 1-3034).

4.01* Trust Indenture, dated February 1, 1937, from the Company to Harris Trust and Savings Bank, as Trustee. (Exhibit B-7 to File No. 2-5290).

4.02* Supplemental and Restated Trust Indenture, dated May 1, 1988, from the Company to Harris Trust and Savings Bank, as Trustee. (Exhibit 4.02 to Form 10-K for the year 1988, File No. 1-3034).

Supplemental Indenture between the Company and said Trustee, supplemental to Exhibit 4.01, dated as follows:

4.03* Jun. 1, 1942 (Exhibit B-8 to File No. 2-97667).

4.04* Feb. 1, 1944 (Exhibit B-9 to File No. 2-5290).

4.05* Oct. 1, 1945 (Exhibit 7.09 to File No. 2-5924).

4.06* Jul. 1, 1948 (Exhibit 7.05 to File No. 2-7549).

4.07* Aug. 1, 1949 (Exhibit 7.06 to File No. 2-8047).

4.08* Jun. 1, 1952 (Exhibit 4.08 to File No. 2-9631).

4.09* Oct. 1, 1954 (Exhibit 4.10 to File No. 2-12216).

4.10* Sep. 1, 1956 (Exhibit 2.09 to File No. 2-13463).

4.11* Aug. 1, 1957 (Exhibit 2.10 to File No. 2-14156).

4.12* Jul. 1, 1958 (Exhibit 4.12 to File No. 2-15220).

4.13* Dec. 1, 1960 (Exhibit 2.12 to File No. 2-18355).

4.14* Aug. 1, 1961 (Exhibit 2.13 to File No. 2-20282).

4.15* Jun. 1, 1962 (Exhibit 2.14 to File No. 2-21601).

4.16* Sep. 1, 1963 (Exhibit 4.16 to File No. 2-22476).

4.17* Aug. 1, 1966 (Exhibit 2.16 to File No. 2-26338).

4.18* Jun. 1, 1967 (Exhibit 2.17 to File No. 2-27117).

4.19* Oct. 1, 1967 (Exhibit 2.01R to File No. 2-28447)

4.20* May 1, 1968 (Exhibit 2.01S to File No. 2-34250).

4.21* Oct. 1, 1969 (Exhibit 2.01T to File No. 2-36693).

4.22* Feb. 1, 1971 (Exhibit 2.01U to File No. 2-39144).

4.23* May 1, 1971 (Exhibit 2.01V to File No. 2-39815).

4.24* Feb. 1, 1972 (Exhibit 2.01W to File No. 2-42598).

4.25* Jan. 1, 1973 (Exhibit 2.01X to File No. 2-46434).

4.26* Jan. 1, 1974 (Exhibit 2.01Y to File No. 2-53235).

4.27* Sep. 1, 1974 (Exhibit 2.01Z to File No. 2-53235).

4.28* Apr. 1, 1975 (Exhibit 4.01AA to File No. 2-71259).

4.29* May 1, 1975 (Exhibit 4.01BB to File No. 2-71259).

4.30* Mar. 1, 1976 (Exhibit 4.01CC to File No. 2-71259).

4.31* Jun. 1, 1981 (Exhibit 4.01DD to File No. 2-71259).

4.32* Dec. 1, 1981 (Exhibit 4.01EE to File No. 2-83364).

4.33* May 1, 1983 (Exhibit 4.01FF to File No. 2-97667).

4.34* Dec. 1, 1983 (Exhibit 4.01GG to File No. 2-97667).

4.35* Sep. 1, 1984 (Exhibit 4.01HH to File No. 2-97667).

4.36* Dec. 1, 1984 (Exhibit 4.01II to File No. 2-97667).

4.37* May 1, 1985 (Exhibit 4.36 to Form 10-K for the year 1985, File No. 1-3034).

4.38* Sep. 1, 1985 (Exhibit 4.37 to Form 10-K for the year 1985, File No. 1-3034).

4.39* Jul. 1, 1989 (Exhibit 4.01 to Form 8-K dated July 7, 1989, File No. 1-3034).

4.40* Jun. 1, 1990 (Exhibit 4.01 to Form 8-K dated June 1, 1990, File No. 1-3034).

4.41* Oct. 1, 1992 (Exhibit 4.01 to Form 8-K dated October 13, 1992, File No. 1-3034).

4.42* April 1, 1993 (Exhibit 4.01 to Form 8-K dated March 30, 1993, File No. 1-3034).

4.43* Dec. 1, 1993 (Exhibit 4.01 to Form 8-K dated December 7, 1993, File No. 1-3034).

4.44* Feb. 1, 1994 (Exhibit 4.01 to Form 8-K dated February 10, 1994, File No. 1-3034).

4.45 * Oct. 1, 1994 (Exhibit 4.01 to Form 8-K dated October 5, 1994, File No. 1-3034).

4.46* Trust Indenture, dated April 1, 1947, from the Wisconsin Company to Firstar Trust Company (formerly First Wisconsin Trust Company), as Trustee (Exhibit 7.01 to File No. 2-6982).

Supplemental Indentures between the Wisconsin Company and said Trustee, supplemental to Exhibit 4.45 dated as follows:

4.47* Mar. 1, 1949 (Exhibit 7.02 to File No. 2-7825).

Item 14 - Exhibits, Financial Statements Schedules and Reports on Form 8-K

Item 14 - Exhibits, Financial Statements Schedules and Reports on Form 8-K

4.48* Jun. 1, 1957 (Exhibit 2.13 to File No. 2-13463).

4.49* Aug. 1, 1964 (Exhibit 4.20 to File No. 2-23726).

4.50* Dec. 1, 1969 (Exhibit 2.03E to File No. 2-36693).

4.51* Sep. 1, 1973 (Exhibit 2.01F to File No. 2-48805).

4.52* Feb. 1, 1982 (Exhibit 4.01G to File No. 2-76146).

4.53* Mar. 1, 1982 (Exhibit 4.39 to Form 10-K for the year 1982, File No. 10-3140).

4.54* Jun. 1, 1986 (Exhibit 4.01I to File No. 33-6269).

4.55* Mar. 1, 1988 (Exhibit 4.01J to File No. 33-20415).

4.56* Supplemental and Restated Trust Indenture dated March 1, 1991, from the Wisconsin Company to Firstar Trust Company (formerly First Wisconsin Trust Company), as Trustee. (Exhibit 4.01K to File No. 33-39831)

4.57* Apr. 1, 1991 (Exhibit 4.01L to File No. 33-39831).

4.58* Mar. 1, 1993 (Exhibit 4.01 to Form 8-K dated March 4, 1993, File No. 10-3140).

4.59* Oct. 1, 1993 (Exhibit 4.01 to Form 8-K dated September 21, 1993, File No. 10-3140).

4.60 NSP Employee Stock Ownership Plan.

10.01 Mid-continent Area Power Pool (MAPP) Agreement, dated March 31, 1972, with amendments in 1994, between the local power suppliers in the North Central States area.

10.02* Facilities agreement, dated July 21, 1976, between the Company and the Manitoba Hydro-Electric Board relating to the interconnection of the 500 Kv Line. (Exhibit 5.06I to file No. 2-54310).

10.03* Transactions agreement, dated July 21, 1976, between the Company and the Manitoba Hydro-Electric Board relating to the interconnection of the 500 Kv Line. (Exhibit 5.06J to File No. 2-54310).

10.04* Co-ordinating agreement, dated July 21, 1976, between the Company and the Manitoba Hydro-Electric Board relating to the interconnection of the 500 Kv Line. (Exhibit 5.06K to File No. 2-54310).

10.05* Ownership and Operating Agreement, dated March 11, 1982, between the Company, Southern Minnesota Municipal Power Agency and United Minnesota Municipal Power Agency concerning Sherburne County Generating Unit No. 3. (Exhibit 10.01 to Form 10-Q for the Quarter Ended September 30, 1994, File No. 1-3034).

10.06* Transmission agreement, dated April 27, 1982, and Supplement No. 1, dated July 20, 1982, between the Company and Southern Minnesota Municipal Power Agency (Exhibit 10.02 to Form 10-Q for the Quarter Ended September 30, 1994, File No. 1-3034).

Item 14 - Exhibits, Financial Statements Schedules and Reports on Form 8-K

4.47* Mar. 1, 1949 (Exhibit 7.02 to File No. 2-7825).

Item 14 - Exhibits, Financial Statements Schedules and Reports on Form 8-K

10.07* Power agreement, dated June 14, 1984, between the Company and the Manitoba Hydro-Electric Board, extending the agreement scheduled to terminate on April 30, 1993, to April 30, 2005. (Exhibit 10.03 to Form 10-Q for the Quarter Ended September 30, 1994, File No. 1-3034).

10.08* Power Agreement, dated August 1988, between the Company and Minnkota Power Company. (Exhibit 10.08 to Form 10-K for the Year 1988, File No. 1-3034).

10.09* Energy Supply Agreement, dated October 26, 1993, between the Company and Liberty Paper, Inc., relating to the supply of steam and electricity to the LPI container-board facility in Becker, MN. (Exhibit 10.09 to Form 10-K for the Year 1993, File No. 1-3034).

Executive Compensation Arrangements and Benefit Plans Covering Executive Officers

10.10* Executive Long-Term Incentive Award Stock Plan. (Exhibit 10.10 to Form 10-K for 1988, File No. 1-3034).

10.11* Terms and Conditions of Employment - James J Howard, President and Chief Executive Officer, effective February 1, 1987. (Exhibit 10.11 to Form 10-K for the Year 1986, File No. 1-3034).

10.12 NSP Severance Plan.

10.13* NSP Deferred Compensation Plan amended effective January 1, 1993. (Exhibit 10.16 to Form 10-K for the Year 1993, File No. 1-3034).

10.14* Annual Executive Incentive Plan for 1994 (Exhibit 10.01 to Form 10-Q for the Quarter Ended March 31, 1994, File No. 1-3034).

12.01 Statement of Computation of Ratio of Earnings to Fixed Charges.

16.01* Independent Auditors' Letter re: Change in Certifying Accountant (Exhibit 16.01 to Form 8-K dated December 13, 1994, File No. 1-3034).

18.01* Independent Auditors' Preferability Letter. (Exhibit 18.01 to Form 10-Q for the quarter ended March 31, 1992, File No. 1-3034).

21.01 Subsidiaries of the Registrant.

23.01 Independent Auditors' Consent.

27.01 Financial Data Schedule

(b) Reports on Form 8-K. The following reports on Form 8-K were filed either during the three months ended December 31, 1994, or between December 31, 1994 and the date of this report:

October 4, 1994 (Filed October 4, 1994) - Item 5. Other Events. Re: Disclosure of an agreement by a joint venture between one of the Company's non-regulated subsidiaries and Cogentrix, Inc., had agreed to terminate a contract for power sales from a cogeneration project in Michigan. Disclosure negotiations by the Company and the Minnesota Pollution Control Agency (MPCA) of a Stipulation Agreement to address monitoring procedures used at the Company's Prairie Island Generating Plant between January and September of 1992 that allegedly did not comply with National Pollution Discharge System permits, limiting the halogen content of water discharges at the Plant.

October 5, 1994 (Filed October 7, 1994) - Item 5. Other Events. Re: Disclosure of Underwriting Agreement and filing of a prospectus supplement relating to $150,000,000 First Mortgage Bonds, Series due October 1, 2001.

Item 14 - Exhibits, Financial Statements Schedules and Reports on Form 8-K

Item 7. - Financial Statements and Exhibits. Filing of Underwriting Agreement between the Company and various underwriters, Supplemental Trust Indenture between the Company and Harris Trust and Savings Bank as Trustee, creating First Mortgage Bonds, Series due October 1, 2001 and the computation of ratio of earnings to fixed charges.

December 13, 1994 (Filed December 16, 1994) - Item 4. Change in Registrant's Certifying Accountant. Re: Disclosure of the Company's change in independent accountants for 1995. Deloitte & Touche LLP was informed that the firm would no longer be engaged as independent accountants for the Registrant and its subsidiaries after the completion of audit work for the fiscal year ended December 31, 1994. The Company's Board of Directors approved the appointment of the accounting firm of Price Waterhouse LLP as independent accountants for the Registrant for 1995, subject to ratification by the shareholders. Item 7. - Financial Statements and Exhibits. Exhibit No. 16 - Letter from Deloitte & Touche LLP.

January 30, 1995 (Filed February 2, 1995) - Item 5. Other Events. Disclosure of the Company receiving a notice of violation from the United States Nuclear Regulatory Commission (NRC), regarding the inspection of the quality assurance programs at the Company and PX Engineering Company, Inc., a subcontractor responsible for the fabrication and assembly of certain components for the TN-40 spent fuel storage containers which will be used at the Prairie Island Nuclear Generating Plant. Disclosure of the Mescalero Apache Tribe vote against participation in a joint Mescalero-Utility Spent Nuclear Fuel Storage Initiative.

February 28, 1995 (Filed March 2, 1995) - Item 5. Other Events. Disclosure of a basic agreement between San Joaquin Valley Energy Partners (SJVEP) and Pacific Gas & Electric Company (PG&E) regarding the acquisition of existing Standard Offer 4 (SO4) contracts by PG&E from SJVEP. The parties entered into a bridging agreement to cover the period until all approvals are received for the transaction. NRG Energy, Inc., a wholly owned subsidiary of the Company, has a 45 percent interest in SJVEP, through wholly owned subsidiaries

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

NORTHERN STATES POWER COMPANY

March 24, 1995

/s/
E J McIntyre
Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

/s/
James J Howard
Chairman of the Board and Director
(Principal Executive Officer)

/s/
E J McIntyre
Vice President
(Principal Financial Officer)

/s/
Roger D Sandeen
Vice President & Controller
(Principal Accounting Officer)

/s/
H Lyman Bretting
Director

/s/
David A Christensen
Director

/s/
W John Driscoll
Director

/s/
Dale L Haakenstad
Director

/s/
Allen F Jacobson
Director

/s/
Douglas W Leatherdale
Director

/s/
John E Pearson
Director

/s/
G M Pieschel
Director

/s/
Margaret R Preska
Director

/s/
A Patricia Sampson
Director

/s/
Edwin M Theisen
Director

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

X Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

or

_ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For Quarter Ended March 31, 1995 Commission File Number 1-3034

Northern States Power Company
(Exact name of registrant as specified in its charter)

Minnesota	41-0448030
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
414 Nicollet Mall, Minneapolis, Minnesota (Address of principal executive offices)	55401 (Zip Code)

Registrant's telephone number, including area code (612) 330-5500

None
Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 1995
Common Stock, $2.50 par value	67,430,635 shares

Item 1. Financial Statements

Northern States Power Company (Minnesota) and Subsidiaries
Consolidated Statements of Income (Unaudited)

	Three Months Ended March 31	
	1995	1994
	(Thousands of dollars)	
Utility operating revenues		
Electric	$497,314	$494,031
Gas	163,853	189,431
Total	661,167	683,462
Utility operating expenses		
Fuel for electric generation	83,338	76,004
Purchased and interchange power	51,733	56,467
Cost of gas purchased and transported	99,301	121,805
Other operation	79,108	77,583
Maintenance	37,767	40,469
Administrative and general	43,749	47,747
Conservation and energy management	7,770	8,157
Depreciation and amortization	71,831	67,345
Taxes: Property and general	62,279	59,929
Current income tax expense	40,122	43,596
Deferred income tax expense	(1,290)	1,940
Investment tax credit adjustments - net	(2,239)	(3,375)
Total	573,469	597,667
Utility operating income	87,698	85,795
Other income and expense		
Equity in earnings of unconsolidated investees	10,506	(107)
Allowance for funds used during construction - equity	1,338	1,208
Other income and deductions - net	(577)	3,266
Total	11,267	4,367
Income before interest charges	98,965	90,162
Interest charges		
Interest on long-term debt	27,361	22,827
Other interest and amortization	5,307	3,078
Allowance for funds used during construction - debt	(1,893)	(1,537)
Total	30,775	24,368
Net Income	68,190	65,794
Preferred stock dividends	3,201	3,057
Earnings available for common stock	$64,989	$62,737
Average number of common and equivalent shares outstanding (000's)	67,004	66,742
Earnings per average common share	$ .97	$ .94
Common dividends declared per share	$ .660	$ .645

Statements of Retained Earnings (Unaudited)

Balance at beginning of period	$1,183,191	$1,127,372
Net income for period	68,190	65,794
Dividends declared:		
Cumulative preferred stock	(3,201)	(3,057)
Common stock	(44,198)	(43,050)
Balance at end of period	$1,203,982	$1,147,059

The Notes to Financial Statements are an integral part of the Statements of Income and Retained Earnings.

Northern States Power Company (Minnesota) and Subsidiaries

Consolidated Balance Sheets (Unaudited)

	March 31, 1995	December 31, 1994
	(Thousands of dollars)	
ASSETS		
UTILITY PLANT		
Electric	$6,407,107	$6,372,317
Gas	679,587	677,293
Common	271,924	263,535
Total	7,358,618	7,313,055
Accumulated provision for depreciation	(3,189,171)	(3,116,811)
Nuclear fuel	811,809	797,037
Accumulated provision for amortization	(721,014)	(718,693)
Net utility plant	4,260,242	4,273,692
CURRENT ASSETS		
Cash and cash equivalents	36,525	41,355
Short-term investments	1,892	892
Accounts receivable - net	290,286	289,858
Accrued utility revenues	81,999	93,651
Federal income tax and interest receivable	0	28,858
Fossil fuel inventory - at average cost	46,229	56,953
Materials and supplies - at average cost	104,739	101,879
Prepayments and other	48,852	56,075
Total current assets	610,530	669,527
OTHER ASSETS		
Regulatory assets	351,723	369,976
Investments in non-regulated projects and other investments	220,260	251,322
External decommissioning fund	160,732	145,467
Non-regulated property - net	175,664	172,951
Federal income tax and interest receivable	56,358	56,358
Intangible assets and other	79,052	81,721
Total other assets	1,043,604	1,077,795
TOTAL	$5,914,376	$5,953,574
LIABILITIES AND EQUITY		
CAPITALIZATION		
Common stock equity:		
Common stock and premium - authorized 160,000,000 shares of $2.50 par value, issued shares: 1995, 67,274,385; 1994, 66,922,144	$728,601	$713,180
Retained earnings	1,203,382	1,193,191
Leveraged common stock held by ESOP	(15,998)	(2,990)
Currency translation adjustments - net	3,492	3,595
Total common stock equity	1,919,477	1,906,976
Cumulative preferred stock and premium - authorized 7,000,000 shares of $100 par value; outstanding shares: 1995 and 1994, 2,400,000	240,469	240,469
Long-term debt without mandatory redemption	1,455,217	1,453,354
Total capitalization	3,615,763	3,600,799
CURRENT LIABILITIES		
Long-term debt due within one year	19,006	16,125
Other long-term debt potentially due within one year	141,500	141,600
Short-term debt - primarily commercial paper	157,649	238,439
Accounts payable	179,279	234,925
Taxes accrued	256,615	179,119
Interest accrued	33,232	28,168
Dividends payable on common and preferred stocks	67,602	67,293
Accrued payroll, vacation and other	61,421	79,318
Total current liabilities	893,404	983,987
OTHER LIABILITIES		
Deferred income taxes	950,823	946,970
Deferred investment tax credits	171,544	173,838
Regulatory liabilities	208,329	203,517
Pension and other benefit obligations	93,804	92,514
Other long-term obligations and deferred income	79,735	93,337
Total other liabilities	1,404,235	1,389,176
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 4)		
TOTAL	$5,914,376	$5,953,574

The Notes to Financial Statements are an integral part of the Balance Sheets

Northern States Power Company (Minnesota) and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31	
	1995	1994
	(Thousands of dollars)	
Cash Flows from Operating Activities:		
Net Income	$68,190	$65,794
Adjustments to reconcile net income to cash from operating activities:		
Depreciation and amortization	79,517	73,541
Nuclear fuel amortization	12,817	12,789
Deferred income taxes	889	1,193
Deferred investment tax credits recognized	(2,349)	(3,452)
Allowance for funds used during construction - equity	(1,338)	(1,208)
Undistributed equity in earnings of unconsolidated investees	(7,910)	956
Cash provided by changes in certain working capital items	58,532	51,509
Conservation program expenditures - net of amortization	(3,953)	(2,767)
Cash provided by changes in other assets and liabilities	17,483	(15,068)
Net cash provided by operating activities	231,878	193,297
Cash Flows from Investing Activities:		
Capital expenditures	(77,989)	(61,809)
Decrease in construction payables	(14,724)	(8,098)
Allowance for funds used during construction - equity	1,338	1,208
Purchase of short-term investments - net	(1,000)	(124)
Investment in external decommissioning fund	(6,981)	(7,667)
Investments in non-regulated projects and other	(7,096)	(67,794)
Net cash used for investing activities	(106,452)	(144,284)
Cash Flows from Financing Activities:		
Change in short-term debt - net issuances (repayments)	(80,791)	36,800
Proceeds from issuance of long-term debt - net	3,171	198,696
Loan to ESOP	(15,000)	0
Repayment of long-term debt (including reacquisition premium)	(5,656)	(241,115)
Proceeds from issuance of common stock - net	15,400	346
Dividends paid	(47,080)	(46,195)
Net cash used for financing activities	(129,956)	(51,468)
Net decrease in cash and cash equivalents	(4,530)	(2,455)
Cash and cash equivalents at beginning of period	41,055	57,812
Cash and cash equivalents at end of period	$36,525	$55,357

The Notes to Financial Statements are an integral part of the Statements of Cash Flows.

Northern States Power Company (Minnesota) and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the accompanying unaudited financial statements contain all adjustments necessary to present fairly the financial position of Northern States Power Company (Minnesota) (the Company) and its subsidiaries (collectively, NSP) as of March 31, 1995 and December 31, 1994, the results of its operations for the three months ended March 31, 1995 and 1994, and its cash flows for the three months ended March 31, 1995 and 1994. Due to the seasonality of NSP's electric and gas sales, operating results on a quarterly basis are not necessarily an appropriate base from which to project annual results.

The accounting policies followed by NSP are set forth in Note 1 to NSP's financial statements in the 1994 Form 10-K. The following notes should be read in conjunction with such policies and other disclosures in the Form 10-K.

Certain reclassifications have been made to 1994 financial information to conform with the 1995 presentation. These reclassifications had no effect on net income or earnings per share as previously reported.

1. Subsequent Event - Proposed Business Combination

On April 28, 1995, the Company and Wisconsin Energy Corporation (WEC) entered into an Agreement and Plan of Merger (Agreement). As a result, a registered utility holding company, which will be known as Primergy Corporation (Primergy), will be the parent of the Company and the current operating subsidiaries of the Company and WEC. Each outstanding share of common stock of NSP will be converted into 1.626 shares of common stock of Primergy, and each outstanding share of common stock of WEC will remain outstanding as one share of common stock of Primergy. The business combination is intended to be tax-free for income tax purposes, and to be accounted for as a "pooling of interests". The Agreement is subject to various conditions, including approval of the stockholders of NSP and WEC, and the approval of various regulatory agencies. NSP anticipates that the completion of the regulatory review and approval process will take approximately 12-18 months and, accordingly, the companies do not anticipate completing this business combination until late in 1996. Item 5 of Part II of this report discusses further the proposed transaction and provides pro forma combined condensed financial information for Primergy.

2. Rate Matters

In August 1994, the Company applied to the North Dakota Public Service Commission (NDPSC) for an annualized electric rate reduction of $3.6 million to reflect a correction in cost allocations to the North Dakota jurisdiction. On November 9, 1994, the NDPSC approved the Company's request to make refunds to customers to effectively implement the reduction as of June 1, 1994. These refunds were accrued in 1994 and paid in February 1995. On May 10, 1995, the NDPSC approved a retroactive refund to residential customers of approximately $1.5 million for the period January 1, 1989 through June 1, 1994 to reflect corrections to cost allocations for that period. This refund was accrued in 1994 and is expected to be paid later in 1995. Also, the NDPSC approved an annualized rate reduction of $750,000 for North Dakota commercial and industrial electric customers, to become effective prospectively on June 1, 1995.

3. Business Developments

Non-regulated Power Sales Contract - NRG, through wholly owned subsidiaries, owns 45% of the San Joaquin Valley Energy Partnership (SJVEP), which owns four power plants located near Fresno, California with a total capacity of 55 megawatts. Through February 1995, the plants operated under long-term Standard Offer 4 (SO4) power sales contracts with Pacific Gas and Electric (PG&E) which expire in 2017. On February 28, 1995, PG&E reached basic agreements with SJVEP to acquire the SO4 contracts. The parties entered into a bridging agreement to cover the period until all regulatory approvals are received for the transaction. The bridging agreement required SJVEP to cease power deliveries to PG&E as of February 28, 1995. The negotiated agreements will result in cost savings for PG&E customers as well as economic benefits for SJVEP. The final impact of this transaction on the financial results of NRG will not be known until the agreements have been approved and all costs associated with the idling of the facilities are known. It is expected that a one-time gain from the transaction will be recorded in the second quarter of 1995. SJVEP will continue to own and maintain the facilities and will explore all available options.

4. Commitments and Contingent Liabilities

The circumstances set forth in Note 17 to the Company's financial statements contained in its 1994 Annual Report on Form 10-K appropriately represent the current status of commitments and contingent liabilities regarding public liability for claims resulting from any nuclear incident.

Item 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

On April 28, 1995, the Company and WEC entered into an Agreement and Plan of Merger which provides for a strategic business combination involving the two companies in a "merger-of-equals" transaction. Further information concerning such agreement and proposed transaction and pro forma financial information with respect thereto is included in Part II of this report.

Results of Operations

Northern States Power Company's earnings per share for the first quarter ended March 31, 1995, were $.97, up $.03 from the $.94 earned for the same period a year ago.

In addition to items noted in the 1994 Form 10-K, the historical and future trends of NSP's operating results have been and are expected to be impacted by the following factors:

Non-regulated Business Results - Quarterly results include earnings contributions from non-regulated businesses of $0.13 per share in 1995 and $0.03 per share in 1994.

Impact of Weather - NSP estimates sales levels under normal weather conditions and analyzes the approximate effect of weather on actual sales levels. The following summarizes the estimated impact of weather on actual utility operating results (in relation to sales under normal weather conditions):

	Increase (Decrease)		
	1995 vs Normal	1994 vs Normal	1995 vs 1994
Earnings per Share for Quarter Ended March 31	($0.07)	$0.09	($0.16)

Rate Changes - On May 10, 1995, the North Dakota Public Service Commission approved rate reductions for electric customers in North Dakota. See Note 2 to the Financial Statements for further discussion of the impact of such reductions on financial results.

First Quarter 1995 Compared with First Quarter 1994

Utility Operating Results

Electric revenues for the first quarter 1995 compared with the first quarter 1994 increased $3.3 million or 0.7%. Retail revenues decreased approximately $2.2 million or 0.5% largely due to a 1.1% average retail price decrease. The retail price decrease is largely due to rate decreases in North Dakota in 1995 and sales mix variation between customer classes. This price decrease was partially offset by electric retail sales growth of 0.6%. On a weather adjusted basis, sales growth for the first quarter of 1995 was 3.0% higher than 1994. In addition, revenues from sales to other utilities increased by $6.9 million mainly due to increases in sales volume. This increase in sales to other utilities reflects greater availability due to fewer plant outages in 1995.

Gas revenues for the first quarter 1995 decreased $25.6 million or 13.5% compared with the first quarter of 1994. Gas revenues decreased due to a 7.4% decrease in gas sales volume and a 8.0% average price decrease. The sales volume decrease is due primarily to weather impacts. The price decrease is due to rate adjustments for decreased purchased gas costs resulting from changes in natural gas supply and demand market conditions.

Fuel for electric generation and **Purchased and interchange power** combined for a net increase of $2.6 million or 2.0% for the first quarter of 1995 compared with the first quarter of 1994. Fuel expense for the first quarter of 1995 increased mainly due to electric sales growth and higher 1995 generation levels as a result of plant outages in 1994. The increased fuel expense was partially offset by lower purchases in 1995 due to plant availability and lower cost of purchases reflecting market conditions.

Cost of gas purchased and transported for first quarter 1995 compared with first quarter 1994 decreased $22.5 million or 18.5% due to lower per unit cost of purchased gas and lower gas sendout. The lower cost of purchased gas reflects changes in market conditions, while the lower gas sendout reflects the warmer than normal weather in 1995 compared to colder than normal weather in 1994.

Other operation, Maintenance and Administrative and general expenses together decreased $5.2 million or 3.1% compared with the first quarter 1994. The lower costs are largely due to decreases in employee benefit costs and timing of plant outages.

Depreciation and amortization increased $4.5 million or 6.7% compared with the first quarter 1994. The increase is mainly due to increased plant in service between the two periods.

Property and general taxes for the first quarter 1995 compared with the first quarter of 1994 increased $2.4 million or 3.9% due primarily to higher property tax rates in the state of Minnesota.

Utility income taxes for the first quarter 1995 compared with the first quarter 1994 decreased $5.6 million primarily due to lower pretax operating income (after interest charges) between the two periods.

Other income and deductions - net decreased mainly due to non-regulated items discussed below. The portion related to utility operations decreased $0.6 million to a net expense of $1.1 million in the first quarter of 1995 compared with the same period a year ago.

Interest Charges related to utility operations increased $6.4 million to $29.4 million in 1995 largely due to long-term debt issues in 1994 and higher short-term rates and balances in 1995.

Non-regulated Business Results

NSP's non-regulated operations include many diversified businesses, such as independent power production, gas marketing, industrial heating and cooling, and energy-related refuse-derived fuel production. NSP also has investments in affordable housing projects and several income-producing properties. The following discusses NSP's diversified business results in the aggregate.

Operating Revenues and Expenses - The net results of non-regulated businesses are reported in Other Income and Deductions-Net on the Consolidated Statements of Income. Non-regulated operating revenues increased $33.8 million in 1995, to $82.6 million, largely due to increased gas marketing sales by Cenergy, Inc (Cenergy). Non-regulated operating expenses increased $36.4 million in 1995 to $80.3 million due to higher gas costs corresponding with Cenergy gas sales and fewer project development costs being capitalized on pending projects in 1995.

Equity Income - NSP has a less-than-majority equity interest in several non-regulated projects. Consequently, a large portion of NSP's non-regulated earnings is reported as Equity in Earnings of Unconsolidated Investees on the Consolidated Statements of Income. Equity income increased in the first quarter of 1995 by $10.6 million before taxes primarily due to new NRG energy projects in Australia and Germany which began to provide earnings during the second quarter of 1994.

Interest Expense - Interest charges on the Consolidated Statements of Income include interest expense related to non-regulated businesses of $1.4 million in both 1995 and 1994.

Income Taxes - Other Income and Deductions-Net reported on the Consolidated Statements of Income includes income taxes related to non-regulated businesses. Such income taxes for the first quarter of 1995 were $1.7 million, a $1.4 million increase over the first quarter of 1994. The increase in 1995 is due mainly to higher income from NRG's energy projects, as discussed above. NSP's management intends to reinvest the earnings of international operations indefinitely. Accordingly, U.S. income taxes and foreign withholding taxes have not been provided on the earnings of international projects.

Liquidity and Capital Resources

The Company had $156 million in commercial paper debt outstanding as of March 31, 1995. The Company plans to keep credit lines of at least 85% of the expected level of commercial paper borrowings. Commercial banks currently provide credit lines of approximately $299 million to the Company. These credit lines make short-term financing available in the form of bank loans and support for commercial paper sales. The Company has regulatory approval for up to $446 million in short-term borrowing levels.

Commercial banks currently provide credit lines of $12 million to wholly owned subsidiaries of the Company. Approximately $10 million of those credit lines remained available at March 31, 1995.

In January 1995, stock options for the purchase of 277,977 shares were awarded under the Company's Executive Long-Term Incentive Award Stock Plan (the Plan). These options are not exercisable for approximately twelve months after grant. As of March 31, 1995, a total of 1,034,774 stock options were outstanding, which were considered as potential common stock equivalents for earnings per share purposes. As of March 31, the Company has issued 9,873 new shares of common stock in 1995 under the Plan pursuant to the exercise by non-officers of the Company of options and awards granted in prior years.

On March 29, 1995 the Company loaned $15 million to the Employee Stock Ownership Plan (ESOP) for the financing of stock purchases. The ESOP used the loan proceeds to purchase 342,368 newly issued shares of Company common stock. On April 3, 1995, the Company borrowed $15 million in unsecured debt to finance the ESOP loan on a long-term basis. The interest rate on the unsecured debt of the Company is variable (6.55% for the period April 20, 1995 through July 20, 1995). The rate is adjusted quarterly based on changes in London Interbank Offered Rates (LIBOR). The approximate term of the loan is seven years and will be repaid in quarterly installments.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

In the Environmental Matters section of Item 1 of the Company's 1994 Annual Report on Form 10-K, a proposed civil penalty was discussed regarding the Company's reports on halogen content of water discharged at Prairie Island, prior to October 1992. As a result of a Stipulation Agreement negotiated by the Company and the Minnesota Pollution Control Agency on March 1, 1995, the Company will pay a civil penalty of $105,436.

For a discussion of proceedings involving NSP's utility rates, see Note 2 to these Financial Statements.

Item 5. Other Information

MERGER AGREEMENT WITH WISCONSIN ENERGY CORPORATION

As previously reported in NSP's 4/28/95 8-K (as defined below), Northern States Power Company, a Minnesota corporation ("NSP"), Wisconsin Energy Corporation, a Wisconsin corporation ("WEC"), Northern Power Wisconsin Corp., a Wisconsin corporation and wholly-owned subsidiary of NSP ("New NSP") and WEC Sub Corp., a Wisconsin corporation and wholly-owned subsidiary of WEC ("WEC Sub"), have entered into an Agreement and Plan of Merger, dated as of April 28, 1995 (the "Merger Agreement"), which provides for a strategic business combination involving NSP and WEC in a "merger-of-equals" transaction (the "Transaction"). The Transaction, which was unanimously approved by the Boards of Directors of the constituent companies, is expected to close shortly after all of the conditions to the consummation of the Transaction, including obtaining applicable regulatory approvals, are met or waived. The regulatory approval process is expected to take approximately 12 to 18 months.

In the Transaction, the holding company of the combined enterprise will be registered under the Public Utility Holding Company Act of 1935, as amended. The holding company will be named Primergy Corporation ("Primergy") and will be the parent company of both NSP (which, for regulatory reasons, will reincorporate in Wisconsin) and of WEC's present principal utility subsidiary, Wisconsin Electric Power Company ("WEPCO"), which will be renamed "Wisconsin Energy Company." Wisconsin Energy Company will include the operations of WEC's other present utility subsidiary, Wisconsin Natural Gas Company, which is anticipated to be merged into WEPCO by year-end 1995, pending regulatory approval, as previously planned. It is anticipated that, following the Transaction, NSP's Wisconsin utility subsidiary, Northern States Power Company, a Wisconsin corporation ("NSP-W") will be merged into Wisconsin Energy Company.

The Merger Agreement, the press release issued in connection therewith and the related Stock Option Agreements (defined below) are filed as exhibits to NSP's Current Report on Form 8-K, dated as of April 28, 1995 which was filed on May 3, 1995 (the "NSP 4/28/95 8-K") and are incorporated herein by reference. The descriptions of the Merger Agreement and the Stock Option Agreements set forth herein do not purport to be complete and are qualified in their entirety by the provisions of the Merger Agreement and the Stock Option Agreements, as the case may be and the other exhibits filed with NSP's 4/28/95 8-K and incorporated as exhibits to this report by reference thereto.

Under the terms of the Merger Agreement, NSP will be merged with and into New NSP and immediately thereafter WEC Sub will be merged with and into New NSP, with New NSP being the surviving corporation. Each outstanding share of Common Stock, par value $2.50 per share, of NSP ("NSP Common Stock") will be cancelled and converted into the right to receive 1.626 shares of Common Stock, par value $.01 per share, of Primergy ("Primergy Common Stock"). The outstanding shares of WEC Common Stock, par value $.01 per share ("WEC Common Stock"), will remain outstanding, unchanged, as shares of Primergy Common Stock. As of the date of the Merger Agreement, NSP had 67.3 million common shares outstanding and WEC had 109.4 million common shares outstanding. Based on such capitalization, the Transaction would result in the common shareholders of NSP receiving 50% of the common equity of Primergy and the common shareholders of WEC owning the other 50% of the common equity of Primergy. Each outstanding share of Cumulative Preferred Stock, par value $100.00 per share, of NSP will be cancelled and converted into the right to receive one share of Cumu-

lative Preferred Stock, par value $100.00 per share, of New NSP with identical rights (including dividend rights) and designations. WEPCO's outstanding preferred stock will remain outstanding and be unchanged in the Transaction.

It is anticipated that Primergy will adopt NSP's dividend payment level adjusted for the exchange ratio. NSP currently pays $2.64 per share annually, and WEC's annual dividend rate is currently $1.47 per share. Based on the exchange ratio and NSP's current dividend rate, the pro forma dividend rate for Primergy would be $1.62 per share.

The Transaction is subject to customary closing conditions, including, without limitation, the receipt of required shareholder approvals of WEC and NSP; and the receipt of all necessary governmental approvals and the making of all necessary governmental filings, including approvals of state utility regulators in Wisconsin, Minnesota and certain other states, the approval of the Federal Energy Regulatory Commission, the Securities and Exchange Commission (the "SEC"), the Nuclear Regulatory Commission, and the filing of the requisite notification with the Federal Trade Commission and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the expiration of the applicable waiting period thereunder. The Transaction is also subject to receipt of assurances from the Internal Revenue Service and opinions of counsel that the Transaction will qualify as a tax-free reorganization, and the assurances from the parties' independent accountants, that the Transaction will qualify as a pooling of interests for accounting purposes. In addition, the Transaction is conditioned upon the effectiveness of a registration statement to be filed by WEC with the SEC with respect to the Primergy Common Stock to be issued in the Transaction and the approval for listing of such shares on the New York Stock Exchange. (See Article VIII of the Merger Agreement.) Shareholder meetings to vote upon the Transaction will be convened as soon as practicable and are expected to be held in the third or fourth quarter of 1995.

The Merger Agreement contains certain covenants of the parties pending the consummation of the Transaction. Generally, the parties must carry on their businesses in the ordinary course consistent with past practice, may not increase dividends on common stock beyond specified levels, and may not issue any capital stock beyond certain limits. The Merger Agreement also contains restrictions on, among other things, charter and bylaw amendments, capital expenditures, acquisitions, dispositions, incurrence of indebtedness, certain increases in employee compensation and benefits, and affiliate transactions. (See Article VI of the Merger Agreement.)

The Merger Agreement provides that, after the effectiveness of the Transaction (the "Effective Time"), the corporate headquarters and principal executive offices of Primergy and NSP will be located in Minneapolis, Minnesota, and the headquarters of Wisconsin Energy Company will remain in Milwaukee, Wisconsin. Primergy's Board of Directors, which will be divided into three classes, will consist of a total of 12 directors, 6 of whom will be designated by WEC and 6 of whom will be designated by NSP. Mr. James J. Howard, the current Chairman of the Board, President and Chief Executive Officer ("CEO") of NSP, will serve as CEO of Primergy from the Effective Time until the later of 16 months after the Effective Time or the date of the annual meeting of shareholders of Primergy that occurs in 1998, and Chairman of Primergy until the later of July 1, 2000 or two years after he ceases to be CEO. Mr. Abdoo, the current Chairman of the Board, President and CEO of WEC, will serve as Vice Chairman of the Board, President and Chief Operating Officer of Primergy until the date when Mr. Howard ceases to be CEO, at which time he will be entitled to assume the additional role of CEO. Mr. Abdoo will assume the position of Chairman when Mr. Howard ceases to be Chairman.

The Merger Agreement may be terminated under certain circumstances, including (1) by mutual consent of the parties; (2) by any party if the Transaction is not consummated by April 30, 1997 (provided, however, that such termination date shall be extended to October 31, 1997 if all conditions to closing the Transaction, other than the receipt of certain consents and/or statutory approvals by any of the parties, have been satisfied by April 30, 1997); (3) by any party if either NSP's or WEC's shareholders vote against the Transaction or if any state or federal law or court order prohibits the Transaction; (4) by a non-breaching party if there exist breaches of any representations or warranties contained in the Merger Agreement as of the date thereof which breaches, individually or in the aggregate, would result in a material adverse effect on the breaching party and which is not cured within twenty (20) days after notice; (5) by a non-breaching party if there occur breaches of specified covenants or material breaches of any covenant or agreement which are not cured within twenty (20) days after notice; (6) by either party if the Board of Directors of the other party shall withdraw or adversely modify its recommendation of the Transaction or shall approve any competing transaction; or (7) by either party, under certain circumstances, as a result of a third-party tender offer or business combination proposal which such party's board of directors determines in good faith that their fiduciary duties require be accepted, after the other party has first been given an opportunity to make concessions and adjustments in the terms of the Merger Agreement.

The Merger Agreement provides that if a breach described in clause (4) or (5) of the previous paragraph occurs, then, if such breach is not willful, the non-breaching party is entitled to reimbursement of its out-of-pocket expenses, not to exceed $10 million. In the event of a willful breach, the non-breaching party will be entitled to its out-of-pocket expenses (which shall not be limited to $10 million) and any remedies it may have at law or in equity, provided that if, at the time of the breaching party's willful breach, there shall have been a third party tender offer or business combination proposal which shall not have been rejected by the breaching party and withdrawn by the third party, and within two and one-half years of any termination by the non-breaching party, the breaching party accepts an offer to consummate or consummates a business combination with such third party, then such breaching party, upon the signing of a definitive agreement relating to such a business combination, or, if no such agreement is signed then at the closing of such business combination, will pay to the non-breaching party an additional fee equal to $75 million. The Merger Agreement also requires payment of a termination fee of $75 million (and reimbursement of out-of-pocket expenses) by one party (the "Payor") to the other in certain circumstances, if (i) the Merger Agreement is terminated (x) as a result of the acceptance by the Payor of a third-party tender offer or business combination proposal, (y) following a failure of the shareholders of the Payor to grant their approval to the Transaction or (z) as a result of the Payor's material failure to convene a shareholder meeting, distribute proxy materials and, subject to its board of directors' fiduciary duties, recommend the Transaction to its shareholders; (ii) at the time of such termination or prior to the meeting of such party's shareholders there shall have been a third-party tender offer or business combination proposal which shall not have been rejected by the Payor and withdrawn by such third party; and (iii) within two and one-half years of any such termination described in clause (i) above, the Payor accepts an offer to consummate or consummates a business combination with such third party. Such termination fee and out-of-pocket expenses referred to in the previous sentence shall be paid upon the signing of a definitive agreement between the Payor and the third party, or, if no such agreement is signed, then at the closing of such third-party business combination. The termination fees payable by NSP or WEC under these provisions and the aggregate amount which could be payable by NSP or WEC upon a required purchase of the options granted pursuant to the Stock Option Agreements (defined below) may not exceed $125 million in the aggregate. (See Article IX of the Merger Agreement.)

Concurrently with the Merger Agreement, the parties have entered into reciprocal stock option agreements (the "Stock Option Agreements") each granting the other an irrevocable option to purchase up to that number of shares of common stock of the other company which equals 19.9% of the number of shares of common stock of the other company outstanding on April 28, 1995 at an exercise price of $44.075 per share, in the case of NSP common stock, or $27.675 per share, in the case of WEC common stock, under certain circumstances if the Merger Agreement becomes terminable by one party as a result of the other party's breach or as a result of the other party becoming the subject of a third-party proposal for a business combination. Any party whose option becomes exercisable (the "Exercising Party") may request the other party to repurchase from it all or any portion of the Exercising Party's option at the price specified in the Stock Option Agreements. (See the Stock Option Agreements.)

A preliminary estimate indicates that the Transaction will result in net savings of approximately $2.0 billion in costs over 10 years. It is anticipated that the synergies created by the Transaction will allow the companies to implement a modest reduction in electric retail rates followed by a rate freeze for electric retail customers through the year 2000. The allocation of the net savings between ratepayers and shareholders of NSP will be determined by various regulatory agencies.

Both NSP and WEC recognize that the divestiture of their existing gas operations and certain non-utility operations is a possibility under the new registered holding company structure, but will seek approval from the SEC to maintain such businesses. If divestiture is ultimately required, the SEC has historically allowed companies sufficient time to accomplish divestitures in a manner that protects shareholder value.

FINANCIAL STATEMENTS OF WEC

The consolidated financial statements of WEC listed in the descriptions of Exhibits 99.01 and 99.02 in paragraph (a) of Item 6 of this report are incorporated herein by reference. The audited financial statements so listed are included in Item 8 of WEC's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 (File No. 1-9057). The unaudited interim financial statements so listed are included in Item 1 in Part I of WEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995 (File No. 1-9057).

PRO FORMA COMBINED CONDENSED FINANCIAL INFORMATION (UNAUDITED)

The following unaudited pro forma financial information combines the historical consolidated balance sheets and statements of income of NSP and WEC after giving effect to their proposed business combination transaction (the Transaction) to form Primergy Corporation (Primergy). The unaudited pro forma combined condensed balance sheet at March 31, 1995 gives effect to the Transaction as if it had occurred at March 31, 1995. The unaudited pro forma combined condensed statements of income for each of the three years in the period ended December 31, 1994, the three months ended March 31, 1995 and 1994, and the twelve months ended March 31, 1995, give effect to the Transaction as if it had occurred at January 1, 1992. These statements are prepared on the basis of accounting for the Transaction as a pooling of interests and are based on the assumptions set forth in the notes thereto.

The WEC income statements for the three months ended March 31, 1994 and the fiscal year ended December 31, 1994 include a significant one-time pretax charge of $73.9 million for revitalization costs recorded in the first quarter of 1994. To provide a more representative recent twelve-month period summarizing combined operating results, a pro forma combined condensed statement of income for the twelve months ended March 31, 1995 is also presented.

The following pro forma financial information has been prepared from, and should be read in conjunction with, the historical consolidated financial statements and related notes thereto of NSP and WEC. The following information is not necessarily indicative of the financial position or operating results that would have occurred had the Transaction been consummated on the date, or at the beginning of the periods, for which the Transaction is being given effect nor is it necessarily indicative of future operating results or financial position.

PRIMERGY CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEETS
MARCH 31, 1995
(In thousands)

Pro Forma Balance Sheet	NSP (As Reported)	WEC (As Reported)	Pro Forma Adjustments	Pro Forma Combined
ASSETS				
UTILITY PLANT				
Electric	$ 6,407,107	$ 4,544,978	-	$ 10,952,085
Gas	679,587	471,559	-	1,151,146
Other	271,924	40,114	-	312,038
Total	7,358,618	5,056,651	-	12,415,269
Accumulated provision for depreciation	(3,189,171)	(2,184,573)	-	(5,373,744)
Nuclear fuel - net	90,795	55,759	-	146,554
Net utility plant	4,260,242	2,927,837	-	7,188,079
CURRENT ASSETS				
Cash and cash equivalents	36,525	16,831	-	53,356
Accounts receivable - net	290,284	128,879	-	419,163
Accrued utility revenues	81,999	103,737	-	185,736
Fossil fuel inventories	46,229	65,995	-	112,224
Material & supplies inventories	104,739	70,099	-	174,838
Prepayments and other	50,754	73,171	-	123,925
Total current assets	610,530	457,815	-	1,068,345
OTHER ASSETS				
Regulatory Assets	351,729	332,089	-	683,818
External decommissioning fund	160,731	239,940	-	400,671
Investments in non-regulated projects and other investments	220,080	115,346	-	335,426
Non-regulated property - net	175,654	97,907	-	273,561
Intangible assets and other (Note 4)	135,410	213,711	(139,758)	209,363
Total other assets	1,043,604	998,993	(139,758)	1,902,839
TOTAL ASSETS	$ 5,914,376	$ 4,384,645	$ (139,758)	$ 10,159,263
LIABILITIES AND EQUITY				
CAPITALIZATION				
Common stock equity:				
Common stock (Note 1)	$ 168,156	$ 1,094	$ (167,062)	$ 2,188
Other stockholders' equity (Note 1)	1,751,891	1,779,491	167,062	3,698,474
Total common stock equity	1,920,047	1,780,585	-	3,700,662
Cumulative preferred stock and premium	240,469	30,451	-	270,920
Long-term debt	1,456,217	1,249,742	-	2,705,959
Total capitalization	3,616,733	3,060,778	-	6,677,541
CURRENT LIABILITIES				
Current Portion of Long-term Debt	160,606	49,633	-	210,239
Short-term debt	157,648	181,574	-	339,222
Accounts payable	179,279	73,787	-	253,066
Taxes accrued	256,616	38,617	-	295,233
Other accrued liabilities	139,255	96,543	-	235,798
Total current liabilities	893,404	446,154	-	1,339,558
OTHER LIABILITIES				
Deferred income taxes (Note 4)	850,323	478,974	139,758	1,190,239
Deferred investment tax credits	171,544	93,034	-	264,578
Regulatory liabilities	208,329	172,466	-	380,795
Other liabilities and deferred credits	173,513	133,239	-	306,752
Total other liabilities	1,404,209	877,713	139,758	2,142,364
TOTAL CAPITALIZATION AND LIABILITIES	$ 5,914,376	$ 4,384,645	$ 139,758	$ 10,159,263

See accompanying notes to pro forma unaudited condensed financial statements

PRIMERGY CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENTS OF INCOME
3 MONTHS ENDED MARCH 31, 1995
(In thousands, except per share amounts)

	NSP (As Reported)	WEC (As Reported)	Pro Forma Adjustments	Pro Forma Combined
Utility Operating Revenues				
Electric	$ 497,314	$ 343,919	-	$ 841,233
Gas	163,853	121,100	-	284,953
Steam	-	6,103	-	6,103
Total Operating Revenues	661,167	471,122	-	1,132,289
Utility Operating Expenses				
Electric Production-Fuel and Purchased Power	135,071	86,895	-	221,966
Cost of Gas Sold & Transported	99,301	72,803	-	172,104
Other Operation	130,627	97,760	-	228,387
Maintenance	37,767	28,372	-	66,139
Depreciation and Amortization	71,831	44,712	-	116,543
Taxes Other Than Income Taxes	62,279	19,379	-	81,658
Revitalization Charges	-	-	-	-
Income Taxes	36,593	36,629	-	73,222
Total Operating Expenses	573,469	386,550	-	960,019
Utility Operating Income	87,698	84,572	-	172,270
Other Income (Expense)				
Equity Earnings of Unconsolidated Investees	10,506	-	-	10,506
Other Income and Deductions - Net	761	6,094	-	6,855
Total Other Income (Expense)	11,267	6,094	-	17,361
Income before Interest Charges and Preferred Dividends	98,965	90,666	-	189,631
Interest Charges	30,775	27,831	-	58,606
Preferred Dividends of Subsidiaries	3,201	301	-	3,502
Net Income	$ 64,989	$ 62,534	-	$ 127,523
Average Common Shares Outstanding (Note 1)	67,004	109,133	41,945	218,082
Earnings Per Common Share	$ 0.97	$ 0.57		$ 0.58

See accompanying notes to pro forma combined condensed financial statements.

PRIMERGY CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENTS OF INCOME
3 MONTHS ENDED MARCH 31, 1994
(In thousands, except per share amounts)

	NSP (As Reported)	WEC (As Reported)	Pro Forma Adjustments	Pro Forma Combined
Utility Operating Revenues				
Electric	$ 494,031	$ 355,239	-	$ 849,270
Gas	189,431	147,579	-	337,010
Steam	-	6,863	-	6,863
Total Operating Revenues	683,462	509,681	-	1,193,143
Utility Operating Expenses				
Electric Production-Fuel and Purchased Power	132,471	84,070	-	216,541
Cost of Gas Sold & Transported	121,805	91,153	-	212,958
Other Operation	133,487	107,473	-	240,960
Maintenance	40,469	33,516	-	73,985
Depreciation and Amortization	67,345	44,039	-	111,384
Taxes Other Than Income Taxes	59,929	21,068	-	80,997
Revitalization Charges	-	73,900	-	73,900
Income Taxes	42,161	11,026	-	53,187
Total Operating Expenses	597,667	466,245	-	1,063,912
Utility Operating Income	85,795	43,436	-	129,231
Other Income (Expense)				
Equity Earnings of Unconsolidated Investees	(107)	-	-	(107)
Other Income and Deductions - Net	4,474	6,510	-	10,984
Total Other Income (Expense)	4,367	6,510	-	10,877
Income before Interest Charges and Preferred Dividends	90,162	49,946	-	140,108
Interest Charges	24,368	26,735	-	51,103
Preferred Dividends of Subsidiaries	3,057	389	-	3,446
Net Income	$ 62,737	$ 22,822	-	$ 85,559
Average Common Shares Outstanding (Note 1)	66,742	107,238	41,780	215,760
Earnings Per Common Share	$ 0.94	$ 0.21		$ 0.40

See accompanying notes to pro forma combined condensed financial statements.

PRIMERGY CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENTS OF INCOME
12 MONTHS ENDED MARCH 31, 1995
(In thousands, except per share amounts)

	NSP (As Reported)	WEC (As Reported)	Pro Forma Adjustments	Pro Forma Combined
Utility Operating Revenues				
Electric	$ 2,069,927	$ 1,392,242	-	$ 3,462,169
Gas	394,325	297,870	-	692,195
Steam	-	13,521	-	13,521
Total Operating Revenues	2,464,252	1,703,633	-	4,167,885
Utility Operating Expenses				
Electric Production-Fuel and Purchased Power	573,477	331,310	-	904,787
Cost of Gas Sold & Transported	240,939	181,161	-	422,100
Other Operation	533,310	389,298	-	922,608
Maintenance	167,444	119,458	-	286,902
Depreciation and Amortization	278,287	178,287	-	456,574
Taxes Other Than Income Taxes	236,914	74,346	-	311,260
Revitalization Charges	-	-	-	-
Income Taxes	123,661	125,364	-	249,025
Total Operating Expenses	2,154,032	1,399,224	-	3,553,256
Utility Operating Income	310,220	304,409	-	614,629
Other Income (Expense)				
Equity Earnings of Unconsolidated Investees	46,477	-	-	46,477
Other Income and Deductions - Net	2,797	26,549	-	29,346
Total Other Income (Expense)	49,274	26,549	-	75,823
Income before Interest Charges and Preferred Dividends	359,494	330,958	-	690,452
Interest Charges	113,623	109,115	-	222,738
Preferred Dividends of Subsidiaries	12,509	1,263	-	13,772
Net Income	$ 233,362	$ 220,580	-	$ 453,942
Average Common Shares Outstanding (Note 1)	66,896	108,492	41,877	217,265
Earnings Per Common Share	$ 3.49	$ 2.03		$ 2.09

See accompanying notes to pro forma combined condensed financial statements.

PRIMERGY CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENTS OF INCOME
YEAR ENDED DECEMBER 31, 1994
(In thousands, except per share amounts)

	NSP (As Reported)	WEC (As Reported)	Pro Forma Adjustments	Pro Forma Combined
Utility Operating Revenues				
Electric	$ 2,066,644	$ 1,403,562	-	$ 3,470,206
Gas	419,903	324,349	-	744,252
Steam	-	14,281	-	14,281
Total Operating Revenues	2,486,547	1,742,192	-	4,228,739
Utility Operating Expenses				
Electric Production-Fuel and Purchased Power	570,880	328,485	-	899,365
Cost of Gas Sold & Transported	263,443	199,511	-	462,954
Other Operation	536,168	399,011	-	935,179
Maintenance	170,145	124,602	-	294,747
Depreciation and Amortization	273,801	177,614	-	451,415
Taxes Other Than Income Taxes	234,564	76,035	-	310,599
Revitalization Charges	-	73,900	-	73,900
Income Taxes	129,228	99,761	-	228,989
Total Operating Expenses	2,178,229	1,478,919	-	3,657,148
Utility Operating Income	308,318	263,273	-	571,591
Other Income (Expense)				
Equity Earnings of Unconsolidated Investees	35,863	-	-	35,863
Other Income and Deductions - Net	6,509	26,965	-	33,474
Total Other Income (Expense)	42,372	26,965	-	69,337
Income before Interest Charges and Preferred Dividends	350,690	290,238	-	640,928
Interest Charges	107,215	108,019	-	215,234
Preferred Dividends of Subsidiaries	12,364	1,351	-	13,715
Net Income	$ 231,111	$ 180,868	-	$ 411,979
Average Common Shares Outstanding (Note 1)	66,845	108,025	41,845	216,715
Earnings Per Common Share	$ 3.46	$ 1.67		$ 1.90

See accompanying notes to pro forma combined condensed financial statements.

PRIMERGY CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENTS OF INCOME
YEAR ENDED DECEMBER 31, 1993
(In thousands, except per share amounts)

	NSP (As Reported)	WEC (As Reported)	Pro Forma Adjustments	Pro Forma Combined
Utility Operating Revenues				
Electric	$ 1,974,916	$ 1,347,844	-	$ 3,322,760
Gas	429,076	331,301	-	760,377
Steam	-	14,090	-	14,090
Total Operating Revenues	2,403,992	1,693,235	-	4,097,227
Utility Operating Expenses				
Electric Production-Fuel and Purchased Power	524,126	318,265	-	842,391
Cost of Gas Sold & Transported	282,028	214,132	-	496,160
Other Operation	516,568	399,135	-	915,703
Maintenance	161,413	156,085	-	317,498
Depreciation and Amortization	264,517	167,066	-	431,583
Taxes Other Than Income Taxes	223,108	74,653	-	297,761
Revitalization Charges	-	-	-	-
Income Taxes	128,346	98,463	-	226,809
Total Operating Expenses	2,100,106	1,427,799	-	3,527,905
Utility Operating Income	303,886	265,436	-	569,322
Other Income (Expense)				
Equity Earnings of Unconsolidated Investees	3,030	-	-	3,030
Other Income and Deductions - Net	12,916	32,073	-	44,989
Total Other Income (Expense)	15,946	32,073	-	48,019
Income before Interest Charges and Preferred Dividends	319,832	297,509	-	617,341
Interest Charges	108,092	102,997	-	211,089
Preferred Dividends of Subsidiaries	14,580	4,377	-	18,957
Net Income	$ 197,160	$ 190,135	-	$ 387,295
Average Common Shares Outstanding (Note 1)	65,211	105,878	40,822	211,911
Earnings Per Common Share	$ 3.02	$ 1.80		$ 1.83

See accompanying notes to pro forma combined condensed financial statements.

PRIMERGY CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENTS OF INCOME
YEAR ENDED DECEMBER 31, 1992
(In thousands, except per share amounts)

	NSP (As Reported)	WEC (As Reported)	Pro Forma Adjustments	Pro Forma Combined
Utility Operating Revenues				
Electric	$ 1,823,316	$ 1,298,723	-	$ 3,122,039
Gas	336,206	283,699	-	619,905
Steam	-	13,093	-	13,093
Total Operating Revenues	2,159,522	1,595,515	-	3,755,037
Utility Operating Expenses				
Electric Production-Fuel and Purchased Power	451,696	330,461	-	782,157
Cost of Gas Sold & Transported	220,370	177,947	-	398,317
Other Operation	512,833	367,020	-	879,853
Maintenance	180,585	150,462	-	331,047
Depreciation and Amortization	242,914	164,367	-	407,281
Taxes Other Than Income Taxes	204,439	73,714	-	278,153
Revitalization Charges	-	-	-	-
Income Taxes	90,669	89,838	-	180,507
Total Operating Expenses	1,903,506	1,353,809	-	3,257,315
Utility Operating Income	256,016	241,706	-	497,722
Other Income (Expense)				
Equity Earnings of Unconsolidated Investees	2,382	-	-	2,382
Other Income and Deductions - Net	5,570	26,136	-	31,706
Total Other Income (Expense)	7,952	26,136	-	34,088
Income before Interest Charges and Preferred Dividends	263,968	267,842	-	531,810
Interest Charges	103,040	90,687	-	193,727
Preferred Dividends of Subsidiaries	16,172	5,916	-	22,088
Income Before Accounting Change	$ 144,756	$ 171,239	-	$ 315,995
Average Common Shares Outstanding (Note 1)	62,641	103,382	39,213	205,236
Earnings Per Common Share	$ 2.31	$ 1.66		$ 1.54

See accompanying notes to pro forma combined condensed financial statements.

PRIMERGY CORPORATION

NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

1. The pro forma combined condensed financial statements reflect the conversion of each share of NSP common stock outstanding ($2.50 par value) into 1.626 shares of Primergy Common Stock ($.01 par value) and the continuation of each share of WEC Common Stock outstanding as one share of Primergy common stock ($.01 par value), as provided in the Merger Agreement. The pro forma combined condensed financial statements are presented as if the companies were combined during all periods included therein.

2. The allocation between NSP and WEC and their customers of the estimated cost savings, resulting from the Transaction, net of the costs incurred to achieve such savings, will be subject to regulatory review and approval. Transaction costs are currently estimated to be approximately $30 million (including fees for financial advisors, accountants, attorneys, filings and printing). None of the estimated cost savings, the costs to achieve such savings, or the transaction costs have been reflected in the pro forma combined condensed financial statements.

3. Intercompany transactions (including purchased and exchanged power transactions) between NSP and WEC during the periods presented were not material and, accordingly, no pro forma adjustments were made to eliminate such transactions.

4. A pro forma adjustment has been made to conform the presentation of noncurrent deferred income taxes in the pro forma combined condensed balance sheet into one net amount. All other report presentation and accounting policy differences are immaterial and have not been adjusted in the pro forma combined condensed financial statements.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following Exhibits are filed with this report:

10.01 Annual Executive Incentive Plan for 1995.

23.01 Consent of Independent Accountants (Price Waterhouse LLP).

27.01 Financial Data Schedule for the three months ended March 31, 1995.

The following Exhibits are incorporated herein by reference:

2.01 Agreement and Plan of Merger, dated as of April 28, 1995, by and among Northern States Power Company, Wisconsin Energy Corporation, Northern Power Wisconsin Corp. and WEC Sub Corp. (Exhibit (2)-1 to Northern States Power Company's Current Report on Form 8-K dated as of April 28, 1995, File No. 1-3034). ("NSP's 4/28/95 8-K")

2.02 WEC Stock Option Agreement, dated as of April 28, 1995, by and among Northern States Power Company and Wisconsin Energy Corporation. (Exhibit (2)-2 to NSP's 4/28/95 8-K.)

2.03 NSP Stock Option Agreement, dated as of April 28, 1995, by and among Wisconsin Energy Corporation and Northern States Power Company (Exhibit (2)-3 to NSP's 4/28/95 8-K.)

2.04 Committees of the Board of Directors of Primergy Corporation. (Exhibit (2)-4 to NSP's 4/28/95 8-K.)

2.05 Form of Employment Agreement of James J. Howard. (Exhibit (2)-5 to NSP's 4/28/95 8-K.)

2.06 Form of Employment Agreement of Richard A. Abdoo. (Exhibit (2)-6 to NSP's 4/28/95 8-K.)

2.07 Form of Amended and Restated Articles of Incorporation of Northern Power Wisconsin Corp. (Exhibit (2)-7 to NSP's 4/28/95 8-K.)

99.01 Audited Financial Statements of Wisconsin Energy Corporation. (Item 8 of Wisconsin Energy Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1994, File No. 1-9057):

Report of Independent Accountants.

Consolidated Income Statement for the three years ended December 31, 1994.

Consolidated Statement of Cash Flows for the three years ended December 31, 1994.

Consolidated Balance Sheets as of December 31, 1994 and 1993.

Consolidated Capitalization Statement as of December 31, 1994 and 1993.

Consolidated Common Stock Equity Statement for the three years ended December 31, 1994.

Notes to Financial Statements.

99.02 Unaudited Interim Financial Statements of Wisconsin Energy Corporation. (Item 1 in Part I of Wisconsin Energy Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, File No. 1-9057):

Consolidated Condensed Income Statement for the three months ended March 31, 1995 and 1994.

Consolidated Condensed Balance Sheet as of March 31, 1995 and December 31, 1994.

Consolidated Statement of Cash Flows for the three months ended March 31, 1995 and 1994.

Notes to Consolidated Financial Statements.

99.03 Press Release, dated May 1, 1995, of Northern States Power Company. (Exhibit (99)-1 of NSP's 4/28/95 8-K.)

(b) Reports on Form 8-K

The following reports on Form 8-K were filed either during the three months ended March 31, 1995, or between March 31, 1995 and the date of this report:

January 30, 1995 (Filed February 2, 1995) - Item 5. Other Events. Disclosure of the Company receiving a notice of violation from the United States Nuclear Regulatory Commission, regarding the inspection of the quality assurance programs at the Company and PX Engineering Company, Inc., a subcontractor responsible for the fabrication and assembly of certain components for the TN-40 spent fuel storage containers which will be used at the Prairie Island Nuclear Generating Plant. Disclosure of the Mescalero Apache Tribe vote against participation in a joint Mescalero-Utility Spent Nuclear Fuel Storage Initiative.

February 28, 1995 (Filed March 2, 1995) - Item 5. Other Events. Disclosure of a basic agreement between San Joaquin Valley Energy Partners (SJVEP) and Pacific Gas & Electric Company (PG&E) regarding the acquisition of existing Standard Offer 4 (SO4) contracts by PG&E from SJVEP, subject to regulatory approvals for the transaction.

April 28, 1995 (Filed May 3, 1995) - Item 5. Other Events. Disclosure of an agreement and plan of merger between the Company and Wisconsin Energy Corporation, subject to approval by stockholders and regulatory agencies.

Consolidated Statement of Cash Flows for the three years ended December 31, 1994.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NORTHERN STATES POWER COMPANY
(Registrant)

/s/
Roger D. Sandeen
Vice President, Controller and
Chief Information Officer

/s/
Gary R. Johnson
Vice President and General Counsel

Date: May 12, 1995

ATTACHMENT D.Q-6

Wisconsin Energy Corporation

1994 Annual Report

0132452622

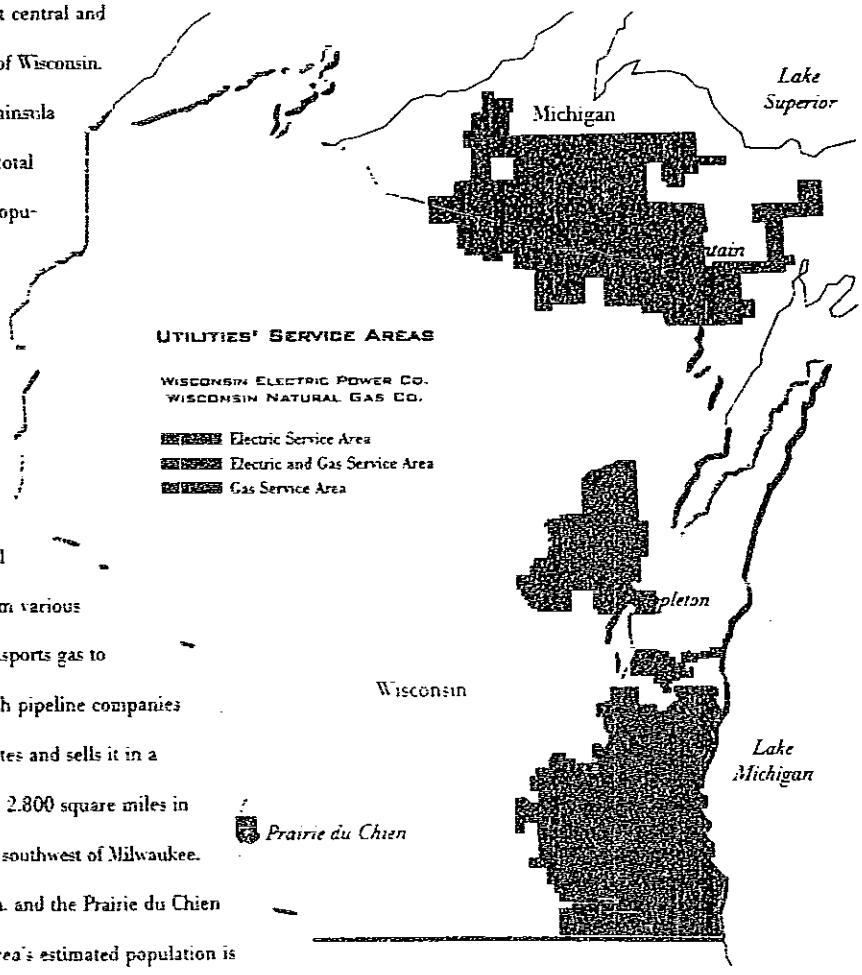
Business of the company

Wisconsin Energy Corp. is a holding company with subsidiaries in utility and non-utility businesses. Its principal subsidiaries are Wisconsin Electric Power Co. and Wisconsin Natural Gas Co.

Wisconsin Electric engages principally in the generation, transmission, distribution and sale of electric energy in a territory of about 12,000 square miles in southeastern Wisconsin, the east central and northern portions of Wisconsin, and the Upper Peninsula of Michigan. The total area's estimated population is more than 2.2 million, which includes metropolitan Milwaukee.

Wisconsin Natural purchases gas from various supply areas, transports gas to Wisconsin through pipeline companies and then distributes and sells it in a territory of about 2,800 square miles in the area west and southwest of Milwaukee, the Appleton area, and the Prairie du Chien area. The total area's estimated population is more than 1.1 million, mainly within the electric service area of Wisconsin Electric.

Wispark Corp., Witech Corp., Wisvest Corp., Badger Service Co., and Wisconsin Michigan Investment Corp. are non-utility businesses devoted primarily to stimulating economic growth in the utilities' service territories and to capitalizing on diversified investment opportunities for stockholders.

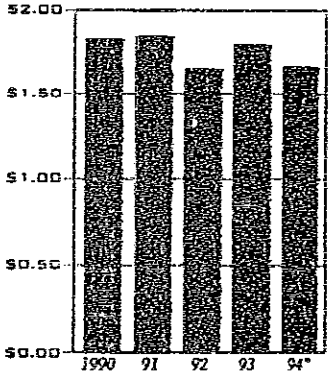


WISCONSIN ENERGY CORPORATION

Highlights

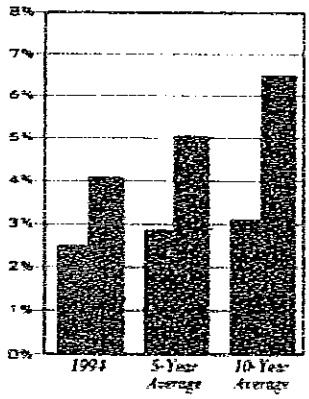
	1994	1993	% Change 1-YR	5-YR. Annual Compound Growth Rate (%)
FINANCIAL RESULTS				
Total Operating Revenues (000)	$1,742,192	$1,693,235	2.9	2.6
Net Income (000)	$ 180,868	$ 190,135	(4.9)	(1.6)
Earnings per Share of Common Stock	$ 1.67*	$ 1.80	(7.2)	(2.6)
Dividends per Share of Common Stock	$ 1.396	$ 1.341	4.1	5.1
Common Stock Year-End Price	$ 25¾	$ 27⅜	(5.9)	4.0
Book Value per Share of Common Stock at year-end	$ 16.81	$ 15.56	2.9	4.4
OPERATING RESULTS				
Electric Sales (000 KWH)	26,911,363	25,685,436	4.8	2.1
Electric Customers (year-end)	944,855	932,285	1.3	1.4
Electric Peak Demand (000 KW)	4,950	4,691	5.5	1.9
Gas Deliveries (000 therms)	811,219	809,348	0.2	0.9
Gas Customers (year-end)	347,080	336,571	3.1	3.0

EARNINGS PER SHARE OF COMMON STOCK



*Excluding the one-time restatement charge, earnings per share would have been $2.09

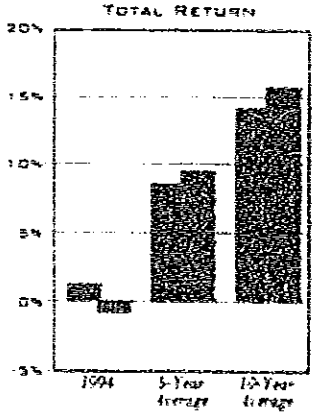
DIVIDEND GROWTH RATE



Utility Industry**
Wisconsin Energy

**Electric Utility Research Inc.

STOCKHOLDER TOTAL RETURN



S&P 500
Wisconsin Energy

(Average annual return including reinvested dividends)

Chairman's Letter

In 1994, a few companies were making things happen in the changing energy marketplace, some were just watching and reacting, and others were ignoring industry-shaping events and falling behind. I'm pleased to say few energy companies in the nation are being more aggressive than we are in seeking change and creating opportunity. Wisconsin Energy Corp. clearly is a leader in transforming the energy industry.

Report

Our revitalization activities continue to create visible and remarkable improvements. We are reinventing our businesses for tomorrow's opportunities, rebuilding our companies into business units that function as individual profit centers. We're also simplifying our work, conducting business with a 20 percent smaller work force than we had about a year ago.

While pursuing opportunities in the new energy marketplace, we're maintaining strong financial performance. Earnings per share were $1.67 in 1994 compared with $1.80 a share in the previous year, reflecting a $73.9 million one-time charge associated with our revitalization effort. Excluding the one-time charge, we had record earnings of $2.09 a share, 16 percent higher than they were a year ago. Our strong financial position allowed us to increase annual dividends per share of common stock 4.1 percent, which is well above the average for the industry. The dividend payout ratio, excluding the one-time charge, was 67 percent of earnings in 1994.

Competition in the energy marketplace continues to grow. In the electric industry, we envision competition in generation and customer service. We see re-regulation for the businesses that own, operate and maintain the wires. We see all of this activity revolving around a power exchange—a new marketplace for buying and selling electricity. Competition will provide customers with greater choice, better service and lower prices, and provide us with new opportunities to grow our business. In the natural gas industry, federal regulatory changes unbundled transportation, storage and retail sales services traditionally sold by interstate pipelines. The changes have created additional flexibility as well as challenges for local distribution companies. We now must contract separately for each service from a variety of market participants, but in the long run, these changes are expected to stabilize prices.

In the past year, we enhanced our national reputation as a leader in environmental stewardship. We continue to demonstrate our commitment to go beyond compliance in seeking solutions to environmental issues.

Our outstanding and culturally diverse work force and leadership team have a vision to help shape our future. Together, they are helping strengthen our position in the energy business and creating new opportunities for continued success.

Finally, I take this opportunity to thank directors Jack Murray and Morris Reid, whose terms on the board expire at our annual meeting. Their leadership and guidance over the past years is appreciated. I also thank retiring WEC Vice Chairman Bill Boston for 12 years of service as an officer in our companies. These three individuals contributed significantly to our achievements and helped shape our companies to meet the opportunities ahead.

Respectfully submitted,

Richard A. Abdoo
Chairman, President &
Chief Executive Officer
March 29, 1995

A Discussion with Richard Abdoo

Which accomplishments were most satisfying in the past year?

Several are key to seizing opportunity. Rebuilding our company from the ground up through our revitalization effort clearly puts us into a better competitive position. In 1994, we detailed our vision of the restructured industry, sent it to the Public Service Commission of Wisconsin, and began working with stakeholders to underscore the benefits of a more competitive industry.

I'm also proud of many other achievements, including our efforts leading to the approval of our plan for dry storage of spent nuclear fuel at Point Beach Nuclear Plant, the purchase of the Milwaukee County Power Plant, the successful completion of the Wisconsin Southern Gas merger, the opening of our lightweight aggregate plant, our innovative environmental initiatives in the Czech Republic city of Decin and the Central American nation of Belize, and the continued growth of Wispark's industrial park operations.

What did the revitalization effort cost and what are the benefits?

We incurred a one-time charge of $73.9 million in 1994 for the costs associated with revitalization. Most of the costs were for the severance and early retirement plans offered to our employees. We are offsetting the cost through increased productivity, improved processes and outsourcing certain functions. The results are improved longer-term profitability for our companies and better service for our customers.

What innovative approaches are you using to improve competitiveness?

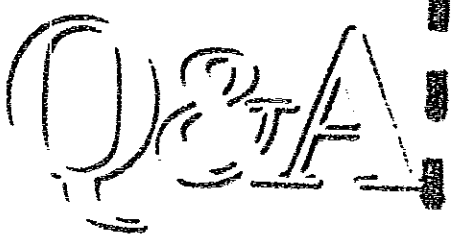
We're doing much of our work differently than we have in the past, adapting concepts proven in other industries. We've also formed alliances with suppliers that are helping us reduce costs and provide opportunities to sell our skills, services and products to others.

Are the employees supporting the changes occurring in the company and industry?

Changes are difficult for some employees to accept, but we continue to make progress. We have a great work force that is closely involved in making the changes necessary for our continued success. I'm particularly proud of our unions' involvement in the change process. A labor-management group is working closely together with our companies in resolving issues of mutual concern and defining the relationship between the companies and their unions.

Where do you see the energy industry five years from today?

Fewer traditional utility companies will exist. Survivors will be customer-focused energy companies, providing a variety of energy and other essential services in a highly competitive market. Customers will demand more as their expectations rise. Successful companies will keep pace with increasing customer expectations.



What are your expectations for future stock performance?

While I cannot predict how our stock will perform in the future, I believe that our strong financial condition and relatively low dividend payout ratio provide us the flexibility to increase common stock dividends at a rate above the average for the industry. I also believe that our already low energy prices, coupled with our revitalization activities, will position us favorably to effectively respond to an increasingly competitive environment.

Out of Change Comes Opportunity

The past year was truly pivotal in the history of Wisconsin Energy Corp. We are being reborn and are reshaping ourself with a new vigor. We are pursuing changes that promise opportunities for our companies, stockholders, employees, customers and the environment. We fully believe that by embracing change itself, there is real opportunity to shape it.

Choice

Creating the opportunity of choice for all customers

Wisconsin Energy is a leader in the transformation of the electric industry. Our view of tomorrow includes an energy marketplace that gives all customers competitive choices, improved service and reduced prices. In November 1994, Wisconsin Energy's subsidiary, Wisconsin Electric, took a step toward this more competitive industry by sharing its vision with the Public Service Commission of Wisconsin (PSCW).

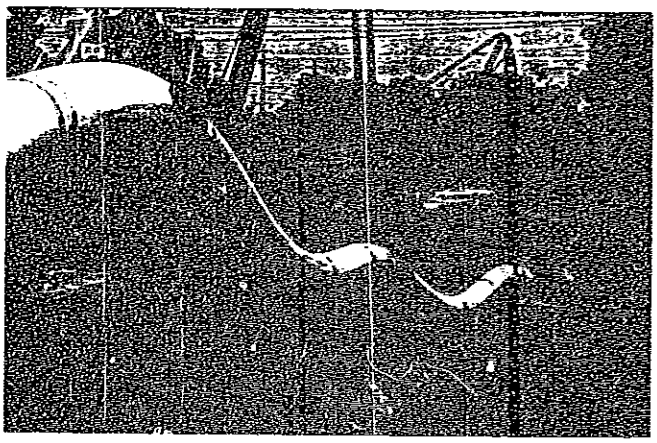
Wisconsin Electric's three-point plan for re-regulation of the electric industry would:

- Create a regional, independent power exchange to form a marketplace for electricity buyers and sellers. The exchange also dispatches energy from power plants in the most economically efficient way.
- Create competition in the generation and customer service aspects of the industry. Generating companies compete by bidding into the power exchange or by pursuing bilateral contracts with potential buyers. Customer service companies compete by selling electricity along with value-added services.
- Maintain those aspects of the electricity industry where a single provider still provides the lowest price. The Federal Energy Regulatory Commission (FERC) would regulate the power exchange and transmission network to ensure open access, comparable pricing, comparable service, and adequate cost recovery. The

As competition increases in the energy industry, customer-focused service from Wisconsin Energy companies' employees will be key to continued success.

PSCW would regulate distribution to individual customers for price, reliability, public safety and customer satisfaction.

We believe our approach to industry restructuring not only will offer customers low-cost electricity but also will provide the added benefits of choice and improved service. Many utilities are seeking to introduce the benefits of competition only to large customers, but our vision includes all customers—right down to the individual residential user.



Wisconsin Natural moved quickly to respond to changes in the natural gas industry.

Moving quickly on natural gas industry changes Management of gas supplies changed dramatically during 1994. Wisconsin Natural adjusted to a 1993 order by the FERC that separated services such as transportation, storage and sales. The order stopped interstate pipelines from "bundling" the services and selling them to local distribution companies, such as Wisconsin Natural. The company moved quickly to establish gas supply contracts with gas producers and arrange for storage of natural gas. During the year, Wisconsin Natural became a marketer and entrepreneur, rather than just a buyer of natural gas.

Dry storage approved for Point Beach Nuclear Plant The PSCW approved use of 12 dry storage containers for Point Beach Nuclear Plant's spent fuel. Since construction of the two-unit, nearly 1,000-megawatt facility more than 20 years ago, the plant has been storing the used fuel in a water-filled, spent-fuel pool in anticipation of the opening of a federal repository. Without the additional storage, the plant would have been forced to shut down in 1998.

Wisconsin Electric continues to seek approval for the replacement of the Unit 2 steam generators at Point Beach

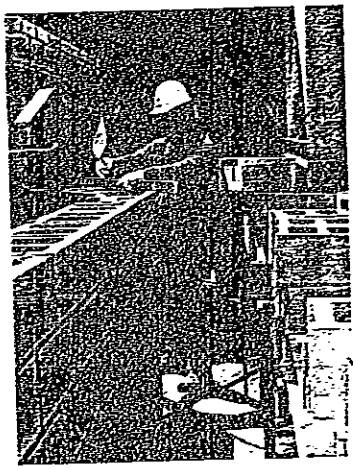
Nuclear Plant. The company estimates the cost of the Unit 2 project at $119 million. New steam generators would allow the plant to continue operating at full power until expiration of its operating license in 2013, while improving its efficiency as a low-cost source of electricity. Point Beach completed a similar project on Unit 1 in 1984.

During its first 20 years of operation, Point Beach saved Wisconsin Electric's customers more than $1 billion on their electric bills. Projections show continued savings to customers of more than $100 million for each year the plant remains in service. Because it burns no fossil fuels, the plant's environmental benefits also are substantial.

Lightweight aggregate—a new marketing opportunity

In 1994, Wisconsin Electric introduced a unique lightweight aggregate product to be manufactured at Oak Creek Power Plant, Oak Creek, Wis. The patented process takes fly ash and combines it with waste water sludge to form a lightweight but strong pellet to use in the manufacture of concrete and masonry products. Finished concrete products weigh up to 30 percent less while maintaining structural soundness.

Minergy Corp., a newly formed subsidiary, is marketing the lightweight aggregate technology worldwide. Minergy owns the patents for the innovative manufacturing process. The company is exploring opportunities ranging from developing plants and having equity positions in similar projects to licensing the technology.



Landfill-saving lightweight aggregate used in these concrete blocks reduces their weight up to 30 percent.

Revitalization success

Anticipating a less regulated, more competitive future, Wisconsin Electric's Fossil Operations business unit focused its 1994 revitalization efforts on reducing generating costs. By beginning to change the way we do business, Wisconsin Electric's operating, fuel and maintenance costs per megawatt-hour generated are 10 percent lower than a year ago.

To help ensure ongoing cost reductions, the company has improved work processes, broadened job responsibilities, streamlined the work force, pushed decision-making to

Innovation

appropriate levels, reduced management layers and investigated ways to reduce costs from vendors and suppliers.

Commitment

Similar improvements also are under way in other business units.

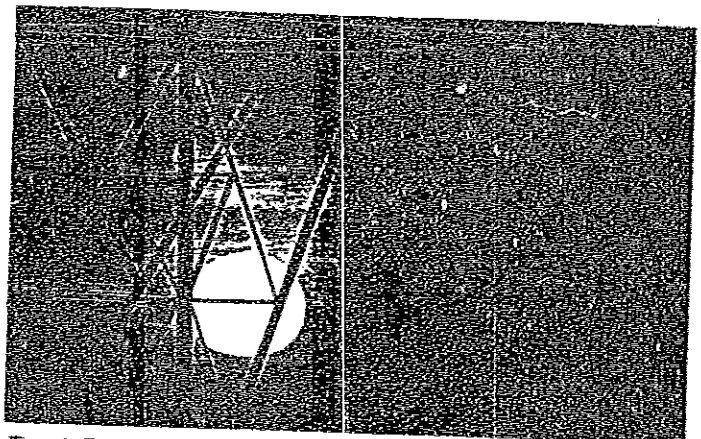
Opportunities for our core business in energy production and delivery

Seizing the opportunity. Wisconsin Electric began the process of adding another power plant to its portfolio of generating facilities. A consortium of Wisconsin Electric and the Milwaukee Regional Medical Center offered $56 million for the purchase of the Milwaukee County Power Plant. We are in the final steps of negotiations to acquire the facility. Wisconsin Electric would manage and operate the generation and distribution facilities, providing a new source of generation and revenue for the company. This is another example of the innovative approaches the company is taking to thrive in an increasingly competitive environment.

Port Washington Power Plant completed a three-year renovation project that restores each of the plant's four units to original operating capacities. The renovation increased output by some 30 percent.

The company also completed construction of Units 3 and 4 at the Concord Generating Station near Watertown, Wis. The 75-megawatt units, fueled by natural gas from Wisconsin Natural, will help provide power during periods of peak electric demand. The company expects completion of four units in a similar combustion-turbine facility in Paris, Wis., in 1995.

Several projects will help get the electricity from where it's produced to where it's needed. A proposed transmission project will increase the voltage of 72 miles of existing line from Iron Mountain, Mich., to a point southwest of



Wisconsin Electric is expanding its transmission network to help get electricity from where it's produced to where it's needed.

Oconto Falls, Wis. A second component will add a new 42-mile line from Oconto Falls to a point near Appleton, Wis. This line and other related improvements will enable Wisconsin Electric to move additional power from its Presque Isle Power Plant in Marquette, Mich., to Wisconsin customers during periods of peak demand. The line also will allow Wisconsin Electric to provide low-cost power and facilitate large amounts of industrial load management in the Upper Peninsula of Michigan. If approved, the line would be completed in 1999.

[illegible]

Wisconsin Electric also announced a plan in conjunction with Edison Sault Electric Co. and Upper Peninsula Power Co. to meet the future electrical demand and transmission needs of Michigan's Upper Peninsula. The plan includes construction of major transmission facilities needed to strengthen the power supply network, which will provide the foundation for economic growth in the area.

Wisconsin Electric is continuing efforts to improve customer service through expanded hours, increased training and a competitive telephone sales force

Customer service initiatives—essential for the future

The utility companies at Wisconsin Energy are sharpening their focus on proactive customer service and cost savings.

Plans for a new customer contact center developed in 1994 promise improved customer service through more broadly trained personnel, expanded service hours and a competitive telephone sales force. The Pewaukee, Wis., facility will serve as a single source for information, sales, order taking and problem resolution for both electric and natural gas customers. The center will consolidate five existing call centers.

Starting in 1994, customers began accessing a voice response unit, or automated phone system, through their telephone keypads, to get information. Customers also can call to make payment arrangements or to sign up for Budget Billing. The new system responds quickly and reduces waiting time.

Other 1994 customer service initiatives include:

- Reading meters every other month and sending estimated bills for months when meters are not read, which reduces meter reading costs by nearly 40 percent.

■ Reconfiguring meter reading routes to keep meter readers in a general geographic area and having meter readers make minor repairs and handle simple service requests.

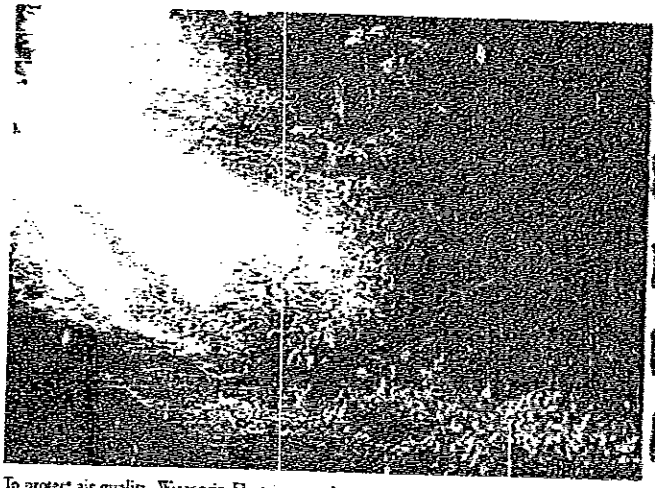
As a combined company, Wisconsin Electric and Wisconsin Natural will be well positioned to meet customers' total energy needs.

Environmental commitment delivers

■ Meeting customers' natural gas service installation requests quickly and efficiently through team coordination.

■ Introducing third-party bill payment stations at grocery stores, banks and other locations to expand service for customers. While expanding service, we reduced costs by closing most regional customer offices.

Wisconsin Energy's innovative environmental leadership delivered significant achievements in the past year, which will protect the environment for future generations.



To protect air quality, Wisconsin Electric is working to purchase about 11,000 acres of forest in the Central American nation of Belize.

Growing the corporation

In 1994, Wisconsin Energy acquired Wisconsin Southern Gas and merged it into Wisconsin Natural, adding some 48,000 customers to Wisconsin's second-largest natural gas utility. The addition of Wisconsin Southern prompted a restructuring at Wisconsin Natural, which consolidated many of the company's functions, resulting in greater efficiencies and reduced costs.

After the Wisconsin Natural and Wisconsin Southern merger, Wisconsin Energy announced plans to merge Wisconsin Natural and Wisconsin Electric. The companies expect to complete the merger at the end of 1995.

Wisconsin Electric was one of about 30 U.S. electric companies that signed the Global Climate Challenge Participation Accord with the U.S. Department of Energy. The agreement details commitments by the companies to pursue the President's goals for voluntary reductions in global greenhouse gas emissions.

Growth

Wisconsin Electric is purchasing about 14,000 acres of endangered forest in the Central American country of Belize. A comprehensive tropical forest use program will be implemented to carefully nurture this important contributor to air quality and to protect it for centuries to come.

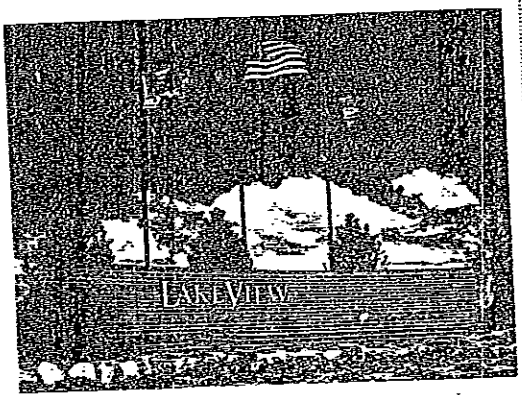
Wisconsin Electric joined two other energy companies as investors and the Center for Clean Air Policy in a project to replace old, coal-fired boilers in an energy company in the Czech Republic city of Decin. The new, natural gas-fired boilers and other energy-efficiency improvements will result in a significant reduction of sulfur-dioxide and carbon-dioxide emissions.

In return for these investments in the Czech Republic and Belize, Wisconsin Electric records emission reductions for credit with the Department of Energy as part of the U.S. effort to reduce global warming. The two projects were among only seven chosen recently to receive such credit. The corporation continues to seek opportunities for cost-effective, market-based solutions to improve the environment.

Non-utility operations

The most visible of Wisconsin Energy's non-utility operations is Wispark's LakeView Corporate Park in Kenosha County. Companies formerly located in northern Illinois now occupy nearly 60 percent of the space developed in the park. Lower costs for land and energy continue to motivate companies to consider Wisconsin in their expansion plans. About 1,000 acres still remain available for development in LakeView.

Just north in Racine County, Wispark is now developing GrandView Business Park, a 125-acre development. In its first year, more than 20 acres were sold. Wispark also is a partner with the City of Kenosha in a 140-acre municipal-style industrial park called Business Park of Kenosha. The infrastructure was completed in 1994, and four sales totaling 20 acres already are completed. Wispark also is beginning to develop RidgeView Corporate Park in Pewaukee, Wis., and Westridge Business Park in New Berlin, Wis. Wisconsin Electric and Wisconsin Natural serve all of the Wispark developments.



LakeView Corporate Park is now home to 41 firms and more than 3,600 employees.

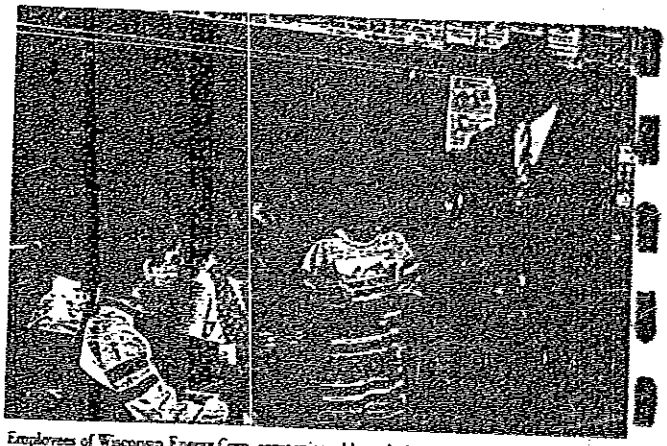
Improving education

Strengthening the educational system to provide better opportunity for both young and adult students is a vital commitment to the communities served by Wisconsin Energy companies. Our initiatives will help develop skilled workers and quality leaders for our future workforce. Wisconsin Electric is working with community leaders to improve our educational institutions and we are partnering with both public and private schools to provide support so our children get the best education possible.

Our employees are going into selected schools as role models to convey the message that education and hard work enhance students' ability to compete successfully in the workplace. We also provide scholarships to low-income high school students to give them opportunity for advanced education.

We continue our long-standing electrical safety programs for grade school children to help ensure their future well being.

Our adult education efforts focus on informing women and minorities about opportunities in non-traditional careers. In 1995, Wisconsin Electric will offer its fourth Women in Hard Hats program, which has attracted more than 300 women interested in learning how they can succeed in trades.



Employees of Wisconsin Energy Corp. companies address decision-making and career consequences in programs conveying relevance of education to children in area schools.

Around the corner

The many changes of the past year and opportunities for the future are serving to energize Wisconsin Energy's companies. New management and organization, new services and products, new technology and processes all are leading to significant opportunities to grow revenues. While other energy companies are just beginning to develop plans for a more competitive future, Wisconsin Energy already is in position to move forward on the many opportunities we are discovering and others we are shaping.

Leadership

Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Earnings Earnings per share of Wisconsin Energy's common stock in 1994 were $1.67 compared with $1.80 a share in 1993, a decrease of 7.2 percent. Earnings for the 12 months reflect a non-recurring charge of approximately $73.9 million ($45 million net of tax, or 42 cents a share) associated with the company's organizational restructuring program. The charge primarily reflects the costs of severance and early retirement packages which are elements of a "revitalization" program designed to better position Wisconsin Energy in a changing energy marketplace. The company anticipates that the one-time restructuring charge, which was taken in the first quarter of 1994, will be offset by the end of 1995 through savings in operation and maintenance costs. Excluding the non-recurring charge, earnings per share of common stock were $2.09 for the 12 months ended December 31, 1994 compared with $1.80 in 1993, an increase of 16.1 percent. Earnings reflect a 4.8 percent increase in electric kilowatt-hour sales and a 5.7 percent reduction in non-fuel operation and maintenance expenses. Electric sales increased primarily due to warmer weather during the summer of 1994 and additional economic activity in the company's service area. The reduction in non-fuel operation and maintenance expenses reflects, among other things, payroll-related savings as a result of workforce reductions, and lower expenditures made in connection with power plant renovation work as maintenance programs were completed.

Wisconsin Electric and Wisconsin Natural Revitalization In response to increasing competitive pressures in the markets for electricity and natural gas, Wisconsin Electric Power Company ("Wisconsin Electric") and Wisconsin Natural Gas Company ("Wisconsin Natural") have developed and are implementing a revitalization process to increase efficiencies and improve customer service.

Wisconsin Electric and Wisconsin Natural are "reengineering" and restructuring their organizations. The new structures consolidate many business functions and simplify work processes. Due to productivity improvements, staffing levels at Wisconsin Electric and Wisconsin Natural have been reduced: 403 employees elected to retire under an early retirement option and 651 employees have enrolled in severance packages. See Note J to the Financial Statements - Benefits Other Than Pensions, for additional information.

As part of the revitalization effort, Wisconsin Energy intends to merge Wisconsin Electric and Wisconsin Natural to form a single combined utility subsidiary. The proposed merger will improve customer service and reduce operating costs. The merger, which is anticipated to be effective by year-end 1995, is subject to a number of conditions, including requisite regulatory and other approvals. Wisconsin Electric and Wisconsin Natural filed a joint application on October 11, 1994, to obtain the Public Service Commission of Wisconsin's ("PSCW") approval of the merger. Wisconsin Electric also filed an application to obtain the Michigan Public Service Commission's ("MPSC") consent to assume Wisconsin Natural's liabilities in connection with the merger. Both approvals are expected by year-end 1995.

Acquisition of Wisconsin Southern Gas Company, Inc. Effective January 1, 1994, Wisconsin Southern Gas Company, Inc. ("Wisconsin Southern") was acquired by Wisconsin Energy through a merger of Wisconsin Southern into Wisconsin Natural. In the transaction, structured as a tax-free reorganization, all outstanding shares of Wisconsin Southern common stock were converted into 1,637,935 shares of Wisconsin Energy common stock, with fractional interests paid in cash, based on an exchange ratio of 1.6330 shares of Wisconsin Energy common stock for each outstanding share of Wisconsin Southern common stock. The merger was structured to qualify as a pooling of interests for accounting and financial reporting purposes. Accordingly, financial and statistical information for prior years has been restated to reflect the acquisition.

Wisconsin Southern was a gas utility engaged in the purchase, distribution, transportation and sale of natural gas for residential, commercial and industrial consumption in a service territory contiguous to Wisconsin Natural's service territory located in southeastern Wisconsin. Wisconsin Natural is Wisconsin's second largest gas distribution company.

Electric Sales and Revenues Total electric sales of Wisconsin Electric, the principal subsidiary of Wisconsin Energy, detailed below by customer class, increased 4.8 percent in 1994 compared to 1993.

Electric Sales			%
Megawatt Hours	1994	1993	Change
Residential	6,670,081	6,551,061	1.8
Small Commercial and Industrial	6,699,073	6,357,510	5.4
Large Commercial and Industrial	10,471,869	9,771,383	7.2
Other	1,603,741	1,776,061	(9.7)
Total Retail and Municipal	25,444,764	24,456,015	4.0
Resale - Utilities	1,466,599	1,229,421	19.3
Total Sales	26,911,363	25,685,436	4.8

Electric energy sales were positively impacted by warmer summer weather in 1994, which resulted in increased use of electricity for air conditioning and other cooling purposes, and increased economic activity. The increase in electric sales also reflects colder winter weather during the first quarter of 1994 and increased sales to the Empire and Tilden iron ore mines.

Electric energy sales to the Empire and Tilden iron ore mines, Wisconsin Electric's two largest customers, were 15.0 percent higher in 1994 compared to 1993. The increase is attributable to a five-week long mine strike during the third quarter of 1993 which reduced sales during 1993. Wisconsin Electric's contracts with the mines require the payment of a demand charge regardless of power usage which partially offset the impact of lost sales on 1993 revenues. Excluding the mines, sales to large commercial and industrial customers increased 5.1 percent in 1994. Sales to the mines represented 8.6 percent, 7.8 percent and 9.0 percent of total electric sales during 1994, 1993 and 1992, respectively.

The 19.3 percent increase in the resale of energy to other utilities is attributable to the increased availability of Wisconsin Electric's power plants. This allowed Wisconsin Electric additional energy for external sales. The percentage change is not indicative of future sales growth in this customer class.

The 9.7 percent reduction in sales to the Other customer class, referred to in the table above, is largely the result of reductions in sales to the Wisconsin Public Power, Inc. SYSTEM ("WPPI"), Wisconsin Electric's largest municipal customer consortium. WPPI has been reducing its purchases from Wisconsin Electric subsequent to acquiring generation capacity in 1990. Since that time, WPPI has expanded the use of its existing generation facilities and has installed additional capacity, further reducing its reliance on energy purchases from Wisconsin Electric. These sales reductions did not have a significant effect on earnings.

Total electric kilowatt-hour sales increased at a compound annual rate of 4.3 percent between the years 1992 and 1994, while electric revenues increased at a compound annual rate of 4.0 percent during this period. These increases reflect among other things, more favorable weather conditions in 1994 compared to 1992. The warmer-than-normal summer in 1994 contrasted sharply with the summer of 1992, the coolest since Wisconsin Electric began keeping records in 1948.

Electric Operation and Maintenance Expenses — Total electric operating expenses, excluding income taxes, depreciation and the non-recurring revitalization charge, decreased $17 million in 1994 compared to 1993. The decrease largely reflects the payroll-related savings as a result of workforce reductions referred to above and lower expenditures made in connection with power plant renovation work as maintenance programs were completed. These decreases were partially offset by expenses associated with the implementation of the revitalization program and growth in conservation-related expenses associated with improving the efficiency of customers' electric energy usage. Operating expenses, excluding income taxes, depreciation and the non-recurring charge, have remained relatively flat over the three-year period ended December 31, 1994.

Gas Sales and Revenues — Total gas therms delivered by the company's gas utility subsidiary, Wisconsin Natural, were flat in 1994 compared to 1993. Increased gas deliveries in the first quarter of 1994, compared to the same period in 1993, due to colder winter weather, were offset by a decline in deliveries in the fourth quarter due to unseasonably mild weather. Financial and statistical information has been restated where appropriate to reflect the January 1, 1994 acquisition of Wisconsin Southern.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Therms Delivered - Thousands	1994	1993	% Change
Residential	323,913	322,444	0.5
Commercial and Industrial	199,206	202,549	(1.7)
Interruptible	47,467	34,608	37.2
Total Sales	570,586	559,601	2.0
Transported Customer Owned Gas	240,633	249,747	(3.6)
Total Gas Delivered	811,219	809,348	0.2

Gas revenues decreased $7 million, or 2.1 percent, in 1994 compared to 1993. This reflects the flat gas deliveries and reduced purchased gas costs.

Wisconsin Natural transports gas for its customers who purchase gas directly from other suppliers, accounting for 29.7 percent of Wisconsin Natural's total therms delivered during 1994, 30.9 percent during 1993 and 32.9 percent during 1992. Rates charged for transportation services are designed to recover the same margin as gas sold directly by Wisconsin Natural.

As a result of the Federal Energy Regulatory Commission ("FERC") Order 636, the number of gas supply choices now available to Wisconsin Natural has expanded, but the responsibility for the selection and administration of the proper mix and level of services has commensurately increased. Wisconsin Natural arranges for its own gas supply under contracts with terms of various lengths. Changes in the cost of natural gas purchased at market prices are passed through to customers via Wisconsin Natural's purchased gas adjustment clause.

Total gas therms delivered increased at a compound annual rate of 2.5 percent from 1992 to 1994, with gas revenues increasing at a compound annual rate of 6.9 percent. The increase in revenues reflects the recovery of increased purchased gas costs, the impact of increased gas deliveries over this period and small rate increases during 1992 and 1993.

Gas Operating Expenses The $15 million decrease in the cost of gas sold during 1994 compared to 1993 reflects the slight increase in natural gas therm sales offset by the lower average delivered cost of gas during 1994. Other operation expenses were $3 million lower during 1994 compared to 1993 largely reflecting payroll-related savings as a result of work force reductions. Since 1992, the cost of gas sold increased at a compound annual rate of 5.9 percent. This increase reflects higher therm sales, which increased at an annual compound rate of 4.9 percent during this same period, and a 1.0 percent compound annual increase in the average delivered cost of gas sold.

Gas operating expenses, excluding income taxes, depreciation and the non-recurring revitalization charge, increased at a compound annual rate of 5.5 percent since 1992, reflecting the aforementioned increases in the cost of gas sold and a 5.5 percent compound annual increase in Other Operation expenses during this period. Other Operation expenses reflect an increase in postretirement benefit costs associated with the adoption in 1993 of Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other than Pensions, and growth in conservation-related expenses associated with improving the efficiency of customers' use of natural gas.

Other Items Deferred Income Taxes decreased $38 million during 1994 compared to 1993 due, in part, to tax matters related to the timing of payments made in connection with the severance and early retirement packages associated with the company's organizational restructuring program. Deferred Income Taxes also reflect a prior period reclassification between current and deferred income taxes.

Other Interest increased $5 million during 1994 compared to 1993 reflecting increased short-term debt balances, primarily at Wisconsin Electric. Interest charges on long-term debt increased $13 million during 1993 compared to 1992 largely due to the additional debt issued by the utility subsidiaries to finance their construction programs and the amortization of premiums associated with the debt securities refinanced during 1992 and 1993.

With expectations of low-to-moderate inflation and future operating cost reductions discussed above, Wisconsin Electric and Wisconsin Natural do not believe the impact of inflation will have a material effect on their future results of operations.

Electric and Gas Sales Outlook Assuming moderate growth in the service territory economy and normal weather, Wisconsin Electric presently anticipates electric kilowatt-hour sales to grow at a compound annual rate of approximately 1.0 percent over the five-year period ending December 31, 1999. Including the sales projections of the former Wisconsin Southern, which was acquired and merged into Wisconsin Natural effective January 1, 1994 (see "Acquisition of Wisconsin

WISCONSIN ENERGY CORPORATION

Management's Discussion and Analysis of Financial Condition and

Southern Gas Company, Inc."), Wisconsin Natural forecasts therm deliveries of natural gas to grow at a compound annual rate of approximately 2.2 percent over the same five-year period. These forecasts are subject to a number of variables, including the economy and weather, which may affect the actual growth in sales.

Rates and Regulatory Matters

The table below summarizes the projected annual revenue impact of recent rate changes authorized by regulatory commissions for the electric and gas subsidiaries of the company based on the sales projections utilized by those commissions in setting rates. The PSCW regulates Wisconsin retail electric, steam and natural gas rates, while the FERC regulates wholesale electric rates. The MPSC regulates retail electric rates in Michigan. The PSCW has discontinued the practice of conducting annual rate case proceedings, replacing it with a new schedule which calls for future rate cases to be conducted once every two years.

In support of its goal to become the lowest-cost energy provider in the region and in light of the operating cost reductions expected from the reengineering process discussed above, Wisconsin Electric did not seek an increase in rates for 1994 or 1995.

Company/Service	Revenue Increase (Decrease)	Percent Change in Rates	Effective Date
Wisconsin Electric			
Retail electric, WI	$26,655,000	2.3	02/17/93
Steam heating	505,000	3.5	02/17/93
Wholesale electric	6,000,000	10.6	06/09/93
Retail electric, MI	1,366,000	4.3	07/09/93
Fuel electric, WI	(8,596,000)*	(0.9)	11/05/93
Fuel electric, WI	(16,179,000)	(1.3)	08/04/94
Wisconsin Natural			
Natural gas	$ 9,172,000	3.3	09/02/93

** The 1993 fuel credit was eliminated 1/1/94 by PSCW order.*

Under the Wisconsin retail electric fuel adjustment procedure, retail electric rates may be adjusted, on a prospective basis, if cumulative fuel and purchased power costs, when compared to the costs projected in the retail electric rate proceeding, deviate from a prescribed range and are expected to continue to be above or below that range. In the case of Wisconsin Natural, differences between the test-year estimate and the actual cost of purchased gas are accounted for through a purchased gas adjustment clause.

On September 8, 1994, the PSCW issued a notice that it will conduct an investigation into the state of the electric utility industry in Wisconsin, particularly its institutional structure and regulatory regime, in order to evaluate what changes would be beneficial for Wisconsin. The notice states that this investigation may result in profound and fundamental changes to the nature and regulation of the electric utility industry in Wisconsin. It is the PSCW's stated intention that this proceeding will establish criteria and direction for utilities to incorporate into any proposals involving structural or regulatory changes they may put forward. The PSCW also intends that the proceeding reflect input from all those having a stake in Wisconsin's electric utility industry, including large and small retail customers; wholesale customers; utility management; utility securities holders; independent power producers; purveyors of demand-side options and renewable resources; representatives of the environmental, financial, academic, labor, small business and governmental communities; and elected representatives. The PSCW invited interested persons to submit comments as to appropriate objectives for regulation of the electric utility industry and the utility structures and regulatory approaches likely to provide the best balance of such objectives.

On November 1, 1994, Wisconsin Electric submitted its comments to the PSCW in a paper describing a framework for a restructured industry. Wisconsin Electric's view of industry restructuring would seek to achieve the benefits of competition while maintaining reliability of electric service, controlling costs during the transition to the envisioned end-state, and protecting the environment with increasing rigor. Today's various electric utility functions would be split into two major categories—natural monopolies and competitive entities. The natural monopolies are functions where a single entity can provide the lowest cost. The competitive entities would perform functions where competition can provide the lowest cost. The natural monopolies would be re-regulated so the appropriate incentives exist to provide electricity at reasonable prices. The competitive entities would eventually see an elimination of traditional regulation.

In Wisconsin Electric's plan, the re-regulated natural monopolies are the transmission and distribution functions. Re-regulation of these entities should involve some form of price cap and performance-standard operation rules. In the new structure, the FERC would regulate the transmission systems through a regional transmission group to ensure open access, comparable pricing, comparable service and adequate cost recovery. The PSCW would regulate the distribution function for reasonable price, reliability, public safety and customer satisfaction. The

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

competitive entities in the Wisconsin Electric model are the generation, customer service and energy merchant functions.

Initial question-and-answer sessions were held November 28-29, 1994. At a meeting on January 24, 1995, the PSCW approved the establishment of an advisory committee that will examine all aspects of electrical service and the electric utility industry and suggest which functions should be performed by a competitive market. The PSCW established a timetable which would have a final committee report available to the Wisconsin Legislature by the end of 1995.

The PSCW also continued a generic investigation of the natural gas industry in Wisconsin and addressed the extent to which traditional regulation should be replaced with a different approach. In conjunction with this generic investigation, the PSCW staff is reviewing the use of the current purchased gas adjustment ("PGA") mechanism which is designed to pass on to gas customers increases or decreases in the cost of natural gas purchased for resale. A separate docket has been established to review the PGA. Wisconsin Natural is participating in these PSCW investigations.

Wisconsin Energy's principal subsidiaries, Wisconsin Electric and Wisconsin Natural, operate under utility rates which are subject to the approval of the PSCW, MPSC and FERC. Such rates are designed to recover the cost of service and provide a reasonable return to investors. Developing competitive pressures in the utility industry may result in future utility rates which are based upon factors other than the traditional original cost of investment. In such a situation, continued deferral of certain regulatory asset and liability amounts on the utilities' books may no longer be appropriate as allowed under Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation. At this time, Wisconsin Energy is unable to predict whether any adjustments to regulatory assets and liabilities will occur in the future. See Note A to the Financial Statements - Summary of Significant Accounting Policies - Deferred Regulatory Assets and Liabilities, for further information.

LIQUIDITY AND CAPITAL RESOURCES

Investing Activities Wisconsin Energy invested $1,211 million in its businesses during the three years ended December 31, 1994. The investments made during this three-year period include construction expenditures for new or improved facilities totaling $984 million, net capitalized conservation expenditures of $87 million, purchases of nuclear fuel at $64 million and payments to an external trust for the eventual decommissioning of Wisconsin Electric's Point Beach Nuclear Plant totaling $42 million.

During the second quarter of 1994, Wisconsin Electric placed in service the last two units, or approximately 150 megawatts of capacity, at its Concord Generating Station, a four unit 300 megawatt natural gas-fired combustion turbine facility designed to meet peak demand requirements. The first two units were completed in 1993. Capital expenditures of $6 million, $35 million and $47 million were made during 1994, 1993 and 1992, respectively, for construction of this facility. Total capital costs of the Concord facility were approximately $107 million.

Additionally, during 1994, Wisconsin Electric continued construction of the new Paris Generating Station, a four unit, approximately 300 megawatt natural gas-fired combustion turbine facility intended to meet growing peak demand requirements. This generating station, which is expected to have all four units in service during the summer of 1995, is currently estimated to cost $104 million. Capital expenditures of $54 million and $28 million were made during 1994 and 1993, respectively, for construction of this facility.

Wisconsin Electric completed the $107 million renovation project at its Port Washington Power Plant in 1994. Unit 4, the last of four units to be renovated, returned to service in July. The renovation work, which began in September 1991, restored approximately 320 megawatts of capacity and included the installation of additional emission control equipment. Expenditures totaling $12 million, $36 million and $43 million were made during 1994, 1993 and 1992, respectively.

Cash Provided By Operating and Financing Activities During the three years ended December 31, 1994, cash provided by operating activities totaled $1,203 million. During this period, internal sources of funds, after the payment of dividends, provided 64 percent of the company's capital requirements.

Financing activities during the three-year period ended December 31, 1994, included the issuance of $1,053 million of long-term debt, principally to refinance higher coupon debt, the addition of $167 million of common equity from the issuance of new shares through the company's stock plans and the retirement of $73 million of preferred stock. No preferred stock was issued during this period. Additionally, during the three-year period ended December 31, 1994, the company retired a total of $920 million of long-term debt and increased short-term

debt by $155 million. Dividends on the company's common stock were $151 million, $141 million, and $132 million, during 1994, 1993 and 1992, respectively.

During 1993, Wisconsin Electric issued five new series of First Mortgage Bonds aggregating $350 million in principal amount, the proceeds of which were used to redeem $284.3 million principal amount of four outstanding series of First Mortgage Bonds and 626,500 shares of Wisconsin Electric's 6.75% Series Preferred Stock.

During 1992, Wisconsin Electric and Wisconsin Natural issued seven new series of First Mortgage Bonds and two series of Debentures, the proceeds of which provided $476 million principal amount to redeem 14 outstanding series of higher coupon First Mortgage Bonds and $155 million of new capital for the utility subsidiaries.

These refunding transactions are expected to result in approximately $194 million in savings over the lives of the new debt issues. Depending on market conditions and other factors, additional debt refundings may occur.

See Note A to the Financial Statements - Summary Of Significant Accounting Policies - Restrictions, for a discussion of various limitations on the ability of the company's utility subsidiaries to transfer funds to Wisconsin Energy.

Capital Structure The company's capitalization at December 31 is shown as follows:

	1994	1993
Common Equity	52.2%	51.6%
Preferred Stock	0.9	1.1
Long-Term Debt (including current maturities)	39.4	40.9
Short-Term Debt	7.5	6.4
	100.0%	100.0%

Compared to the electric utility industry generally, the company has maintained a relatively high ratio of common equity to total capitalization and low debt and preferred stock ratios. This conservative capital structure, along with strong bond ratings (Wisconsin Electric currently has ratings of AA- by Standard & Poor's Corporation, Aa2 by Moody's Investors Service and AA- by Duff & Phelps Inc.) and internal cash generation has provided, and should continue to provide, the company with access to the capital markets when necessary to finance the anticipated growth in the company's utility businesses. At year-end 1994, the company had $209 million of unused lines of bank credit, $9 million of cash and cash equivalents, $285 million of short-term debt (including long-term debt due currently) and $21 million of construction funds held by trustees.

Capital Requirements 1995-1999 The estimated capital requirements for the company's utility subsidiaries for the years 1995-1999 are outlined in the table below. The construction expenditures have decreased significantly from the estimates reported previously in the 1993 Annual Report to Stockholders. The primary reason for the decrease is the revitalization initiative which will reduce the cost to design, build and maintain company facilities.

(Millions of Dollars)	1995	1996	1997	1998	1999
Construction	$248	$225	$186	$176	$174
Conservation	14	13	13	14	14
Bond Maturities and Refinancings	11	31	166	61	92
Changes in Fuel Inventories	(2)	8	1	5	(2)
Decommissioning Trust Payments	20	30	32	35	37
Total	$291	$307	$398	$291	$315

In January 1994, a coordinated state-wide plan for meeting future electricity needs of Wisconsin customers was filed with the PSCW in the Advance Plan 7 Docket. In the Advance Plan process, Wisconsin Electric, in conjunction with the other regulated electric utilities located in Wisconsin, is required to file long-term forecasts of resource requirements, such as the need for generation and transmission facilities, along with plans to meet those requirements, including the use of energy management and conservation.

In order to reliably meet its forecasted growth in demand, Wisconsin Electric employs a least-cost integrated planning process which includes renovation of existing power plants, promotion of cost effective conservation and load management options, development of renewable energy sources, purchases of power and construction of new company-owned generation facilities.

Investments in demand-side management programs have reduced and delayed the need to add new generating capacity but have not eliminated the need entirely. Purchases of power from other utilities and transmission system upgrades will also combine to help delay the need to install some new generating capacity in the future. However, in order to serve the near-term growth in peak-demand requirements, Wisconsin Electric has received PSCW approval and is currently in various

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

stages of adding new capacity as previously described under "Investing Activities".

Finally, Wisconsin Electric's Advance Plan 7 filing indicates a need for additional peaking capacity after the turn of the century, along with an anticipated need for additional intermediate-load capacity during the 2000 to 2010 time period. Wisconsin Electric's next base load power plant is not expected to be placed in service until after 2010.

The addition of new generating units requires approval from various regulatory agencies, including the PSCW, the U.S. Environmental Protection Agency ("EPA") and the Wisconsin Department of Natural Resources ("DNR"). All generating facilities proposed by Wisconsin Electric will meet or exceed the applicable federal and state environmental requirements.

In 1993, the PSCW, after conducting a competitive bidding process, issued an order selecting a proposal submitted by an unaffiliated independent power producer ("IPP") to construct a generation facility to meet a portion of Wisconsin Electric's anticipated increase in system supply needs. In accordance with the PSCW Order, Wisconsin Electric subsequently signed a long-term agreement to purchase electricity from the proposed facility. The agreement is contingent upon the facility being completed and going into operation, which at this time is planned for mid-1996. A number of parties have filed petitions for judicial review of this PSCW Order, taking the position that the Order should be set aside on various legal grounds. In a decision dated March 17, 1995, the Dane County Circuit Court affirmed the PSCW's selection of the LS Power project and the PSCW's approval of the power purchase agreement entered into by Wisconsin Electric and LSP-Whitewater L.P., the project's developer. The Court remanded to the PSCW for further proceedings the PSCW's selection of Wisconsin Electric's Kimberly project as the conditional second place project to proceed if the LS Power project does not.

Prior to the PSCW selection of the IPP's generation facility, Wisconsin Electric had proposed to construct its own 220 megawatt cogeneration facility in Kimberly, Wisconsin, which was intended to provide process steam to Repap Wisconsin, Inc. ("Repap") starting in mid-1995. Wisconsin Electric had made expenditures toward the Kimberly facility amounting to approximately $70 million. These expenditures were primarily associated with the procurement of combustion turbines, the steam turbine and the heat recovery boiler in order to achieve the in-service dates as agreed to in a steam service contract with Repap. Wisconsin Electric is currently evaluating its options regarding its Kimberly Cogeneration Facility investment. The equipment procured to date is a technology of natural gas-fired combined cycle generation equipment that is marketed worldwide. Wisconsin Electric believes that a market for the equipment exists and is investigating opportunities to sell the equipment or to use it in another power project. At this time, Wisconsin Electric does not believe that the PSCW's selection of an IPP proposal will have a material adverse effect on its financial condition.

The PSCW has approved Wisconsin Electric's application to utilize dry storage for spent nuclear fuel generated at its Point Beach Nuclear Plant ("Point Beach"). The decision completed a multi-year state review of the Wisconsin Electric proposal. The storage system to be used at Point Beach also has been certified by the U.S. Nuclear Regulatory Commission after a four-year technical review. Dry cask storage at Point Beach will use a two-container system made of steel and reinforced concrete. Capital costs associated with this facility are estimated at $6.5 million and are included in the above forecast.

In March 1995 separate petitions were filed by intervenors in Dane County Circuit Court and Fond du Lac County Circuit Court. The Dane County petition seeks reversal of the order and a remand to the PSCW directing it to deny Wisconsin Electric's request for authorization to construct the dry cask facility, or in the alternative, to correct the alleged errors in the PSCW's order. No specific relief is identified in the Fond du Lac County petition; however, numerous grounds of error are alleged. Wisconsin Electric intends to fully participate in both judicial review proceedings and to vigorously oppose the petitions.

The temporary dry storage facility is necessary because the spent fuel pool inside the plant is becoming full. The plant would be forced to shut down by 1998 without additional on-site storage capacity. The dry storage facility will be used until the U.S. Department of Energy ("DOE") takes ownership of the spent fuel. While the DOE and the operators of nuclear power facilities have a contract mandated by federal law that calls for the DOE to begin accepting fuel in 1998, the government is not in a position to meet its commitment. If this commitment is not met, Wisconsin Electric will need to construct additional casks and will seek PSCW approval to do so.

In a related matter, Wisconsin Electric filed with the PSCW for a Certificate of Authority to proceed with the planned 1996 replacement of the Unit 2 steam generators at Point Beach. In 1984 Wisconsin Electric replaced the Unit 1 steam generators. Estimated at a cost of $119 million, which

is also included in the above forecast, the Unit 2 project would allow for its operation until the expiration of its operating license in 2013. Without the replacement of the steam generators, it is believed the unit would not be able to operate to the end of its current license. The PSCW deferred a decision on Wisconsin Electric's request to replace Unit 2 steam generators until early 1996, but directed Wisconsin Electric to make arrangements with the fabricator of the new steam generators to allow replacement to proceed promptly if authorized by the PSCW.

Capital Resources During the five-year forecast period ending December 31, 1999, the utility subsidiaries expect internal sources of funds from operations, after dividends to the company, to provide about 79 percent of the utility capital requirements. The remaining utility cash requirements are expected to be met through the reduction of existing cash investments and construction funds on deposit with trustees, short-term borrowings, the issuance of long-term debt and capital contributions from Wisconsin Energy.

Beginning June 1, 1992, Wisconsin Energy began issuing new shares of common stock through the company's stock plans. During the period of December 1, 1988 to June 1, 1992, shares required for these plans were purchased on the open market. Cash investments and reinvested dividends aggregating $50.5 million were used to purchase 1,981,602 new issue shares during 1994.

Exclusive of debt refundings, utility debt issues of $130 million are anticipated in 1995 and $140 million in 1997.

Environmental Issues The 1990 Amendments to the Clean Air Act mandate significant nation-wide reductions in sulfur dioxide ("SO_2") and nitrogen oxide ("NO_x") emissions to address acid rain and ground level ozone control requirements.

In 1994, Wisconsin Electric completed the installation of continuous emission monitors at all of its facilities and installed low NO_x burners on one boiler at its Oak Creek Power Plant and two boilers at its Valley Power Plant. These actions, along with the burning of low sulfur coal and the installation of low NO_x burners on other boilers at Oak Creek and Valley Power Plants in early 1995, meet the requirements that became effective January 1, 1995. To date, approximately $31 million has been spent on Clean Air Act compliance.

Wisconsin Electric elected to voluntarily bring the Valley and Port Washington Power Plants under jurisdiction of the NO_x and SO_2 requirements of the Clean Air Act, five years earlier than mandated. This was possible because these units meet the more stringent phase II emissions standards today.

Wisconsin Electric projects a surplus of SO_2 emission allowances and is seeking additional allowances available as a result of energy conservation programs. As an integral component of its least-cost plan, Wisconsin Electric is active in SO_2 allowance trading. Revenue from the sale of allowances is being used to offset future potential rate increases.

Additional fuel switching and the installation of NO_x controls at various power plants will be required to meet the second phase of reduction requirements that become effective January 1, 2000. These costs, along with additional operating expenses, are not expected to exceed $54 million based on today's cost.

Like numerous other utilities, Wisconsin Natural is investigating the remediation of a number of former manufactured gas plant sites. Operations at these manufactured gas sites ceased over 40 years ago with remediation activities having been conducted at certain of these sites, while other sites are scheduled for investigation. With estimated remediation costs of approximately $12 million during the next five-year period, based on today's costs, remediation activities are not expected to have a material adverse impact on Wisconsin Energy's financial condition.

Wisconsin Electric aggressively seeks environmentally acceptable, beneficial uses of its combustion byproducts. However, ash materials have been, and to some degree, continue to be disposed in company-owned, licensed landfills. Some early designed and constructed landfills may allow the release of low levels of constituents, resulting in the need for various levels of remediation. These costs are included in the environmental operating and maintenance costs for Wisconsin Electric.

Non-utility Investments The company's non-utility assets amounted to $206 million at December 31, 1994. The company currently anticipates making additional non-utility investments from time to time. For additional information, see Note M - Information by Segments of Business in the Notes to Financial Statements.

WISCONSIN ENERGY CORPORATION

Consolidated Income Statement

Year Ended December 31	1994	1993	1992
			(Thousands of Dollars)
OPERATING REVENUES			
Electric	$1,403,562	$1,347,844	$1,298,723
Gas	324,349	331,301	283,699
Steam	14,281	14,090	13,093
TOTAL OPERATING REVENUES	1,742,192	1,693,235	1,595,515
OPERATING EXPENSES			
Fuel (Note E)	285,862	263,385	266,716
Purchased power	42,623	54,880	63,745
Cost of gas sold	199,511	214,132	177,947
Other operation expenses	399,011	399,135	367,020
Maintenance	124,602	156,085	150,462
Revitalization	73,900	–	–
Depreciation (Note D)	177,614	167,066	164,367
Taxes other than income taxes	76,035	74,653	73,714
Federal income tax (Note C)	104,725	74,463	67,804
State income tax (Note C)	24,756	15,530	16,524
Deferred income taxes – net (Note C)	(25,095)	13,096	9,979
Investment tax credit – net (Note C)	(4,625)	(4,626)	(4,469)
TOTAL OPERATING EXPENSES	1,478,919	1,427,799	1,353,809
OPERATING INCOME	263,273	265,436	241,706
OTHER INCOME AND DEDUCTIONS			
Interest income	17,484	18,809	17,899
Allowance for other funds used during construction (Note F)	4,985	8,457	6,968
Miscellaneous – net	3,318	4,564	2,077
Federal income tax (Note C)	2,118	994	77
State income tax (Note C)	(940)	(751)	(885)
TOTAL OTHER INCOME AND DEDUCTIONS	26,965	32,073	26,136
INCOME BEFORE INTEREST CHARGES AND PREFERRED DIVIDEND	290,238	297,509	267,842
INTEREST CHARGES			
Long-term debt	103,897	104,859	91,464
Other interest	9,206	4,356	4,330
Allowance for borrowed funds used during construction (Note F)	(5,084)	(6,218)	(5,107)
TOTAL INTEREST CHARGES	108,019	102,997	90,687
PREFERRED DIVIDEND REQUIREMENT OF SUBSIDIARY	1,351	4,377	5,916
NET INCOME	$180,868	$190,135	$171,239
AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING (THOUSANDS)	108,025	105,878	103,382
EARNINGS PER SHARE OF COMMON STOCK	$1.67	$1.80	$1.66

The notes are an integral part of the financial statements.

WISCONSIN ENERGY CORPORATION

Consolidated Statement of Cash Flows

Year Ended December 31

(Thousands of Dollars)

	1994	1993	1992
OPERATING ACTIVITIES			
Net income	$180,868	$190,135	$171,239
Reconciliation to cash			
Depreciation	177,614	167,066	164,367
Nuclear fuel expense – amortization	21,437	21,366	20,818
Conservation expense – amortization	20,910	15,254	13,009
Debt premium, discount & expense – amortization	14,405	13,647	5,182
Revitalization – net	43,860	-	-
Deferred income taxes – net	(25,095)	13,096	9,979
Investment tax credit – net	(4,625)	(4,626)	(4,469)
Allowance for other funds used during construction	(4,985)	(8,457)	(6,969)
Change in –Accounts receivable	11,912	(22,691)	10,069
Inventories	11,455	(11,186)	(8,637)
Accounts payable	(21,343)	9,543	15,993
Other current assets	(9,897)	985	(14,387)
Other current liabilities	9,509	19,184	(6,792)
Other	(9,715)	1,970	11,668
CASH PROVIDED BY OPERATING ACTIVITIES	416,310	405,286	381,071
INVESTING ACTIVITIES			
Construction expenditures	(295,769)	(364,810)	(323,387)
Allowance for borrowed funds used during construction	(5,084)	(6,218)	(5,107)
Nuclear fuel	(26,351)	(20,016)	(17,709)
Nuclear decommissioning trust	(10,138)	(11,371)	(20,212)
Conservation investments – net	(20,823)	(35,252)	(31,087)
Other	(6,519)	865	(11,681)
CASH USED IN INVESTING ACTIVITIES	(364,684)	(436,802)	(409,183)
FINANCING ACTIVITIES			
Sale of –Common stock	50,494	61,460	54,546
Long-term debt	32,474	378,649	641,392
Retirement of –Preferred stock	(5,250)	(65,504)	(2,035)
Long-term debt	(35,434)	(333,192)	(551,588)
Change in short-term debt	44,769	85,079	24,688
Dividends on stock – common	(150,708)	(140,876)	(131,752)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(63,655)	(14,384)	35,251
CHANGE IN CASH AND CASH EQUIVALENTS	$(12,029)	$(45,900)	$ 7,139
Supplemental Information			
Cash Paid for			
Interest (net of amount capitalized)	$ 86,619	$ 85,717	$ 89,110
Income taxes	145,883	99,437	90,236

The notes are an integral part of the financial statements.

WISCONSIN ENERGY CORPORATION

Consolidated Balance Sheet

December 31	(Thousands of Dollars) 1994	1993
ASSETS		
UTILITY PLANT		
Electric	$4,304,925	$4,079,794
Gas	467,732	443,643
Steam	40,103	39,113
	4,812,760	4,562,550
Accumulated provision for depreciation	(2,134,469)	(1,989,357)
	2,678,291	2,573,193
Construction work in progress	205,835	209,644
Nuclear fuel - net (Note E)	56,606	52,665
NET UTILITY PLANT	2,940,732	2,835,502
OTHER PROPERTY AND INVESTMENTS		
Nuclear decommissioning trust fund (Note E)	226,805	214,421
Conservation investments	138,489	136,995
Non-utility property - net	94,799	86,668
Other	136,626	118,402
TOTAL OTHER PROPERTY AND INVESTMENTS	596,719	556,486
CURRENT ASSETS		
Cash and cash equivalents	8,976	21,005
Accounts receivable, net of allowance for doubtful accounts–$12,078 and $8,410	114,657	126,569
Accrued utility revenues	128,107	128,459
Fossil fuel (Note A)	88,587	97,847
Materials and supplies (at average cost)	70,359	72,554
Prepayments	61,232	51,656
Other	7,040	6,367
TOTAL CURRENT ASSETS	478,958	504,457
DEFERRED CHARGES AND OTHER ASSETS		
Accumulated deferred income taxes (Note C)	139,927	114,154
Deferred regulatory assets (Note A)	197,103	200,649
Other	54,820	59,344
TOTAL DEFERRED CHARGES AND OTHER ASSETS	391,850	374,147
TOTAL ASSETS	$4,408,259	$4,270,592

The notes are an integral part of the financial statements.

	(Thousands of Dollars)	
	1994	1993
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (See Capitalization Statement)		
Common stock equity	$1,744,566	$1,663,912
Preferred stock – redemption not required	30,451	30,451
Preferred stock – redemption required	-	5,230
Long-term debt (Note G)	1,283,686	1,295,531
TOTAL CAPITALIZATION	3,058,703	2,995,144
CURRENT LIABILITIES		
Long-term debt due currently (Note G)	32,531	22,272
Notes payable (Note K)	252,055	207,286
Accounts payable	91,795	113,138
Payroll and vacation accrued	26,507	29,157
Taxes accrued – income and other	18,230	17,443
Interest accrued	23,477	23,377
Other	29,822	18,570
TOTAL CURRENT LIABILITIES	474,437	431,243
DEFERRED CREDITS AND OTHER LIABILITIES		
Accumulated deferred income taxes (Note C)	475,541	477,595
Accumulated deferred investment tax credits	94,154	98,779
Deferred regulatory liabilities (Note A)	171,599	180,401
Other	133,825	87,430
TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	875,119	844,205
COMMITMENTS AND CONTINGENCIES (NOTE L)		
TOTAL CAPITALIZATION AND LIABILITIES	$4,408,259	$4,270,592

WISCONSIN ENERGY CORPORATION

Consolidated Capitalization Statement

December 31	(Thousands of Dollars) 1994	1993
COMMON STOCK EQUITY (See Common Stock Equity Statement)		
Common stock - $.01 par value; authorized 325,000,000 shares: outstanding - 108,939,769 and 106,958,167 shares	$ 1,089	$ 1,069
Other paid in capital	624,568	574,077
Retained earnings	1,118,909	1,088,766
TOTAL COMMON STOCK EQUITY	1,744,566	1,663,912
PREFERRED STOCK - Wisconsin Electric Power Company, Cumulative		
Six Per Cent. Preferred Stock - $100 par value; authorized 45,000 shares; outstanding - 44,508 shares	4,451	4,451
Serial preferred stock - $100 par value; authorized 2,360,000 shares; outstanding - 3.60% Series - 260,000 shares	26,000	26,000
TOTAL PREFERRED STOCK - REDEMPTION NOT REQUIRED (NOTE H)	30,451	30,451
6.75% Series - 0 and 52,500 shares	–	5,250
TOTAL PREFERRED STOCK - REDEMPTION REQUIRED (NOTE H)	–	5,250
LONG-TERM DEBT		
First mortgage bonds		
Wisconsin Electric Power Company		
4¼% 1996	$ 30,000	$ 30,000
5¾% 1997	130,000	130,000
5¾% 1998	60,000	60,000
6.10% 1999-2008	25,000	25,000
6.25% 1999-2008	1,000	1,000
6¾% 1999	40,000	40,000
6¾% 1999	51,000	51,000
6.45% 2004	12,000	12,000
7¼% 2004	140,000	140,000
6.45% 2006	4,000	4,000
6.50% 2007-2009	10,000	10,000
9¼% 2015	46,350	46,350
7¼% 2016	100,000	100,000
6.85% 2021	9,000	9,000
7¾% 2023	100,000	100,000
7.05% 2024	60,000	60,000
9¼% 2024	3,443	3,443
8¾% 2026	100,000	100,000
7.70% 2027	200,000	200,000
Wisconsin Natural Gas Company		
5¾% 1995	10,000	10,000
9¾% 1995	–	403
11.0% 1995	–	480
6¾% 1997	10,000	10,000
10¼% 1998	–	2,860
9.47% 2006	–	7,000
9¼% 2016	–	3,000
	1,141,793	1,155,536
Debentures (unsecured)		
Wisconsin Natural Gas Company - 6¼% Series due 1997	25,000	25,000
10¼% Series due 1998	2,290	–
9.47% Series due 2006	7,000	–
8¾% Series due 2022	25,000	25,000
Notes (unsecured)		
Wisconsin Michigan Investment Corporation - 6.83% due 1997	5,000	5,000
5.80% due 1998	7,000	7,000
6.66% due 2003	10,600	10,600
WMF Corp. - 9.1% due 2001	3,705	4,070
Wisconsin Electric Power Company - Variable rate due 2016	67,000	67,000
Obligations under capital lease - Wisconsin Electric Power Company (Note E)	43,696	41,870
Unamortized discount - net	(21,867)	(23,273)
Long-term debt due currently	(32,531)	(22,272)
TOTAL LONG-TERM DEBT (NOTE 5)	1,283,686	1,295,531
TOTAL CAPITALIZATION	$3,058,703	$2,995,144

The notes are an integral part of the financial statements.

WISCONSIN ENERGY CORPORATION

Consolidated Common Stock Equity Statement

(Thousands of Dollars)

	Common Stock Shares	Common Stock $.01 Par Value	Other Paid In Capital	Retained Earnings	Total
BALANCE - DEC. 31, 1991	102,674,827	$1,026	$460,541	$1,000,382	$1,461,949
Net income				171,239	171,239
Common stock cash dividends $1.285 per share				(131,752)	(131,752)
Sale of common stock	2,055,698	21	54,770	(245)	54,546
Other			65		65
BALANCE - DEC. 31, 1992	104,730,525	1,047	515,376	1,039,624	1,556,047
Net income				190,135	190,135
Common stock cash dividends $1.341 per share				(140,876)	(140,876)
Sale of common stock	2,227,642	22	61,555	(117)	61,460
Purchase of preferred stock (Note H)			(2,854)		(2,854)
BALANCE - DEC. 31, 1993	106,958,167	1,069	574,077	1,088,766	1,663,912
Net income				180,868	180,868
Common stock cash dividends $1.396 per share				(150,708)	(150,708)
Sale of common stock	1,981,602	20	50,491	(17)	50,494
BALANCE - DEC. 31, 1994	108,939,769	$1,089	$624,568	$1,118,909	$1,744,566

The notes are an integral part of the financial statements.

Notes to Financial Statements

A - Summary Of Significant Accounting Policies

General : The consolidated financial statements include the accounts of Wisconsin Energy Corporation (WEC or the company) and its utility subsidiaries, Wisconsin Electric Power Company (WE) and Wisconsin Natural Gas Company (WN), and its non-utility subsidiaries, Wisconsin Michigan Investment Corporation, Badger Service Company, Wispark Corporation, Wisvest Corporation, Witech Corporation and other non-utility companies.

The accounting records of the company's utility subsidiaries are kept as prescribed by the Federal Energy Regulatory Commission (FERC), modified for requirements of the Public Service Commission of Wisconsin (PSCW).

Revenues : Utility revenues are recognized on the accrual basis and include estimated amounts for service rendered but not billed.

Fuel : Fossil fuel is stated at average cost on the balance sheet except for natural gas which is accounted for primarily under the first-in, first-out basis. The cost of fuel is expensed in the period consumed.

Property : Property is recorded at cost. Additions to and significant replacements of utility property are charged to utility plant at cost; minor items are charged to maintenance expense. Cost includes material, labor and allowance for funds used during construction (see Note F). The cost of depreciable utility property, together with removal cost less salvage, is charged to accumulated provision for depreciation when property is retired.

Deferred Regulatory Assets And Liabilities : Pursuant to Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, the company capitalizes as deferred regulatory assets incurred costs which are expected to be recovered in future utility rates. The company also records as deferred regulatory liabilities the current recovery in utility rates of costs which are expected to be paid in the future. A significant portion of the company's deferred regulatory assets and liabilities relate to the amounts recorded due to the adoption of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (FAS 109). See Note C.

Statement of Cash Flows : Cash and cash equivalents include marketable debt securities acquired three months or less from maturity.

Restrictions : Various financing arrangements and regulatory requirements impose certain restrictions on the ability of WEC's utility subsidiaries to transfer funds to WEC in the form of cash dividends, loans, or advances. Under Wisconsin law, WE and WN are prohibited from loaning funds, either directly or indirectly, to WEC. WEC does not believe that such restrictions will affect its operations.

Conservation Investments : WE and WN direct a variety of demand-side management programs to help foster energy conservation by their customers. As authorized by the PSCW, WE has capitalized certain conservation program costs. Utility rates approved by the PSCW provide for a current return on these conservation investments. Conservation investments are amortized to operating expense over a ten-year period.

B - Utility Mergers

Effective January 1, 1994, the company acquired all of the outstanding common stock of Wisconsin Southern Gas Company, Inc. (WSG) through a statutory merger of WSG into WN in which all of WSG's common stock was converted into common stock of WEC. WSG was a gas utility engaged in the purchase, distribution, transportation and sale of natural gas primarily in a section of southeastern Wisconsin which is contiguous to WN's service territory. WSG was merged into WN using the pooling of interests method of accounting. Accordingly, historical financial data has been restated to include WSG.

In January 1994, the company announced plans to merge WN into WE. The completion of the merger, which is subject to a number of conditions including requisite regulatory approvals, is currently anticipated to occur by year-end 1995.

C - Income Taxes

Comprehensive interperiod income tax allocation is used for federal and state temporary differences. The federal investment tax credit is accounted for on the deferred basis and is reflected in income ratably over the life of the related property.

Following is a summary of income tax expense and a reconciliation of total income tax expense with the tax expected at the federal statutory rate.

(Thousands of Dollars)	1994	1993	1992
Current tax expense	$128,303	$ 89,750	$ 85,136
Investment tax credit-net	(4,625)	(4,626)	(4,469)
Deferred tax expense	(25,095)	13,096	9,979
Total tax expense	$ 98,583	$ 98,220	$ 90,646
Income before income taxes and preferred dividend	$280,802	$292,732	$267,801
Expected tax at federal statutory rate	$ 98,281	$102,456	$ 91,052
State income tax net of federal tax reduction	14,382	12,024	13,604
Investment tax credit restored	(4,625)	(5,241)	(4,580)
Other (no item over 5% of expected tax)	(9,455)	(11,019)	(9,430)
Total tax expense	$ 98,583	$ 98,220	$ 90,646

FAS 109 requires the recording of deferred assets and liabilities to recognize the expected future tax consequences of events that have been reflected in the company's financial statements or tax returns, the adjustment of deferred tax balances to reflect tax rate changes and the recognition of previously unrecorded deferred taxes. Following is a summary of deferred income taxes under FAS 109.

	December 31	
(Thousands of Dollars)	1994	1993
Deferred Income Tax Assets		
Decommissioning trust	$ 42,685	$ 44,888
Construction advances	40,839	39,497
ERIP accrual	18,410	-
Other	37,993	29,769
Total Deferred Income Tax Assets	$139,927	$114,154
Deferred Income Tax Liabilities		
Property related	$430,740	$414,238
Conservation investments	27,564	51,882
Other	17,237	11,475
Total Deferred Income Tax Liabilities	$475,541	$477,595

The company also has recorded the following deferred regulatory assets and liabilities which represent the future expected impact of deferred taxes on utility revenues.

	December 31	
(Thousands of Dollars)	1994	1993
Deferred regulatory assets	$158,912	$159,760
Deferred regulatory liabilities	171,599	180,401

D - Depreciation

Depreciation expense is accrued at straight line rates, certified by the PSCW, which include estimates for salvage and removal costs. Depreciation as a percent of average depreciable utility plant was 3.9% in 1994 and 1993, and 4.1% in 1992.

Nuclear plant decommissioning is accrued as depreciation expense (see Note E).

E - Nuclear Operations

Nuclear Fuel - WE has a nuclear fuel leasing arrangement with Wisconsin Electric Fuel Trust (Trust), which is treated as a capital lease. The nuclear fuel is leased for a period of 60 months or until the removal of the fuel from the reactor, if earlier. Lease payments include charges for the cost of fuel burned, financing costs and a management fee. In the event WE or the Trust terminates the lease, the Trust would recover its unamortized cost of nuclear fuel from WE. Under the lease terms, WE is in effect the ultimate guarantor of the Trust's commercial paper and line of credit borrowings financing the investment in nuclear fuel.

Provided below is a summary of nuclear fuel investment at December 31 and interest expense for the respective years on the nuclear fuel lease:

(Thousands of Dollars)	1994	1993	1992
Nuclear Fuel			
Under capital lease	$ 89,705	$ 91,201	
Accumulated provision for amortization	(50,983)	(54,207)	
In process/stock	17,884	15,671	
Total nuclear fuel	$ 56,606	$ 52,665	
Interest expense on nuclear fuel lease	$ 1,896	$ 1,697	$ 2,098

Notes to Financial Statements (Continued)

The future minimum lease payments under the capital lease and the present value of the net minimum lease payments as of December 31, 1994 are as follows:

	(Thousands of Dollars)
1995	$22.620
1996	14.705
1997	7.992
1998	1.472
1999	539
Total Minimum Lease Payments	47.328
Less: Interest	(3.632)
Present Value of Net Minimum Lease Payments	$43.696

The estimated cost of disposal of spent fuel based on a contract with the U.S. Department of Energy (DOE) is included in nuclear fuel expense. The Energy Policy Act of 1992 establishes a Uranium Enrichment Decontamination and Decommissioning Fund (Fund) for the DOE's nuclear fuel enrichment facilities. Deposits to the fund will be derived in part from special assessments to utilities. As of December 31, 1994, WE has on its books a remaining estimated liability equal to the projected special assessments of $31,133,000. A corresponding deferred regulatory asset will be amortized to nuclear fuel expense and included in utility rates over the next 13 years.

Nuclear Insurance The Price-Anderson Act (Act) provides an aggregate limitation of $8.9 billion on public liability claims arising out of a nuclear incident. WE has $200 million of liability insurance from commercial sources. The Act also establishes an industry-wide retrospective rating plan under which nuclear reactor owners could be assessed up to $79 million per reactor (WE owns two), but not more than $10 million in any one year for each reactor, in the event of a nuclear incident.

An industry-wide insurance program, with an aggregate limit of $200 million, has been established to cover radiation injury claims of nuclear workers first employed after 1987. If claims in excess of the available funds develop, WE could be assessed a maximum of approximately $3.2 million per reactor.

WE has property damage, decontamination and decommissioning insurance totaling $2 billion for loss from damage at the Point Beach Nuclear Plant with Nuclear Mutual Limited (NML) and Nuclear Electric Insurance Limited (NEIL). Under the NML and NEIL policies, WE has a potential maximum retrospective premium liability per loss of $6 million and $15.9 million, respectively.

WE also maintains additional insurance with NEIL covering extra expenses of obtaining replacement power during a prolonged accidental outage (in excess of 21 weeks) at the Point Beach Nuclear Plant. This insurance coverage provides weekly indemnities of $3.5 million per unit for outages during the first year, declining to 80% of the amounts during the second and third years. Under the policy, WE's maximum retrospective premium liability is approximately $9 million.

It should not be assumed that, in the event of a major nuclear incident, any insurance or statutory limitation of liability would protect the company from material adverse impact.

Nuclear Decommissioning WE expects to operate the two units at its Point Beach Nuclear Plant to the expiration of their current operating licenses, 2010 for Unit 1 and 2013 for Unit 2. The estimated cost to decommission the plant in 1994 dollars is $335 million based upon a site-specific decommissioning cost study completed in 1994. Assuming plant shutdown at the expiration of the current operating licenses, prompt dismantlement and annual escalation of costs at specific inflation factors established by the PSCW, it is projected that approximately $1.6 billion will be spent over a twenty year period, beginning in 2010, to decommission the plant.

Nuclear decommissioning costs are accrued as depreciation expense over the expected service lives of the two units based upon an external sinking fund method. It is expected that the annual payments to the Nuclear Decommissioning Trust Fund (Fund) along with the earnings on the Fund will provide sufficient funds at the time of decommissioning. WE believes it is probable that any shortfall in funding would be recoverable in utility rates.

In a generic proceeding in 1994, the PSCW issued an order setting forth the requirement of a site-specific estimate with prompt dismantlement for determining decommissioning funding levels for the owners of nuclear power plants located in Wisconsin. WE will modify its funding requirements based on the order in its next utility rate case filing; an increase in funding is anticipated along with a corresponding increase in expense.

As required by Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments

in Debt and Equity Securities (FAS 115). WE's debt and equity security investments in the Fund are classified as available for sale. Gains and losses on the Fund were determined on the basis of specific identification; net unrealized holding gains on the Fund were recorded as part of the accumulated provision for depreciation.

Following is a summary of decommissioning costs and earnings charged to depreciation expense and the Fund balance included in the accumulated provision for depreciation at December 31:

(Thousands of Dollars)	1994	1993	1992
Decommissioning costs	$ 3,456	$ 3,456	$ 12,162
Earnings	6,682	7,915	8,050
Depreciation Expense	$ 10,138	$ 11,371	$ 20,212
Total costs accrued to date	$ 224,559	$214,421	
Unrealized gain	2,246		
Accumulated Provision for Depreciation	$ 226,805	$214,421	

The December 31, 1994 Fund balance was stated at fair value, whereas the December 31, 1993 Fund balance was stated at historical cost. The fair value of the Fund at December 31, 1993 was $231,991,000.

F - Allowance For Funds Used During Construction (AFUDC)

AFUDC is included in utility plant accounts and represents the cost of borrowed funds used during plant construction and a return on stockholders' capital used for construction purposes. Allowance for borrowed funds also includes interest capitalized on qualifying assets of non-utility subsidiaries. On the income statement the cost of borrowed funds (before income taxes) is a reduction of interest expense and the return on stockholders' capital is an item of noncash other income.

Utility rates approved by the PSCW provide for a current return on investment for selected long-term projects included in construction work in progress (CWIP). AFUDC was capitalized on the remaining CWIP at a rate of 10.83% in 1994 and 1993, and 11.10% in 1992, as approved by the PSCW.

G - Long-Term Debt

The maturities and sinking fund requirements through 1999 for the aggregate amount of long-term debt outstanding (excluding obligations under capital lease, see Note E) at December 31, 1994 are shown below:

	(Thousands of Dollars)
1995	$ 12,685
1996	30,435
1997	171,175
1998	68,220
1999	93,310

Sinking fund requirements for the years 1995 through 1999, included in the table above, are $6,165,000. Substantially, all utility plant is subject to the applicable mortgage.

Long-term debt premium or discount and expense of issuance are amortized by the straight line method over the lives of the debt issues and included as interest expense. Unamortized amounts pertaining to reacquired debt are written off currently, when acquired for sinking fund purposes, or amortized in accordance with PSCW orders, when acquired for early retirement.

Fair value of long-term debt is estimated based upon the market value of the same or similar issues. The fair value of the company's long-term debt was $1.2 billion and $1.4 billion at December 31, 1994 and 1993, respectively.

H - Preferred Stock

Preferred stock authorized but unissued is: WEC, $.01 par value, 15,000,000 shares; WE, cumulative, $25 par value, 5,000,000 shares; and WN, cumulative, $100 par value, 120,000 shares.

Redemption Not Required : The 3.60% Series Preferred Stock is redeemable in whole or in part at the option of WE at $101 per share plus any accrued dividends.

Redemption Required : In 1994, WE called for redemption all of its 52,500 outstanding shares of 6.75% Series Preferred Stock at a redemption price of par. In 1993, WE called for redemption 626,500 shares at a purchase price of $104.05 per share plus accrued dividends to the redemption date.

I - Pension Plans

Effective in 1993, the PSCW adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions (FAS 87), for ratemaking. For

Notes to Financial Statements (Continued)

(Thousands of Dollars)	1994	1993	1992
Components of Net Periodic Pension Cost, Year Ended December 31 -			
Cost of pension benefits earned by employees	$ 10,933	$ 10,842	$ 9,858
Interest cost on projected benefit obligation	38,736	36,335	33,137
Actual (return) loss on plan assets	7,634	(43,226)	(16,779)
Net amortization and deferral	(52,180)	1,067	(33,934)
Total pension cost (credit) calculated under FAS 87	$ 5,123	$ 5,018	$ (7,718)
Actuarial Present Value of Accumulated Benefit Obligation, at December 31 -			
Vested benefits-employees' right to receive benefit no longer contingent upon continued employment	$436,697	$393,527	
Nonvested benefits-employees' right to receive benefit contingent upon continued employment	1,113	6,579	
Total obligation	$437,810	$400,106	
Funded Status of Plans: Pension Assets and Obligations at December 31 -			
Pension assets at fair market value	$527,182	$555,260	
Projected benefit obligation at present value	(513,166)	(502,254)	
Unrecognized transition asset	(24,628)	(27,211)	
Unrecognized prior service cost	593	3,107	
Unrecognized net (gain) loss	5,903	(7,539)	
Projected status of plans	$ (4,116)	$ 21,363	
Rates used for calculations (%) -			
Discount Rate-interest rate used to adjust for the time value of money	8.25	7.5	8.0
Assumed rate of increase in compensation levels	5.0	5.0	5.0
Expected long-term rate of return on pension assets	9.0	9.0	9.0

1992, the PSCW recognized funded amounts for ratemaking, and WE and WN charged $4,127,000 to expense as paid.

WE and WN have several non-contributory pension plans covering all eligible employees. Pension benefits are based on years of service and the employee's compensation. The majority of the plans' assets are equity securities; other assets include corporate and government bonds, and real estate. The plans are funded to meet the requirements of the Employee Retirement Income Security Act of 1974.

In the opinion of the company, current pension trust assets and amounts which are expected to be paid to the trusts in the future will be adequate to meet future pension payment obligations to current and future retirees.

J - Benefits Other Than Pensions

Postretirement Benefits: Effective in 1993, the company adopted prospectively Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions (FAS 106) and elected the 20-year option for

amortization of the previously unrecognized accumulated postretirement benefit obligation. The PSCW has issued an order recognizing FAS 106 for ratemaking; therefore, adoption has no material impact on net income. Prior to 1993, the cost of these postretirement benefits was expensed when paid and was $4,766,000 in 1992.

WE and WN sponsor defined benefit postretirement plans that cover both salaried and non-salaried employees who retire at age 55 or older with at least 10 years of credited service. The postretirement medical plan provides coverage to retirees and their dependents. Retirees contribute to the medical plan. The group life insurance benefit is based on employee compensation and is reduced upon retirement. Employees' Benefit Trusts (Trusts) are used to fund a major portion of postretirement benefits. The funding policy for the Trusts is to maximize tax deductibility. The majority of the Trusts' assets are mutual funds.

(Thousands of Dollars)	1994	1993
Components of Net Periodic Postretirement Benefit Cost,		
Year Ended December 31 -		
Cost of postretirement benefits earned by employees	$ 2,653	$ 3,105
Interest cost on projected benefit obligation	10,148	10,395
Actual return on plan assets	(3,893)	(2,388)
Net amortization and deferral	5,648	5,082
Total postretirement benefit cost calculated under FAS 106	$ 14,556	$ 16,194
Funded Status of Plans: Postretirement Obligations		
and Assets at December 31 -		
Accumulated Postretirement Benefit Obligation		
Retirees	$ (83,670)	$ (66,861)
Fully eligible active plan participants	(7,223)	(19,480)
Other active plan participants	(37,255)	(55,062)
Total obligation	(128,148)	(141,403)
Postretirement assets at fair market value	37,919	32,098
Accumulated postretirement benefit obligation in excess of plan assets	(90,229)	(109,305)
Unrecognized transition obligation	90,302	97,471
Unrecognized prior service cost	(1,169)	-
Unrecognized net (gain) loss	(16,484)	5,393
Accrued postretirement benefit obligation	$ (17,580)	$ (6,441)
Rates used for calculations (%) -		
Discount Rate-interest rate used to adjust for the time value of money	8.25	7.5
Assumed rate of increase in compensation levels	5.0	5.0
Expected long-term rate of return on postretirement assets	9.0	9.0
Health care cost trend rate	12.0 declining to 5.0 in 2002	

Changes in health care cost trend rates will affect the amounts reported. For example, a 1% increase in rates would increase the accumulated postretirement benefit obligation as of December 31, 1994 by $8,392,000 and the aggregate of the service and interest cost components of the postretirement benefit cost for the year then ended by $1,004,000.

Revitalization In the first quarter of 1994, the company recorded a $73.9 million charge related to its revitalization

Notes to Financial Statements (Continued)

program. This charge included $37.5 million for Early Retirement Incentive Packages (ERIP) and $25 million for Severance Packages (SP). These plans are being used to reduce employee staffing levels. ERIP provided for a monthly income supplement, medical benefits and waiver of an early retirement pension reduction. The SP included a severance payment, medical/dental insurance, outplacement services, personal financial planning and tuition support. Availability of these plans to various bargaining units was based upon agreements made between WE, WN and the bargaining units. These plans have been available to most management employees but not elected officers.

Under ERIP, 403 employees elected to retire and 651 employees have enrolled in SP. It is anticipated that the revitalization charge will be offset by the end of 1995 through savings in operation and maintenance costs. ERIP supplemental income costs are being paid from pension plan trusts and medical/dental benefits from employee benefit trusts. Remaining ERIP and SP costs are being paid from general corporate funds. The ultimate timing of cash flows for revitalization will depend in part upon the funding limitations of the WE and WN pension plans. Through December 31, 1994, $30 million have been paid against the revitalization liability.

Omnibus Stock Incentive Plan — A stockholder approved Omnibus Stock Incentive Plan (the Plan) enables the company to offer selected officers and key employees performance-based incentives. The Plan provides for the granting of stock options, stock appreciation rights (SARS), stock awards and performance units over a period of no more than 10 years. Awards under the Plan may be paid in common stock, cash or a combination thereof. Four million shares of common stock have been reserved under the Plan. The exercise price of a stock option will not be less than 100% of the common stock's fair market value on grant date and options may not be exercised within 6 months of the grant date. As of December 31, 1994 and 1993, options for 145,500 and 64,250 shares, respectively, have been granted. These options are exercisable 4 years after the grant date at per share prices of $26.813 and $27.375 for 1994 and 1993, respectively. No SARS or stock awards have been granted and no performance units have been earned to date.

K - Notes Payable

Short-term notes payable balances and their corresponding weighted average interest rates consist of:

	December 31			
	1994		1993	
(Thousands of Dollars)	Balance	Interest Rate	Balance	Interest Rate
Banks	$ 96,949	6.06%	$ 110,874	3.39%
Commercial paper	155,106	6.04%	96,412	3.33%
	$252,055		$ 207,286	

Unused lines of credit for short-term borrowing amounted to $209,050,000 at December 31, 1994. In support of various informal lines of credit from banks, WEC subsidiaries have agreed to maintain unrestricted compensating balances or to pay commitment fees; neither the compensating balances nor the commitment fees are significant.

L - Commitments And Contingencies

Plans for the construction and financing of future additions to utility plant can be found elsewhere in this report in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

M • Information By Segments Of Business

Year ended December 31	1994	1993	1992
			(Thousands of Dollars)
Electric Operations			
Operating revenues	$1,403,562	$1,347,844	$1,298,723
Operating income before income taxes	329,216	329,727	299,902
Depreciation	159,414	149,646	147,859
Construction expenditures	244,718	305,467	292,031
Gas Operations			
Operating revenues	324,349	331,301	283,699
Operating income before income taxes	30,993	31,025	29,407
Depreciation	16,856	16,235	15,400
Construction expenditures	25,481	24,419	25,188
Steam Operations			
Operating revenues	14,281	14,090	13,693
Operating income before income taxes	2,825	3,147	2,235
Depreciation	1,344	1,185	1,108
Construction expenditures	1,213	4,940	1,530
Consolidated			
Operating revenues	1,742,192	1,693,235	1,595,515
Operating income before income taxes	363,034	363,899	331,544
Depreciation	177,614	167,066	164,367
Construction expenditures (including non-utility)	295,769	364,810	323,387
Other Information			
Non-utility Net Income			
Real estate activities	2,768	2,221	209
Venture capital and other investing activities	(2,303)	220	1,005
At December 31			
Net Identifiable Assets			
Electric	$3,300,377	$3,668,151	$3,264,839
Gas	376,494	383,460	338,021
Steam	25,315	25,119	20,972
Non-utility			
Real estate activities	148,401	134,669	107,677
Venture capital and other investing activities	57,672	57,193	37,446
Total Consolidated Assets	$4,408,259	$4,270,592	$3,798,955

Report Of Independent Accountants

Price Waterhouse LLP

TO THE BOARD OF DIRECTORS AND THE STOCKHOLDERS OF WISCONSIN ENERGY CORPORATION

In our opinion, the accompanying consolidated balance sheet and statement of capitalization and the related consolidated statements of income, of common stock equity and of cash flows present fairly, in all material respects, the financial position of Wisconsin Energy Corporation and its subsidiaries at December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

Milwaukee, Wisconsin

January 25, 1995

WISCONSIN ENERGY CORPORATION

Consolidated Selected Financial Data

(Thousands of Dollars except for per share amounts)

	1994	1993	1992	1991	1990
FINANCIAL					
Net income	180,868	190,135	171,239	190,125	188,092
Earnings per share of common stock ($)	1.67	1.80	1.66	1.85	1.83
Dividends per share of common stock ($)	1.396	1.341	1.285	1.223	1.157
Operating revenues					
Electric	1,403,562	1,347,844	1,298,723	1,292,809	1,208,045
Gas	324,349	331,301	283,699	273,803	259,672
Steam	14,281	14,090	13,093	12,986	12,126
Total operating revenues	1,742,192	1,693,235	1,595,515	1,579,598	1,479,843
Total assets	4,408,259	4,270,592	3,788,955	3,533,745	3,397,038
Long-term debt and preferred stock – redemption required	1,283,686	1,300,781	1,289,082	1,175,417	1,066,907
SALES AND CUSTOMERS - UTILITY					
Electric					
Megawatt-hours sold	26,911,363	25,685,436	24,747,581	25,016,247	23,656,727
Customers (End of year)	944,855	932,285	919,466	907,871	896,393
Gas					
Therms delivered (thousands)	811,219	809,348	772,036	767,071	727,534
Customers (End of year)	347,080	336,571	327,247	317,891	308,230
Steam					
Pounds sold (millions)	2,395	2,376	2,284	2,282	2,213
Customers (End of year)	471	459	472	468	470

Consolidated Quarterly Financial Data

The quarterly results of operations are not directly comparable because of seasonal and other factors. See Management's Discussion and Analysis for further information.

(Thousands of Dollars except for per share amounts)

THREE MONTHS ENDED	MARCH		JUNE	
	1994	1993	1994	1993
Total operating revenues	509,681	463,571	460,340	383,499
Operating income	43,436	80,528	63,854	47,542
Net income	22,822	60,452	43,430	28,102
Earnings per share of common stock ($)	0.21	0.58	0.40	0.27

THREE MONTHS ENDED	SEPTEMBER		DECEMBER	
	1994	1993	1994	1993
Total operating revenues	400,512	397,857	431,659	448,309
Operating income	71,248	63,976	84,735	73,390
Net income	51,490	46,424	63,126	55,157
Earnings per share of common stock ($)	0.48	0.44	0.58	0.52

WISCONSIN ENERGY CORPORATION

Stockholder Services

Stockholder account records are maintained by Wisconsin Energy's Stock Transfer Agent. Inquiries concerning stock transfers or dividend reinvestments should be directed to:

Wisconsin Energy Corporation
c/o First National Bank of Boston
PO Box 9156
Boston, MA 02205-9156

All other stockholder correspondence should be directed to:

Wisconsin Energy Corporation
c/o First National Bank of Boston
PO Box 9155
Boston, MA 02205-9155

As of year-end 1994, based on the number of stockholder accounts, there were 85,255 registered stockholders.

Stockholder Hotline : Stockholder Services representatives are available to assist you from 7 a.m. to 5 p.m. (central time) every business day. The toll-free Stockholder Hotline number is: 1-800-558-9663.

Telecommunications Device For The Deaf : Stockholders with hearing impairments may call Wisconsin Electric's Telecommunications Device for the Deaf (TDD) at 1-800-543-6757.

Common Stock Listing : Wisconsin Energy Corp. common stock is listed on the NewYork Stock Exchange. The ticker symbol is WEC. Daily trading prices and volume can be found in the "NYSE Composite" section of most major newspapers, usually abbreviated as WiscEn or WiscEngy.

Dividends : Dividends on common stock, as declared by the Board of Directors, are normally paid on or about the first day of March, June, September and December. You may elect to receive your dividend payments by check or have your dividends electronically deposited into your checking or savings account at your bank, savings and loan institution or credit union. Direct deposit of dividends is a safe, efficient and reliable means of receiving your dividends. You may obtain an application form by calling the Stockholder Hotline.

If you receive dividend checks but do not receive your dividend check on the appropriate payment date, we suggest that you wait about 10 days after the payment date to allow for any delay in mail delivery. After that time, call the Stockholder Hotline.

Dividend Reinvestment And Stock Purchase Plan : Through the company's Stock Plus Investment Plan (Stock Plus) participants may reinvest dividends automatically in shares of Wisconsin Energy common stock and purchase additional shares of common stock, at market prices, without brokerage commission or other expenses.

A Stock Plus prospectus and related information will be sent to you upon request. Send written requests to the company's Stock Transfer Agent at the address previously given or call the company's toll-free Stockholder Hotline at 1-800-558-9663. The offering will be made only by prospectus. This is not an offer to sell, or a solicitation of an offer to buy, any securities.

Change Of Address Requests for address changes must be in writing. Send all changes to the company's Stock Transfer Agent. Additionally, a change of address can be processed by noting the new address on a dividend check prior to cashing it. Participants in Stock Plus will find a change of address form on the reverse side of their statement.

Stock Transfer Whenever it is necessary or desirable to change the registration on a stock certificate, a stock transfer is required. There is no single stock transfer procedure to cover all possible circumstances. However, for most transfers the following procedure is to be followed: 1. Sign the back of the stock certificate exactly as your name appears in print on the front. If there is more than one owner, all persons must sign. 2. Have the signature(s) guaranteed by an eligible guarantor institution that is a participant in one of the following signature guarantee programs: Securities Transfer Agents Medallion Program (STAMP), Stock Exchanges Medallion Program (SEMP) or NewYork Stock Exchange, Inc. Medallion Signature Program (MSP). The signature of a notary public is not acceptable. 3. List on the back of the certificate the full name in which the shares are to be registered as well as the address and Social Security number or other taxpayer identification number of the new owner. 4. If you transfer fewer than the number of shares represented by the original certificate, indicate on the back of the certificate the exact number to be transferred. 5. Send the certificate by registered mail to: Wisconsin Energy c/o the First National Bank of Boston at the address previously given. A new certificate for the transferred shares will be mailed to the new owner, and a certificate for any balance will be mailed to you. 6. If you want to change the registration of

RANGE OF COMMON STOCK PRICES AND DIVIDENDS

	1994			1993		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$27⅛	$24	$ .33875	$28⅜	$24⅛	$ .325
Second	26¾	23⅛	.3525	28⅛	25⅛	.33875
Third	26⅛	23⅛	.3525	29⅛	27	.33875
Fourth	27	24⅛	.3525	29⅛	25⅛	.33875
Year	$27⅛	$23⅛	$1.39625	$29⅛	$24⅛	$1.34125

shares held in your Stock Plus account, specifically request that they be transferred also. Requests for transfers of plan shares should be submitted to the Stock Transfer Agent at the address previously given. 7. If the transfer of stock involves an unusual situation, such as the death of a spouse or other joint tenant, call the Stockholder Hotline for specific instructions.

Taxpayer Identification Number Federal law requires that each stockholder provide a certified Taxpayer Identification Number (TIN). For individual stockholders, your TIN is your Social Security number.

You must provide your TIN whenever you open an account in a new registration, even if you already have an account in another name. If you do not provide a TIN, the corporation is required to withhold 31 percent from your dividends for federal taxes.

If the registration of your stock contains two or more names, it is important to tell us the name with which the TIN is associated. This will ensure that your dividends are reported under the correct name, address and TIN.

If you have not yet given us your TIN, or have not yet certified your TIN, please contact the Stock Transfer Agent to request a W-9 Form. Complete the form, sign it and return it as soon as possible.

Lost Stock Certificate If a stock certificate is lost, stolen or destroyed, notify the Stock Transfer Agent in writing so that a "stop transfer" can be placed on the missing certificate. The letter should include as much information as possible about the circumstances surrounding the loss or theft. The Stock Transfer Agent will send you the necessary forms and instructions for obtaining a replacement certificate. You may be required to obtain and pay for the cost of an indemnity bond.

If you find the missing certificate, notify the Stock Transfer Agent immediately so that the stop transfer can be removed.

To avoid theft or loss, we recommend that you keep your certificates in a safe place, such as a safe deposit box at your local bank. Alternatively, you may choose to have your certificate shares held in "safekeeping" under the provisions of Wisconsin Energy's Stock Plus Investment Plan. For information about the "safekeeping" option, call the Stockholder Hotline and request a prospectus.

The common stock certificates issued before Dec. 31, 1986 bear the name of Wisconsin Electric Power Company and are still valid certificates. Do not discard any of these certificates.

Duplicate Annual Report Mailings We mail annual reports to all of our stockholders. You may receive duplicate mailings from us if your shares are registered in different, but similar names.

If you receive duplicate mailings because of slight differences in the registration of your accounts, please call the Stockholder Hotline for instruction on combining your accounts.

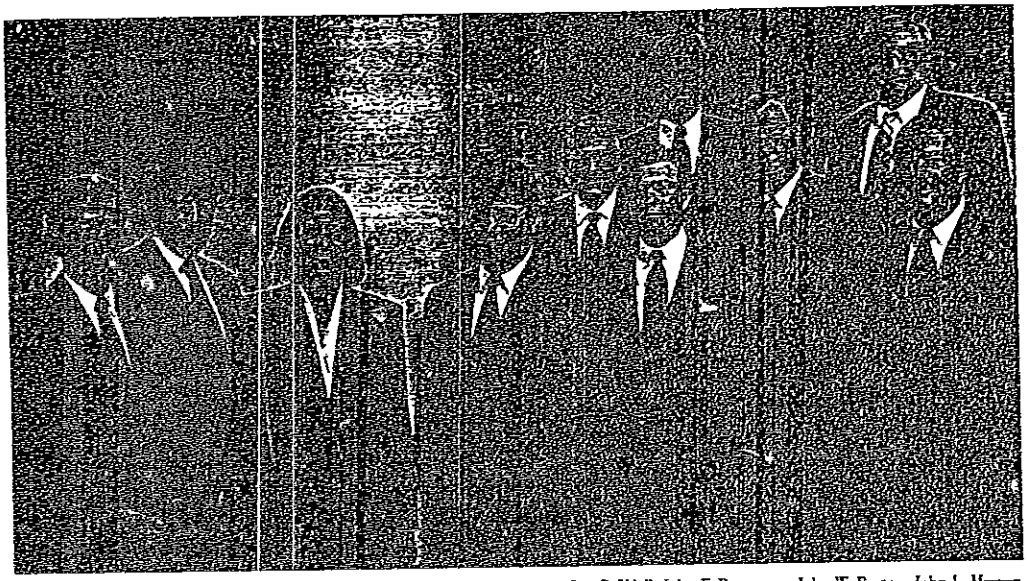
Proxy And Dividend Mailings Multiple mailings of proxies and dividend checks to the same address cannot be eliminated unless the registration is the same for all of your accounts.

If your account registrations are different and you want to combine your accounts, all certificates may be issued in the one registration you prefer. To have your certificates reissued, follow the instructions under the paragraph titled STOCK TRANSFER.

Additional Information Available *Quarterly Reports to Stockholders, which include updated financial information and company news, are provided to stockholders for the first three quarters of the year. Fourth-quarter financial data is available through the Quarterly Financial Review. These reports, as well as Wisconsin Energy's Form 10-K Annual Report to the Securities and Exchange Commission and a 5-Year Statistical Report, are available without charge to any stockholder of record or beneficial owner of the company's stock by writing to the corporate secretary, J.H. Goetsch, 231 W. Michigan St., PO Box 2949, Milwaukee, WI 53201.*

If your stock is held in street name and you wish to receive company information on a more timely basis, write to the company's corporate secretary at the address listed above. Your name will be added to our direct mailing list.

Board of Directors



Frederick P. Stratton, Jr., Morris W. Reid, Geneva B. Johnson, Richard A. Abdoo, Jon G. Udell, John F. Bergstrom, John W. Boston, John L. Murray, John F. Ahearne, Robert A. Cornog

RICHARD A. ABDOO
Chairman of the Board, President and Chief Executive Officer of the corporation. Chairman of the Board and CEO of five subsidiaries and President and CEO of the other two subsidiaries

JOHN F. AHEARNE
Executive Director of Sigma Xi, The Scientific Research Society (an organization that provides grants to graduate students and conducts national meetings on major scientific issues) and Adjunct Scholar, Resources for the Future (an economic research, non-profit institute)

JOHN F. BERGSTROM
President and Chief Executive Officer, Bergstrom Corp. (owner and operator of three hotels, 15 automobile dealerships, a convention center and a real estate company)

JOHN W. BOSTON
Vice Chairman of the Board of the corporation

ROBERT A. CORNOG
Chairman of the Board, President and Chief Executive Officer, Snap-on Incorporated (manufacturer of tools)

GENEVA B. JOHNSON
Corporate Director; past President and Chief Executive Officer, Family Service America (an organization representing private agencies in the United States and Canada that provide human service programs)

JOHN L. MURRAY
Corporate Director; past Chairman of the Board, Universal Foods Corp. (manufacturer and marketer of food ingredients and selected consumer food items)

MORRIS W. REID
Corporate Director; Vice Chairman of the Board, Versa Technologies, Inc. (manufacturer of fluid power and silicone rubber products); consultant and corporate director

FREDERICK P. STRATTON, JR.
Chairman and Chief Executive Officer, Briggs & Stratton Corp. (manufacturer of small gasoline engines)

JON G. UDELL
Irwin Maier Professor of Business, University of Wisconsin-Madison and Co-Director of The Enterprise Center at the University of Wisconsin-Madison (an educational organization devoted to entrepreneurial management)

Committees of the Board and Corporate Officers

Committees of the Board

Members of the Executive Committee are directors Abdoo, Boston, Johnson, Reid and Udell; all other directors are alternate members.

Members of the Audit Committee are directors Ahearne, Bergstrom, Cornog, Johnson, Murray, Reid, Stratton and Udell.

Members of the Compensation Committee are directors Ahearne, Bergstrom, Cornog, Johnson, Murray, Reid, Stratton and Udell.

Members of the Nominating Committee are directors Ahearne, Bergstrom, Johnson, Reid and Udell.

Officers of WEC

Richard A. Abdoo (50;19)
Chairman of the Board, President & Chief Executive Officer

John W. Boston (61;12)
Vice Chairman of the Board

Francis Brzezinski (43;5)
Vice President

Richard R. Grigg, Jr. (46;24)
Vice President

Jerry G. Remmel (63;39)
Vice President, Treasurer & Chief Financial Officer

John H. Goetsch (61;36)
Vice President & Secretary

Richard R. Piltz (54;29)
Controller

Ann Marie Brady (42;6)
Assistant Secretary

Gordon A. Willis (56;33)
Assistant Treasurer

Officers of Principal Subsidiaries

Wisconsin Electric Power Company

Richard A. Abdoo (50;19)
Chairman of the Board & Chief Executive Officer

Richard R. Grigg, Jr. (46;24)
President & Chief Operating Officer

David K. Porter (51;25)
Senior Vice President

Calvin H. Baker (51;3)
Vice President-Finance

Douglas S. Bott (48;4)
Vice President-Administrative Services

Francis Brzezinski (43;5)
Vice President-Bulk Power

Kristine M. Krause (40;16)
Vice President-Fossil Operations

Robert E. Link (43;20)
Vice President-Nuclear Power

Kristine A. Rappé (38;12)
Vice President-Customer Services

John E. Speaker (63;18)
Assistant to the Chairman & Vice President

Bernard F. Van Dinter (61;39)
Vice President-Electric Operations

Ann Marie Brady (42;6)
Secretary

Anne K. Klisurich (47;22)
Controller

Gordon A. Willis (56;33)
Treasurer

Thomas H. Fehring (47;24)
Assistant Secretary

Joyce Feaster (32;10)
Assistant Treasurer

Jerry G. Remmel (63;39)
Chief Financial Officer

Wisconsin Natural Gas Company

Richard A. Abdoo (50;19)
Chairman of the Board & Chief Executive Officer

Richard R. Grigg, Jr. (46;24)
President & Chief Operating Officer

Charles T. Govin, Jr. (48;12)
Vice President & General Manager

David K. Porter (51;25)
Vice President

Ann Marie Brady (42;6)
Secretary

Anne K. Klisurich (47;22)
Controller

Gordon A. Willis (56;33)
Treasurer

Thomas H. Fehring (47;24)
Assistant Secretary

Joyce Feaster (32;10)
Assistant Treasurer

Jerry G. Remmel (63;39)
Chief Financial Officer

Figures in parentheses indicate age and years of service with Wisconsin Energy Corporation and/or its subsidiaries as of Dec. 31, 1994.

ATTACHMENT D.Q-7

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

X — ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended **December 31, 1994**

Commission file number 1-9057

WISCONSIN ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin	39-1391525
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

231 West Michigan Street, P.O. Box 2949, Milwaukee, Wisconsin 53201
(Address of principal executive offices) (Zip Code)

(414) 221-2345
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
COMMON STOCK, $.01 PAR VALUE	NEW YORK STOCK EXCHANGE

Securities Registered Pursuant to Section 12(g) of the Act:

NONE
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

The aggregate market value of the voting stock of the Registrant held by non-affiliates is approximately $2,934,642,000 based on the reported last sale price of such securities as of March 1, 1995.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at March 1, 1995
COMMON STOCK, $.01 PAR VALUE	109,323,107 Shares

Documents Incorporated by Reference

Portions of the Registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 17, 1995, are incorporated by reference into Part III Hereof

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for printing purposes.

Portions of the Registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 17, 1995, are incorporated by reference into Part III hereof

WISCONSIN ENERGY CORPORATION

FORM 10-K ANNUAL REPORT TO THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 1994

TABLE OF CONTENTS

ITEM		PAGE
	PART I	
1.	Business	4
2.	Properties	23
3.	Legal Proceedings	24
4.	Submission of Matters to a Vote of Security Holders	29
	Executive Officers of the Registrant	29
	PART II	
5.	Market for Registrant's Common Equity and Related Stockholder Matters	31
6.	Selected Financial Data	32
	Electric Revenue, Kilowatt-Hour Sales and Customer Statistics	33
	Gas Revenue, Therms Delivered and Customer Statistics	33
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	34
8.	Financial Statements and Supplementary Data	46
	Report of Independent Accountants	65
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	66
	PART III	
10.	Directors and Executive Officers of the Registrant	66
11.	Executive Compensation	66
12.	Security Ownership of Certain Beneficial Owners and Management	66
13.	Certain Relationships and Related Transactions	66
	PART IV	
14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	66
	Consent of Independent Accountants	75
	Signatures	76

DEFINITIONS

Abbreviations and acronyms used in the text are defined below.

Abbreviations and Acronyms	Term
BTU	British Thermal Units
CO_2	Carbon Dioxide
CPCN	Certificate of Public Convenience and Necessity
DNR	Wisconsin Department of Natural Resources
DOE	U.S. Department of Energy
DSM	Demand Side Management
Dth	Dekatherm
EMFs	Electromagnetic Fields
EPA	U.S. Environmental Protection Agency
EWGs	Exempt Wholesale Generators
FERC	Federal Energy Regulatory Commission
GRI	Gas Research Institute
IPP	Independent Power Producer
ISFSI	Independent Spent Fuel Storage Installation
MAPP	Mid-Continent Area Power Pool
MDNR	Michigan Department of Natural Resources
MPSC	Michigan Public Service Commission
MRMC	Milwaukee Regional Medical Center
MWh	Megawatt-hour
NO_x	Nitrogen Oxide
NRC	U.S. Nuclear Regulatory Commission
PGA	Purchased Gas Adjustment
Point Beach	Point Beach Nuclear Plant
PRP	Potentially Responsible Party
PSCR	Power Supply Cost Recovery
PSCW	Public Service Commission of Wisconsin
Repap	Repap Wisconsin, Inc.
SO_2	Sulfur Dioxide
Trust	Wisconsin Electric Fuel Trust (nuclear)
USEC	U.S. Enrichment Corporation
WED	Wisconsin's Environmental Decade
Wisconsin Electric	Wisconsin Electric Power Company
Wisconsin Energy	Wisconsin Energy Corporation
Wisconsin Natural	Wisconsin Natural Gas Company
Wisconsin Southern	Wisconsin Southern Gas Company, Inc.
WMIC	Wisconsin Michigan Investment Corporation
WPPI	Wisconsin Public Power Inc SYSTEM
WUMS	Wisconsin-Upper Michigan Systems
Yellowcake	Uranium Concentrates

PART I

ITEM 1. BUSINESS

Wisconsin Energy Corporation ("Wisconsin Energy"), incorporated in the State of Wisconsin in 1981, became a holding company in 1986 whose principal subsidiaries are Wisconsin Electric Power Company ("Wisconsin Electric") and Wisconsin Natural Gas Company ("Wisconsin Natural"). Wisconsin Energy also has certain non-utility subsidiaries. The operations of Wisconsin Energy and its subsidiaries are conducted in four business segments, the primary operations of which are as follows:

Business Segment	Operations
Electric Operations	Wisconsin Electric generates, transmits, distributes and sells electric energy in a territory of approximately 12,000 square miles with a population estimated at over 2,200,000 in southeastern (including the Milwaukee area), east central and northern Wisconsin and in the Upper Peninsula of Michigan.
Gas Operations	Wisconsin Natural purchases, distributes and sells natural gas to retail customers and transports customer-owned gas in three distinct service areas in Wisconsin: west and south of the City of Milwaukee; the Appleton area and the Prairie du Chien area. The gas service territory, which has an estimated population of over 1,100,000, is largely within the electric service area of Wisconsin Electric.
Steam Operations	Wisconsin Electric distributes and sells steam supplied by its Valley Power Plant to space heating and processing customers in downtown and near southside Milwaukee.
Non-Utility Operations	For information on non-utility subsidiaries see Item 1. BUSINESS - "Non-Utility Operations." Non-utility operations were not significant in 1994.

For financial information about business segments, see Note M to the Financial Statements in Item 8 of this report.

ELECTRIC UTILITY OPERATIONS

Electric energy sales by Wisconsin Electric in 1994, to all classes of customers, totaled 26.9 billion kilowatt-hours, a 4.8% increase over 1993. On June 17, 1994, Wisconsin Electric experienced a new record peak demand of 4,950 megawatts during a period of unusually hot and humid summer weather. The previous record of 4,797 megawatts occurred on August 27, 1991. Sales of the electric utility are impacted by seasonal factors and varying weather conditions from year-to-year.

ITEM 1. BUSINESS - Electric Utility Operations (Cont'd)

There were 944,855 electric customers at December 31, 1994, an increase of 1.3 percent since December 31, 1993. For further information on revenues, kilowatt-hour sales, and customer statistics by class, see "Electric Revenue, Kilowatt-Hour Sales and Customer Statistics" on page 33 of this report.

In 1994, Wisconsin Electric's net generation amounted to 26.4 billion kilowatt-hours. Generation was supplemented with 2.0 billion kilowatt-hours purchased from neighboring utilities and, to a minor extent, from other sources. The dependable capability of Wisconsin Electric's generating stations was 5,288 megawatts in August, 1994 as more fully described in Item 2. PROPERTIES.

The Public Service Commission of Wisconsin ("PSCW") is conducting an investigation into the state of the electric utility industry in Wisconsin, particularly its institutional structure and regulatory regime, in order to evaluate what changes would be beneficial for Wisconsin. The PSCW stated that this investigation may result in profound and fundamental changes to the nature and regulation of the electric utility industry in Wisconsin. For additional information and related matters, see Item 1. BUSINESS - "REGULATION".

In January 1994, Wisconsin Electric filed with the PSCW its long-term load and supply plan as part of the Advance Plan 7 Docket. In the Advance Plan process, the regulated electric utilities located in Wisconsin are required to file, for planning purposes, long-term forecasts of future resource requirements along with plans to meet those requirements, including the planned implementation of energy management and conservation programs ("demand-side savings"). In addition to specifying the expectations of conservation and load management programs, the plan filed with the PSCW demonstrates Wisconsin Electric's need to add peaking and intermediate load capacity during the 20-year planning period. Wisconsin Electric's next base load power plant is not expected to be placed in-service until after 2010. The PSCW began technical hearings on Advance Plan 7 in November 1994. An order is expected later in 1995. For additional information regarding Advance Plans, see Item 1. BUSINESS - "REGULATION", Item 3. LEGAL PROCEEDINGS - "OTHER LITIGATION" and Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "LIQUIDITY AND CAPITAL RESOURCES".

Wisconsin Electric currently estimates peak demand in the year 2004 to be about 5,200 megawatts assuming moderate growth in the economy and normal weather. This estimate does not, however, reflect any potential modifications to the current regulatory environment. Investments in demand-side management ("DSM") programs have reduced and delayed the need to add new generating capacity but have not eliminated the need entirely. Purchases of power from other utilities and transmission system upgrades will also combine to help delay the need to install some new generating capacity in the future. To partially meet the anticipated growth in peak demand requirements, Wisconsin Electric is constructing a four unit, approximately 300 megawatt, peaking power plant at its Paris Generating Station expected to be placed in service by the summer of 1995, as described below. Wisconsin Electric also plans to make additional investments in conservation-related programs during this period.

Wisconsin Electric has completed renovation of units 1-4 at its Port Washington Power Plant at a cost of $107 million. The project, which began in 1991, included the installation of additional emission control equipment.

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ITEM 1. BUSINESS - Electric Utility Operations (Cont'd)

During the second quarter of 1994, two units, approximately 150 megawatts of peaking capacity, were placed in service marking the completion of the new Concord Generating Station. During 1993 two units, or approximately 150 megawatts of peaking capacity, had been placed in service at this facility. Total capital costs of the four unit facility were approximately $107 million. The 300 megawatt natural gas-fired combustion turbine peaking facility, located near Watertown, Wisconsin is expected to run approximately 5% of the time helping meet electric peak demand requirements.

During 1994, Wisconsin Electric continued construction of the Paris Generating Station, a four unit, approximately 300 megawatt, gas-fired combustion turbine power plant, to be placed in service during the summer of 1995. The cost of this facility, located near Union Grove, Wisconsin, is currently estimated at $104 million.

The supply of natural gas to operate the Concord and Paris units is to be provided by Wisconsin Natural, an affiliated company, but may be purchased from other suppliers with Wisconsin Natural providing gas transportation services.

Wisconsin Electric and the Milwaukee Regional Medical Center ("MRMC"), received preliminary approval from Milwaukee County on September 22, 1994, for the purchase of the Milwaukee County Power Plant. The 11 megawatt power plant in Wauwatosa, Wisconsin provides steam, chilled water and electricity for the MRMC facilities. Under the terms of the agreement, Wisconsin Electric is expected to pay $7 million to $8 million for the electric generation and distribution facilities. The MRMC will purchase the plant's steam and water-chilling facilities. Wisconsin Electric will manage and operate the facility, and collect a management fee from the MRMC. Electric revenues of about $3 million annually will be generated from the investment. It is anticipated that this transaction will be finalized in 1995.

Approvals from various regulatory agencies including the PSCW, the U. S. Environmental Protection Agency ("EPA") and the Wisconsin Department of Natural Resources ("DNR") are required prior to constructing new generation capacity. All proposed generating facilities will meet or exceed the applicable federal and state environmental requirements.

For further information regarding future capacity additions, see Item 1. BUSINESS - "REGULATION".

For information regarding estimated costs of Wisconsin Energy's utility subsidiaries' construction program and projected investments in conservation programs for the five years ending December 31, 1999, see Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "LIQUIDITY AND CAPITAL RESOURCES". All estimates of construction expenditures exclude Allowance For Funds Used During Construction. For additional information regarding matters related to Allowance for Funds Used During Construction, see Note F to the Financial Statements in Item 8.

In accordance with a PSCW order issued in November 1993, after completing a capacity-related competitive bidding process, Wisconsin Electric signed a long-term agreement to purchase the electricity that would be generated from a 215 megawatt cogeneration facility planned to be constructed by an unaffiliated independent power producer ("IPP"), LSP-Whitewater Limited Partnership. The agreement is contingent upon the facility being completed and going into operation, which at this time is planned for mid-1996. On March 9, 1995, the PSCW approved the IPP's application to construct a

ITEM 1. BUSINESS - Electric Utility Operations (Cont'd)

cogeneration plant in Whitewater, Wisconsin. For additional information, see Item 3. LEGAL PROCEEDINGS - "OTHER LITIGATION - PSCW Two-Stage CPCN Order" and Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "Capital Requirements 1995-1999".

In response to increasing competitive pressures in the markets for electricity and natural gas, Wisconsin Electric and Wisconsin Natural are implementing a revitalization process to increase efficiencies and improve customer service by reengineering and restructuring their organizations. The new structures consolidate many business functions and simplify work processes. Due to productivity improvements, staffing levels at Wisconsin Electric and Wisconsin Natural have been reduced; 403 employees elected to retire under an early retirement option and 651 employees have enrolled in severance packages. For additional information, see Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "Wisconsin Electric and Wisconsin Natural Revitalization".

SOURCES OF GENERATION

The table below indicates sources of energy generation by Wisconsin Electric:

	Year Ended December 31	
	1994	1995*
Coal	69.0%	69.8%
Nuclear	29.0	27.9
Hydro-electric	1.4	1.6
Gas	0.5	0.6
Oil	0.1	0.1
TOTAL	100.0%	100.0%

*Estimated assuming that there are no unforeseen contingencies such as unscheduled maintenance or repairs.

COAL: Wisconsin Electric diversifies its coal sources by purchasing from Northern Appalachia, the Southern Powder River Basin (Wyoming) and the Raton Basin (New Mexico) mining districts for the power plants in Wisconsin, and from central Appalachia and western mines for the Presque Isle Power Plant in Michigan.

Approximately 75 percent of Wisconsin Electric's 1995 coal requirements are expected to be delivered by Wisconsin Electric-owned unit trains. The unit trains will transport coal for the Oak Creek and Pleasant Prairie Power Plants from New Mexico and Wyoming mines. Coal from Pennsylvania mines is transported via rail to Lake Erie transfer docks and delivered to the Valley and Port Washington Power Plants by lake vessels. Montana coal for Presque Isle is transported via rail to Superior, Wisconsin, placed in dock storage and reloaded into lake vessels for plant delivery. The Presque Isle central Appalachian origin and Colorado origin coal is shipped via rail to Lake Erie and Lake Michigan (Chicago) coal transfer docks, respectively, for lake vessel delivery to the plant. Wisconsin Electric's 1995 coal requirements, projected to be 10.0 million tons, are 98 percent under contract. Wisconsin Electric does not anticipate any problem in procuring its remaining 1995 requirements through short-term or spot purchases and inventory adjustments.

Pleasant Prairie Power Plant: All of the estimated 1995 coal requirements at this plant are presently covered by three long-term contracts.

Oak Creek Power Plant: All of the estimated 1995 coal requirements for this plant are covered by long-term contract. Contract provisions permit Wisconsin Electric to increase/decrease the annual volume to match burn requirements.

Presque Isle Power Plant: This plant has six generating units designed to burn bituminous coal and three other units designed to burn sub-bituminous coal. The units burning sub-bituminous coal are supplied by three long-term contracts the annual volumes of which are anticipated to be adequate to cover coal requirements through 1996. Bituminous coal is generally purchased through one-year contracts from central Appalachia and under a 5 year contract for the Colorado origin coal.

Edgewater 5 Generating Unit: Coal for this unit, in which Wisconsin Electric has a 25 percent interest, is purchased by Wisconsin Power and Light Company, a non-affiliated utility, which is the majority owner of the facility.

Valley and Port Washington Power Plants: These plants are both supplied through a long-term contract that, in combination with coal supplied to Wisconsin Electric's other Wisconsin plants, allows the plants to meet the requirements of the Wisconsin acid rain law. In the event of further air quality emission requirements affecting these plants, the contract can be terminated without liability.

The periods and annual tonnage amounts for Wisconsin Electric's principal coal contracts are as follows:

Contract Period	Annual Tonnage
Jan. 1977 to Dec. 1996	240,000
Nov. 1987 to Dec. 1997	500,000(A)
Jan. 1980 to Dec. 2006	2,000,000
Jul. 1983 to Dec. 2002	1,000,000
Apr. 1990 to Nov. 1996	375,000(B)
Jan. 1992 to Dec. 2005	1,200,000(C)(1995)
Oct. 1992 to Sep. 2007	2,000,000
Sep. 1994 to Aug. 1999	500,000

(A) The contract can be extended if the total volume has not been purchased by the respective termination dates.

(B) Annual volume can be increased to meet requirements for the Port Washington and Valley Power Plants above the 375,000 ton volume indicated herein.

(C) Subsequent years may be of greater tonnage as allowed under certain provisions of the contract.

For information regarding emission restrictions, see Item 1. BUSINESS - ENVIRONMENTAL COMPLIANCE - "Air Quality - Acid Rain Legislation".

NUCLEAR: Wisconsin Electric purchases uranium concentrates ("yellowcake") and contracts for its conversion, enrichment and fabrication. Wisconsin Electric maintains title to the nuclear fuel until the fabricated fuel assemblies are

ITEM 1. BUSINESS - Sources of Generation (Cont'd)

delivered to the Point Beach Nuclear Plant ("Point Beach"), whereupon it is sold to and leased back from the Wisconsin Electric Fuel Trust ("Trust"). See Note E to the Financial Statements in Item 8.

Uranium Requirements: Wisconsin Electric requires approximately 450,000 pounds of yellowcake annually for its two units at Point Beach. Uranium requirements through 1997 will be provided from a combination of existing contracts with Malapai Resources Company (of Arizona); Energy Resources of Australia, Ltd.; and Nukem Inc. (U.S.). Wisconsin Electric may exercise flexibilities in these contracts and purchase certain quantities of uranium on the spot-market, should market conditions prove favorable. Wisconsin Electric believes that adequate supplies of uranium concentrates will be available to satisfy current and future operating requirements.

Under a contract with Nuexco Trading Corporation, Wisconsin Electric was to receive 200,000 pounds of uranium concentrates on specified delivery dates in 1995 at conversion facilities in the United States or Canada in exchange for the transfer to Nuexco of an identical quantity of concentrates held by Wisconsin Electric at the conversion facilities of Comurhex in France. However, Nuexco is in default under the contract and has filed for bankruptcy law protection. Wisconsin Electric is reviewing various options that might be available for use of its concentrates located at Comurhex.

Conversion: Wisconsin Electric has a contract with Sequoyah Fuels Corporation, a subsidiary of General Atomics, to provide conversion services for the Point Beach reactors through 1995. Due to operating difficulties encountered in 1992, Sequoyah Fuels has decided to place its Gore, Oklahoma conversion plant on indefinite stand-by. In November 1992, Sequoyah Fuels signed an agreement with Allied Signal Corporation which formed a partnership called Converdyn Corporation.

Converdyn administers all existing Allied and Sequoyah contracts, with all conversion services being performed at the existing Allied Signal conversion facility in Metropolis, Illinois.

Wisconsin Electric also has a conversion contract with the Cameco Corporation, to provide for an alternate supply of up to approximately 30 percent of conversion requirements through 1995 and up to 100 percent of conversion requirements from 1996 through 1999. Cameco is a Canadian based corporation located in Saskatoon, Saskatchewan, and is a major producer of uranium concentrates.

Enrichment: Wisconsin Electric currently has a Utility Services Contract with the U.S. Department of Energy ("DOE") for 70 percent of the enrichment services required for the operation of both of the Point Beach units. The contract can provide enrichment services for the entire operating life of each unit. For a discussion of litigation involving the Utility Services Contract, see Item 3. LEGAL PROCEEDINGS - OTHER LITIGATION - "Uranium Enrichment Charges". Wisconsin Electric entered into a supplemental agreement with the DOE to supply the remaining 30 percent of enrichment service requirements for the period through 1995 at prices below those offered under the Utility Services Contract. Responsibility for administering these contracts and agreements for enrichment services was transferred from DOE to the U.S. Enrichment Corporation ("USEC") under the Energy Policy Act of 1992. In March 1992, Wisconsin Electric entered into an agreement with Global Nuclear Services and Supply Limited, an international supplier of enrichment services, for the remaining 30 percent of enrichment service requirements after 1995.

contracts for its conversion, enrichment and fabrication. Wisconsin Electric maintains title to the nuclear fuel until the fabricated fuel assemblies are

Fabrication: Fabrication of fuel assemblies from enriched uranium for Point Beach is covered under a contract with Westinghouse Electric Corporation for the balance of the plant's current operating license.

Spent Fuel Storage and Disposal: Wisconsin Electric currently has the capability to store certain amounts of spent nuclear fuel at Point Beach. Previous modifications to the storage facilities at Point Beach have made it possible to accommodate all spent fuel expected to be discharged from the reactors through 1995 while maintaining the capability for one full core off-load. In accordance with the provisions of the Nuclear Waste Policy Act of 1982, which require the DOE to provide for the disposal of spent fuel from all U.S. nuclear plants, Wisconsin Electric entered into a disposal contract providing for deliveries of spent fuel to the DOE for ultimate disposal commencing in January 1998. It is anticipated that the DOE will be unable to accept spent fuel by the 1998 timeframe as contracted. In November of 1991, Wisconsin Electric filed an application with the PSCW for authority to construct and operate an Independent Spent Fuel Storage Installation ("ISFSI"). The ISFSI can provide additional interim dry cask storage until the DOE begins to remove spent fuel from Point Beach in accordance with the terms of the contract it has with Wisconsin Electric. Public hearings on the proposed project were held during October 1994. On February 13, 1995, Wisconsin Electric received a Certificate of Authority from the PSCW to construct and operate the ISFSI. Loading of the first storage unit of the ISFSI is expected to take place in the summer of 1995. In March 1995 separate petitions were filed by intervenors in Dane County Circuit Court and Fond du Lac County Circuit Court. The Dane County petition seeks reversal of the order and a remand to the PSCW directing it to deny Wisconsin Electric's request for authorization to construct the dry cask facility, or in the alternative, to correct the alleged errors in the PSCW's order. No specific relief is identified in the Fond du Lac County petition; however, numerous grounds of error are alleged. Wisconsin Electric intends to fully participate in both judicial review proceedings and to vigorously oppose the petitions. For additional information, see Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "Capital Requirements 1995-1999".

Point Beach Nuclear Plant: Point Beach provided 29 percent of Wisconsin Electric's net generation in 1994. The plant has two generating units which had a combined dependable capability during December 1994 of 980 megawatts and which together constituted 18.3 percent of Wisconsin Electric's dependable generating capability in 1994. The U.S. Nuclear Regulatory Commission ("NRC") licenses for Point Beach Units 1 and 2 expire October 5, 2010 and March 8, 2013, respectively.

The NRC has, at various times, directed that certain inspections, modifications and changes in operating practices be made at all nuclear plants. At Point Beach, such inspections have been made and necessary changes to equipment and in operating practices have either been completed or are expected to be completed within the time schedules permitted by the NRC or within approved extensions thereof.

Wisconsin Electric has initiated certain plant betterment projects at Point Beach that are judged to be appropriate and beneficial. Construction is progressing on the addition of two safety-related emergency diesel powered electrical generators with installation to be completed in 1996.

ITEM 1. BUSINESS - Sources of Generation (Cont'd)

On October 1, 1992, Wisconsin Electric filed an application with the PSCW for the replacement of the Unit 2 steam generators, which would allow for the unit's operation until the expiration of its operating license in 2013. This project is estimated to cost $119 million. (In 1984 Wisconsin Electric replaced the Unit 1 steam generators.) The PSCW deferred the decision on the steam generator replacements until after the next refueling outage in September 1995. In the Interim Order dated February 13, 1995, the PSCW directed Wisconsin Electric to make suitable arrangements with the fabricator of the new steam generators to allow the fabrication, delivery and replacement to proceed promptly if authorized by the PSCW as a result of further investigation. The reasonable costs of such arrangements to maintain a place in line with the fabricator will be afforded rate recovery. It is anticipated that the final order in this matter will be issued in early 1996. Without the replacement of the steam generators, it is believed the unit would not be able to operate to the end of its current license.

Decommissioning Fund: Pursuant to a 1985 PSCW order, amended in 1994, Wisconsin Electric provides for costs associated with the eventual decommissioning of Point Beach through the use of an external trust fund. Payments to this fund, together with investment earnings, brought the balance in the trust fund on December 31, 1994 to approximately $227 million. For additional information regarding decommissioning see Note E to the Financial Statements in Item 8.

Nuclear Plant Insurance: For information regarding matters pertaining to nuclear plant insurance, see Note E to the Financial Statements in Item 8.

NATURAL GAS (FOR ELECTRIC GENERATION): Natural gas for boiler ignition and flame stabilization purposes for the Pleasant Prairie, Oak Creek and Valley Power Plants, is purchased under an agency agreement. The agent purchases natural gas and arranges for interstate pipeline transportation to the local gas distribution utility. Gas for the Pleasant Prairie and Oak Creek Power Plants is delivered by Wisconsin Natural. Gas for the Valley Power Plant is delivered by Wisconsin Gas Company, a non-affiliated company.

The Concord Generation Station and the Oak Creek combustion turbine use natural gas as their primary fuel, with Number 2 fuel oil as backup, as will the Paris Generating Station, expected to go into commercial service in the summer of 1995. Gas for these plants may be purchased directly from Wisconsin Natural on an interruptible basis.

OIL: Oil is used for combustion turbines at the Germantown and Port Washington Power Plants and at Point Beach. Small amounts of oil are also used for boiler ignition and flame stabilization at some coal-fired plants. Number 2 fuel oil requirements for 1995 at the Presque Isle Power Plant and the Point Beach combustion turbine are provided under one-year contracts with equitable price adjustment formulas. All other oil requirements are purchased as needed from local suppliers. The Concord and Paris Generating Stations and the Oak Creek combustion turbine use oil as a secondary fuel source.

HYDRO: Wisconsin Electric has various licenses from the Federal Energy Regulatory Commission ("FERC") for its hydroelectric generating facilities that expire during the period 1998 to 2004. Wisconsin Electric has begun the licensing process for its largest hydro facility, Big Quinnesec Falls, which has a license expiring in 1998. Wisconsin Electric continues to support FERC's efforts to complete the licensing process and issue licenses for four

hydro projects with 1993 expiration dates. These projects are currently being operated by Wisconsin Electric under annual licenses issued by FERC. The three hydro facilities, with a total of 2.5 megawatts installed capacity, that Wisconsin Electric decided not to relicense in 1993 are still being operated by Wisconsin Electric under annual licenses until FERC determines their disposition. Wisconsin Electric continues to consult with the U.S. Fish and Wildlife Service, DNR, Michigan Department of Natural Resources ("MDNR") and the National Park Service in conjunction with the licensing process. Hydroelectric facilities provided 1.4% of Wisconsin Electric's total energy generation in 1994.

INTERCONNECTIONS WITH OTHER UTILITIES: Wisconsin Electric's system is interconnected at various locations with the systems of Madison Gas and Electric Company, Wisconsin Power and Light Company, Wisconsin Public Service Corporation, Commonwealth Edison Company, Northern States Power Company and Upper Peninsula Power Company. These interconnections provide for interchange of power to assure system reliability as well as facilitating access to generating capacity and the transfer of energy for economic purposes.

Wisconsin Electric is a member of Wisconsin-Upper Michigan Systems ("WUMS"), a coordinating group which includes four other electric companies in Wisconsin and Upper Michigan. WUMS, in turn, is a member of Mid-America Interconnected Network, which is one of nine regional members of the North American Electric Reliability Council. Membership in these groups permits better utilization of reserve generating capacity and coordination of long-range system planning and day-to-day operations.

In March 1994, Wisconsin Electric executed a transmission service agreement with Commonwealth Edison that will allow Wisconsin Electric to purchase energy from southern Illinois and Indiana suppliers, using the Commonwealth Edison transmission system to import such energy into Wisconsin.

A transmission service agreement has been executed to allow Wisconsin Electric to reserve capacity and import energy from members of the Mid-Continent Area Power Pool ("MAPP"), a group consisting of electric utilities generally located west of Wisconsin. Considerable non-firm energy is expected to be purchased from MAPP members over the next several years.

SALES TO WHOLESALE CUSTOMERS: Wisconsin Electric currently provides wholesale electric energy to five municipally owned systems, three rural cooperatives, two municipal joint action agencies and one isolated system of an investor-owned utility in Wisconsin, Illinois, and the Upper Peninsula of Michigan under rates approved by the FERC. Sales to these wholesale customers accounted for 5.3 percent of total kilowatt-hour sales in 1994. Under two agreements, service is being provided subject to a seven-year notice of cancellation from the Wisconsin Public Power Inc. SYSTEM ("WPPI"). Wisconsin Electric also has an eight-year power supply agreement with the Badger Power Marketing Authority. Sales to the Badger Power Marketing Authority and WPPI combined are expected to account for approximately one half of the wholesale sales for 1995.

Service to UPPCO, under a 65 megawatt agreement which expires on December 31, 1997, is expected to account for 30 percent of 1995 wholesale sales. In October 1993, UPPCO announced that it had reached an agreement in principle with NSP to purchase 90 megawatts of base-load electric energy beginning in 1998. Wisconsin Electric expects to apply the 65 megawatts of capacity toward

the electric energy needs of new customers and toward the overall increase in system supply needs anticipated by 1998.

Service to the remaining wholesale customers is provided under agreements which require a three-year notice of cancellation from the customers.

During 1994, sales to wholesale customers declined 10.4 percent from 1993, largely the result of reductions in sales to WPPI. WPPI has been reducing its purchases from Wisconsin Electric subsequent to acquiring generation capacity in 1990. Sales to WPPI during 1994, 1993 and 1992 were approximately 725,000 megawatt-hours ("MWh"), 944,000 MWh and 1,166,000 MWh, respectively. Further reductions are expected as WPPI installs additional capacity. These sales reductions are not expected to have a significant effect on future earnings. Under the provisions of a long-term agreement, Wisconsin Electric will continue to provide transmission services to WPPI.

Wisconsin Electric's existing FERC tariffs also provide for transmission service to its wholesale customers. During 1994, Wisconsin Electric had three customers taking transmission service. For further information see Item 1. BUSINESS - "REGULATION".

In October 1992, the Energy Policy Act was signed into law. Passage of this law is expected to remove perceived encumbrances and facilitate the entry of power producers into the already competitive bulk power market. Notable among its provisions are the creation of a new class of energy producer called Exempt Wholesale Generators ("EWGs"), who are exempt from the requirements of the Public Utility Holding Company Act of 1935, and the rights that the Energy Policy Act provides them and utilities to request a FERC order directing the provision of transmission service if denied transmission access from utilities. The transmission aspects of this law are expected to have little impact on Wisconsin Electric since it has had open access transmission tariffs on file with the FERC since 1980.

In September 1994 Wisconsin Electric, responding to WPPI's request and a PSCW order in a transmission construction proceeding, filed an unexecuted Network Transmission Service Agreement for service to WPPI at the FERC. In November 1994 Wisconsin Electric made a second filing at the FERC to extend network transmission service to non-WPPI wholesale customers. The proposed Network Transmission Service is firm service for the loads of wholesale customers located in Wisconsin Electric's retail service area. It is designed to be comparable to service provided for the Company's native load.

The electric utility industry continues to become increasingly competitive. Some municipal utilities are approaching competing utilities in a search for lower energy prices. Additionally, some large industrial customers are seeking regulatory changes that could permit retail wheeling to allow them to seek proposals for energy from alternate suppliers. IPPs are also exploring cogeneration projects which would provide process steam to customers in Wisconsin Electric's service territory and sell electricity to Wisconsin Electric. Consequently, electric wholesale and large retail customers of Wisconsin Electric or other non-affiliated utilities may determine, from time to time, to switch energy suppliers, purchase interests in existing power plants or build new generating capacity, either directly or through joint ventures with third parties. The advent of EWGs can be expected to accelerate this practice. For additional information, see Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "LIQUIDITY AND CAPITAL RESOURCES".

ITEM 1. BUSINESS - (Cont'd)

GAS UTILITY OPERATIONS

Effective January 1, 1994, Wisconsin Southern Gas Company, Inc. ("Wisconsin Southern") was acquired by Wisconsin Energy through a statutory merger of Wisconsin Southern into Wisconsin Natural. Wisconsin Natural continues to use the acquired facilities of Wisconsin Southern for the distribution and transportation of natural gas. During 1994, the administrative and operating functions of the companies were combined. For additional information, see Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

On October 11, 1994, Wisconsin Electric and Wisconsin Natural filed a joint application with the PSCW to merge Wisconsin Natural into Wisconsin Electric. Wisconsin Electric also filed an application to obtain the Michigan Public Service Commission's ("MPSC") consent to assume Wisconsin Natural's liabilities in connection with the merger. The merger, which was approved by the stockholders of Wisconsin Electric in December 1994, is anticipated to be effective by year-end 1995. The merger of Wisconsin Natural into Wisconsin Electric is expected to improve customer service and reduce future operating costs.

Total gas therms delivered by Wisconsin Natural, including customer-owned gas transported by Wisconsin Natural, increased 0.2 percent in 1994 compared to 1993, reflecting the offsetting effects of 5 percent warmer-than-normal weather during 1994 and increased sales associated with a record number of new customer additions.

Approximately 30 percent of total 1994 deliveries were on interruptible rates. Wisconsin Natural's maximum daily send-out in 1994 was 651,643 Dths. A dekatherm ("Dth") is equivalent to ten therms or one million British Thermal Units ("BTU"). Sales of the gas utility fluctuate with the heating cycle of the year and are also impacted by varying weather conditions from year-to-year.

On November 1, 1993, FERC Order 636 went into effect, unbundling the interstate pipeline industry. The unbundling forced Wisconsin Natural to take on the responsibility of selecting and administering a complete portfolio of gas supply contracts sufficient to supply sales customers.

Wisconsin Natural has entered into more than 50 gas service contracts for supply, pipeline capacity, underground storage and balancing services. Contracts vary in term from less than one year to ten years. Gas supply contracts contain pricing options that allow pricing at market rates or the ability to fix future prices for varying terms which Wisconsin Natural can exercise to manage the risk of substantial market price fluctuations. The gas from these contracts is used to meet customer requirements on a daily basis and to fill storage during the warm months to be withdrawn from storage during the heating season in order to meet system gas demands.

The use of storage increases the load factor of supply contracts and allows Wisconsin Natural to take advantage of seasonal price differentials. Wisconsin Natural has 14 firm gas storage and associated firm transportation agreements that allow daily withdrawals of 285,025 Dths and an annual capacity of 22 million Dths. The initial terms of these contracts vary, with the first one expiring in March 1995, and the last in October 2003. This storage effectively replaces storage used by the pipeline companies to provide gas sales service to Wisconsin Natural in the pre-FERC Order 636 environment. Gas

stored at these facilities is purchased by Wisconsin Natural from a number of suppliers.

Wisconsin Natural has 11 transportation contracts not associated with storage. Seven contracts expire prior to 2002, one contract expires in 2002 and the remaining three contracts expire in 2003. In each case, subject to certain provisions, Wisconsin Natural can extend the terms of these contracts at the time the agreements would otherwise expire.

Wisconsin Natural transports gas for its customers who purchase gas directly from other suppliers. Transported gas accounted for approximately 30% of the company's total therms delivered during 1994, 31% during 1993, and 33% during 1992.

Wisconsin Natural is the supplier of natural gas for Wisconsin Electric's Concord Combustion Turbine Power Plant and Paris Combustion Turbine Power Plant that will begin operation in 1995. Delivery of the Paris facility's fuel requirements is made possible by a pipeline extension completed in 1994.

On March 9, 1995, the PSCW issued Wisconsin Natural a certificate for construction of a gas pipeline to provide gas transportation service to LSP - Whitewater Limited Partnership's proposed Whitewater cogeneration facility. For additional information, see ELECTRIC UTILITY OPERATIONS above.

SALES TO LARGE CUSTOMERS

Wisconsin Electric and Wisconsin Natural provide utility service to a diversified base of industrial customers. Major industries served by Wisconsin Electric include the iron ore mining industry, the paper industry, the machinery production industry, the foundry industry and the food products industry. The Empire and Tilden iron ore mines, the two largest customers of Wisconsin Electric, accounted for 4.6 percent and 4.0 percent, respectively, of total electric kilowatt-hour sales in 1994. Sales to the mines were 15.0 percent higher in 1994 compared to 1993, attributable to a five week strike in 1993. For additional information see Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "Electric Sales and Revenues". Major industries served by Wisconsin Natural include the paper industry, the food products industry and the machinery production industry. No single customer of Wisconsin Natural accounted for more than 3.2 percent of total gas therms sold and transported in 1994.

STEAM UTILITY OPERATIONS

Wisconsin Electric operates a district steam system for space heating and processing in downtown and near southside Milwaukee. Sales of the steam utility fluctuate with the heating cycle of the year and are impacted by varying weather conditions from year-to-year. The system consists of approximately 28 miles of high and low pressure mains and related regulating equipment. Steam for the system is supplied by Wisconsin Electric's Valley Power Plant. At December 31, 1994, there were 471 customers on the system. Steam sales in 1994 were 2,395 million pounds, an increase of 0.8 percent from the 2,376 million pounds sold in 1993.

NON-UTILITY OPERATIONS

Wisconsin Energy has five non-utility subsidiaries:

WISPARK Corporation develops and invests in real estate projects within Wisconsin Energy's utility subsidiaries' service territories. WISPARK is

currently developing several industrial/business parks in southeastern Wisconsin. WISPARK's primary development is LakeView Corporate Park, a 1,439 acre business park located near Kenosha, Wisconsin. Thirty-nine companies have purchased a total of 426 acres in this development during its first six years. WISPARK is also developing business parks in Pewaukee and New Berlin (Waukesha County), Yorkville (Racine County) and Milwaukee, Wisconsin. WISPARK has also been involved in the development of East Pointe Commons, a housing and retail complex in Milwaukee, Wisconsin. A WISPARK subsidiary, Syndesis Development Corporation, has developed Gaslight Pointe, a residential complex, also featuring a hotel and restaurant, on 12 acres along the Lake Michigan waterfront in Racine, Wisconsin.

WITECH Corporation is a venture capital company operating in Wisconsin and the Upper Peninsula of Michigan. At December 31, 1994, WITECH had investments in 19 companies and 3 funds totaling more than $52 million. The companies include, among others, an operator of a nationwide data communications network for the agriculture industry, a specialty printing firm, a manufacturer of motor drives and a manufacturer of customized furniture. WITECH's subsidiary, Minergy Corp., develops and markets technology involving lightweight aggregate produced from fly ash, sludge and other waste by-products. Minergy is marketing this technology in areas outside Wisconsin Electric's service territory.

Wisconsin Michigan Investment Corporation ("WMIC") engages in investing and financing activities. Activities include advances to affiliated companies and investments in financial instruments and in partnerships developing low- and moderate-income housing projects. Other investments may be made from time to time. WMIC's subsidiary, WMF Corp., engages in financing activities; any funds obtained by WMF Corp. through financing arrangements are advanced to WMIC.

Badger Service Company holds coal rights in Indiana. Estimates indicate that 40 million tons of coal could be recovered from this property with conventional mining techniques; however, there are no current plans to develop the property. Badger Service Company may sell or develop these rights in the future as conditions warrant.

WISVEST Corporation was formed to provide capital to help businesses expand in Wisconsin and to help Wisconsin corporations avoid takeover bids by out-of-state companies.

Wisconsin Energy is subject to certain restrictions which limit diversification in non-utility activities. Under Wisconsin law, the sum of the assets of all non-utility affiliates may not exceed the sum of 25 percent of the assets of Wisconsin Electric and a percentage as determined by the PSCW (equal to 25 percent) of the assets of Wisconsin Natural.

REGULATION

Wisconsin Electric and Wisconsin Natural are subject to the regulation of the PSCW as to retail electric, gas and steam rates in Wisconsin, standards of service, issuance of securities, construction of new facilities, transactions with affiliates, levels of short-term debt obligations, billing practices and various other matters. Wisconsin Electric is also subject to the regulation of the MPSC as to the various matters associated with retail electric service in Michigan as noted above except as to construction of certain new facilities, levels of short-term debt obligations and advance approval of

ITEM 1. BUSINESS - Regulation (Cont'd)

transactions with affiliates. Wisconsin Electric, with respect to hydro-electric facilities, wholesale rates and accounting, is subject to FERC regulation. Operation and construction relating to Wisconsin Electric's Point Beach facilities are subject to regulation by the NRC. Wisconsin Electric's operations are also subject to regulations of the EPA, the DNR and the MDNR.

The PSCW is authorized to direct expenditures for promoting conservation if it determines that the programs are in the public interest. Recent rate orders have included provisions for substantial conservation programs initiated by Wisconsin Electric. For additional information, see Note A to the Financial Statements in Item 8.

Wisconsin Energy is an exempt holding company by order of the Securities and Exchange Commission under Section 3(a)(1) of the Public Utility Holding Company Act of 1935, as amended, and accordingly is exempt from the provisions of that act, other than with respect to certain acquisitions of securities of a public utility.

Wisconsin Electric is subject to a power plant siting law in Wisconsin which requires that electric utilities file updated long-term forecasts (called "Advance Plans") for the location, size and type of future large generating plants and high voltage transmission lines about every two years for PSCW approval after public hearings. Generally, the law provides that the PSCW may not authorize the construction of any large generating plants or high voltage transmission lines unless they are in substantial compliance with the most recently approved plan. The law also prohibits Wisconsin Electric from acquiring any interest in land for such plants or transmission lines by condemnation until construction authorization has been received. Advance Plan orders are based on a review of the utilities' long-term planning options. However, separate project-specific PSCW approval is required for the construction of generating facilities and transmission lines.

Wisconsin Electric employs a least-cost integrated planning process, which examines a full range of supply and demand side options to meet its customers' electric needs, such as the renovation of existing power plants, promotion of cost-effective conservation and load management options, development of renewable energy sources, purchased power and construction of new company-owned generation facilities.

For additional information regarding Advance Plans, see Item 3. LEGAL PROCEEDINGS - "OTHER LITIGATION" and Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "LIQUIDITY AND CAPITAL RESOURCES".

In 1992, the PSCW ordered that utilities should include a cost of $15 per ton of carbon dioxide ("CO_2") when comparing resource planning options (both supply and demand-side) to account for the economic risk of future greenhouse gas regulation. Appeals through 1993 and 1994 did not substantially change the order. Recent supply and DSM plans included the greenhouse gas adder. There are only minor differences in supply and DSM plans prepared with and without the greenhouse gas adder.

In 1994, the PSCW ordered the state's utilities to competitively bid all new generation needs in excess of 12 megawatts to be built in Wisconsin. The two stage process established by the PSCW consists of: (1) an all-parties (including utilities) bidding procedure for fossil-fueled and renewable

generation projects and (2) the conventional Certificate of Public Convenience and Necessity ("CPCN") procedure for the winner or winners. For additional information regarding the CPCN process, see Item 3. LEGAL PROCEEDINGS - OTHER LITIGATION and Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "Capital Requirements 1995-1999."

The PSCW is conducting an investigation into the state of the electric utility industry in Wisconsin, particularly its institutional structure and regulatory regime, in order to evaluate what changes would be beneficial for Wisconsin. The PSCW stated that this investigation may result in profound and fundamental changes to the nature and regulation of the electric utility industry in Wisconsin. About 50 interested parties, including Wisconsin Electric, submitted comments as to appropriate objectives for regulation of the electric utility industry and the utility structures and regulatory approaches likely to provide the best balance of such objectives. Initial question and answer sessions were held in November, 1994. The PSCW also scheduled meetings for early 1995 for the purpose of narrowing the scope of the investigation and has indicated it anticipates submitting a final report to the Wisconsin Legislature in late 1995. Copies of Wisconsin Electric's proposal are available upon request.

Wisconsin Electric's view of industry restructuring separates various electric utility functions into two major categories - natural monopolies and competitive entities. The natural monopolies are functions where a single entity can provide the lowest cost. The competitive entities are functions where competition can provide the lowest cost. The natural monopolies would be re-regulated so the appropriate incentives exist to provide electricity at reasonable prices. The competitive entities would eventually see an elimination of traditional regulation.

In Wisconsin Electric's plan, the re-regulated natural monopolies are the transmission and distribution functions. Re-regulation of these entities should involve some form of price cap and performance-standard operation rules. In the new structure, the FERC would regulate the transmission systems through a regional transmission group to ensure open access, comparable pricing, comparable service and adequate cost recovery. The PSCW would regulate the distribution function for reasonable price, reliability, public safety and customer satisfaction.

The competitive entities in the Wisconsin Electric model are the generation, customer service and energy merchant functions. In the restructured electric utility industry, utilities would unbundle costs into the individual components of generation, transmission, distribution and service.

Wisconsin Natural is also participating in a generic investigation, initiated by the PSCW, addressing the extent to which traditional regulation of the natural gas distribution function could be replaced.

RATE MATTERS

See Item 3. LEGAL PROCEEDINGS - "RATE MATTERS" - for a discussion of rate matters, including recent rate changes and a discussion of the tariffs and procedures with respect to recovery of changes in the costs of fuel, purchased power and gas purchased for resale.

ENERGY EFFICIENCY

The management of Wisconsin Energy and its utility subsidiaries believes that a strong and continuing emphasis must be placed on energy management and efficient energy use. Wisconsin Electric and Wisconsin Natural are continuing to develop programs to inform and assist their customers with respect to conservation options. This policy is regarded by Wisconsin Energy and its utility subsidiaries as in the best interests of their customers and security holders.

Efficient use of energy is not limited to reduced consumption. Time-of-use rates for certain electric customers promote the shifting of electricity usage to those times when electric generating facilities are not fully utilized. Interruptible and curtailable rates, along with an energy cooperative managed load curtailment program, are offered to certain industrial customers to control peak demand. Direct load control of some residential central air conditioners continues as part of a pilot program which began in 1992.

To promote their energy management and conservation policies, Wisconsin Electric and Wisconsin Natural offer various programs and services to their customers. For industrial and commercial customers, Wisconsin Electric offers energy evaluations identifying cost-effective customer conservation opportunities as well as financial assistance, including direct grants and interest-free financing to purchase and maintain energy-efficient equipment. Additional financial incentives are also offered to residential electric customers to encourage the purchase of energy-efficient appliances and the removal of older inefficient appliances from the system.

ENVIRONMENTAL COMPLIANCE

Compliance with federal, state and local environmental protection requirements resulted in capital expenditures by Wisconsin Energy's utility subsidiaries of approximately $57 million in 1994, a decrease of $8 million from 1993. Expenditures incurred during 1994 included costs associated with the replacement of the precipitators at Valley Power Plant, the installation of pollution abatement facilities at Wisconsin Electric's power plants, the installation of underground distribution lines and environmental studies associated with power plants. Such expenditures are budgeted at approximately $35 million for 1995.

Operation, maintenance and depreciation expenses of Wisconsin Electric's fly ash removal equipment and other environmental protection systems are estimated to have been $47 million in 1994. Other environmental costs, primarily for environmental studies, amounted to $1 million in 1994.

Solid Waste Landfills

Wisconsin Energy's utility subsidiaries provide for the disposal of non-ash related solid wastes and hazardous wastes through licensed independent contractors, but federal statutory provisions impose joint and several liability on the generators of waste for certain cleanup costs. Remediation-related activity pertaining to specific sites is discussed below.

Muskego Sanitary Landfill: In 1992, Wisconsin Electric was informed by the EPA that it was included in a group of approximately 50 potentially responsible parties ("PRPs") against which the EPA will issue orders requiring that the PRPs clean up the Muskego Sanitary Landfill (located in Southeastern

Waukesha County, Wisconsin). On January 14, 1993, Wisconsin Electric notified EPA that it was proceeding, with other PRPs, to comply with the order. The first step toward remediation has been identified, with the Wisconsin Electric portion of the $16.8 million dollar effort identified as $115,414 (paid in 1994). Remedial actions for the second step (Groundwater Operable Unit Remedy) are being evaluated, with EPA recommending a limited pump and treat option, estimated to cost $7.4 million. Costs would be allocated among the PRPs based on their waste contribution to the site. Wisconsin Electric has been identified as one of the small waste contributors to the site.

Maxey Flats Nuclear Disposal Site: In 1986, Wisconsin Electric was advised by EPA that it is one of a number of PRPs for cleanup at this low-level radioactive waste site located in Morehead, Kentucky. The amount of waste contributed by Wisconsin Electric was significantly less than one percent of the total. Under the terms of a consent decree agreed to by all parties, Wisconsin Electric will pay the amount of $163,830 (minus a small credit for an amount previously paid) as its share of the settlement fund for site clean up costs.

Lenz Oil: A request for information or PRP letter was received from EPA on March 25, 1994. Wisconsin Southern was identified as the PRP because of used oil sent to the Lenz Oil facility. Wisconsin Southern was acquired by Wisconsin Energy on January 1, 1994. A response was filed with EPA. No known cleanup schedule has been set or remediation costs identified.

Manistique River/Harbor Area: Wisconsin Electric received a request for information or PRP letter from EPA on March 12, 1993. The letter states that the river/harbor has PCB contamination. EPA has requested information regarding company PCB and oil filled equipment management in the Manistique River drainage basin. Wisconsin Electric responded to this request on April 22, 1993. Additional information requests from EPA have also been responded to by Wisconsin Electric. Wisconsin Electric has no reason to believe that the company is responsible in total or in part for the PCB contamination in the Manistique River/harbor area. No known cleanup schedule has been set or remediation costs identified.

Kenosha Iron and Metal: Wisconsin Electric received a request for information or PRP letter from EPA on December 9, 1994. The letter requested information regarding any involvement Wisconsin Electric's Pleasant Prairie Power Plant may have had with this operation. A response to EPA was sent December 29, 1994 indicating that Wisconsin Electric had no reason to believe that the power plant or Wisconsin Electric did any business with Kenosha Iron and Metal. No cleanup schedule has been set or remediation costs identified.

Marina Cliffs Barrel Dump Site: Wisconsin Electric received a special notice letter and information request on March 25, 1994 from the DNR. The letter describes a release of hazardous substances at a former barrel reclamation facility and landfill site, and requests information on any business dealings Wisconsin Electric may have had with this former operation. Wisconsin Electric has no reason to believe that it is responsible for the contamination problems at this site. No known cleanup schedule has been set or remediation costs identified.

ETSM Property: Iron cyanide bearing wastes were found both on property owned by Wisconsin Electric (ETSM facility) and adjacent landowners. The wastes were removed and properly disposed, with Wisconsin Electric's share of the

ITEM 1. BUSINESS - Environmental Compliance (Cont'd)

ITEM 1. BUSINESS - Environmental Compliance (Cont'd)

cleanup at about $100,000. Adjacent landowners believe Wisconsin Electric to be the source of the material, however, records do not support that allegation.

Ash Landfills

Wisconsin Electric aggressively seeks environmentally acceptable, beneficial uses of its combustion byproducts. However, ash materials have been, and to some degree, continue to be disposed of in company-owned, licensed landfills. Some early designed and constructed landfills may allow the release of low levels of constituents resulting in the need for various levels of remediation. These costs are included in the environmental operating and maintenance costs for Wisconsin Electric. Sites currently undergoing remediation include:

Presque Isle Landfill: Wisconsin Electric entered into a settlement agreement with the MDNR for conditions existing at an ash landfill site acquired by Wisconsin Electric when it purchased the Presque Isle Power Plant in 1988. Wisconsin Electric's groundwater monitoring program at the site detected elevated levels of certain substances at the oldest portion of the landfill. Wisconsin Electric has reconstructed and capped that portion of the landfill to prevent further leachate from entering the groundwater at an approximate cost of $2.6 million. The cost to implement a remediation plan for the cleanup of the current groundwater conditions, when approved by the MDNR, is estimated to not exceed $1 million.

Highway 59 Landfill: In 1989, a sulfate plume was detected in the groundwater beneath a Wisconsin Electric-owned former ash landfill located in the town of Waukesha, Wisconsin. After notifying the DNR, Wisconsin Electric initiated a five-year expanded monitoring program. In response to a request from the DNR, Wisconsin Electric is preparing an environmental contamination assessment of the landfill, and will submit the report to the DNR in May, 1995. Wisconsin Electric believes that any remediation plan developed, approved and implemented for this site would not have a material adverse effect on its financial condition.

Manufactured Gas Sites

As have other public utilities, the utility subsidiaries of Wisconsin Energy and/or their predecessors, have operated manufactured gas plants. Operations at these manufactured gas sites ceased over 40 years ago with remediation activities having been conducted at certain of these sites, while other sites are scheduled for investigation. A plan to investigate and remediate these sites was presented to the DNR. The plan, estimated to cost approximately $12 million over the next six years, will result in the majority of the sites being restored to commercial use. Costs associated with these types of efforts, to the extent not covered by insurance, historically have been allowed to be recovered in rates for utility service. Wisconsin Energy's utility subsidiaries believe any such future costs will continue to be considered appropriate for inclusion in rates and therefore will not have a material adverse impact on their financial condition.

ETSM Property: Iron cyanide bearing wastes were found both on property owned by Wisconsin Electric (ETSM facility) and adjacent landowners. The wastes were removed and properly disposed, with Wisconsin Electric's share of the

Air Quality - Acid Rain Legislation

In 1986, the Wisconsin Legislature passed legislation establishing new sulfur dioxide ("SO_2") limitations applicable to Wisconsin's five major electric utilities, including Wisconsin Electric. The law requires each of the five major electric utilities to meet a 1.20 lb SO_2 per million BTU corporate average annual emission rate limit beginning in 1993. Prior to 1993, Wisconsin law limited the total annual SO_2 emissions from the five major electric utilities to 500,000 tons per year. During 1994, approximately 181,000 tons of SO_2 were emitted by such utilities, equivalent to an annual average emission rate of 0.97 lbs SO_2 per million BTU.

Wisconsin Electric's compliance plan to meet the SO_2 limitations under Wisconsin's acid rain law includes the increased use of low-sulfur coal at certain power plant units. Some changes to existing power plant equipment were made to accommodate the use of low-sulfur coals.

The 1990 amendments to the Federal Clean Air Act mandate significant nationwide reductions in air emissions. Most significant to the country's electric utility companies are the "acid rain" provisions of the amendments which are scheduled to limit SO_2 and nitrogen oxide ("NO_x") emissions in phases which take effect in 1995 and 2000. Wisconsin Electric evaluated the potential impact resulting from this legislation and concluded that minimal impact will result from Phase I requirements because of actions taken to meet the above mentioned Wisconsin acid rain law. Phase II requirements, together with separate ozone nonattainment provisions of the Clean Air Act which may call for additional NO_x reductions, however, will necessitate the implementation of a compliance strategy which is not expected to impact rates. Since a portion of the regulations that have been issued by the EPA are not complete or are not yet final, the rate impact is subject to change and will be reevaluated as needed.

For additional information regarding the impact of the Clean Air Act Amendments, including estimates of the cost of compliance, see Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "ENVIRONMENTAL ISSUES".

OTHER

Wisconsin Electric and Wisconsin Natural are authorized to provide electric and gas service in designated territories in the state of Wisconsin, as established by indeterminate permits, certificates of public convenience and necessity, or boundary agreements with other utilities. Wisconsin Electric provides electric service in certain territories in the state of Michigan pursuant to franchises granted by municipalities.

Research and development expenditures of Wisconsin Energy's utility subsidiaries amounted to $8,063,000 in 1994, $8,629,000 in 1993, and $7,885,000 in 1992. Such expenditures were primarily for improvement of service and abatement of air and water pollution. The capitalized portion of research and development costs amounted to $15,000 in 1993 and $55,000 in 1992; there were no such capitalized costs in 1994. Research and development activities include work done by employees, consultants and contractors, plus sponsorship of research by industry associations. In addition to the

ITEM 1. BUSINESS - Other (Cont'd)

foregoing amounts, Wisconsin Natural paid $766,000 in 1994, $1,300,000 in 1993 and $767,000 in 1992 for support of the Gas Research Institute ("GRI"). The GRI surcharge, currently assessed on all gas deliveries, is calculated on pipeline utilization.

At December 31, 1994, Wisconsin Energy and its subsidiaries employed 4,801 persons, of which 114 were part-time.

ITEM 2. PROPERTIES

Wisconsin Electric owns the following generating stations with 1994 capabilities as indicated:

Name	Fuel	No. of Generating Units	Dependable Capability In Megawatts (1) August 1994	Dependable Capability In Megawatts (1) December 1994
Steam Plants:				
Point Beach	Nuclear	2	974	980
Oak Creek	Coal	4	1,135	1,141
Presque Isle (2)	Coal	9	612	612
Pleasant Prairie	Coal	2	1,200	1,210
Port Washington	Coal	4	322	324
Valley	Coal	2	267	227
Edgewater (3)	Coal	1	98	98
TOTAL STEAM		24	4,608	4,592
Hydro Plants (16 in number)		38	75	75
Germantown Combustion Turbines	Oil	4	212	252
Other Combustion Turbines & Diesel(4)	Gas/Oil	6	393	450
TOTAL SYSTEM		72	5,288	5,369

(1) Dependable capability is the net power output under average operating conditions with equipment in an average state of repair as of a given month in a given year. Changing seasonal conditions are responsible for the different capabilities reported for the winter and summer periods in the above table. The values were established by test and may change slightly from year to year.

(2) UPPCO, a non-affiliated utility, staffs and operates the Presque Isle Power Plant under an operating agreement with Wisconsin Electric which extends through December 31, 1997.

(3) Wisconsin Electric has a 25 percent interest in Edgewater 5 Generating Unit, which is operated by Wisconsin Power and Light Company, a non-affiliated utility.

(4) During the second quarter of 1994, two units, or approximately 150 megawatts of additional peaking combustion turbine generation capacity, were placed in service at Wisconsin Electric's Concord Generating Station.

At December 31, 1994, the Wisconsin Electric system had 2,759 miles of transmission circuits, of which 639 miles were operating at 345 kilovolts, 123 miles at 230 kilovolts, 1,603 miles at 138 kilovolts, and 394 miles at voltage levels less than 138 kilovolts. At December 31, 1994, Wisconsin Electric was operating 22,327 pole miles of overhead distribution lines and 13,481 miles of underground distribution cable, as well as 360 distribution substations and 216,973 line transformers.

As of December 31, 1994, the gas distribution system of Wisconsin Natural includes approximately 6,786 miles of mains connected at 18 gate stations to the pipeline transmission systems of: ANR Pipeline Company, ANR; Natural Gas Pipeline Company of America, NGPL; and Northern Natural Pipeline Company, Northern Natural. Wisconsin Natural has a liquefied natural gas storage plant which converts and stores in liquefied form natural gas received during periods of low consumption. The liquefied natural gas storage plant has a send-out capability of 70,000 Dths per day. Through the acquisition of Wisconsin Southern, Wisconsin Natural acquired propane tanks for peaking purposes. These tanks will provide approximately 10,000 Dths of supply to the system. For additional information, see Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "Acquisition of Wisconsin Southern Gas Company, Inc.".

Wisconsin Electric and Wisconsin Natural own various office buildings and service centers throughout their service areas.

WISPARK properties include the following commercial and industrial parks in Wisconsin: LakeView, located near Kenosha; Grandview, in Racine County; RidgeView, in Pewaukee; and the industrial development of Westridge, in New Berlin. WISPARK also owns Gaslight Pointe, a residential and commercial complex located in Racine, Wisconsin and other properties located in the Wisconsin Energy's utility subsidiaries' service territories that are held for future development.

Badger Service Company holds rights to coal in an area of 8,568 acres in Knox County, Indiana.

The principal properties of Wisconsin Energy and its subsidiaries are owned in fee except that the major portion of electric transmission and distribution lines and steam distribution mains and gas distribution mains and services are located, for the most part, on or in streets and highways and on land owned by others. Substantially all utility property is subject to first mortgage liens.

ITEM 3. LEGAL PROCEEDINGS

ENVIRONMENTAL MATTERS

Wisconsin Electric and Wisconsin Natural are subject to federal, state and certain local laws and regulations governing the environmental aspects of their operations. Wisconsin Electric and Wisconsin Natural believe that, with immaterial exceptions, their existing facilities are in compliance with applicable environmental requirements.

Stephenson Building: Crown Life Insurance Company has sued Wisconsin Electric in federal court, seeking contribution and damages from Wisconsin Electric for the cost of removing asbestos from boilers and piping in a building owned by Crown Life. Wisconsin Electric sold that equipment and piping to a former building owner in 1970. Wisconsin Electric is defending this lawsuit.

See Item 1. BUSINESS - ENVIRONMENTAL COMPLIANCE for a discussion of matters related to certain solid waste and ash landfills and manufactured gas plant sites.

RATE MATTERS

Wisconsin Retail Electric Jurisdiction

Fuel Cost Adjustment Procedure: Wisconsin Electric's retail rates in Wisconsin do not contain an automatic fuel adjustment clause, but can be adjusted by the PSCW if actual cumulative fuel and purchased power costs, when compared to the costs projected in the retail electric rate proceeding, deviate from a prescribed range and are expected to continue to be above or below the authorized annual range of 3 percent.

1994 Fuel Cost Adjustment: Effective August 4, 1994, the PSCW authorized Wisconsin Electric to reduce Wisconsin retail electric rates, through the use of a fuel adjustment credit, to reflect lower fuel and purchased power expenses. The adjustment reduced Wisconsin retail electric revenue by approximately $6.8 million through December 31, 1994. The level of fuel expense currently included in rates will continue until either the actual cumulative fuel and purchased power costs exceed the range in the fuel cost adjustment procedure, at which time Wisconsin Electric can apply for a change to the fuel adjustment factor, or rates are revised by the PSCW in a rate case.

1994 Test Year: In April 1993, Wisconsin Electric filed with the PSCW required data relating to the 1994 test year. In support of its goal to become the lowest cost energy provider in the region, Wisconsin Electric did not seek an increase in retail electric rates for 1994 over those which were authorized on February 17, 1993.

1995 Test Year: In 1993 the PSCW discontinued the practice of conducting annual rate case proceedings, replacing it with a new schedule which calls for future rate cases to be conducted once every two years. As a result, no filing was made with respect to the 1995 test year.

1996 Test Year: Under the PSCW's biennial rate case schedule, Wisconsin Electric would be scheduled to file in mid-1995 for rates to reflect a 1996 test year. Wisconsin Electric and Wisconsin Natural may make a single combined filing covering electric, steam and gas operations in May 1995 for the test year beginning January 1, 1996. On March 27, 1995, Wisconsin Electric and Wisconsin Natural sent a letter to the PSCW proposing a one year deferral of their upcoming rate case filing. The matter is pending.

Wholesale Electric Jurisdiction

Fuel and Purchased Power Adjustment Tariffs: Wisconsin Electric's wholesale rates contain an automatic fuel adjustment provision to reflect varying fuel and purchased power costs. Wholesale sales, to municipals and cooperatives, represented approximately 5% of total electric sales in 1994.

applicable environmental requirements.

ITEM 3. LEGAL PROCEEDINGS - Rate Matters (Cont'd)

Michigan Retail Electric Jurisdiction

1993 Test Year: Effective July 9, 1993, the MPSC authorized an annualized rate increase of $1.4 million, or 4.3%, for Wisconsin Electric's non-mine retail electric customers. Excluding sales to the two mine customers, which are separately regulated by the MPSC, retail electric sales in Michigan account for approximately 2% of Wisconsin Electric's total kilowatt-hour sales.

Power Supply Cost Recovery Clause: Rates are adjusted to reflect varying fuel and purchased power costs through a power supply cost recovery ("PSCR") clause in Wisconsin Electric's tariffs. Such PSCR clause provides for, among other things, an annual filing of a PSCR plan and, after notice and an opportunity for hearing, the development of PSCR factors to be applied to customers' bills during the period covered by the PSCR plan to allow Wisconsin Electric to recover its costs of fuel and purchased power transactions, as estimated in its annual filing. The amounts so collected are subject to a reconciliation proceeding conducted by the MPSC at the end of the period covered by the plan for recovery of any undercollections of actual costs or for refund or credit of any amounts in excess of its actual costs in such period. On November 30, 1994, the MPSC approved the proposed PSCR credit factor of $.00535 per kilowatt-hour for the year 1995.

Wisconsin Retail Gas Jurisdiction

1994/1995 Test Year: In 1993, the PSCW adopted a biennial rate case schedule. As a result, no filing was made with respect to the 1994/1995 test year.

1996/1997 Test Year: Wisconsin Natural received approval from the PSCW to change its test year from a biennial period ending August 31 to a biennial period ending December 31, which coincides with Wisconsin Electric's rate case schedule. Wisconsin Natural and Wisconsin Electric may make a single combined filing covering electric, steam and gas operations in May 1995 for the test year beginning January 1, 1996. On March 27, 1995, Wisconsin Electric and Wisconsin Natural sent a letter to the PSCW proposing a one year deferral of their upcoming rate case filing. The matter is pending.

Purchased Gas Adjustment Tariffs: Sales of natural gas are subject to adjustment tariffs designed to pass on to gas customers increases or decreases in the cost of natural gas purchased for resale. For additional information, see Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "Rates and Regulatory Matters".

FERC Order 636 Transition Costs

As a result of FERC Order 636, pipeline companies are no longer in the merchant business and have begun billing transition costs, such as Gas Supply Realignment and stranded capacity costs, to their customers. The transition costs to be billed to Wisconsin Natural are currently estimated to be about $7.5 million for 1995, $6.0 million annually during 1996-1997 and $2.0 million each year thereafter until 2008. These estimates include the components attributable to Wisconsin Southern, which was merged into Wisconsin Natural effective January 1, 1994. The PSCW is allowing the local gas distribution companies to pass these costs on to their customers through the purchased gas adjustment mechanism.

and purchased power costs. Wholesale sales, to municipals and cooperatives, represented approximately 5% of total electric sales in 1994.

ITEM 3. LEGAL PROCEEDINGS - Rate Matters (Cont'd)

Wisconsin Retail Steam Jurisdiction

Fuel Adjustment: Wisconsin Electric steam rates contain a provision to adjust rates to reflect varying fuel costs for all customers except for a large volume contract representing approximately 14 percent of steam sales in 1994.

1994 Test Year: Consistent with the actions taken with respect to Wisconsin Electric's Wisconsin Retail Electric Jurisdiction, Wisconsin Electric did not seek an increase in retail steam rates for 1994 above those authorized in February 1993.

1995 Test Year: In 1993 the PSCW discontinued the practice of conducting annual rate case proceedings, replacing it with a new schedule which calls for future rate cases to be conducted once every two years. As a result, no filing was made with respect to the 1995 test year.

1996 Test Year: Under the PSCW's biennial rate case schedule, Wisconsin Electric would be scheduled to file data in mid-1995 to reflect a 1996 test year period. Wisconsin Electric and Wisconsin Natural may make a single combined filing covering electric, steam and gas operations in May 1995 for the test year beginning January 1, 1996. On March 27, 1995, Wisconsin Electric and Wisconsin Natural sent a letter to the PSCW proposing a one year deferral of their upcoming rate case filing. The matter is pending.

For additional information see Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "Rates and Regulatory Matters".

OTHER LITIGATION

Advance Plan 6: In 1992, Wisconsin Electric joined with other state utilities in a petition filed in Brown County Circuit Court requesting judicial review of one aspect of the PSCW's Advance Plan 6 order. The action involved the Commission's authority to require the utilities to consider, in their planning, monetized effects of so-called "greenhouse gases".

Also, in 1992, Wisconsin's Environmental Decade ("WED") filed a petition in Dane County Circuit Court requesting judicial review of another aspect of the PSCW's Advance Plan 6 order. That proceeding involved the question of whether the PSCW should have required the utilities to reflect, in their planning, claimed beneficial employment impacts associated with demand-side management activities and whether the PSCW's environmental assessment was sufficient. A group of utilities, including Wisconsin Electric, appeared in that proceeding in opposition to WED.

The two petitions were consolidated for judicial review in Dane County Circuit Court. On September 2, 1994, the Court issued a decision that the PSCW (1) has authority to require the utilities to monetize the economic risk of potential future regulation of greenhouse gases for advance planning purposes, and (2) was not required to direct utilities to include the economic impact of employment benefits in their advance plans. In addition, the Court held the PSCW's environmental assessment was deficient. The Court remanded the Advance Plan order to the PSCW for the purpose of providing a factual basis for the monetized values of greenhouse gases and correcting the environmental assessment deficiencies. On December 21, 1994, the PSCW issued a supplemental order purporting to explain the factual basis for the monetized values.

PSCW Two-Stage CPCN Order: In January 1994, Wisconsin Electric filed an action in Milwaukee County Circuit Court seeking judicial determination concerning the PSCW's authority to adopt a new "two-stage" CPCN process and to order utilities to enter into contracts to buy power from other entities. This action was in response to the PSCW's December 1993 order which detailed the requirements of the new process to be implemented by the PSCW in making the final selection from among competing alternatives to construct proposed future capacity additions, including projects that would be owned and operated by unaffiliated IPPs. On June 27, 1994, this action was dismissed by stipulation of the parties. Wisconsin Electric is also an intervenor in a similar action brought by an unaffiliated IPP in Dane County Circuit Court. The matter is pending. For additional information see Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "Capital Requirements 1995-1999".

Spent Fuel Storage and Disposal: See Item 1. BUSINESS - SOURCES OF GENERATION - NUCLEAR - "Spent Fuel Storage and Disposal" for information concerning the PSCW's approval of Wisconsin Electric's application to utilize dry cask storage for spent nuclear fuel generated at Point Beach, and pending petitions for judicial review of the PSCW's decision.

Pittsburg & Midway Case: In a matter brought before the FERC, in July 1993, Wisconsin Electric filed an initial brief supporting its right to retain coal reclamation costs collected through the wholesale fuel adjustment clause in 1986 that it believes were prudently incurred in a settlement with the Pittsburg & Midway Coal Mining Company. Of the total costs involved, the portion recovered through the wholesale fuel clause amounts to approximately $750,000. This filing was made in response to a FERC audit staff determination that Wisconsin Electric should have applied for a waiver of the FERC's fuel clause regulations in order to attempt to pass through the wholesale portion of the settlement costs. In order for a final decision to be made, the FERC must first await the initial decision expected from an Administrative Law Judge. The matter is pending.

In November 1993, the FERC rejected Wisconsin Electric's request to be allowed to recover, in wholesale rates in the future, the amount which may have to be refunded to customers in the event of an unfavorable ruling in the pending fuel adjustment clause proceeding concerning the Pittsburg & Midway reclamation charges. In January 1994, Wisconsin Electric filed an appeal with the U.S. Court of Appeals for the District of Columbia Circuit regarding this rejection. The matter is pending.

Electromagnetic Fields: Claims are being made or threatened with increasing frequency against electric utilities across the country for bodily injury, disease or other damages allegedly caused or aggravated by exposure to electromagnetic fields ("EMFs") associated with electric transmission and distribution lines. Results of scientific studies conducted to date do not establish the existence of a causal connection between EMFs and any adverse health effects. Wisconsin Electric believes that its facilities are constructed and operated in accordance with all applicable legal requirements and standards. Wisconsin Electric does not believe that any claims thus far made or threatened against it in connection with EMFs will result in any substantial liability on the part of Wisconsin Electric.

Uranium Enrichment Charges: On February 9, 1995, Wisconsin Electric and ten other utilities filed an action against the USEC in the U.S. Court of Federal Claims challenging the final decision of the USEC contracting officer in

ITEM 3. LEGAL PROCEEDINGS - Other Litigation (Cont'd)

November 1994 which denied claims of the utilities for damages by reason of overcharges for uranium enrichment services provided under Utility Services Contracts between July 1, 1993 and September 30, 1994. The damages sought by Wisconsin Electric total $3.3 million.

Personal Injury Suit: On October 1, 1994 a jury returned a $2.85 million verdict against Wisconsin Natural in a case in Circuit Court for Milwaukee County, involving a gas pipe fire which injured the plaintiff. On December 23, 1994, Wisconsin Natural resolved the litigation between itself and plaintiff with a payment of $2.55 million to plaintiff, of which $550,000 was covered by Wisconsin Natural's general liability insurer. The contract with the construction company that installed the gas pipe provides for indemnification of Wisconsin Natural and notice has been given to the construction company and its insurers that Wisconsin Natural intends to pursue its indemnification rights. The matter is pending.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of Wisconsin Energy's security holders during the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages at December 31, 1994 and positions of the executive officers of Wisconsin Energy, including certain officers of the utility subsidiaries, are listed below along with their business experience during the past five years. All officers are elected for one year terms or until their respective successors are duly chosen. There are no family relationships among these officers, nor is there any agreement or understanding between any officer and any other person pursuant to which the officer was selected.

Name and Age	Current Position(s) and Business Experience During Past Five Years
Richard A. Abdoo, 50	Chairman of the Board, President and Chief Executive Officer of Wisconsin Energy Corporation since 1991; Executive Vice President, 1990 to 1991; Vice President, 1987 to 1990; Director of Wisconsin Energy since 1988.
	Chairman of the Board and Chief Executive Officer of Wisconsin Electric Power Company, a subsidiary of Wisconsin Energy, since 1990; President and Chief Executive Officer, during 1990; President and Chief Operating Officer, 1989 to 1990; Director of Wisconsin Electric since 1989.
	Chairman of the Board and Chief Executive Officer of Wisconsin Natural Gas Company, a subsidiary of Wisconsin Energy, since 1990; Director of Wisconsin Natural since 1989.

EXECUTIVE OFFICERS OF THE REGISTRANT - (Cont'd)

Name and Age	Current Position(s) and Business Experience During Past Five Years
John W. Boston, 61	Vice Chairman of the Board of Wisconsin Energy since January 1995; Vice President of Wisconsin Energy, 1991 to 1994, Director of Wisconsin Energy since 1991. President and Chief Operating Officer of Wisconsin Electric, 1990 to 1994; Executive Vice President and Chief Operating Officer during 1990; Senior Vice President, 1982 to 1990; Director of Wisconsin Electric since 1988. President and Chief Operating Officer of Wisconsin Natural during 1994; Director of Wisconsin Natural during 1994.
Richard R. Grigg, Jr., 46	Vice President of Wisconsin Energy since January 1995. President and Chief Operating Officer of Wisconsin Electric since January 1995; Group Executive and Vice President, June to December 1994; Vice President, 1990 to 1994; Director of Wisconsin Electric since 1994. President and Chief Operating Officer of Wisconsin Natural since January 1995; Director of Wisconsin Natural since January 1995.
Francis Brzezinski, 43	Vice President of Wisconsin Energy since 1990. Vice President-Bulk Power of Wisconsin Electric since 1994. President and Chief Operating Officer of Wispark Corp., Wisvest Corp., and Witech Corp. since 1990. Owner of Brzezinski Real Estate Advisors, 1989 to 1990.
Jerry G. Remmel, 63	Vice President of Wisconsin Energy since 1994; Chief Financial Officer since 1989; Treasurer since 1981. Chief Financial Officer of Wisconsin Electric since 1989; Senior Vice President, 1989 to 1994; Director of Wisconsin Electric since 1989. Chief Financial Officer of Wisconsin Natural since 1989; Vice President-Finance, 1989 to 1994; Director of Wisconsin Natural since 1988.
David K. Porter, 51	Senior Vice President of Wisconsin Electric since 1989; Director of Wisconsin Electric since 1989. Vice President of Wisconsin Natural since 1989; Director of Wisconsin Natural since 1988.

EXECUTIVE OFFICERS OF THE REGISTRANT - (Cont'd)

Name and Age	Current Position(s) and Business Experience During Past Five Years
John H. Goetsch, 61	Vice President of Wisconsin Energy since 1994; Secretary since 1981. Vice President of Wisconsin Electric, 1988 to 1994; Secretary, 1979 to 1994. Secretary of Wisconsin Natural, 1979 to 1993.
Richard R. Piltz, 54	Controller of Wisconsin Energy since 1994. Controller of Wisconsin Electric, 1977 to 1994.
Anne K. Klisurich, 47	Controller of Wisconsin Electric since 1994. Controller of Wisconsin Natural since 1994. Accounting Manager of Wisconsin Energy, 1987 to 1994.

Certain executive officers in addition to Mr. Brzezinski also hold offices in Wisconsin Energy's non-utility subsidiaries.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

NUMBER OF COMMON STOCKHOLDERS:

As of year-end 1994, based on the number of stockholder accounts, there were 85,255 stockholders.

COMMON STOCK LISTING AND TRADING:

Wisconsin Energy Corporation common stock is listed on the New York Stock Exchange. The ticker symbol is WEC. Daily trading prices and volume can be found in the "NYSE Composite" section of most major newspapers, usually abbreviated as WiscEn or WiscEngy.

DIVIDENDS:

Dividends on common stock, as declared by the Board of Directors, are normally paid on or about the first day of March, June, September and December.

RANGE OF COMMON STOCK PRICES AND DIVIDENDS :

	1994			1993		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$27-1/2	$24	$ .33875	$28-3/8	$24-3/4	$ .325
Second	26-3/8	23-1/8	.3525	28-1/8	25-3/8	.33875
Third	26-3/8	23-3/8	.3525	29-3/8	27	.33875
Fourth	27	24-1/2	.3525	29-3/8	25-7/8	.33875
Year	$27-1/2	$23-1/8	$1.39625	$29-3/8	$24-3/4	$1.34125

ITEM 6. SELECTED FINANCIAL DATA

Wisconsin Energy Corporation
CONSOLIDATED SELECTED FINANCIAL DATA

(Thousands of Dollars except for per share amounts)

Year Ended December 31	1994	1993*	1992*	1991*	1990*
Net income	180,868	190,135	171,239	190,125	188,092
Earnings per share of common stock ($)	1.67	1.80	1.66	1.85	1.83
Dividends per share of common stock ($)	1.396	1.341	1.285	1.223	1.157
Operating revenues					
Electric	1,403,562	1,347,844	1,298,723	1,292,869	1,208,045
Gas	324,349	331,301	283,699	273,803	259,672
Steam	14,281	14,090	13,093	12,986	12,126
Total operating revenues	1,742,192	1,693,235	1,595,515	1,579,598	1,479,843
Total assets	4,408,259	4,270,592	3,788,955	3,533,745	3,397,038
Long-term debt and preferred stock-redemption required	1,283,686	1,300,781	1,289,082	1,175,417	1,066,907
Sales and Customers -- Utility					
Electric					
Kilowatt-hours sold	26,911,363	25,685,436	24,747,581	25,016,247	23,656,727
Customers (End of year)	944,855	932,285	919,466	907,871	896,393
Gas					
Therms delivered (thousands)	811,219	809,348*	772,036*	767,071*	727,534*
Customers (End of year)	347,080	336,571*	327,247*	317,891*	308,230*
Steam					
Pounds sold (millions)	2,395	2,376	2,284	2,282	2,213
Customers (End of year)	471	459	472	468	470

CONSOLIDATED QUARTERLY FINANCIAL DATA

(Thousands of Dollars except for per share amounts)

Three Months Ended	March		June	
	1994	1993*	1994	1993*
Total operating revenues	509,681	463,571	400,340	383,498
Operating income	43,436	80,528	63,854	47,542
Net income	22,822	60,452	43,430	28,102
Earnings per share of common stock ($)	0.21	0.58	0.40	0.27

Three Months Ended	September		December	
	1994	1993*	1994	1993*
Total operating revenues	400,512	397,857	431,659	448,309
Operating income	71,248	63,976	84,735	73,390
Net income	51,490	46,424	63,126	55,157
Earnings per share of common stock ($)	0.48	0.44	0.58	0.52

The quarterly results of operations are not directly comparable because of seasonal and other factors. See Management's Discussion and Analysis in Item 7 for further information.

* Restated to reflect the merger of Wisconsin Southern Gas Company, Inc. into Wisconsin Natural Gas Company effective on 1/1/94.

Electric Revenue, Kilowatt-Hour Sales and Customer Statistics

Year Ended December 31	1994	1993	1992	1991	1990
OPERATING REVENUES ($000)					
Residential	$ 484,627	$ 472,903	$ 441,240	$ 444,542	$ 407,675
Small commercial and industrial	406,043	386,736	372,213	363,906	347,706
Large commercial and industrial	398,179	380,482	381,083	372,768	347,723
Other retail	13,750	13,975	15,245	15,368	15,037
Resale - municipals	55,508	57,039	62,787	71,382	56,240
Total retail and municipals	1,358,107	1,311,135	1,272,568	1,267,966	1,184,441
Resale - public utilities	31,295	25,879	18,080	18,476	17,799
Total revenue from sales	1,389,402	1,337,014	1,290,648	1,286,442	1,202,240
Other operating revenue	14,160	10,830	8,075	6,367	5,805
Total Operating Revenues	$1,403,562	$1,347,844	$1,298,723	$1,292,809	$1,208,045
KILOWATT-HOUR SALES (Millions)					
Residential	6,670	6,551	6,230	6,567	6,197
Small commercial and industrial	6,699	6,358	6,155	6,153	5,955
Large commercial and industrial	10,477	9,771	9,702	9,462	8,764
Other retail	189	195	217	226	232
Resale - municipals	1,415	1,580	1,779	1,935	1,814
Total retail and municipals	25,445	24,456	24,083	24,343	22,962
Resale - public utilities	1,466	1,229	665	673	675
Total Sales	26,911	25,685	24,748	25,016	23,637
NUMBER OF CUSTOMERS - Average					
Residential	846,745	835,685	824,544	814,078	803,820
Small commercial and industrial	88,765	87,351	85,990	84,540	83,116
Large commercial and industrial	674	675	670	664	654
Other	1,811	1,831	1,945	1,980	1,951
Total	937,995	925,542	913,149	901,262	889,551

Gas Revenue, Therms Delivered and Customer Statistics

Year Ended December 31	1994	1993*	1992*	1991*	1990*
OPERATING REVENUES ($000)					
Residential	$200,824	$199,509	$175,824	$170,827	$157,424
Commercial and Industrial	102,496	102,425	82,853	77,031	72,017
Interruptible and other	15,338	12,858	9,406	9,959	12,440
Total revenues from sales	318,658	314,792	268,083	257,817	241,881
Other operating revenue	5,691	16,509	15,616	15,986	17,791
Total Operating Revenues	$324,349	$331,301	$283,699	$273,803	$259,672
THERMS DELIVERED (Thousands)					
Residential	323,913	322,444	309,968	308,580	282,183
Commercial and Industrial	199,206	202,549	183,588	176,707	163,511
Interruptible and other	47,467	34,608	24,710	26,442	33,901
Total Sales	570,586	559,601	518,266	512,129	479,601
Transportation of Customer Owned Gas	240,633	249,747	253,770	254,942	247,933
Total Delivered	811,219	809,348	772,036	767,071	727,534
NUMBER OF CUSTOMERS - Average					
Residential	311,288	302,355	293,437	284,728	275,950
Commercial and Industrial	28,506	27,871	27,291	26,536	25,650
Interruptible and other	340	356	376	404	421
Total	340,134	330,582	321,104	311,668	302,031
DEGREE DAYS (Milwaukee)					
Heating (Normal 7,061)	6,431	6,775	6,723	6,416	6,103
Cooling (Normal 626)	877	651	364	1,055	728

* Restated to reflect the merger of Wisconsin Southern into Wisconsin Natural effective on 1/1/94