

TC98-005

KC/DJ

TC98-005

DOCKET NO.

In the Matter of

IN THE MATTER OF THE  
APPLICATION OF NORCOM  
ADVANCED TECHNOLOGIES, INC.  
FOR A CERTIFICATE OF AUTHORITY  
TO PROVIDE TELECOMMUNICATIONS  
SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE	MEMORANDA
1/20/98	Filed and docketed;
1/22/98	TC Log Filing;
2/10/98	Letter requesting a waiver to offer Negotiated Rates instead of <sup>Filing a tariff</sup>
2/19/98	Revised Tariff Sheets;
2/27/98	Order Granting COA;
2/27/98	Docket Closed

TC 98-005

NorCom Advanced Technologies, Inc.

600 Market Street West

HURON, SOUTH DAKOTA 57350

TELEPHONE (605) 352-8411

January 15, 1998

Mr. William Bullard  
Executive Director  
South Dakota Public Utilities Commission  
500 East Capital Avenue  
Pierre, SD 57501-5070

RECEIVED  
JAN 20 1998  
SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

Re: Telecommunication Filing

Dear Mr. Bullard:

Enclosed please find one original and ten (10) copies of NorCom's Application for Registration of a Telecommunications Company.

In order to expedite the processing of this application, I would like to suggest that all requests for information by the analyst be made by either telephone or facsimile. I will make every effort to respond on the day of the request.

I have enclosed a check in the amount of \$250.00 payable to the "South Dakota Public Utilities Commission" for the filing fee, and an extra copy of this cover letter to be date stamped and returned to me in the enclosed self-addressed prepaid envelope.

If you have any questions of if I may provide you with any additional information, please do not hesitate to contact me.

Respectfully submitted,

*Paul A. Bachman*

Paul A. Bachman, PE  
Vice President - Technical Services  
NorCom Advanced Technologies, Inc.

**APPLICATION FOR REGISTRATION  
OF NORCOM ADVANCED TECHNOLOGIES, INC.  
FILED WITH THE  
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE APPLICATION OF )  
NORCOM ADVANCED TECHNOLOGIES, INC. )  
FOR AN ORDER AUTHORIZING THE )  
REGISTRATION OF APPLICANT AS A )  
TELECOMMUNICATIONS COMPANY )

Docket No. \_\_\_\_\_

**APPLICATION**

Application is hereby made to the South Dakota Public Utilities Commission for an Order granting NorCom Advanced Technologies, Inc. ("Applicant") a certificate of authority, pursuant to SDCL 49-31-3 and A.R.S.D. 20:10:24.02, as a telecommunications company within the State of South Dakota. The following information is furnished in support thereof:

**1. Name, Address and Telephone Number of Applicant**

NorCom Advanced Technologies, Inc.  
33 Third St. S.E.  
Huron, SD 57350-1605  
(605) 353-8270

**2. Registered Agent**

Alan D. Dietrich  
600 Market St. W  
Huron, SD 57350-1500  
(605) 353-7606

**3. Description of the Applicant**

Applicant is a South Dakota Corporation whose date of organization is September 22, 1997. Its duration is perpetual. A copy of the Applicant's Articles of Incorporation is attached as Exhibit A hereto.

#### **4. Facilities**

Applicant owns and maintains microwave and fiber optic transmission systems within the State of South Dakota. Applicant does not own or operate any switching equipment.

#### **5. Stockholders**

The names and addresses of all 5% or greater stockholders of Applicant are as follows:

Name and Address	Percentage of all Shares Issued and Outstanding and Voting Control
Northwestern Energy Corporation (A wholly-owned subsidiary of Northwestern Public Service Company) 33 Third St. S.E. Huron, SD 57350-1650	100%

#### **6. Officers and Directors:**

##### Officers

Merle P. Lewis	Chairman
Rodney F. Leyendecker	President & CEO
Thomas P. Hitchcock	Executive Vice President
Don C. Oberlander	Vice President Administration
Paul A. Bachman	Vice President Technical Services
Alan D. Dietrich	Secretary
David A. Monahan	Treasurer

##### Directors

Merle P. Lewis  
Richard R. Hyland  
Rodney F. Leyendecker  
Alan D. Dietrich  
Tomas P. Hitchcock



The above named individuals can be reached at

33 Third St. S.E.  
Huron, SD 57350-1605

**7. Corporate Ownership**

The name and address of any corporation, association or similar organization holding five percent (5%) or greater ownership in the Applicant is as follows:

Name and Address	Percentage of all Shares Issued and Outstanding and Voting Control
------------------	--

Same as 5

**8. Subsidiaries owned or controlled by Applicant**

None

**9. Description of Services and Means by which Services will be Provided**

Applicant is a non-switching, facilities-based provider of directly connected telecommunications services. Current offerings include telephone systems, data and voice network cabling, radio communication systems and telecommunication consulting services. Applicant seeks to include leasing and sale of microwave and fiber optic transmission services, dark fiber, and point-to-point wired and wireless services. Applicant intends to provide high quality services that meet industry reliability standards. Its services will be available on a full-time basis, 24 hours a day, seven days a week, to customers within the geographic boundaries of the State of South Dakota.

**10. Financial Qualifications**

Applicant is financially qualified to provide intrastate telecommunications services within South Dakota. Applicant has adequate access to the capital necessary to fulfill any obligations it may undertake with respect to the provisions of intrastate telecommunication services in the State of South Dakota. See Exhibit B which attached hereto.

## LIST OF EXHIBITS

A - Articles of Incorporation

B - Financial Information

### **11. Marketing of Services**

Applicant intends to market its services through direct contact with existing and new customers. Target market will be small to medium sized business users of voice and data services. Additional marketing may be done via agents of unregulated marketing subsidiaries of the parent corporation

### **12. Tariff**

Applicant does not intend to offer regulated services that require a tariff.

### **13. Inquiries**

Inquiries concerning complaints and regulatory matters should directed to

Paul A. Bachman  
Vice President - Technical Services  
NorCom Advanced Technologies, Inc.  
33 Third St. S.E.  
Huron, SD 57350-1605  
Phone (605) 353-7470  
Fax (605) 353-7484

Wherefore, the undersigned Applicant requests that the South Dakota Public Utilities Commission enter an order granting this Application, effective February 1, 1998.

Dated this \_\_\_\_\_ day of January, 1998

NorCom Advanced Technologies, Inc.

By 

Rodney F. Leyendecker, President & CEO  
NorCom Advanced Technologies, Inc.

# State of South Dakota



## OFFICE OF THE SECRETARY OF STATE

### CERTIFICATE OF INCORPORATION

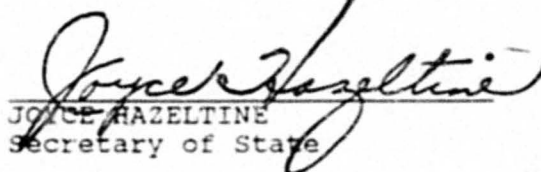
### BUSINESS CORPORATION

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that the Articles of Incorporation of NORCOM ADVANCED TECHNOLOGIES, INC. duly signed and verified, pursuant to the provisions of the South Dakota Business Corporation Act, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Incorporation and attach hereto a duplicate of the Articles of Incorporation of NORCOM ADVANCED TECHNOLOGIES, INC.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this September 22, 1997.



  
JOYCE HAZELTINE  
Secretary of State

Filed this 22nd day of Sept, 19 97

Articles Of Incorporation  
Of  
NorCom Advanced Technologies, Inc

RECEIVED  
SEP 22 1997  
S.D. SEC. OF STATE

Executed by the undersigned for the purpose of forming a South Dakota  
business corporation under Chapter 47 of the South Dakota Codified Laws.

SECRETARY OF STATE

ARTICLE I

**Name.** The name of the corporation is NorCom Advanced Technologies, Inc.

ARTICLE II

**Duration.** The period of existence of the corporation will be perpetual.

ARTICLE III

**Purposes.** The corporation is formed for the following purposes:

- (1) To develop and deliver telecommunications products and services.
- (2) To guarantee, purchase, subscribe for, hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of, the shares of capital stock of or other interest in, or any bonds, securities or evidences of indebtedness created by any other corporation, joint stock company, limited liability company, partnership, joint venture or association, of the State of South Dakota, or any other state, country, nation or government, and while the owner thereof to exercise all the rights, powers and privileges of ownership, including the right to vote thereon, and to do anything needful or convenient for the protection, improvement, betterment or enhancement in value of such shares of stock, or interest, or any bonds, securities, or evidences of indebtedness owned by the corporation, and in any manner to aid any such corporation, joint stock company or association, the stock or other interest in, or the bonds, securities or other evidences of indebtedness of, which are held or guaranteed by the corporation.
- (3) To acquire the good will, rights and property and to take over or manage the whole or any part of the assets or liabilities of any person, firm, association, limited liability company or corporation; to pay for the same in cash, the stock or bonds of this corporation, or otherwise; to hold, or in any manner dispose of the whole or any part of the property so purchased; to conduct in any lawful manner the whole or any part of the business so acquired and to exercise all the powers necessary or convenient in and about the conduct and management of such business; to establish or promote, or concur in establishing or promoting, any company or corporation and to guarantee or



underwrite subscriptions for any stock, shares or securities of any company or corporation and to subscribe for the same or any part thereof.

(4) To apply for, obtain, register, lease or otherwise dispose of any trademarks, trade-names, copyrights, patents, inventions, improvements, and processes used in connection with or secured under letters patent of the United States or of any other countries or otherwise.

(5) To enter into, make and perform contracts of any and every kind, with any person, firm, association, limited liability corporation, corporation, municipality or body politic.

(6) To borrow money, to draw, make, accept, endorse, discount, execute, and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures, obligations and evidences of indebtedness of all kinds, whether secured by mortgage, pledge or otherwise, so far as may be permitted by the laws of the State of South Dakota.

(7) To mortgage, pledge or otherwise encumber for its proper corporate purposes, or any thereof, all or any portion of its property, rights and assets, of any kind, which at any time may be owned or held by the corporation.

(8) To cause to be formed, merged, reorganized, or liquidated, and to promote, take charge of, and aid in any way permitted by law the formation, merger, liquidation, or reorganization of any corporation, association, or organization of any kind, domestic or foreign, and to form, organize, promote, manage, control, and maintain, and to dissolve, merge, or consolidate one or more corporations in the stock or other securities of which this corporation may be or become interested, for such purpose or purposes as may aid or advance the objects and purposes of this corporation.

(9) From time to time to apply for, purchase, or acquire by assignment, transfer, or otherwise, and to exercise, carry out, and enjoy any license, power, authority, franchise, concession, right, or privilege that any government or authority, Federal, State, or local, or any corporation or other legal entity may be empowered to enact, make, or grant, and to pay for, aid in, and contribute toward carrying it into effect and to appropriate any of the company's stock, bonds, and assets to defray the necessary costs, charges, and expenses thereof.

(10) To enter into partnership agreements and joint ventures with any person, firm, association, limited liability corporation, or corporation engaged in carrying on any business in which the corporation is authorized to engage, or in connection with carrying out all or any of the purposes of this corporation.

(11) To engage in any other lawful activities, and



(12) To carry on any business whatsoever that this corporation may deem proper or convenient in connection with any of the foregoing purposes or otherwise, or that it may deem calculated, directly or indirectly, to improve the interests of this corporation, and to do all things specified in SDCL 47-2-58, and to have and to exercise all powers conferred by the laws of the State of South Dakota on corporations formed under the laws pursuant to which and under which this corporation is formed, as such laws are now in effect or may at any time hereafter be amended, and to do any and all things hereinabove set forth to the same extent and as fully as natural persons might or could do, either alone or in connection with other persons, firms, associations, limited liability corporations, or corporations, and in any part of the world.

The foregoing statement of purposes shall be construed as a statement of both purposes and powers, shall be liberally construed in aid of the powers of this corporation, and the powers and purposes stated in each clause shall, except where otherwise stated, be in no way limited or restricted by any term or provision of any other clause, and shall be regarded as independent purposes and powers, and the enumeration of specific purposes and power shall not be construed so as to limit in any manner the general powers of the corporation, but are in furtherance of, and in addition to and not in limitation of said general powers.

#### ARTICLE IV

**Capitalization.** The corporation shall have the authority to issue One Thousand (1,000) shares of a single class of common stock of the par value of \$10 per share.

#### ARTICLE V

**Commencing Business.** The corporation will not commence business until consideration of the value of at least One Thousand Dollars (\$1,000) has been received for the issuance of shares.

#### ARTICLE VI

**Registered Office and Registered Agent.** The address of the corporation's registered office is 600 Market Street West, Huron, South Dakota 57350, and the name of its registered agent at such address is Alan D. Dietrich.

#### ARTICLE VII

**Directors.** The number of directors constituting the initial Board of Directors is five, and the names and addresses of the directors who are to serve until the first annual meeting of shareholders or until their successors are elected and qualify are as follows:

NameAddress

M. D. Lewis	33 Third Street SE	Huron, SD 57350
R. R. Hylland	125 S Dakota Ave. #1100	Sioux Falls, SD 57104
R. F. Leyendecker	33 Third Street SE	Huron, SD 57350
T. P. Hitchcock	33 Third Street SE	Huron, SD 57350
A. D. Dietrich	600 Market Street W	Huron, SD 57350

**ARTICLE VIII**

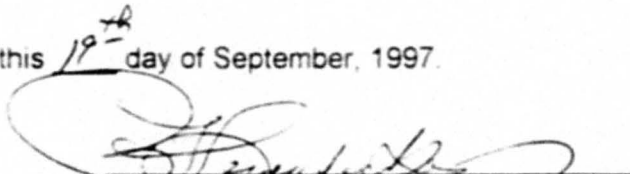
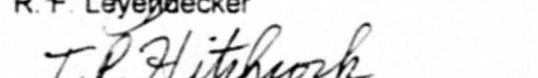
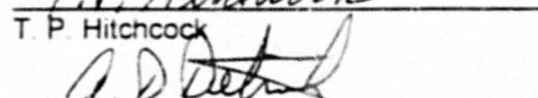
**Incorporators.** The names and addresses of the incorporators are as follows:

NameAddress

R. F. Leyendecker	33 Third Street SE	Huron, SD 57350
T. P. Hitchcock	33 Third Street SE	Huron, SD 57350
A. D. Dietrich	600 Market Street W	Huron, SD 57350

These Articles may be amended in the manner authorized by law at the time of amendment.

Executed in duplicate on this 19<sup>th</sup> day of September, 1997.

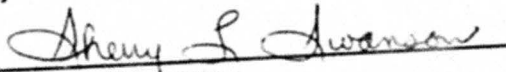
  
\_\_\_\_\_  
R. F. Leyendecker  
\_\_\_\_\_  
T. P. Hitchcock  
\_\_\_\_\_  
A. D. Dietrich

ACKNOWLEDGMENT

STATE OF SOUTH DAKOTA     )  
                                      ) SS  
COUNTY OF BEADLE         )

On this 19<sup>th</sup> day of September, 1997, before me, the undersigned officer, personally appeared R. F. Leyendecker, T. P. Hitchcock and A. D. Dietrich known to me or satisfactorily proven to be the persons whose names are subscribed to the within instrument and acknowledged that they executed the same for the purposes therein contained.

In witness whereof I hereunto set my hand and official seal.

  
Sherry L. Swanson  
Notary Public, South Dakota  
My Commission Expires: 5/17/02

(SEAL)

CONSENT OF APPOINTMENT  
BY THE REGISTERED AGENT

I, Alan D. Dietrich, hereby give my consent to serve as the registered agent for NorCom Advanced Technologies, Inc.

Dated this 19<sup>th</sup> day of September, 1997.

  
Alan D. Dietrich

**Customer Focused Results Oriented Growth Driven**

**NORTHWESTERN PUBLIC SERVICE**

**1996 Annual Report**



**Northwestern Public Service** is an energy distribution company with core operations in the electric, natural gas and propane industries. The company generates and distributes electric energy to 56,000 customers in eastern South Dakota. It also purchases and distributes natural gas to 77,000 customers in eastern South Dakota and central Nebraska. Through its majority-owned subsidiaries, Northwestern also manages and owns approximately 41% of Cornerstone Propane Partners, L.P., a publicly traded master limited partnership. Cornerstone is the nation's fifth largest retail propane marketer, serving more than 360,000 customers in 19 states. In addition to energy distribution, Northwestern is engaged in other nonenergy-related businesses.

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Operations	Page 8
Human Resources	Page 10
Environmental	Page 14
Board of Directors & Officers	Page 16

Corporate Secretary: [illegible]  
 Corporate Controller: [illegible]  
 General Counsel: [illegible]

## January

Employees move into Northwestern's new operations center, a facility that consolidates work functions, bringing employees together for enhanced customer service, communications, efficiency and productivity.

## May

Northwestern redefines its corporate vision and focuses its strategies toward customer relationships, value-added products and services and innovative solutions for customer comfort and success.

## July

Northwestern is featured as "A Stock to Study" in *Better Investing* magazine, published by the National Association of Investors Corporation (NAIC).

## September

Northwestern Growth, the company's strategic development and investment subsidiary, enters into an agreement to acquire Empire Energy Corporation, the eighth largest retail propane distributor in the United States.

**START**

**OF**

**RETAKE**



**NEXT**

**DOCUMENT (S)**

**BEST IMAGE**

**POSSIBLE**

**Customer Focused   Results Oriented   Growth Driven**

**NORTHWESTERN PUBLIC SERVICE**  
**1996 Annual Report**

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#### September

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**END**

**OF**

**RETAKE**



*Northwestern has realized*

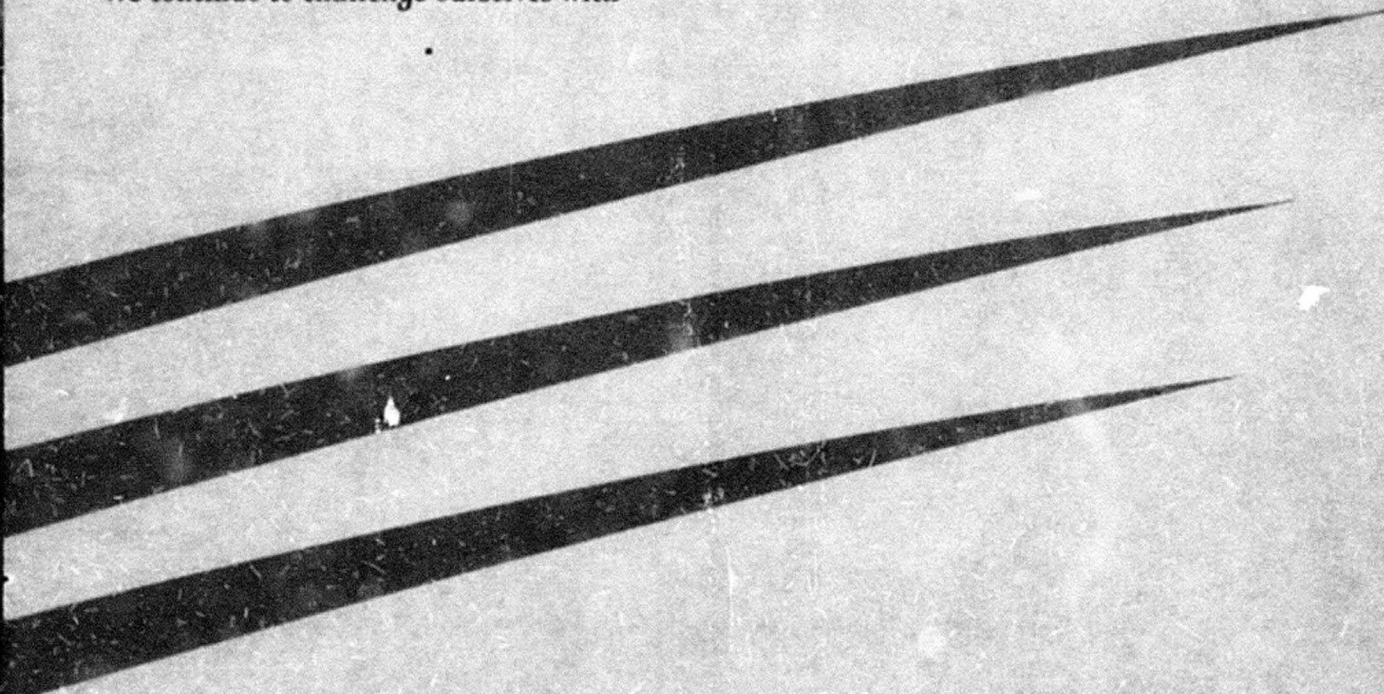
*. We deliver  
to shareholders,  
customers, employees and  
communities. We have staked a*

*in the energy business.*

*We are focused on our expanded*

*.  
Our strategies take us well*

*.  
We continue to challenge ourselves with*



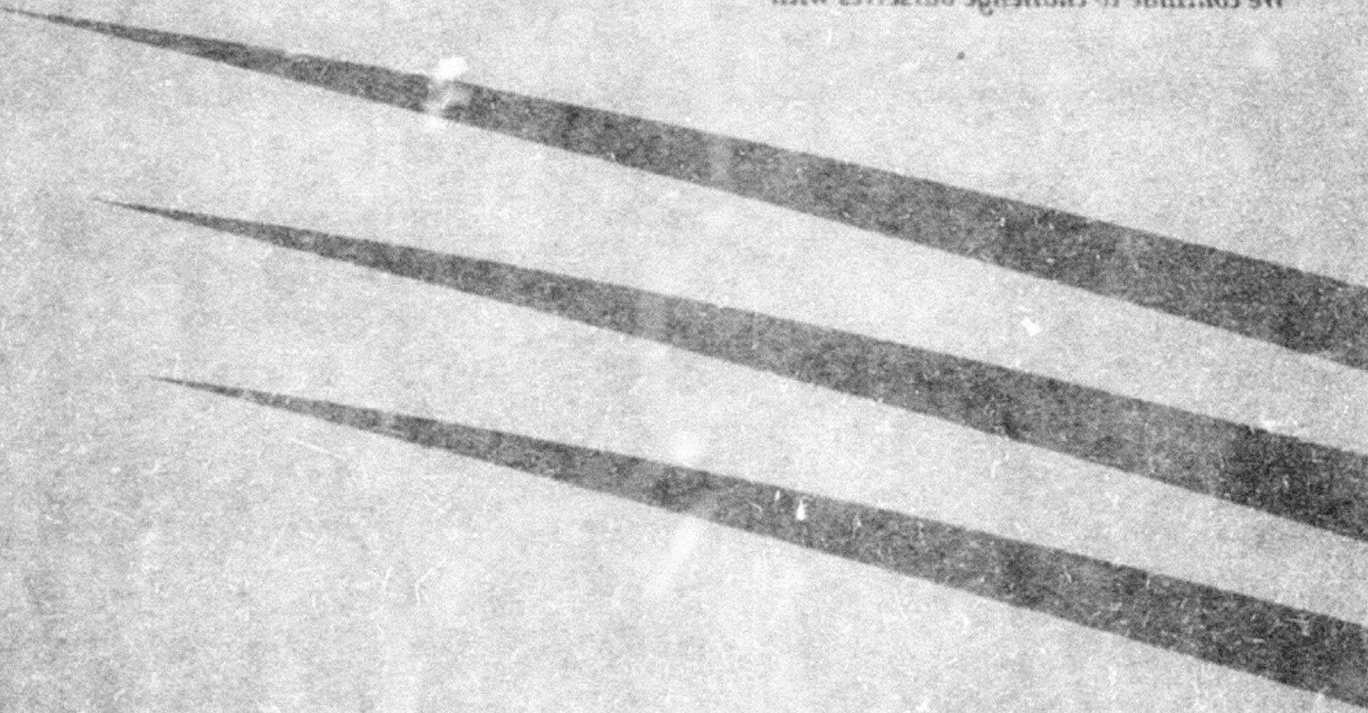
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**Customer Focused   Results Oriented   Growth Driven**

**unprecedented growth**

**significant value**

**strong competitive position**

**vision of customer needs**

**beyond our historical role**

**new growth opportunities**

**October**

Cornerstone Propane Partners, L.P., a subsidiary of Northwestern Growth, files a registration statement to sell common units in an initial public Master Limited Partnership offering. Cornerstone Propane is the fifth largest retail marketer of propane in the United States serving more than 360,000 customers.

**November**

The Board of Directors declares a 4.5% dividend increase on common stock — more than twice the industry average. Northwestern has increased dividends for 13 consecutive years.

**December**

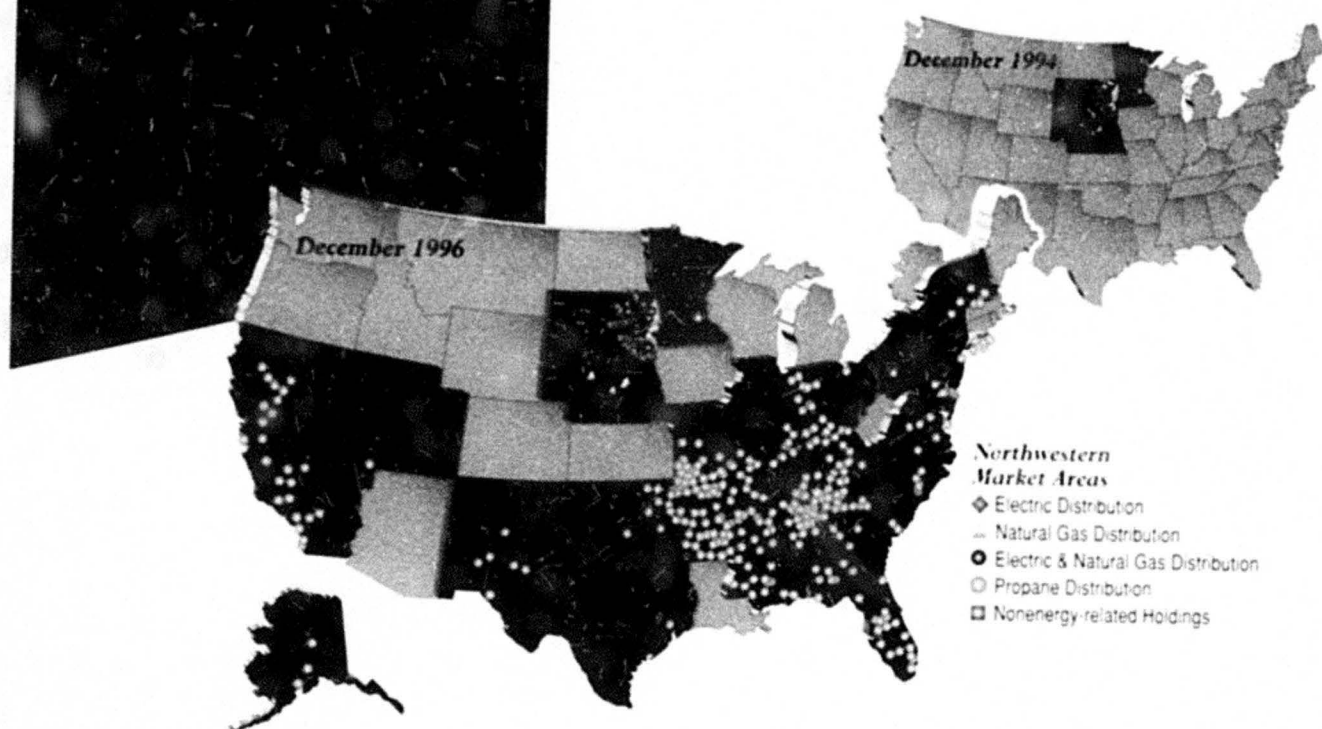
In conjunction with the Cornerstone public offering, Northwestern Growth completes the acquisition of CGI Holdings, the eighteenth largest United States retail marketer of propane. — Cornerstone units begin trading on the New York Stock Exchange under the symbol CNO.

**Year-End**

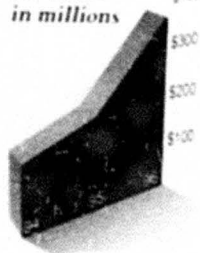
Growth records are broken throughout the company:  
Revenues increase 68%  
Customers increase 75%  
Net income increases 35%  
EPS increases 16%  
Shareholder return is 29%

The new logo for Northwestern Public Service reflects the momentum and strength of the company's new growth curve. The three blades sweeping across the N represent significant opportunities stemming from the company's three forms of energy — electricity, natural gas and propane.

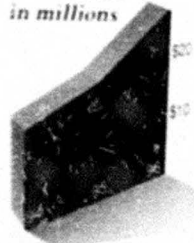




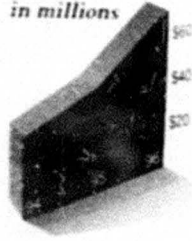
**Revenues in millions**



**Net Income in millions**



**EBITDA in millions**

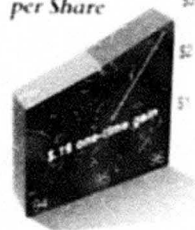


### Financial Highlights

	1996	1995	% Increase
Total Revenue	\$344,009,141	\$204,970,322	67.8%
Net Income	\$26,053,800	\$19,305,569	35.0%
Earnings on Common Stock	\$22,862,623	\$17,990,380	27.1%
Earnings per Common Share	\$2.56*	\$2.21	15.8%
Annual Dividend Rate, Year-end	\$1.84	\$1.76	4.5%
Total Assets	\$1,113,715,727	\$558,721,483	99.3%
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	\$69,832,067	\$52,730,323	32.4%
Book Value per Share, Year-end	\$18.36	\$17.12	7.2%

\*Includes one-time gain of \$1.9

**Earnings per Share**



**Assets in millions**



**Customers in thousands**



**For Northwestern, 1996 was an exceptional year** as we continued to position ourselves to capitalize on significant future opportunities. We broke growth records in nearly all aspects of our business. Each milestone that introduced the first page of this annual report punctuates our determination to grow. Revenues of \$344 million surpassed all previous levels, and our earnings per share grew by 16% to \$2.56. Our geographical operations expanded to include 30 states, and our customer base grew by 75%.

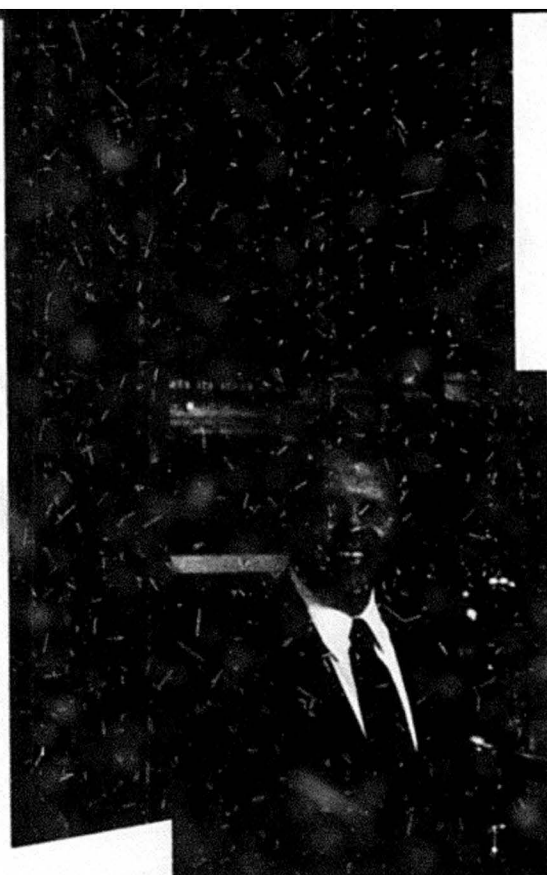
Our stock price reached a new all time high, generating a total return to shareholders in 1996 of 29.3% and outperforming the S&P 500 Index. Your dividend was increased 4.5% — about twice the industry average — to an annual rate of \$1.84. Growth adds shareholder value and benefits our customers, providing Northwestern with a solid foundation on which to expand and prosper in a new era of energy industry deregulation and convergence.

**An industry in transition.** Profound change is reshaping our industry. Market forces, technology, and regulatory actions have set the stage for a new competitive, entrepreneurial environment. Open access to transmission lines and wholesale competition are here, and retail competition will come next. Choice is increasingly important as our industry moves toward offering customers alternatives among competing energy suppliers.

**Winning strategies.** Northwestern is positioning itself to succeed in this environment of significant change. We are transforming the company from a regional supplier of energy services into a leading national, diversified energy distribution company. Our strategic plan — driven by the fundamentals of competitive excellence, innovative products, exceptional customer service and strategic growth

through new customers and new investment opportunities — will allow us to build on our success. These fundamental goals have not changed. What has changed is our intensity in reaching for even higher performance standards.

**Competitive excellence.** The foundation of our business success is competitive excellence. As one of the nation's lowest-cost producers of electric energy, we hold a distinct advantage over many competitors, allowing us to capture opportunities in a future deregulated marketplace. Additional steps are being taken to aggressively lower or contain costs and streamline major corporate processes.



*Merle D. Lewis*

*We broke growth records in nearly all aspects of our business. Growth adds shareholder value and benefits our customers, providing Northwestern with a solid foundation on which to expand and prosper.*

**Total Return on  
Shareholder  
Investment  
1996**



Total return equals stock appreciation plus dividends.

*Our strategic plan — driven by the fundamentals of competitive excellence, innovative products, exceptional customer service and strategic growth through new customers and new investment opportunities — will allow us to build on our success.*

Productivity has increased, and today we serve more electric and natural gas customers per employee than we did ten years ago. Our energy prices are less today than they were ten years ago. Being an efficient, low-cost energy distributor puts us in a strong position, but low price is not enough. Business relationships, value-added products and services, and creative service solutions will motivate customers in choosing their future energy supplier.

**Convenience and success for customers.** Providing quality customer service has always been a top priority for Northwestern. Staying in front of the field demands exceptional service and value-added products to meet the needs of our customers. In 1996, we redefined our customer focus by adopting the vision of providing products and services for residential comfort and convenience and business success.

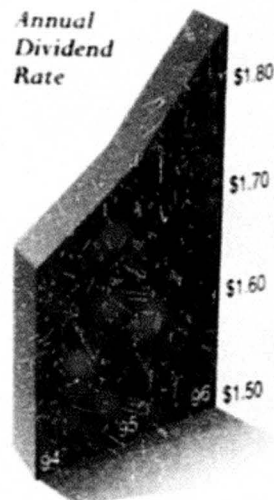
From the development of products such as ServiceEdge™, an appliance protection program, to energy management and partnership services with larger commercial and industrial customers, Northwestern is redoubling its efforts to meet customer needs. Our Customer Service Center, a 24-hour comprehensive, consolidated information center, is a vital link in providing accurate information and dependable service on which our customers rely. Our customers are our future, and building relationships with current and new customers will be our winning strategy for growth and success.

**Expanding our future through strategic growth.**

Our strategy for becoming a national energy distribution company accelerated in 1995 with the acquisition of Synergy Group, Inc., then the sixth largest retail propane marketer in the United States. Propane, a nonregulated energy distribution business with complementary characteristics to electric and natural gas distribution, has provided Northwestern with increased customers, revenue enhancement, substantial cash flows and significant growth opportunities.

In 1996, Northwestern acquired eight additional propane companies, including two of the industry's leaders. Empire Energy Corporation, then the eighth largest retail marketer of propane in the

**Annual  
Dividend  
Rate**



United States, was acquired in October, and CGI Holdings, Inc., the eighteenth largest retail marketer of propane in the United States, was acquired in December. In December, we also combined all of our propane businesses into Cornerstone Propane Partners, L.P., a publicly traded master limited partnership. Northwestern's subsidiaries now manage and own 41.4% of Cornerstone.

The propane acquisitions and the formation of Cornerstone Propane Partners uniquely position Northwestern with a national energy presence. In slightly more than a year, Northwestern has become the fifth largest retail propane marketer in the United States, serving over 360,000 customers from 112 retail service centers in 26 states.

In addition to aggressive growth targets by Cornerstone to expand their market share of propane sales, Northwestern also expects to capitalize on its propane investments through opportunities created by industry deregulation. Convergence, the combining of synergistic energies and services, provides for future growth and revenue sources well into the future. Northwestern, a low-cost electric energy producer, and Cornerstone, a major propane retail marketer, clearly represent a strong energy partnership.

**Teamwork and people.** Our people are our greatest asset. The value each employee brings to Northwestern is ultimately measured by customer and stockholder satisfaction. Our employees met the challenge in 1996 with greater teamwork, targeted efforts and personal commitment. In a business where customer choice will determine success, we have a competitive advantage in the quality of service our people deliver to our customers.

**Delivering on our promises.** Northwestern's strategies are designed to achieve value and success — for customers, for employees, for the communities we serve, and ultimately, for shareholders. We have never been more enthusiastic about our future and our prospects for long-term growth. We are an entrepreneurial, growth-oriented company with a foundation of delivering on our promises. It is a great time to be a shareholder.



Merle D. Lewis  
President & Chief Executive Officer,  
Shareholder

February 10, 1997

*We have never been more  
enthusiastic about our future and  
our prospects for long-term growth.  
We are an entrepreneurial, growth-  
oriented company with a foundation  
of delivering on our promises.*



## Providing exceptional customer service

### Customer Service Vision

*Providing products and services for residential comfort and convenience and business success.*



*In Northwestern's customer call center, customer service representatives such as Phyllis Donat provide friendly, prompt and accurate information.*

**Exceptional customer service.** A customer code. Business relationships. Value-added products and services. Creative customer solutions. Never has the focus on customers been greater at Northwestern than it is today.

In a competitive environment of choice and energy alternatives, customer trust and rapport is vital. Staying in front of the field requires customer loyalty. At Northwestern we are working hard to offer customers innovative product solutions and positioning ourselves to be the supplier of choice in the future competitive marketplace.

In 1996, we reexamined everything we do in terms of customer contact. We emphasized our customer focus by adopting a vision of providing products and services for residential comfort and convenience and business success. Our line of products and services is continuing to expand as we seek solutions for customers' needs today and tomorrow. One of the new products we offer residential customers is ServiceEdge<sup>SM</sup>, an appliance protection program that provides customers with convenience combined with service responsiveness.



*The Community Theater of North Platte, Nebraska, performs to comfortable audiences, thanks to a strategic partnership with Northwestern Theater Board Member Dr. John Ahlby, Dotty Grachek and Jerry Pierzema. Compliment Account Representative Rod Christmann on finding a solution for their heating problem. Northwestern installed a variable speed ventilation system, resulting in quiet, evenly distributed heat - important elements for a theater.*



Direct feedback from residential customers helps us design products and services that will win customers' favor and loyalty. We leverage our core operating and engineering expertise by offering design, operating and maintenance, consulting and installation services to commercial and industrial customers. We keep abreast of developing energy technologies to bring new solutions to our customers.

We reorganized our energy services function, adding key professionals who bring valuable expertise, experience and leadership to our customer focus. We streamlined our field services and centralized functions that were not directly related to customer service. Representatives were assigned to our large volume customers, allowing us to better understand customers' needs and to specifically tailor services for their individual success.

Our Customer Service Center, a 24 hour comprehensive, consolidated information center, is a vital link in communicating with customers. Call center employees provide friendly, prompt and accurate information regarding billing and credit questions, applications for service, marketing programs and emergency matters.

At the same time we are changing to meet our customers' needs today, we are looking toward the future and preparing ourselves for opportunities beyond traditional boundaries. Customers are our future, and providing exceptional customer service with business relationships and innovative solutions will be our winning strategy for growth and success.

From a customer's first call to our Customer Service Center to the restoration of service after a storm; from providing a manufacturing customer with profitable energy solutions to developing products and services for tomorrow, we are increasing our efforts to exceed our customers' expectations.

Customers are driving the changes in our industry, and they are the focal point of Northwestern's operations. We are listening. When our customers have a choice about their energy supplier, we want them to choose us.

*"We appreciate Northwestern's responsive, knowledgeable service. When we had a heating problem, they helped us keep our guests happy by providing both short-term and long-term solutions. And in our business, pleasing guests is what is important."*

Jack Fider  
Manager  
Holiday Inn  
Aberdeen, South Dakota



*Providing solutions is our business. Our partnership with Morgen Manufacturing Co., Inc. of Yankton, South Dakota, improves the air quality of their plant where they manufacture scaffolding and customize concrete pumps. Service Technician Ken Olsen and Jim Slowey, plant foreman, discuss the improved productivity resulting from the exhaust system designed and installed by Northwestern.*

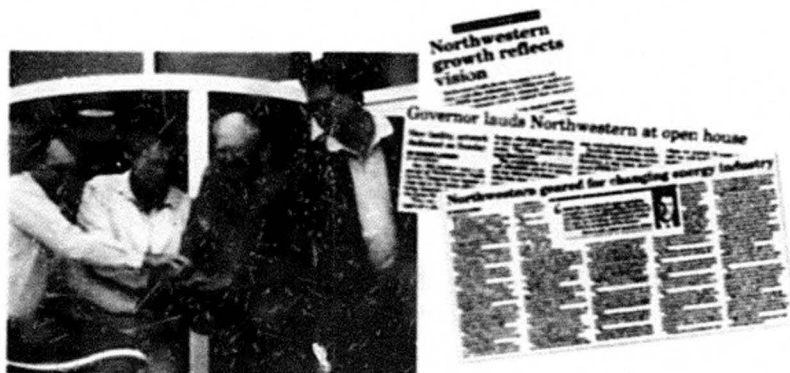
## Expanding Competitive Excellence

*As one of the nation's lowest cost producers of electric energy, we hold a competitive advantage that will serve us well in a future deregulated marketplace.*

**In dedicating Northwestern's new operations center** in September, South Dakota's Governor William Janklow said a reenergized Northwestern has become a vital cog in the state's efforts to bring economic development to eastern South Dakota.

Providing competitive energy options to customers is one of Northwestern's most important goals and a key success factor in economic development strategies to attract new industry and businesses. In a 1995 study of 140 electric utilities, Northwestern ranked fifth lowest in direct production costs per kilowatt hour.

As one of the nation's lowest cost producers of electric energy, we hold a competitive advantage that will serve us well in a future deregulated marketplace.



*President & CEO Merle Lewis, South Dakota Governor William Janklow, Chairman Robert Wilkens and Huron Mayor Steve Gabbard officially open Northwestern's Operations Center*

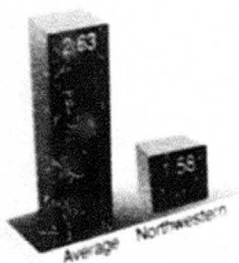


*Northwestern's new Operations Center consolidates work functions, bringing employees together for enhanced customer service, communications, efficiency and productivity.*

In pursuing our goal of competitive excellence and commitment to customers, our systems must provide the most reliable service at the lowest possible cost. To maintain our competitive position, we developed innovative gas pricing strategies to retain our largest gas customers. Coal contracts were renegotiated, and cost savings are being passed through to customers. Today our electric prices are less than they were 10 years

### Competitive Position Study of 140 Electric Utilities

Power Production Costs - 1995  
(cents per kilowatt hour)



ago. We utilize strategic alliances that offer benefits to our customers. Our organization was streamlined and all core processes reengineered, with certain functions eliminated or outsourced. Our productivity has increased. Employees now serve more electric and natural gas customers per person than they did 10 years ago.

In 1996, we completed our Operations Center, a facility dedicated to providing greater levels of customer support. Integrated into the 166,000-square-foot facility are activities and new technologies that provide more responsive customer service, increased system reliability

and enhanced employee productivity and communications. Centralizing warehouse operations resulted in improved efficiencies, protection of materials from the weather and a reduction in required inventory levels.

Operational excellence and low-cost energy are vital in a competitive environment. By combining business relationships with value-added products and services, Northwestern is positioned to succeed in tomorrow's energy market.

*"Thanks to Northwestern, Falcon*

*Plastics has increased plant*

*efficiency and decreased operating*

*expenses. We were able to*

*maintain our normal production*

*schedule while they worked in our*

*plant. The savings from the*

*lighting project alone will improve*

*our profitability."*

Jay Bender

Technical Services Manager

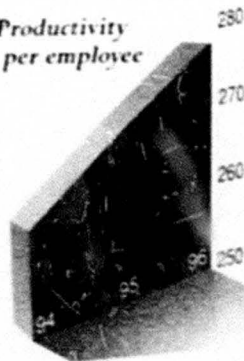
Falcon Plastics, Inc.

Brookings, South Dakota



The Midcom plant of Huron, South Dakota, operates 'round the clock, seven days a week to meet the increasing demand for electronic, computer modem transformers. Maintaining a record of on-time deliveries 100% of the time takes a very reliable power supply, says Plant Manager Daryl Schofield, and he's found that with Northwestern. He also credits Northwestern Energy Services' projects with lowering Midcom's maintenance costs.

### Employee Productivity Customers per employee



## Expanding Our Future Opportunities



*Northwestern Growth Corporation officers Executive Vice President Daniel K. Newell and President & Chief Operating Officer Richard R. Hylland — are positioning the company for a more competitive and successful future.*

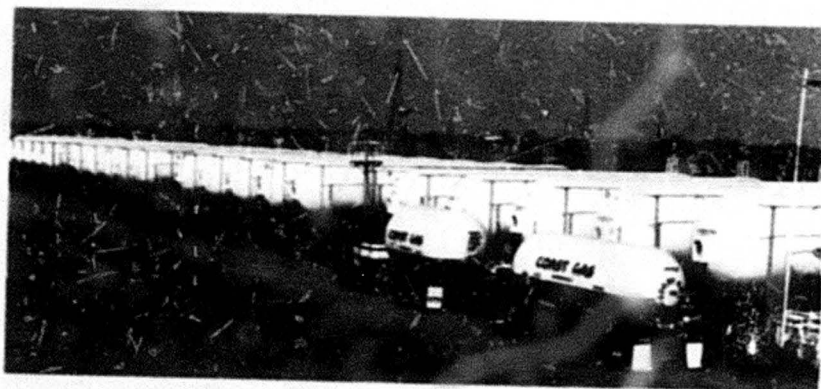
### **Through our development and diversified investment subsidiary**

Northwestern Growth Corporation — we have accomplished important steps in reaching strategic goals of expanded distribution operations, increased geographical locations, broadened customer relationships, financial strength and a solid foundation on which to expand and prosper. Successful execution of Northwestern Growth's strategies has positioned Northwestern as an entrepreneurial, growth-oriented company with the ability to capitalize on opportunities created by a converging, competitive energy industry.

### **Propane energy distribution provides**

**substantial growth.** Northwestern Growth aligns its investment and development activities by enhancing Northwestern's strategies to expand its customer base, create new business, generate earnings growth and increase shareholder value. The strategy to grow in energy and energy markets was a key factor in Northwestern Growth's entry into the propane distribution business late in 1995. Following a series of acquisitions, Cornerstone Propane Partners, L.P., the propane subsidiary of Northwestern Growth, has grown to become the fifth largest retail propane marketer in the United States, serving more than 360,000 customers from 312 retail service centers.

*Successful execution of Northwestern Growth's strategies has positioned Northwestern as an entrepreneurial, growth-oriented company with the ability to capitalize on opportunities created by a converging, competitive energy industry.*



*A national wholesale propane supply and logistics business provides advantages of a secure and efficient supply base to support retail operations. Coast Energy's terminal in Bakersfield, California, a Cornerstone operation, is equipped with rail siding, unloading towers, storage tanks and truck loading racks.*

Propane, a nonregulated energy distribution business with synergistic characteristics to electric and natural gas distribution, provides geographical expansion, a substantial increase in customers, revenue enhancement, increased cash flows and significant growth. Since late 1995, Northwestern Growth's propane growth strategies have included:

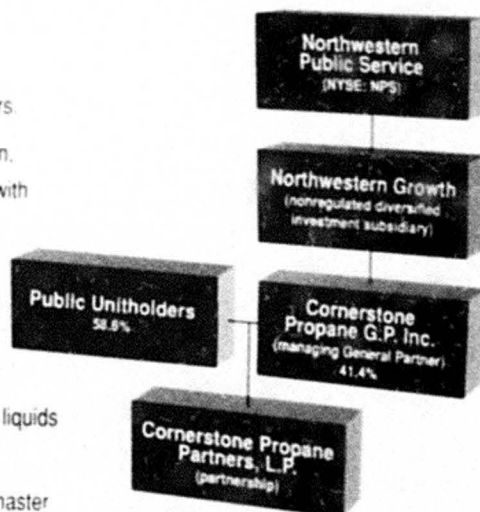
#### 1995

- August Acquisition of Synergy Group, Inc., then the sixth largest retail propane distribution company in the United States with 150,000 customers.

#### 1996

- July - December Acquisition of eight propane companies including two industry leaders.
- October Acquisition of Empire Energy Corporation, headquartered in Lebanon, Missouri, then the nation's eighth largest retail marketer of propane with 130,000 customers.
- December Acquisition of CGI Holdings, Inc. (CGI), which owned Coast Gas Inc. the eighteenth largest retail propane distributor in the United States, serving 75,000 customers. Headquartered in Watsonville, California, CGI also owns Coast Energy Group, Houston, Texas, one of the nation's premier wholesalers of propane and other natural gas liquids and marketer and processor of natural gas.
- December Formation of Cornerstone Propane Partners, L.P., a publicly traded master limited partnership, to combine all propane businesses. Cornerstone sold 9.8 million common units to the public on December 17. Net proceeds from the offering of common units of \$191.8 million, together with the concurrent sale of \$220 million of senior secured notes by a subsidiary partnership, were used to redeem preferred stock of the combined propane entities and repay acquisition bridge loans and existing debt. Northwestern's subsidiaries manage and own 6.9 million subordinated units or 41.4% of Cornerstone, while public unitholders own 58.6% of the Partnership.

#### Northwestern and Cornerstone: Partners in Energy Distribution



Propane Operating Highlights*	
Customers	360,000
Revenues (millions)	\$ 175
Retail Sales (millions of gallons)	141
Customer Service Centers	312
Employees	1,995
*Includes Cornerstone since December 18, 1996	

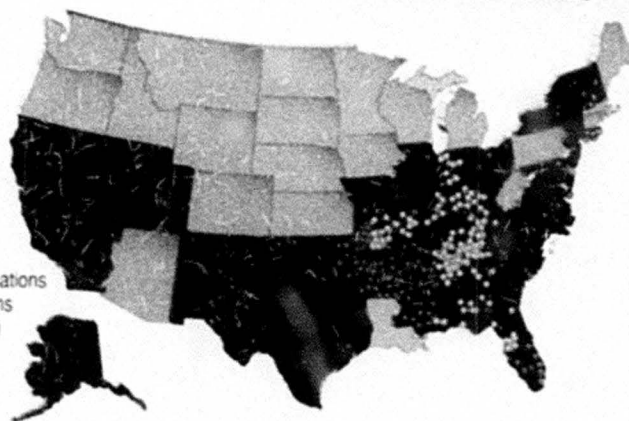
#### Cornerstone — an energy partner.

Forming a master limited partnership allowed Northwestern Growth to consolidate its propane businesses and provides opportunities to enhance the growth, efficiency and profitability of its operations.

#### Cornerstone Propane Partners

- Synergy Retail Locations
- Empire Energy Retail Locations
- Coast Gas Retail Locations
- Coast Energy (wholesale)

Cornerstone Propane Partners, L.P. utilizes a variety of trademarks and trade names including Synergy Gas, Empire Energy, Coast Gas and others. The Partnership retains the names of these companies to preserve the goodwill of the business and to promote local customer loyalty.







*The Cornerstone management team: Ronald J. Goodde, executive vice president and CEO; Keith G. Baxter, president and CEO; Charles J. Kattrell, executive vice president and COO; and Vincent J. Di Cosimo, executive vice president and president of Coast Energy Group. Their leadership brings a history of successful, aggressive and balanced growth, along with extensive propane industry operating expertise.*



*Located throughout 26 states, Cornerstone Propane Partners, L.P. distributes propane from 112 customer service centers.*

By combining all of Northwestern's propane operations into one of the largest retail propane companies in the United States, Cornerstone can more effectively pursue growth, achieve administrative efficiencies and realize product savings from its national wholesale supply business. Integrating Northwestern's customer vision of providing products and services for residential comfort and convenience and business success with a growing propane customer base provides opportunities for strengthened customer relationships and continued revenue enhancement. Northwestern, a low cost energy distributor, and Cornerstone, a major propane retail marketer, represent a strong energy partnership.

A key component of our propane growth strategy was the assembly of an experienced management team with a strong track record of growing and managing diversified propane operations. We were extremely pleased to have the senior executives of CGI join Northwestern as the senior management team of Cornerstone. Their leadership brings a history of successful, aggressive and balanced growth along with extensive propane industry operating expertise.

*A key component of our propane growth strategy was the assembly of an experienced management team with a strong track record of growing and managing diversified propane operations.*



*Bobtail trucks deliver propane to residential, industrial and agricultural customers.*

**Investments for long-term growth.** In addition to propane energy distribution, Northwestern Growth is also engaged in other investments aimed at generating long-term growth. One example is LodgeNet Entertainment Corporation, a market leader in in-room, pay-per-view television entertainment and information services to the lodging industry.

Another example is Lucht Inc., a market leader in the manufacturing of photographic processing and imaging equipment used by high volume photo processing laboratories. Early in 1996, Northwestern Growth invested in Franklin Industries, a steel fabricator that produces highway sign and farm fence posts from scrap railroad rails.

**Creating financial success.** Our strategies are designed to create financial success and long-term growth. The proof is in the numbers. Our profitable growth is reflected in new records for revenues, earnings and customers. That growth is the result of a strong vision, sound strategies and effective execution. Delivering on our promises — for customers, employees, communities and shareholders.

By capitalizing on a sound financial structure and strong fundamentals, we have achieved unprecedented and profitable growth. Northwestern is committed to providing superior investment returns for our shareholders. We believe shareholder value is driven not only by strategic growth, but includes the elements of earnings enhancement, growth in cash flow and dividend increases.

Increasing cash flow provides opportunities to benefit shareholders in several ways, such as investing in new growth businesses or reducing debt which further strengthens our financial flexibility. Increasing cash flows also allows us to accelerate dividends. Northwestern has increased dividends for 13 consecutive years, has paid dividends for 200 consecutive quarters on its common stock and increased dividends at higher levels than the industry average during the last two years. At the same time, our dividend payout ratio has declined.

Financial flexibility is also demonstrated by the strength of Northwestern's balance sheet. In late 1996, the company's rating agencies raised their long-term credit ratings on Northwestern. The A+ rating from Standard & Poor's, the A1 rating from Moody's Investors Service, and the A+ from Fitch Investors Service reflect Northwestern's strong credit quality.

*The proof is in the numbers.*

*Delivering on our promises —*

*for customers, employees,*

*communities and shareholders*



*The National Association of Investors Corporation (NAIC) features Northwestern as "A Stock to Study" in their July issue of **Better Investing** magazine. The magazine focuses on investment education for individual investors and investment clubs.*

## Creating a Foundation for Future Success



Arthur Donnell, vice president energy operations, and Ed Highland, director safety and environmental, display the awards presented to the company for accident prevention and environmental stewardship.

**Our people are our greatest strength.** Each day, every day, our dedicated employees strive toward better and better performance, reaching higher standards and achieving aggressive goals. This year we defined our priorities around our customers, looking for opportunities to serve them better. Teams of employees from throughout the company participated in strategic focus sessions to develop specific targets that reinforce our commitment to customers.

*The commitment and dedication of our employees reinforce our confidence that Northwestern is positioned for profitable growth in a competitive world.*

Involving employees from all organizational levels — particularly those who work closely with customers — brought a depth of experience and knowledge to the process. Participating in corporate strategic sessions gave employees the opportunity to provide input into issues that affect their work. In return, employees gained a better understanding of the evolving competitive environment.

To be successful at reaching our goals, we are working hard at increasing efficiency and reducing costs. A key part of this effort is work process reengineering, in which teams of employees study the way we work and make recommendations that save time and money. This year we eliminated, centralized or outsourced activities from our field service locations not directly related to a customer function.



Dennis Knouse, Ward Gilchrist, Larry Mettler, Mike Sydon, Dennis Wagner, Arthur Donnell, Lee Hatchcock, Van Dietrich, Rod Lydenocker, Larry Frost and others join forces to think strategically — working together to shift the corporate culture to an entrepreneurial mindset.

We also identified and implemented programs designed to cross train employees in more than one job function to increase productivity.

We incorporated new technology into our work processes, using automated systems to enhance our engineering, work management and customer service capabilities. These state-of-the-art systems will help to further reduce costs, enhance communication and provide critical information necessary to serve our customers better.

Breaking growth records throughout the company requires teamwork and an extraordinary commitment from employees. At Northwestern, a portion of every employee's compensation is tied to the success of the company, as well as achievement of high performance goals.

We firmly believe our people drive our success. The commitment and dedication of our employees reinforce our confidence that Northwestern is positioned for profitable growth in a competitive world.

*We incorporated new technology into our work processes, using automated systems to enhance our engineering, work management and customer service capabilities.*



*With activities ranging from three-on-three basketball in a truck bay to dunking tanks for management, Northwestern employees participate in a company-wide celebration marking progress in meeting strategic goals.*



*Pat Van Fleet, Tim McAloon, Herb Miller, Jon Vedvei, Paul Zinter, Julie Olivier and Greg Flack inspect the servers that link all employees through communication networks. Along with other members of the Information Technology team, they provide the tools and expertise that improve service and enhance efficiency.*



*Gene Deuschle, account representative from Mitchell, South Dakota, explains fiber optics applications to customers attending the grand opening of the Operations Center.*

## Directors



**Robert A. Wilkens**  
Chairman of the Board, Retired President  
& CEO, Northwestern Public Service  
Huron, S.D. Elected 1980



**Merle D. Lewis\***  
President & CEO,  
Northwestern Public Service  
Huron, S.D. Elected 1993



**Richard R. Hylland**  
Executive Vice President,  
Northwestern Public Service  
Sioux Falls, S.D. Elected 1995



**Jerry W. Johnson\***  
Dean of the School of Business,  
University of South Dakota  
Vermillion, S.D. Elected 1994



**Aelred J. Kurtenbach\***  
President & CEO of Daktronics, Inc.,  
manufacturer of scoreboards and electronic  
display systems. Brookings, S.D. Elected 1994



**Herman Ierdal\***  
Banking Consultant, Former Banker  
and College Development Officer  
Sioux Falls, S.D. Elected 1975



**Larry E. Ness\***  
President & CEO, First Dakota Financial  
Corp.; Vice Chairman & CEO, First Dakota  
National Bank, Yankton, S.D. Elected 1991



**Gary Olson\***  
President & CEO,  
Norwest Bank South Dakota, N.A.  
Sioux Falls, S.D. Elected February 1997



**Raymond M. Schutz\***  
Attorney and Partner, Segel, Barnett,  
and Schutz  
Aberdeen, S.D. Elected 1990



**Bruce J. Smith\***  
Attorney & Partner, Luebs, Leininger,  
Smith, Busick & Johnson  
Grand Island, Neb. Elected 1989

\*Audit Committee  
+ Nominating & Compensation Committee  
‡Corporate Governance Committee

## Officers

**Robert A. Wilkens**  
Chairman of the Board

**Merle D. Lewis**  
President & CEO

**Richard R. Hylland**  
Executive Vice President

**Alan D. Dietrich**  
Vice President - Administration  
& Corporate Secretaries

**Arthur R. Donnell**  
Vice President  
Energy Operations

**Thomas A. Gulbranson**  
Vice President  
Energy Services

**Rodney J. Levendecker**  
Vice President  
Market Development

**Warren K. Lotsberg**  
Vice President  
Public Affairs

**Daniel K. Newell**  
Vice President  
Finance & CEO

**Rogene A. Thaden**  
Vice President  
Communications & Treasurer

**Don C. Oberlander**  
Assistant Vice President

### Board and Officer Changes

President and CEO Merle D. Lewis was elected by the Board of Directors to serve as chairman of the Board effective May 1, 1997. In selecting him as the new chairman, the Board noted his leadership in guiding Northwestern from a regional energy supplier to a national diversified distribution company. Mr. Lewis has served in several executive positions since joining the company in 1982, and he succeeds Robert A. Wilkens who is retiring. Mr. Wilkens was president and CEO of Northwestern prior to becoming chairman in 1994. During his 44 years with Northwestern, his efforts have been instrumental in positioning the company for a successful future.

The Board also elected Gary Olson to membership effective in 1997. Mr. Olson is the president and chief executive officer of Norwest Bank South Dakota, N.A. He has an extensive background in customer service that aligns closely with Northwestern's strong customer focus. In May 1996, W.W. Wood retired after serving 28 years as a Director. Mr. Wood is the president of W3, a diversified investment firm in North Platte, Nebraska. Northwestern appreciates his many contributions to the company.

In February 1997, Directors elected Rogene A. Thaden as vice president-communications. Ms. Thaden, who has served as treasurer since 1994, joined Northwestern in 1979. She brings more than 15 years of industry experience to the new position, including five years working in investor relations and with Northwestern Growth Corporation.



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## *Management's Discussion and Analysis*

Northwestern Public Service is a diversified energy distribution company with core operations engaged in the propane, electric and natural gas industries.

Northwestern generates and distributes electric energy to 56,000 customers in eastern South Dakota and purchases and distributes natural gas to 77,000 customers in eastern South Dakota and four communities in Nebraska.

The Company acquired Synergy Group Incorporated, a major retail propane distributor in August 1995. In 1996, Northwestern acquired eight additional propane companies, including Empire Energy Corporation in October, then the eighth largest retail marketer of propane in the U.S., and CGI Holdings, Inc., then the eighteenth largest retail marketer of propane in the U.S. in December. Also in December 1996, Northwestern combined all of its propane businesses into Cornerstone Propane Partners, L.P., (Cornerstone) a publicly traded master limited partnership which sold 9.8 million common units to the public on December 17, 1996, at a price of \$21 per unit. Net proceeds from the offering of common units, together with the concurrent sale of \$220 million of senior secured notes by a subsidiary partnership, were used to redeem preferred stock of the combined propane entities and repay acquisition loans and existing debt. Northwestern's majority-owned subsidiaries hold 6.9 million subordinated units or 41.4% of Cornerstone, while public unitholders, own 58.6% of the Partnership. Cornerstone is the fifth largest retail propane marketer in the U.S., serving approximately 360,000 customers from 312 service centers in 26 states.

### *Weather*

Weather patterns have a significant impact on the Company's operating performance. Because propane and natural gas are heavily used for residential and commercial heating, the demand for these products depends upon weather patterns throughout the Company's market areas. With a larger proportion of its operations

related to seasonal propane and natural gas sales in 1997, the distribution of the Company's quarterly operating performance will be different than in historical periods. A greater portion of the Company's future operating income is expected to be recognized in the first and fourth quarters related to higher revenues from the winter heating season.

### *Earnings*

Earnings for 1996 were \$22.9 million or \$2.56 per share, compared to \$18.0 million or \$2.21 per share for 1995. Earnings per share for 1996 included \$.19 related to a one-time gain from proceeds received related to the Cornerstone refinancing transactions. Earnings from ongoing operations were \$2.37 per share, up 7.2% from \$2.21 per share in 1995. The earnings increase was primarily due to slightly colder weather, propane acquisitions, improved natural gas returns and increased investment income.

Earnings per share in 1995 were \$2.21 compared to \$2.00 in 1994. The increase was primarily due to greater electric retail sales, modest gas rate relief, and increased contributions from nonregulated businesses, principally propane. Earnings for 1995 included propane operations since August 1995.

### *Dividends*

In November 1995, the Company's Board of Directors elected to increase annual dividends per share from \$1.70 to \$1.76. Subsequently, in November 1996, the Board approved an eight cent per share increase in annual dividends from \$1.76 to \$1.84. The Company's financial strength, operating performance, the success of its growth strategies and competitive changes in the industry will be factors considered by the Company's Board of Directors when evaluating future dividend payments.

# Management's Discussion and Analysis

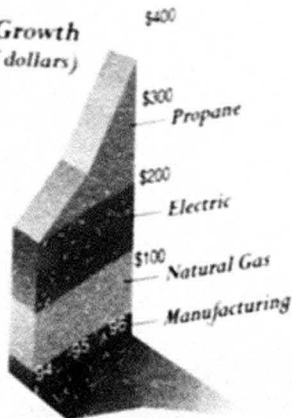
## Business Segment Summary

Year Ended December 31 (Thousands of dollars)	1996	1995	Increase (Decrease)		1994	Increase (Decrease)	
<i>Revenues</i>							
Propane	\$175,102	\$38,883	\$136,219	350.3%	—	\$38,883	—
Electric	73,417	74,857	(1,440)	(1.9%)	\$73,077	1,780	2.4%
Natural Gas	72,269	64,483	7,786	12.1%	62,141	2,342	3.8%
Manufacturing	23,221	26,747	(3,526)	(13.2%)	22,047	4,700	21.3%
<i>Operating Income</i>							
Propane	\$ 18,947	\$ 5,604	\$ 13,343	238.1%	—	\$ 5,604	—
Electric	24,475	26,003	(1,528)	(5.9%)	\$25,662	341	1.3%
Natural Gas	5,684	3,862	1,822	47.2%	2,540	1,322	52.0%
Manufacturing	1,312	2,628	(1,316)	(50.1%)	2,334	294	12.6%
<i>Operating Data</i>							
Propane sales (000 gallons)	160,005	37,805	122,200	323.2%	—	37,805	—
Electric sales-retail (000 mwh)	1,083	1,071	12	1.1%	1,019	52	5.1%
Natural Gas throughput (000 mmbtu)	16,321	15,204	1,117	7.3%	14,750	454	3.1%

## Results of Operations

### Propane

**Revenue Growth**  
(millions of dollars)



Propane operations include revenues from Cornerstone since December 18, 1996, Empire Energy Corporation since October 7, 1996 and Synergy Group Incorporated for all of 1996. Weather throughout Synergy's propane service area was about 5% colder than normal while weather throughout Empire Energy's area was about 3% colder than normal since acquisition. Because of the heavy use of propane for heating, propane sales are extremely weather sensitive. The majority of propane

revenues occur in the first and fourth quarters when propane is heavily sold for residential and commercial heating.

Operating revenue from propane sales increased in 1996 to \$175.1 million from \$38.9 million in 1995. Operating income increased in 1996 to \$18.9 million from \$5.6 million in 1995. The large increases in sales and operating income are primarily due to a full year of operations for Synergy which was acquired in August 1995, the acquisition of Empire Energy in October 1996 and the formation of Cornerstone in December 1996. The increases are also partly due to slightly colder than normal weather in the Company's propane market areas.

In accordance with the Company's plans, substantial changes are being made in the management and operation of the acquired propane businesses in order to achieve improvement in the results of operations. Among the cost efficiency measures being put into place to reduce operating, selling and administrative expenses is the consolidation of corporate functions of all the acquired propane businesses.

# Management's Discussion and Analysis

## Electric

### Electric Retail Sales (000 mwh)



In 1996, retail electric mwh sales grew by 1% even though weather during the summer was approximately 20% cooler than the previous year. Electric revenues decreased slightly

due to a decline in wholesale sales. Operating income decreased due to the slight decrease in revenues combined with increases in growth-related costs in expanded energy services, marketing functions and property taxes. Property taxes increased significantly in 1996 due primarily to changes in South Dakota's tax regulations.

**1995 vs. 1994.** In 1995, revenue increases were related to a 5.1% increase in retail kwh sales over 1994. In 1995, the Company set a new record for peak electric demand during the summer exceeding the previous peak record set in 1991 by 8%. The increase in electric operating income reflects the higher retail sales, offset by slightly higher operating expenses. Maintenance expense declined slightly while depreciation and property taxes reflect the increase in depreciable plant.

## Natural Gas

### Gas Throughput (000 mmbtu)



One of the predominant factors affecting the Company's natural gas operations is weather patterns during the winter heating season. Because natural gas is heavily used for residential and commercial heating,

the demand for this product depends upon weather conditions. In 1996, the increase in natural gas revenues over 1995 reflects the effects of cooler weather, higher market prices for natural gas supply which are passed on to customers through the purchased gas adjustment mechanism and a slight increase in customers.

The increase in gas operating income reflects a 7.3% increase in throughput, offset by slightly higher operating expenses. The increase in other operating expenses was primarily due to growth-related costs in the expanded energy services and marketing functions. Maintenance expense decreased slightly while property taxes increased due to changes in South Dakota tax regulations.

**1995 vs. 1994.** Cooler weather patterns during the heating season resulted in a 3.8% increase in gas revenues. Natural gas revenues include an overall rate increase in South Dakota implemented on November 15, 1994, and an overall increase in Nebraska effective April 1, 1995. The increase in operating income was related to a 3.1% increase in throughput and effects of rate increases, offset by slightly higher operating expenses. Maintenance expense declined slightly while depreciation and property taxes reflect the increase in depreciable plant.



# Management's Discussion and Analysis

## Manufacturing

Manufacturing revenues and operating income are related to the Company's ownership interest in Lucht Inc., a company that manufactures photographic processing and imaging equipment used by high-volume photo processing laboratories. Operating income in 1996 decreased when compared to 1995 due to decreased sales resulting from manufacturing delays in product development. Operating income in 1995 increased by 12.6% over 1994 due to acquisitions and an increase in sales of existing product lines.

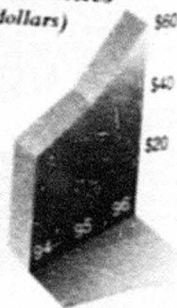
## Other Income Statement Items

Other income increased in 1996 over 1995 primarily due to a one-time gain realized by the Company related to the Cornerstone transaction. The gain is attributed to various prepayment and redemption premiums realized when propane assets and liabilities were contributed to Cornerstone. Other income also includes the gain on the sale of a portion of a common stock investment.

## Liquidity and Capital Resources

During 1996, cash flow from operations, net of dividends paid, together with proceeds from the Cornerstone equity and debt offerings and other external financing activities, provided the funds for propane and other acquisition activities, construction expenditures and other requirements.

**Cash Flows from Operating Activities**  
(millions of dollars)



## Operating Activities

Cash flow from operating activities in 1996 increased 66% from 1995 primarily due to propane acquisitions and growth in the Company's earnings. Liquidity is also provided from the availability of substantial cash and investment balances. Cash equivalents and marketable securities totaled \$179.9 million, \$44.7 million and \$39.2 million at December 31, 1996, 1995 and 1994.

## Investment Activities — Financing Activities

The Company's principal investments and capital requirements in 1996 were related to the acquisition of retail propane distributors Empire Energy Corporation and CGI Holdings, Inc. which were refinanced by the Cornerstone equity and debt offerings. The Cornerstone partnership sold 9.8 million common units to the public with net proceeds of approximately \$192 million and also issued, in conjunction with the partnership public offering, \$220 million of nonrecourse 7.53% series senior mortgage notes maturing in 2010 with eight equal annual installments beginning in the year 2003.

Working capital and other financial resources are also provided by unused lines of credit which are generally used to support commercial paper borrowings, a primary source of short-term financing. At December 31, 1996, the Company had no outstanding borrowings under its lines of credit or commercial paper borrowings. Unused short-term lines of credit totaled \$24 million at December 31, 1996. In addition, the Company's nonregulated businesses maintain credit agreements with various banks for revolving and term loans.

The Company will continue to review the economics of retiring or refunding long-term debt and preferred stock to minimize long-term financing costs. The Company's financial coverages are at levels in excess of those required for the issuance of additional debt and preferred stock.

## *Management's Discussion and Analysis*

### *Capital Requirements*

The Company's primary capital requirements include the funding of its energy business construction and expansion programs, the funding of debt and preferred stock retirements, sinking fund requirements and the funding of its corporate development and investment activities.

The emphasis of the Company's construction activities is to undertake those projects that most efficiently serve the expanding needs of its customer base, enhance energy delivery and reliability capabilities through system replacement and provide for the reliability of energy supply. Capital expenditure plans are subject to continual review and may be revised as a result of changing economic conditions, variations in sales, environmental requirements, investment opportunities and other ongoing considerations.

Expenditures for construction activities for 1996, 1995 and 1994 were \$35.2 million, \$29.6 million and \$22.7 million. Construction expenditures during the last three years included expenditures related to an operations center expected to provide enhanced customer service capability, cost savings and operating efficiencies through consolidation of activities and the expansion of the Company's natural gas system in eastern South Dakota. In addition, 1996 and 1995 included \$9.8 million and \$4.7 million of capital expenditures related to propane operations. Total expenditures for 1997, excluding propane operations, are estimated to be \$14.5 million. The majority of the projected expenditures will be spent on enhancements of the electric and gas distribution systems. Estimated electric and natural gas related construction expenditures for the years 1997 through 2001 are expected to be \$69.1 million. Nonregulated maintenance capital expenditures for 1997 are estimated to be \$4.8 million. Estimated nonregulated maintenance capital expenditures for the years 1997 through 2001 are expected to be \$18.8 million. Capital requirements for the mandatory retirement of long-term debt and mandatory preferred stock sinking fund redemption totaled \$400,000, \$600,000 and \$600,000 for the years ended 1996, 1995 and 1994, respectively. It is expected that such mandatory retirements will be \$1.2 million in 1997,

\$21.5 million in 1998, \$14.0 million in 1999, \$6.5 million in 2000 and \$6.5 million in 2001. The Company anticipates that future capital requirements will be met by existing investments and marketable securities, internally generated cash flows and available external financing.

### *Competition and Business Risk*

The electric and natural gas industries continue to undergo numerous transformations, and the Company is operating in an increasingly competitive marketplace. The passage of the National Energy Policy Act of 1992 has accelerated competition in the electric business by promoting competition in the industry at the wholesale level. Competition in the Company's gas business was accelerated with the passage of the Federal Energy Regulatory Commission's (FERC) Order 636 which resulted in an unbundling of gas supply and services to customers, or separately-priced sale and transportation services.

The changes in the electric business are expected to be similar to those experienced in the natural gas business over the last few years. The FERC, which regulates interstate and wholesale electric transactions, has opened up transmission grids and mandated that utilities must allow others equal access to utility transmission systems. Various state regulatory bodies are also supporting initiatives to redefine the electric energy market and are experimenting with retail wheeling which gives some retail customers the ability to choose their supplier of electricity. Traditionally, utilities have been vertically integrated, providing bundled energy services to customers. The potential for continued unbundling of energy services exists, allowing customers to buy their own electricity and natural gas on the open market and having it delivered by the local utility.

The growing pace of competition in the energy industry has been a primary focus of management over the last few years. The Company's future financial performance will be dependent on the effective execution of operating strategies to address a more competitive and changing energy marketplace. Business strategies focus on enhancing the Company's competitive position, on expanding energy sales and markets with new products and services for customers and increasing shareholder value. The

## *Management's Discussion and Analysis*

Company has realigned all areas of the business to support energy services and marketing functions. A new marketing plan, an expanded line of energy products and services, additional staff and new technologies are part of the Company's strategy for providing responsive and superior customer service.

To strengthen the Company's competitive position, new technologies were added that enable employees to better serve customers. The Company is centralizing activities to improve efficiency and customer responsiveness, and business processes are being reengineered to apply best-practices methodologies. Long-term supply contracts have been renegotiated to lower customers' energy costs, and new alliances help reduce expenses and add innovative work approaches.

As described in Note 1 to the consolidated financial statements, the Company complies with the provisions of Statement of Financial Accounting Standards No. 71 (SFAS 71), "Accounting for the Effects of Certain Types of Regulation". SFAS 71 provides for the financial reporting requirements of the Company's regulated electric and natural gas operations which requires specific accounting treatment of certain costs and expenses that are related to the Company's regulated operations. Criteria that could give rise to the discontinuance of SFAS 71 include (1) increasing competition that restricts the Company's ability to establish prices to recover specific costs and (2) a significant change in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. The Company periodically reviews these criteria to ensure the continuing application of SFAS 71 is appropriate. Based on a current evaluation of the various factors and conditions that are expected to impact future cost recovery, the Company believes that its regulatory assets, including those related to generation, are probable of future recovery.

Weather conditions have a significant impact on the demand for propane for both heating and agricultural purposes. Many customers of Cornerstone rely heavily on propane as a heating fuel. Actual weather conditions can vary substantially from year to year, significantly affecting Cornerstone's financial performance. Furthermore, variations in weather in one or more

regions in which Cornerstone operates can significantly affect the total volumes sold by Cornerstone and the margins realized on such sales and, consequently, Cornerstone's results of operations.

The retail propane business is a margin-based business in which gross profits depend on the excess of sales prices over propane supply costs. Consequently, Cornerstone's profitability will be sensitive to changes in wholesale propane prices. Propane is a commodity, the market price of which can be subject to volatile changes in response to changes in supply or other market conditions. As it may not be possible immediately to pass on to customers rapid increases in the wholesale cost of propane, such increases could reduce Cornerstone's gross profits.

Cornerstone's profitability is affected by the competition for customers among all participants in the retail propane business. Some of Cornerstone's competitors are larger or have greater financial resources than Cornerstone. Should a competitor attempt to increase market share by reducing prices, Cornerstone's financial condition and results of operations could be materially adversely affected. In addition, propane competes with other sources of energy, some of which are less costly for equivalent energy value.

Energy distribution growth will be increasingly important to the Company in the future. In addition to maintaining a strong competitive position in electric, natural gas and propane distribution businesses, the Company intends to seek new investments and acquisitions that have long-term growth potential. While such investments and acquisitions can involve increased risk in comparison to the Company's energy distribution businesses, they offer the potential for enhanced investment returns.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: The statements included in this Annual Report to Shareholders which are not historical facts and which are forward looking statements involve risks and uncertainties detailed in the Company's Securities and Exchange Commission filings.

## Report of Management

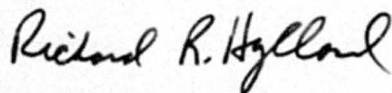
The management of Northwestern Public Service Company is responsible for the integrity and objectivity of the financial information contained in this annual report. The consolidated financial statements, which necessarily include some amounts which are based on informed judgments and estimates of management, have been prepared in conformity with generally accepted accounting principles.

In meeting this responsibility, management maintains a system of internal accounting controls which is designed to provide reasonable assurance that the assets of the Company are safeguarded and that transactions are executed in accordance with management's authorization and are recorded properly for the preparation of financial statements. This system is supported by written policies, selection and training of qualified personnel, an appropriate segregation of responsibilities within the organization and a program of internal auditing. The Board of Directors, through its Audit Committee which is comprised entirely of outside directors, oversees management's responsibilities for financial reporting. The Audit committee meets regularly with management, the internal auditors and the independent public accountants to make inquiries as to the manner in which each is performing its responsibilities. The independent public accountants and the internal audit staff have unrestricted access to the Audit committee, without management's presence, to discuss auditing, internal accounting control and financial reporting matters.

Arthur Andersen LLP, an independent public accounting firm, has been engaged annually to perform an audit of the Company's financial statements. Their audit is conducted in accordance with generally accepted auditing standards and includes examining, on a test basis, supporting evidence, assessing the Company's accounting principles and significant estimates made by management, and evaluating the overall financial statement presentation to the extent necessary to allow them to report on the fairness, in all material respects, of the operating results and financial condition of the Company.



Merle D. Lewis  
President and Chief Executive Officer



Richard R. Hylland  
Executive Vice President

## Report of Independent Public Accountants

To the Stockholders and Board of Directors of  
Northwestern Public Service Company:

We have audited the accompanying consolidated balance sheets of NORTHWESTERN PUBLIC SERVICE COMPANY (a Delaware corporation) AND SUBSIDIARIES as of December 31, 1996 and 1995, and the related consolidated statements of income and retained earnings, and cash flows for each of the three years in the period ended December 31, 1996. 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 in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwestern Public Service Company and Subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.



Minneapolis, Minnesota

January 31, 1997



# Consolidated Statements of Income and Retained Earnings

Years Ended December 31

	1996	1995	1994
<b>Operating Revenues:</b>			
Propane	\$ 175,102,363	\$ 38,883,031	\$ —
Electric	73,416,994	74,857,501	73,077,431
Natural gas	72,269,047	64,482,943	62,141,382
Manufacturing	23,220,737	26,746,847	22,047,241
	<u>344,009,141</u>	<u>204,970,322</u>	<u>157,266,054</u>
<b>Operating Expenses:</b>			
Propane gas sold	101,359,989	18,527,061	—
Fuel and purchased power	13,347,461	14,304,791	14,552,637
Purchased natural gas sold	51,170,517	46,430,023	46,351,422
Manufacturing cost of goods sold	14,547,866	17,162,626	13,996,217
Other operating expenses	80,555,962	43,190,237	27,117,519
Maintenance	5,919,354	6,019,601	6,169,895
Depreciation and amortization	19,414,065	14,633,154	12,438,501
Property and other taxes	7,275,925	6,605,660	6,103,903
	<u>293,591,139</u>	<u>166,873,153</u>	<u>126,730,094</u>
<b>Operating Income:</b>			
Propane	18,947,261	5,604,307	—
Electric	24,474,634	26,003,006	25,661,632
Natural gas	5,683,585	3,861,608	2,540,091
Manufacturing	1,312,522	2,628,248	2,334,237
	<u>50,418,002</u>	<u>38,097,169</u>	<u>30,535,960</u>
<b>Interest Expense, net</b>	<u>(18,668,279)</u>	<u>(11,694,483)</u>	<u>(9,669,829)</u>
<b>Investment Income and Other</b>	<u>9,719,236</u>	<u>3,029,376</u>	<u>2,443,420</u>
<b>Income Before Income Taxes</b>	<u>41,468,959</u>	<u>29,432,062</u>	<u>23,309,551</u>
<b>Income Taxes</b>	<u>(15,415,159)</u>	<u>(10,126,493)</u>	<u>(7,869,343)</u>
<b>Net Income</b>	<u>26,053,800</u>	<u>19,305,569</u>	<u>15,440,208</u>
Minority Interest on Preferred Securities of Subsidiary Trust	(2,722,232)	(1,056,250)	—
Dividends on Cumulative Preferred Stock	(466,945)	(258,939)	(119,888)
<b>Earnings on Common Stock</b>	<u>22,864,623</u>	<u>17,990,380</u>	<u>15,320,320</u>
Retained Earnings, beginning of year	59,159,042	55,373,112	52,873,772
Dividends on Common Stock	(15,877,817)	(14,204,450)	(12,820,980)
<b>Retained Earnings, end of year</b>	<u>\$ 66,143,848</u>	<u>\$ 59,159,042</u>	<u>\$ 55,373,112</u>
<b>Average Shares Outstanding</b>	<u>8,920,122</u>	<u>8,130,581</u>	<u>7,677,232</u>
<b>Earnings Per Average Common Share</b>	<u>\$ 2.56</u>	<u>\$ 2.21</u>	<u>\$ 2.00</u>
<b>Dividends Declared Per Average Common Share</b>	<u>\$ 1.780</u>	<u>\$ 1.746</u>	<u>\$ 1.670</u>

See Notes to Consolidated Financial Statements



# Consolidated Statements of Cash Flows

Years Ended December 31

	1996	1995	1994
<b>Operating Activities:</b>			
Net income	\$ 26,053,800	\$ 19,305,569	\$ 15,440,208
Items not affecting cash:			
Depreciation and amortization	19,414,065	14,633,154	12,438,501
Deferred income taxes	5,830,313	2,540,385	1,509,619
Investment tax credits	(561,278)	(563,311)	(564,801)
Changes in current assets and liabilities, net of effects from acquisitions:			
Trade accounts receivable	(332,902)	(3,897,932)	(1,057,563)
Inventories	(4,374,494)	(327,160)	(1,447,191)
Other current assets	(4,308,027)	(2,641,018)	(259,826)
Accounts payable	15,712,431	(1,718,666)	2,699,294
Accrued taxes	4,621,014	937,553	(1,487,575)
Accrued interest	23,477	1,741,160	(30,991)
Other current liabilities	(143,168)	3,328,632	421,690
Other, net	(1,032,214)	2,028,594	(1,392,444)
<b>Cash flows from operating activities</b>	<b>60,903,017</b>	<b>35,366,960</b>	<b>26,268,921</b>
<b>Investment Activities:</b>			
Property additions	(35,170,026)	(29,636,745)	(22,680,856)
Purchase of noncurrent investments, net	(107,425,554)	(5,669,229)	(1,386,178)
Purchase of net assets, net of cash acquired	(24,481,000)	(109,528,168)	—
Purchase working capital adjustments, net	—	(10,607,114)	—
Acquisition related costs	(2,040,000)	(5,405,328)	—
<b>Cash flows for investment activities</b>	<b>(169,116,580)</b>	<b>(160,846,584)</b>	<b>(24,067,034)</b>
<b>Financing Activities:</b>			
Dividends on common and preferred stock	(16,346,762)	(14,463,389)	(12,940,868)
Minority interest on preferred securities of subsidiary trust	(2,722,232)	(1,056,250)	—
Issuance of long-term debt	21,653,811	86,599,820	1,100,000
Repayment of long-term debt	(339,958)	(3,156,699)	(677,500)
Issuance of preferred securities of subsidiary trust	—	31,213,261	—
Issuance of preferred stock	—	3,650,000	—
Retirement of preferred stock	(10,000)	(30,000)	(30,000)
Issuance of common stock	—	31,022,182	—
Short-term borrowings (repayments)	35,500,000	(6,360,000)	9,800,000
<b>Cash flows from (for) financing activities</b>	<b>37,734,859</b>	<b>127,478,925</b>	<b>(2,748,368)</b>
<b>Cornerstone Propane Partners Formation Transactions:</b>			
Acquisition of CGI Holdings, net of \$2,568,000 of cash acquired	(68,962,482)	—	—
Issuance of Cornerstone Propane Partners common units	191,804,130	—	—
Issuance of long-term debt	220,000,000	—	—
Repayment of long-term debt and short-term borrowings	(229,570,969)	—	—
Other fees and expenses	(10,553,650)	—	—
<b>Cash flows from Cornerstone Propane Partners formation transactions</b>	<b>102,717,029</b>	<b>—</b>	<b>—</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>32,238,325</b>	<b>1,999,301</b>	<b>(546,481)</b>
Cash and Cash Equivalents, beginning of year	4,551,913	2,552,612	3,099,093
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 36,790,238</b>	<b>\$ 4,551,913</b>	<b>\$ 2,552,612</b>
<b>Supplemental Cash Flow Information:</b>			
Cash paid during the year for:			
Income taxes	\$ 6,271,000	\$ 5,972,200	\$ 7,382,119
Interest	\$ 18,644,802	\$ 8,381,217	\$ 8,887,901
Noncash transactions during the year for:			
Assumption of debt as part of acquisitions	\$ 149,516,144	\$ 2,344,603	\$ —

See Notes to Consolidated Financial Statements

# Consolidated Balance Sheets

December 31

	1996	1995
<b>Assets</b>		
<b>Property:</b>		
Electric	\$ 350,419,398	\$ 336,961,117
Natural gas	80,905,454	73,546,150
Propane	248,555,861	74,815,533
Manufacturing	2,141,553	2,048,725
	<u>682,022,266</u>	<u>487,371,525</u>
Less-Accumulated depreciation	(162,908,836)	(150,469,310)
	<u>\$19,113,430</u>	<u>\$36,902,215</u>
<b>Current Assets:</b>		
Cash and cash equivalents	36,790,238	4,551,913
Trade accounts receivable, net	89,258,503	28,190,389
Inventories	43,826,307	21,645,758
Deferred gas costs	7,006,445	2,925,865
Other	20,806,825	33,305,776
	<u>197,688,318</u>	<u>90,619,701</u>
<b>Other Assets:</b>		
Investments	159,332,895	51,907,141
Deferred charges and other	40,260,445	30,240,083
Goodwill and other intangibles, net	197,320,839	49,052,343
	<u>396,913,979</u>	<u>131,199,567</u>
	<u>\$ 1,113,715,727</u>	<u>\$ 558,721,483</u>
<b>Capitalization and Liabilities</b>		
<b>Capitalization:</b>		
Common stock equity	\$ 163,805,137	\$ 152,678,191
Nonredeemable cumulative preferred stock	2,600,000	2,600,000
Redeemable cumulative preferred stock	1,150,000	1,160,000
Company obligated mandatorily redeemable security of trust holding solely parent debentures	32,500,000	32,500,000
Long-term debt	153,850,000	183,850,000
	<u>383,905,137</u>	<u>372,788,191</u>
Preferred stock of subsidiary	2,500,000	2,500,000
Minority interest in subsidiaries	186,713,663	—
Long-term debt of subsidiaries	240,562,549	28,990,224
	<u>813,681,349</u>	<u>404,278,415</u>
<b>Commitments and Contingencies (Notes 8, 9, 10)</b>		
<b>Current Liabilities:</b>		
Commercial paper	—	3,500,000
Long-term debt due within one year	1,244,220	570,000
Accounts payable	99,393,912	15,564,985
Accrued taxes	11,834,153	7,689,592
Accrued interest	4,761,720	4,738,243
Other	35,532,721	26,698,414
	<u>152,766,726</u>	<u>58,761,234</u>
<b>Deferred Credits:</b>		
Accumulated deferred income taxes	70,893,910	43,666,229
Unamortized investment tax credits	9,460,241	10,021,519
Other	66,913,501	41,994,086
	<u>147,267,652</u>	<u>95,681,834</u>
	<u>\$ 1,113,715,727</u>	<u>\$ 558,721,483</u>

See Notes to Consolidated Financial Statements

# Notes to Consolidated Financial Statements

## (1) Significant Accounting Policies —

### *Nature of Operations:*

Northwestern Public Service is an investor-owned diversified energy distribution company with core operations engaged in the propane, electric and natural gas industries. The Company is engaged in the regulated utility business of production, purchase, transmission, distribution and sale of electricity and the delivery of natural gas. The Company serves 55,600 electric customers in eastern South Dakota and 77,478 natural gas customers in eastern South Dakota and central Nebraska. To provide baseload electric power, the Company jointly owns three coal-fired generating plants with other utilities. Through the acquisitions of Synergy Group Incorporated (Synergy) and Myers Propane Gas Company (Myers) in 1995 and Empire Energy Corporation (Energy) in 1996, the Company is engaged in retail propane distribution business located throughout the United States. On December 17, 1996, a wholly owned subsidiary acquired CGI Holdings, Inc., (Coast) and combined the propane distribution businesses of Coast, Energy, Myers and Synergy (the Partnership Formation) into Cornerstone Propane, L.P., (the Operating Partnership), a Delaware limited partnership and a subsidiary of Cornerstone Propane Partners, L.P. (Cornerstone), a Delaware limited partnership, formed to acquire and operate these propane businesses and assets. Cornerstone and the Operating Partnership are collectively referred to herein as the Partnership. On December 17, 1996, as part of an initial public offering (IPO), Cornerstone sold a total of 9,821,000 common units (Common Units) representing limited partner interests. The Company through its majority owned subsidiaries retained an effective 2% general partner interest and a 39% limited partnership interest in the Partnership. A wholly owned subsidiary of the Company serves as the general partner (General Partner) of the Partnership and manages and operates the Partnership's business. (For a detailed description of the Partnership Formation and related transactions, see Note 2). The Company's manufacturing operations are comprised of Lucht Inc., a wholly owned subsidiary that develops, manufactures and markets multi-image photographic printers and other related equipment.

### *Basis of Consolidation:*

The accompanying consolidated financial statements include the accounts of Northwestern Public Service Company and all wholly and majority owned subsidiaries, including the Partnership. All significant intercompany balances and transactions have been eliminated from the consolidated financial statements. The Company's regulated businesses are subject to various state and federal agency regulation. The public unitholders' interest in Cornerstone's net assets subsequent to the Partnership Formation is reflected as a minority interest in the consolidated balance sheets. For purposes of determining the minority interest in Cornerstone, all 9,821,000 Common Units held by the public are considered to be outstanding as of December 31, 1996.

### *Use of Estimates:*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Revenue Recognition and Gas Costs:*

Electric and natural gas revenues are based on billings rendered to customers rather than on meters read or energy delivered. Customers are billed monthly on a cycle basis. Revenues from propane sales are recognized principally when fuel products are shipped or delivered to customers. Manufacturing revenue is recognized as equipment is shipped or delivered to customers.

The commodity cost portion of natural gas purchased from wholesale suppliers but not yet billed to customers is charged to deferred gas costs. This account is subsequently credited in future periods as customers are billed for natural gas used in prior periods. This method has the approximate effect of matching costs with revenues in any financial reporting period. The demand cost portion of natural gas costs, which is comprised of numerous components, is expensed as incurred. The Company and its subsidiaries have propane and natural gas supply agreements with various suppliers for the purchase of these products in the normal course of their operations.

## Notes to Consolidated Financial Statements

### *Allowance for Funds Used During Construction:*

The allowance for funds used during construction includes the costs of equity and borrowed funds used to finance construction which are capitalized in accordance with rules prescribed by the Federal Energy Regulatory Commission (FERC). In 1996, 1995 and 1994, allowance for equity funds was \$95,000, \$134,000 and \$17,000. Allowance for borrowed funds for 1996, 1995 and 1994 was \$83,000, \$362,000 and \$39,000.

### *Cash Equivalents:*

The Company generally considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

### *Depreciation and Maintenance:*

Depreciation is computed using the straight-line method based on the estimated useful lives of the various classes of property. Depreciation provisions, as a percentage of the average balance of depreciable property, were 4.20% in 1996, 3.61% in 1995 and 3.39% in 1994. The percentages for 1996 and 1995 include propane related depreciation provision and depreciable property whose estimated useful lives principally range from 5 to 40 years.

Depreciation rates include a provision for the Company's share of the estimated costs to decommission three coal-fired generating plants at the end of the useful life of each plant. The annual provision for such costs is included in depreciation expense, while the accumulated provisions are included in other deferred credits.

The costs of maintenance, repairs and replacements of minor property items are charged to maintenance expense accounts. Costs of renewals and betterments of electric and natural gas property units are charged to property accounts. The costs of units of electric and natural gas property removed from service, net of removal costs and salvage, are charged to accumulated depreciation. No profit or loss is recognized in connection with ordinary retirements of depreciable electric and natural gas property.

### *Goodwill and Other Intangibles:*

The excess of the cost of businesses acquired over the fair market value of all tangible and intangible assets acquired, net of liabilities assumed, has been recorded as goodwill which is being amortized on a straight-line basis over 40 years. Other intangibles, consisting

principally of costs of covenants not to compete, are being amortized over the estimated periods benefited which do not exceed 10 years. Goodwill and other intangibles are reflected net of accumulated amortization at December 31, 1996 and 1995, of \$1,199,000 and \$1,188,000.

It is the Company's policy to review property, goodwill, and other intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such review indicates that the carrying amount is not recoverable, it is the Company's policy to reduce the carrying amount of these assets to fair value.

### *Investments and Fair Value of Financial Instruments:*

The Company's investments consist primarily of short maturity fixed income securities and corporate preferred and common stocks. In addition, the Company has investments in privately held entities and ventures, safe harbor leases and various money market and tax exempt investment programs. These investments are accounted for in accordance with Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities." SFAS 115 requires that certain investments in debt and equity securities be reported at fair value.

The Company's securities are classified under the provisions of SFAS 115. As of December 31, 1996, the fair value, cost and the gross unrealized gain of the Company's available for sale investments were \$31,742,000, \$31,740,000 and \$2,000 for preferred stock investments and \$16,264,000, \$1,118,000 and \$15,146,000 for marketable equity securities. As of December 31, 1995, the fair value, cost and the gross unrealized gain of the Company's available for sale investments were \$37,746,000, \$37,592,000 and \$154,000 for preferred stock investments and \$9,892,000, \$1,271,000 and \$8,621,000 for marketable equity securities. The unrealized gain, net of tax, at December 31, 1996 and 1995, was \$9,846,000 and \$5,704,000, respectively. Held to maturity securities are reported at cost, which approximate fair value and at December 31, 1996 and 1995 were \$111,327,000 and \$4,269,000.



## Notes to Consolidated Financial Statements

The Company uses the specific identification method for determining the cost basis of its investments in available for sale securities. Gross proceeds and realized gains and losses on sales of its available for sale securities were not material in 1996 and 1995.

Based on current market rates for debt of similar credit quality and remaining maturities or quoted market prices for certain issues, the face value of the Company's long-term debt approximates its market value.

### *Income Taxes:*

Deferred income taxes relate primarily to the difference between book and tax methods of depreciating property, taxable income derived from safe harbor leases, the difference in the recognition of revenues for book and tax purposes, and natural gas costs which are deferred for book purposes but expensed currently for tax purposes.

For book purposes, investment tax credits were deferred and are being amortized as a reduction of income tax expense over the useful lives of the property which generated the credits.

### *Regulatory Assets and Liabilities:*

The Company is subject to the provisions of Statement of Financial Accounting Standards No. 71 (SFAS 71), "Accounting for the Effects of Certain Types of Regulations." Regulatory assets represent probable future revenue to the Company associated with certain costs which will be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are to be credited to customers through the ratemaking process.

If all or a separable portion of the Company's operations becomes no longer subject to the provisions of SFAS 71, an evaluation of future recovery from related regulatory assets and liabilities would be necessary. In addition, the Company would determine any impairment to the carrying costs of deregulated plant and inventory assets.

### *Reclassifications:*

Certain 1995 and 1994 amounts have been reclassified to conform to the 1996 presentation. Such reclassifications had no impact on net income or common stock equity as previously reported.

## **(2) Master Limited Partnership Offering and Business Acquisitions —**

### *Master Limited Partnership Offering:*

On December 17, 1996, a wholly owned subsidiary of Northwestern Growth Corporation acquired Coast. Immediately after the acquisition the Company combined the propane distribution businesses of Coast, Energy, Myers and Synergy into Cornerstone. As part of an IPO on the same date, Cornerstone sold a total of 9,821,000 Common Units at a price to the public of \$21 a unit. Cornerstone's capital consists of 9,821,000 Common Units, 6,597,619 subordinated units (Subordinated Units) representing limited partner interests and a 1% general partner interest. The Company's majority owned subsidiaries own all 6,597,619 Subordinated Units and an aggregate 2% general partner interest in the Partnership, or a combined 41.4% effective interest in the Partnership.

The net proceeds of \$191.8 million from the sale of 9,821,000 Common Units of Cornerstone and the net proceeds from the issuance of \$220 million face value of Cornerstone Senior Notes were used to repay term and revolving debt of Coast, Energy and Synergy, including accrued interest and any prepayment premiums which were assumed by the Partnership. In addition, the preferred stock of Synergy was redeemed at a premium. As a result of these repayments, the Company recorded a one-time after tax gain of \$.19 per share from the prepayment of the term debt and redemption of preferred stock investment in Synergy.

The Partnership makes distributions to its partners with respect to each fiscal quarter of the Partnership in an aggregate amount equal to its Available Cash for such quarter. Available Cash generally means, with respect to any fiscal quarter of the Partnership, all cash on hand at the end of such quarter plus all additional cash on hand as of the date of determination resulting from borrowings subsequent to the end of such quarter, less the amount of cash reserves established by the General Partner in its reasonable discretion for future cash requirements. These reserves are retained for the proper conduct of the Partnership's business, for the payment of debt principal and interest and for distributions during the next four quarters.



## Notes to Consolidated Financial Statements

Distributions by the Partnership, in an amount equal to 100% of its Available Cash, will generally be made 98% to the Common and Subordinated unitholders and 2% to the General Partners. Distributions are subject to the payment of incentive distributions in the event Available Cash exceeds Quarterly Distribution of \$.594 on all units. To the extent there is sufficient Available Cash, the holders of Common Units have the right to receive the Minimum Quarterly Distribution, plus any arrearages, prior to the distribution of Available Cash to holders of Subordinated Units. Common Units will not accrue arrearages for any quarter after the Subordination Period (as defined below), and Subordinated Units will not accrue any arrearages with respect to distributions for any quarter.

The Subordination Period will generally extend until the first day of any quarter beginning on or after December 31, 2001, in respect of which (a) distributions of Available Cash from operating surplus equal or exceed the Minimum Quarterly Distribution on each of the outstanding Common and Subordinated units for each of the three consecutive four-quarter periods immediately preceding such date, (b) the adjusted operating surplus generated during each of the three consecutive four-quarter periods immediately preceding such date equals or exceeds the Minimum Quarterly Distribution on each of the Common and Subordinated units and the related distribution on the general partner interests in the Partnership during such periods and (c) there are no outstanding Common Unit arrearages.

In addition, 1,649,405 Subordinated Units will convert into Common Units for any quarter ending on or after December 31, 1999, and an additional 1,649,405 Subordinated Units will convert into Common Units for any quarter ending on or after December 31, 2000, if (a) distributions of Available Cash from operating surplus on each of the outstanding Common and Subordinated units equal or exceed the Minimum Quarterly Distribution for each of the three consecutive four-quarter periods immediately preceding such date, (b) the adjusted operating surplus generated during the immediately preceding two consecutive four-quarter periods equals or exceeds the Minimum Quarterly Distribution on all of the Common and Subordinated units outstanding during that period and (c) there are no arrearages on the Common Units.

The Partnership will make distributions of its Available Cash approximately 45 days after the end of each quarter ending March, June, September and December to holders of record on the applicable record dates.

### *Business Acquisitions:*

On August 15, 1995, the Company completed the acquisition of Synergy, a retail distributor of propane. Synergy maintained 152 retail branches serving approximately 200,000 customers in 23 states, primarily in suburban and rural areas of the eastern and south-central regions of the United States. In conjunction with the acquisition, the Company sold certain retail property outlets to Energy, which was later acquired in October 1996.

The Synergy transaction represented an initial cash investment by the Company of approximately \$137.5 million, but after the sale of certain retail property outlets, the total net cash acquisition investment by the Company was \$105.6 million. The Company made debt and preferred stock investments in SYN Inc., the entity created to acquire Synergy. Northwestern Growth Corporation, one of the Company's wholly owned subsidiaries, owned control of SYN Inc. common stock. The acquisition was accounted for under the purchase method of accounting. The total net purchase price was comprised of consideration paid of \$105.6 million cash, issuance of \$1.25 million in long-term debt and the assumption of certain liabilities and other long-term debt. The cost in excess of the fair value of the net tangible and intangible assets acquired and the costs related to arranging the debt financing for the acquisition of \$31.7 million have been recorded as intangible assets and are being amortized on a straight-line method over 40 years. The allocation of the purchase price to the acquired assets and liabilities of Synergy was based on fair value of the related assets and liabilities. The Company has asserted claims under the acquisition agreement for post-closing adjustments related to the acquisition of Synergy. If these claims are successful, an adjustment in the consideration paid for the acquisition could result.

The Company's investments in SYN Inc. were funded primarily by financings undertaken in 1995. During the third quarter of 1995, the Company issued \$60 million of 7.10% general mortgage bonds due August 1, 2005, 1.3 million shares of 8 1/8% preferred securities of subsidiary trust and 1.2 million shares of common stock.

## Notes to Consolidated Financial Statements

On December 7, 1995, the Company acquired majority control of Myers through the issuance of 42,890 shares of common stock and 11,500 shares of 6 1/2% redeemable cumulative preferred stock. Myers is a retail distributor of propane serving approximately 4,500 customers in and around Sandusky, Ohio. The total purchase price of \$4.8 million was comprised of the securities issued by the Company and seller financing. The acquisition was accounted for under the purchase method of accounting. The cost in excess of fair value of the net assets acquired of \$1.9 million has been classified as goodwill and is being amortized on a straight-line method over 40 years.

On October 7, 1996, the Company completed the acquisition of Energy, a retail distributor of propane. Energy maintained 168 retail branches serving approximately 130,000 customers in 10 states, primarily in southeast and midwest regions of the United States. The total purchase price of approximately \$120 million was comprised of cash, assumption of certain liabilities including long-term debt of \$94 million, and transaction related costs. The cost in excess of the fair value of the net tangible assets acquired has been classified as goodwill and is being amortized on a straight-line method over 40 years. The allocation of the purchase price to the acquired assets and liabilities of Energy was based on fair value of the related assets and liabilities.

Had the acquisitions of Coast, Energy, Myers and Synergy and the Partnership Formation occurred on January 1, 1995, combined unaudited pro forma results for the years ended December 31, 1996 and 1995, as prescribed under Accounting Principles Board Opinion No. 16 (APB 16), "Business Combinations," would have been: Revenues \$770,031,000 and \$620,887,000, net income \$18,771,000 and \$16,437,000 and earnings per share \$2.10 and \$1.84. The pro forma disclosures required under APB 16 are not indicative of past or future operating results. Since the acquisitions and Partnership Formation, the Company has implemented significant cost reduction measures principally related to elimination of certain employee positions, corporate administrative expenses and other specifically identified operating expenses that have not been reflected in the pro forma information under the provisions of APB 16.

### (3) Short-Term Borrowings —

The Company may issue short-term debt in the form of bank loans and commercial paper as interim financing for general corporate purposes. The bank loans may be obtained under short-term lines of credit. The Company's aggregate lines of credit available are \$24 million at December 31, 1996. The Company pays an annual fee equivalent to 1/4% of the unused lines. There were no line of credit borrowings outstanding at December 31, 1996 and 1995. At December 31, 1996, the Company had no outstanding commercial paper borrowings. At December 31, 1995, the Company had outstanding \$3.5 million of commercial paper.

### (4) Long-Term Debt —

Substantially all of the Company's electric and gas utility plant is subject to the lien of the indentures securing its general mortgage bonds and pollution control obligations. General mortgage bonds of the Company may be issued in amounts limited by property, earnings and other provisions of the mortgage indenture. The following table summarizes the Company's general mortgage bonds and pollution control obligations at December 31 (in thousands):

Series	Due	1996	1995
General mortgage bonds —			
8.824%	1998	\$ 15,000	\$ 15,000
8.9%	1999	7,500	7,500
6.99%	2002	25,000	25,000
7.10%	2005	60,000	60,000
7%	2023	55,000	55,000
Pollution control obligations —			
5.85%, Mercer Co., ND	2023	7,550	7,550
5.90%, Salix, IA	2023	4,000	4,000
5.90%, Grant Co., SD	2023	9,800	9,800
		<u>\$183,850</u>	<u>\$183,850</u>

In conjunction with the Partnership Formation in December 1996, the Partnership issued \$220 million in First Mortgage Notes (Notes). These Notes are collateralized by substantially all of the assets of the Partnership and ranks *pari passu* with the Bank Credit Facility. The Notes bear interest at a fixed rate of 7.53% payable semi-annually and mature in the year 2010 with eight equal annual installments beginning in the year 2003. The Partnership may, at its options and under certain circumstances following the disposition of assets be

## Notes to Consolidated Financial Statements

required to offer to prepay the Notes, in whole or in part. The Note agreement contains restrictive covenants applicable to the Partnership, including (a) restrictions on the incurrence of additional indebtedness, (b) restrictions on the ratio of consolidated cash flow to consolidated interest expense of the Partnership, as defined, and (c) restrictions on certain liens, loans and investments, payments, mergers, consolidations, sales of assets and other transactions. Generally, as long as no default exists or would result, the Partnership is permitted to make cash distributions not more frequently than quarterly in an amount not to exceed available cash, as defined, for the immediately preceding calendar quarter.

The Partnership also entered into a Bank Credit Facility in December 1996 with a group of commercial banks. The Bank Credit Facility consists of a \$50 million Working Capital Credit Facility and a \$75 million Acquisition Facility to finance propane business acquisitions. There were \$10,445,000 of borrowings outstanding under the Working Capital Facility at December 31, 1996. There were no outstanding borrowings on the Acquisition Facility at December 31, 1996. The Bank Credit Facility bears interest at a variable rate tied to a certain Eurodollar index or prime rate, plus a variable margin for either rate which depends upon the Partnership's ratio of consolidated debt to consolidated cash flow. The Bank Credit Facility matures in December 1999. The Bank Credit Facility is collateralized by substantially all the assets of the Partnership and ranks *pari passu* with the First Mortgage Notes. The Bank Credit Facility contains restrictive covenants applicable to the Partnership, including (a) restrictions on the incurrence of additional indebtedness, (b) restrictions on the ratio of consolidated cash flow to consolidated interest expense of the Partnership, as defined, and (c) restrictions on certain liens, loans and investments, payments, mergers, consolidations, sales of assets and other transactions. They also require that the Partnership maintain a ratio of total funded indebtedness to consolidated cash flow, as defined. Generally, as long as no default exists or would result, the Partnership is permitted to make cash quarterly distributions in an amount not to exceed Available Cash, as defined.

Lucht Inc. has a credit agreement with a bank whereby it may borrow up to \$8 million in revolving and term loans. Balances of \$3,290,000 and \$4,802,500 were outstanding under the revolving and term loan as of December 31, 1996 and 1995, at a weighted average

interest rate of 8%. Borrowings under the agreement are collateralized by all receivables, inventories, property and other assets of Lucht, and are nonrecourse to the Company.

SYN Inc. had a credit agreement with a bank whereby it could borrow up to \$30 million in revolving loans. The facility was repaid in conjunction with the Partnership Formation. A balance of \$21,342,320 was outstanding under the facility as of December 31, 1995.

The balance of other nonrecourse debt is comprised of the remaining debt assumed and issued from Coast, Energy, Myers and Synergy acquisitions of \$8,072,000 and \$3,415,000 at December 31, 1996 and 1995.

Annual scheduled consolidated retirements of long term debt during the next five years are \$1,244,000 in 1997, \$21,500,000 in 1998, \$14,000,000 in 1999, \$6,500,000 in 2000 and \$6,500,000 in 2001.

### (5) Capital Stock Transactions and Retained Earnings Availability —

As part of financing the Synergy acquisition, the Company issued 1.2 million shares of common stock. The Company also issued 1.3 million shares of 8 1/8% preferred securities of subsidiary trust which mature in September 2025. In financing the Myers acquisition, the Company issued 42,890 shares of common stock and 11,500 shares of redeemable cumulative preferred stock. Preferred stock transactions for the three years ended December 31, 1996, have also included redemptions to satisfy mandatory sinking fund requirements. The following table summarizes the capital stock transactions that occurred during the year: (in thousands)

	Preferred Stock	Common Stock	Additional Paid in Capital
Balance 12-31-95	\$6,250	\$31,220	\$56,595
Mandatory sinking fund redemption	(10)	—	—
Balance 12-31-96	\$6,250	\$31,220	\$56,595

The preferred stock of subsidiary is redeemable at the option of the Company. There were 2,500 shares of preferred stock outstanding at December 31, 1996 and 1995. The preferred stock was redeemed in January 1997.

## Notes to Consolidated Financial Statements

In December 1996, the Company's Board of Directors declared, pursuant to a stockholders' rights plan, a dividend distribution of one Right on each outstanding share of the Company's common stock. Each Right becomes exercisable, upon the occurrence of certain events, at an exercise price of \$100 per share, subject to adjustment. The Rights are currently not exercisable and will be exercisable only if a person or group of affiliated or associated persons (Acquiring Person) either acquires ownership of 15% or more of the Company's common stock or commences a tender or exchange offer that would result in ownership of 15% or more. In the event the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earnings power are sold, each Right entitles the holder to receive such number of shares of common stock of the Acquiring Person having a market value of two times the then current exercise price of the Right. The Rights, which expire in December 2006, are redeemable in whole, but not in part, at a price of \$.01 per Right, at the Company's option at any time until any Acquiring Person has acquired 15% or more of the Company's common stock.

### (6) Common and Preferred Stock Equity —

The following table summarizes the Company's common and preferred stock equity at December 31 (dollars in thousands, except par value):

	1996	1995
<b>Common Stock Equity:</b>		
Common stock, \$3.50 par value, 20,000,000 shares authorized; 8,920,122 shares outstanding	\$ 31,220	\$ 31,220
Additional paid-in capital	56,595	56,595
Retained earnings	66,144	59,159
Unrealized gain on investments, net	9,846	5,704
	<u>\$163,805</u>	<u>\$152,678</u>
<b>Cumulative Preferred Stock:</b>		
\$100 par value, 1,000,000 shares authorized; 37,600 shares outstanding	\$2,600	\$2,600
Nonredeemable — 4 1/2% Series	—	10
Redeemable —		
5 1/4% Series	1,150	1,150
6 1/2% Series	—	—
	<u>\$3,750</u>	<u>\$3,760</u>

### (7) Income Taxes —

Income tax expense is comprised of the following (in thousands):

	1996	1995	1994
Federal income			
Current tax expense	\$ 9,174	\$ 7,849	\$6,522
Deferred tax			
expense	5,830	2,540	1,509
Investment tax credit	(561)	(563)	(565)
State income	972	300	403
	<u>\$15,415</u>	<u>\$10,126</u>	<u>\$7,869</u>

The following table reconciles the Company's effective income tax rate to the federal statutory rate:

	1996	1995	1994
Federal statutory rate	35%	35%	35%
State income, net of federal benefit	2	—	—
Amortization of investment tax credit	(1)	(2)	(2)
Dividends received deduction	(1)	(5)	(3)
Other, net	2	6	4
	<u>37%</u>	<u>34%</u>	<u>34%</u>

The components of the net deferred federal income tax liability recognized in the Company's Consolidated Balance Sheet are related to the following temporary differences at December 31 (in thousands):

	1996	1995
Excess tax depreciation	\$(77,032)	\$(26,252)
Safe harbor leases	(5,630)	(7,060)
Property basis and life differences	(6,480)	(7,526)
Asset sales	(3,967)	(4,366)
Regulatory assets	(3,489)	(4,052)
Regulatory liabilities	4,189	4,189
Unbilled revenue	3,596	3,857
Unamortized investment tax credit	3,491	3,491
Unrealized gain on investments	(5,302)	(3,071)
Other, net	19,730	(2,876)
	<u>\$(70,894)</u>	<u>\$(43,666)</u>

### (8) Jointly Owned Plants —

The Company has an ownership interest in three major electric generating plants, all of which are operated by other utility companies. The Company has an undivided interest in these facilities and is responsible for its proportionate share of the capital and operating costs while being entitled to its proportionate share of the power generated. The Company's interest in each plant is reflected in the Consolidated Balance Sheet on a pro rata



## Notes to Consolidated Financial Statements

basis, and its share of operating expenses is reflected in the Consolidated Statement of Income and Retained Earnings. The participants each finance their own investment.

The Company has long-term coal contracts for delivery of lignite coal to Coyote I and sub-bituminous coal to Neal #4. The lignite coal contract for Big Stone expired in mid-1995, and the plant owners have negotiated and secured a contract for minimum annual purchases of 1.2 million tons of Montana sub-bituminous coal for the period of mid-1995 through 1999. The lignite contract for Coyote I is a total requirements contract with a minimum obligation of 30,000 tons per week except during scheduled or forced outages. Neal #4 has a contract for delivery of sub-bituminous coal with an annual minimum purchase requirement of 1.8 million tons. Information relating to the Company's ownership interest in these facilities at December 31, 1996, is as follows (dollars in thousands):

	Big Stone	Neal #4	Coyote I
Utility plant in service	\$44,658	\$34,986	\$45,687
Accumulated depreciation	\$25,243	\$16,970	\$19,295
Construction work in progress	\$4,171	\$461	\$327
Total plant capacity — mw	449	624	427
Company's share	23.4%	8.7%	10.0%
In-service date	1975	1979	1981
Coal contract expiration date	1999	1998	2016

### (9) Employee Retirement Benefits —

The Company maintains a noncontributory defined benefit pension plan covering substantially all employees. The benefits to which an employee is entitled under the plan are derived using a formula based on the number of years of service and compensation levels as defined. The Company determines the annual funding for its plan using the frozen initial liability cost method. The Company's annual contribution is funded in accordance with the requirements of ERISA. Assets of the plan consist primarily of debt and equity securities.

The components of net periodic pension cost for the years ended December 31, 1996, 1995 and 1994 were as follows (in thousands):

	1996	1995	1994
Service cost	\$ 958	\$ 755	\$ 948
Interest cost on projected benefit obligation	3,506	3,144	3,176
Actual return on assets	(5,745)	(10,082)	586
Net amortization and deferral	1,608	6,475	(4,391)
Net periodic pension cost	\$ 327	\$ 292	\$ 319

The following table reflects the funded status of the Company's pension plan as of December 31, 1996, 1995 and 1994 (in thousands):

	1996	1995	1994
Actuarial present value of			
Accumulated benefit obligation —			
Vested	\$43,950	\$39,946	\$34,436
Nonvested	1,577	1,417	1,197
	45,527	41,363	35,633
Provision for future pay increases	4,531	5,488	3,993
Projected benefit obligation	50,058	46,851	39,626
Plan assets at fair value	56,507	52,762	44,501
Projected benefit obligation less than plan assets	(6,449)	(5,911)	(4,875)
Unrecognized transition obligation	(1,392)	(1,547)	(1,702)
Unrecognized net gain	4,821	5,381	5,365
Prepaid pension cost	\$(3,020)	\$(2,077)	\$(1,212)

The assumptions used in calculating the projected benefit obligation for 1996, 1995 and 1994 were as follows:

	1996	1995	1994
Discount rate	7.25%	7.75%	8.50%
Expected rate of return on assets	8.50%	8.50%	8.50%
Long-term rate of increase in compensation levels	3%	3%	4%

The Company provides an employee savings plan which permits all employees to defer receipt of compensation as provided in Section 401(k) of the Internal Revenue Code. Under the plan, any employee may elect to direct up to twelve percent of their gross compensation be contributed to the plan. The Company contributes 50 cents for every one dollar contributed by the employee, up to a maximum Company contribution of three percent of the employee's gross compensation. Costs incurred under the plan were \$594,000, \$479,000, and \$468,000 in 1996, 1995 and 1994. The Company also provides an Employee Stock Ownership Plan (ESOP) for full-time employees. The ESOP is funded primarily with federal income tax savings which arise from tax laws applicable to such employee benefit plans. Certain Company contributions and shares of stock acquired by the ESOP are allocated to participants' accounts in proportion to the compensation of employees during the particular year for which allocation is made. Costs incurred under the plan were \$849,000, \$810,000 and \$705,000 in 1996, 1995 and 1994.



## Notes to Consolidated Financial Statements

The Company also has various supplemental retirement plans for outside directors and selected management employees. The plans are nonqualified defined benefit plans that provide for certain amounts of salary continuation in the event of death before or after retirement, or certain supplemental retirement benefits in lieu of any death benefits. In addition, the Company provides life insurance benefits to beneficiaries of all eligible employees who represent a reasonable insurable risk. To minimize the overall cost of plans providing life insurance benefits, the Company has obtained life insurance coverage that is sufficient to fund benefit obligations. Costs incurred under the plans were \$1,291,000, \$648,000 and \$552,000 in 1996, 1995 and 1994.

Cornerstone provides employee savings plans which permits all employees to defer receipt of compensation as provided in Section 401(k) of the Internal Revenue Code. Under the plans, any employee may elect to direct a percentage of their gross compensation be contributed to the plans. Cornerstone at its discretion may match a portion of the employee contribution and may also make a profit sharing contribution.

### (10) Environmental Matters —

The Company is subject to environmental regulations from numerous entities. The Clean Air Act Amendments of 1990 (the Act) stipulate limitations on sulfur dioxide and nitrogen oxide emissions from coal-fired power plants. The Company believes it can economically meet such sulfur dioxide emission requirements at its generating plants by the required compliance dates and that it is in compliance with all presently applicable environmental protection requirements and regulations. The Company is also subject to other environmental regulations including matters related to former manufactured gas plant sites. During 1995, the Company remediated a site located at Huron, South Dakota through thermal desorption of residues in the soil. Adjustments of the Company's natural gas rates to reflect the costs associated with the remediation were approved through the regulatory process. The Company is pursuing recovery from insurance carriers. No administrative or judicial proceedings involving the Company are now pending or known by the Company to be contemplated under present environmental protection requirements.

### (11) Cumulative Preferred Stock and Preference Stock —

The provisions of the 6 1/2% Series stock contain a five-year put option exercisable by the holders of the securities and a 10 year redemption option exercisable by the Company. In any event, redemption will occur at par value. The cumulative preferred stock, 4 1/2% Series, may be redeemed in whole or in part at the option of the Board of Directors at any time upon at least 30 days notice at \$110.00 per share, plus accrued dividends.

In the event of involuntary dissolution, all Company preferred stock outstanding would have a preferential interest of \$100 per share, plus accumulated dividends, before any distribution to common stockholders.

The Company is also authorized to issue a maximum of 1,000,000 shares of preference stock at a par value of \$50 per share. No preference shares have ever been issued.

### (12) Segments of Business —

The four primary segments of the Company's business are its electric, natural gas distribution, propane and manufacturing operations. The following table summarizes certain information specifically identifiable with each segment as of or for the years ended December 31 (in thousands):

	1996	1995	1994
Depreciation and Amortization Expense:			
Electric	\$ 10,620	\$ 10,503	\$ 10,115
Natural gas	2,492	2,185	1,996
Propane	5,730	1,562	—
Manufacturing	572	383	326
	<u>\$ 19,414</u>	<u>\$ 14,633</u>	<u>\$ 12,439</u>
Capital Expenditures:			
Electric	\$ 18,598	\$ 17,868	\$ 16,023
Natural gas	8,172	6,521	6,425
Propane	7,349	4,726	—
Manufacturing	51	522	233
	<u>\$ 35,170</u>	<u>\$ 29,637</u>	<u>\$ 22,681</u>
Assets:			
Identifiable —			
Electric	\$ 223,262	\$218,006	\$210,872
Natural gas	66,213	59,384	51,008
Propane	611,707	173,665	—
Manufacturing	14,946	16,409	13,843
Corporate assets	197,588	91,257	82,343
	<u>\$1,113,716</u>	<u>\$558,721</u>	<u>\$359,068</u>

## Notes to Consolidated Financial Statements

Identifiable assets include all assets that are used directly in each business segment. Corporate assets consist of assets not directly assignable to a business segment, i.e., cash, investments, certain accounts receivable, prepayments and other miscellaneous current and deferred assets.

### (13) Quarterly Financial Data (unaudited) —

	First	Second	Third	Fourth
	(in thousands except per share amounts)			
<b>1996:</b>				
Operating revenues	\$97,219	\$56,681	\$49,705	\$140,404
Operating income	23,813	6,436	4,652	15,517
Net income	13,309	3,353	1,301	8,091
Average shares	8,920	8,920	8,920	8,920
Earnings per average common share	\$ 1.40	\$ .29	\$ .06	\$ .81
<b>1995:</b>				
Operating revenues	\$50,754	\$40,107	\$45,548	\$ 68,561
Operating income	12,929	6,679	6,908	11,581
Net income	7,103	3,049	3,140	6,014
Average shares	7,677	7,677	8,277	8,889
Earnings per average common share	\$ .92	\$ .39	\$ .32	\$ .59

The 1995 quarterly earnings per average common share do not total to 1995 annual earnings per average common share due to the effect of common stock issuances during the year.

## Financial Statistics

	1996	1995	1994	1993	1992	1991	1986
<i>Income Statement Data (000):</i>							
Operating revenue							
Propane	\$175,102	\$38,883	—	—	—	—	—
Electric	73,417	74,857	\$73,077	\$70,105	\$65,628	\$67,958	\$63,025
Natural gas	72,269	64,483	62,141	65,018	52,216	54,942	54,356
Manufacturing	23,221	26,747	22,047	18,134	1,353	—	—
Operating income							
Propane	\$18,947	\$5,604	—	—	—	—	—
Electric	24,475	26,003	\$25,662	\$21,752	\$21,909	\$22,892	\$16,854
Natural gas	5,684	3,862	2,540	3,903	2,893	4,556	1,269
Manufacturing	1,312	2,628	2,334	1,618	7	—	—
<i>Common Stock Data:</i>							
Average shares outstanding at year end (000)	8,920	8,131	7,677	7,677	7,677	7,677	7,677
Net income	\$26,054	\$19,306	\$15,440	\$15,191	\$13,721	\$14,815	\$13,692
Earnings per share	\$2.56	\$2.21	\$2.00	\$1.96	\$1.77	\$1.88	\$1.60
Return on average common equity	14.4%	13.7%	13.1%	13.7%	12.8%	13.7%	14.3%
Dividends paid per share	\$1.780	\$1.746	\$1.670	\$1.630	\$1.590	\$1.535	\$1.163
Annual dividend rate at year end	\$1.84	\$1.76	\$1.70	\$1.66	\$1.62	\$1.58	\$1.20
Price earnings ratio	13.4x	12.7x	13.4x	14.7x	15.8x	13.8x	10.5x
Dividend payout ratio	69.5%	79.0%	83.5%	83.2%	89.8%	81.6%	72.7%
Market price per common at year end	\$34.25	\$28.00	\$26.75	\$28.75	\$28.00	\$25.88	\$16.75
Book value per share at year end	\$18.36	\$17.12	\$14.94	\$14.28	\$13.95	\$13.78	\$11.27
Ratio of market price to book value at year end	187%	164%	179%	201%	201%	188%	149%
Common shareholders at year end	8,750	8,738	8,132	8,231	8,279	8,262	9,202
<i>Capitalization (000): *</i>							
Common stock equity	\$163,805	\$152,678	\$114,705	\$109,667	\$107,111	\$105,780	\$86,508
Preferred securities of subsidiary trust	32,500	32,500	—	—	—	—	—
Preferred stock	3,750	3,760	2,640	2,670	2,700	5,590	9,565
Long-term debt	183,850	183,850	123,850	123,850	105,350	92,003	83,918
	<b>\$383,905</b>	<b>\$372,788</b>	<b>\$241,195</b>	<b>\$236,187</b>	<b>\$215,161</b>	<b>\$203,373</b>	<b>\$179,991</b>
<i>Capitalization Ratios: *</i>							
Common stock equity	42.7%	41.0%	47.5%	46.4%	49.8%	52.0%	48.1%
Preferred securities of subsidiary trust	8.4	8.7	—	—	—	—	—
Preferred stock	1.0	1.0	1.1	1.1	1.2	2.8	5.3
Long-term debt	47.9	49.3	51.3	52.5	49.0	45.2	46.6
<i>Financial Ratios:</i>							
Interest coverage	4.3*	4.3*	5.1*	5.1*	4.1	4.8	4.6
Ratio of earnings to fixed charges	3.2	3.4	3.4	3.5	3.4	4.1	3.6
Ratio of earnings to fixed charges, including dividends and minority interest on preferred securities	2.7	3.1	3.4	3.5	3.3	3.8	3.0
<i>*Calculation reflects the provisions of the Company's new General Mortgage Indenture executed in August 1993</i>							
<i>Property (000):</i>							
Electric	\$350,419	\$336,961	\$321,154	\$308,225	\$299,206	\$288,387	\$242,840
Natural gas	80,905	73,546	67,214	60,880	52,613	46,718	36,939
Propane	248,556	74,816	—	—	—	—	—
Manufacturing	2,142	2,049	1,558	1,865	—	—	—
	<b>\$682,022</b>	<b>\$487,372</b>	<b>\$389,926</b>	<b>\$370,970</b>	<b>\$351,819</b>	<b>\$335,105</b>	<b>\$279,779</b>
Accumulated depreciation	\$162,909	\$150,469	\$139,381	\$131,287	\$122,085	\$113,205	\$77,663

## Operating Statistics

### Electric

	1996	1995	1994	1993	1992	1991	1986
<i>Revenues (000):</i>							
Residential	\$31,275	\$31,583	\$30,203	\$29,298	\$27,555	\$29,745	\$29,232
Commercial and industrial	38,682	38,210	37,207	35,280	33,334	33,789	30,968
Street lighting and public authorities	1,384	1,400	1,369	1,368	1,303	1,327	1,814
Total retail	71,341	71,193	68,779	65,946	62,192	64,861	62,014
Sales for resale	1,311	1,934	2,631	2,677	2,311	2,050	293
Other	765	1,730	1,667	1,482	1,125	1,047	718
Total revenues	\$73,417	\$74,857	\$73,077	\$70,105	\$65,628	\$67,958	\$63,025

### Customers at Year End:

Residential	45,782	45,640	45,305	44,877	44,465	44,065	43,408
Commercial and industrial	9,363	9,214	9,079	8,935	8,836	8,784	8,131
Street lighting and public authorities	436	437	460	453	451	441	175
Total retail	55,581	55,291	54,844	54,265	53,752	53,290	51,714
Sales for resale	19	19	19	23	21	23	7
Total customers	55,600	55,310	54,863	54,288	53,773	53,313	51,721

### Residential Customer Data:

Average annual kwh use	9,299	9,316	8,859	8,641	7,975	8,853	7,964
Revenue per kwh sold (cents)	7.35	7.43	7.57	7.60	7.81	7.64	8.46
Average annual bill	\$683.11	\$692.00	\$670.42	\$657.09	\$622.84	\$676.15	\$674.15

### Sales (000 kwh):

Residential	425,718	425,205	399,100	385,278	352,801	389,456	345,330
Commercial and industrial	640,441	629,318	603,096	562,921	525,321	531,114	426,233
Street lighting and public authorities	16,545	16,805	16,313	16,278	15,955	15,798	21,767
Total retail	1,082,704	1,071,328	1,018,509	964,477	894,077	936,368	793,330
Sales for resale	75,334	127,172	182,032	191,170	159,785	135,071	107,477
Total energy sales	1,158,038	1,198,500	1,200,541	1,155,647	1,053,862	1,071,439	900,807

### Sources of Power Supply (000 kwh)

Company generated	1,101,211	1,232,054	1,235,640	1,179,716	1,088,783	1,077,086	862,511
Purchased power*	171,615	75,777	67,440	80,937	60,323	82,152	127,900
	1,272,826	1,307,831	1,303,080	1,260,653	1,149,106	1,159,238	990,411

\*Includes routine short-term power pool purchases

### System Capability at Peak (kw):

Steam electric capability	199,572	201,912	202,480	200,442	198,945	198,550	197,272
Internal peaking capability	107,000	107,000	107,000	107,000	91,100	84,550	72,200
Net capacity purchased	14,950	17,250	—	—	—	13,800	—
Total system capability at peak	321,522	326,162	309,480	307,442	290,045	296,900	269,472
Total system peak load	260,159	272,722	229,922	237,188	191,591	251,493	206,057
System load factor — annual	52.9%	49.7%	56.1%	51.9%	59.4%	46.9%	49.4%

### Employees at Year End:

Electric and natural gas	436	441	452	473	463	457	466
Propane (includes seasonal workers)	1,995	858	—	—	—	—	—
Manufacturing	150	174	163	168	185	—	—
Total employees	2,581	1,473	615	641	648	457	466



# Operating Statistics

## Natural Gas

	1996	1995	1994	1993	1992	1991	1986
<i>Revenues (000):</i>							
Residential	\$42,117	\$37,073	\$34,212	\$34,995	\$28,499	\$29,980	\$29,086
Commercial & industrial-firm*	21,732	20,032	20,691	21,702	17,065	18,094	16,869
Commercial & industrial-interruptible*	7,756	6,505	6,450	7,501	5,945	6,223	7,974
Total from ultimate consumers	71,605	63,610	61,353	64,198	51,509	54,297	53,929
Other	664	873	788	820	707	645	427
Total revenues	\$72,269	\$64,483	\$62,141	\$65,018	\$52,216	\$54,942	\$54,356

## Customers at Year End:

Residential	68,160	67,251	65,994	64,448	62,520	60,363	57,681
Commercial & industrial-firm	9,051	8,961	8,738	8,525	8,176	7,798	7,216
Commercial & industrial-interruptible	267	252	250	255	238	195	224
Total customers	77,478	76,464	74,982	73,228	70,934	68,356	65,121

## Residential Customer Data:

Average annual mmbtu use	107.6	101.2	102.5	111.0	96.1	106.5	106.8
Revenue per mmbtu sold	\$ 5.82	\$ 5.53	\$ 5.22	\$ 5.08	\$ 4.94	\$ 4.81	\$ 4.87
Average annual bill	\$626.56	\$559.59	\$534.81	\$564.12	\$474.63	\$512.65	\$520.03

## Throughput (000 mmbtu):

Residential	7,231	6,704	6,547	6,875	5,761	6,220	5,963
Commercial & industrial-firm*	5,140	5,054	4,918	5,073	4,157	4,558	3,848
Commercial & industrial-interruptible*	2,969	2,595	2,305	2,530	2,126	2,163	2,285
Total sales	15,340	14,353	13,770	14,478	12,044	12,941	12,096
Industrial-transported volumes	981	851	980	333	296	295	—
Total throughput	16,321	15,204	14,750	14,811	12,340	13,236	12,096

## System Statistics:

Sendout capability at time of peak (000 mmbtu)	136.0	125.2	116.9	103.3	118.6	112.1	112.2
Peak daily sendout (000 mmbtu)**	136	109	129	109	104	92	99
Heating degree days — South Dakota							
Percent colder (warmer) than previous year	7.5	(1.2)	(4.2)	16.4	(9.4)	12.2	(4.9)
Heating degree days — Nebraska							
Percent colder (warmer) than previous year	(2.2)	8.1	(9.7)	22.6	(16.2)	7.8	(15.6)

\*Includes agency gas transported  
\*\*Includes interruptible gas sendout

## Propane

### Sales (000 gallons):\*

Residential	80,395	20,794	—	—	—	—	—
Commercial & industrial	34,236	9,505	—	—	—	—	—
Agriculture	20,602	5,300	—	—	—	—	—
Other	6,155	2,206	—	—	—	—	—
Total retail	141,388	37,805	—	—	—	—	—
Wholesale	18,617	—	—	—	—	—	—
Total sales	160,005	37,805	—	—	—	—	—

## System Statistics:

Total customers	360,000	156,000	—	—	—	—	—
Total states	26	17	—	—	—	—	—
Retail distribution locations	312	125	—	—	—	—	—
Number of employees	1,995	858	—	—	—	—	—
Heating degree days							
Percent colder than normal	4.5	2.6	—	—	—	—	—
Percent colder than last year	8.1	18.7	—	—	—	—	—

\*Not indicative of a full year of propane operations due to various acquisitions since August 1995.

## Shareholder Information

**Stock listing.** Common stock of Northwestern Public Service is traded on the New York Stock Exchange under the ticker symbol NPS.

**Dividend payments.** Northwestern anticipates the Board of Directors will declare quarterly common and preferred dividends payable on March 1, 1997; June 1, 1997; September 1, 1997; and December 1, 1997. The record date for each payment falls in the middle of the previous month.

### **Dividend reinvestment and stock purchase plan.**

Northwestern Public Service offers shareholders a convenient and cost-effective way to increase ownership in the company through our Automatic Dividend Reinvestment and Stock Purchase Plan (DRIP). The Plan enables shareholders of record to reinvest all or part of their cash dividends. As a Plan participant, you may also make voluntary cash payments (from \$10 to \$2,000 a month) for additional shares of the company's common stock without brokerage fees. You may also sell shares through the Plan. For a program brochure and enrollment form, write or call Stockholder Services.

**Customer stock purchase plan.** If you are a residential customer of Northwestern Public Service, you may purchase shares of NPS common stock while making your energy payment. As part of our DRIP program, you may invest from \$10 to \$2,000 a month. You may elect to have your dividends reinvested in more shares or receive cash dividend payments for some or all of your shares. Call Stockholders Services for more information or an enrollment form.

**Shareholder assistance.** Call 1-800-677-6716 for more information or to ask about procedures. The toll-free

Stockholder Services number

is staffed weekdays between 8 a.m. and 5 p.m. (Central Time). You may also contact

our stockholder services

representatives by E-mailing

[shareholder@northwestern.com](mailto:shareholder@northwestern.com). If you have

specific questions about your account, please have your account number and social security numbers available.

### **Financial inquiries & Form 10-K.**

Stockholders or security analysts seeking financial information about Northwestern or shareholders wanting a copy of Northwestern's Annual Report on Form 10-K may contact Rogene Thaden at the corporate office.

**Shareholder  
Assistance**  
**1-800-677-6716**

**NEXT**

**DOCUMENT (S)**

**BEST IMAGE**

**POSSIBLE**

# Shareholder Information

## Annual Meeting

The Annual Meeting will be held at 11 a.m., Wednesday, May 7, 1997, at Northwestern's Operations Center at 600 Market Street W in Huron, S.D. Shareholders of record on March 10, 1997, will be eligible to vote at the meeting. The Company will mail the notice of Annual Meeting and Proxy Statement to stockholders in March 1997.

## Quarterly Common Stock Highs and Lows

1996	High	Low	Dividend
First	\$30 1/4	\$27 1/2	\$1.00
Second	29 5/8	25 3/4	.00
Third	31 1/8	25 7/8	.00
Fourth	36 1/2	30	.00
1995	High	Low	Dividend
First	\$27 3/8	\$25 1/4	\$1.25
Second	28 3/8	25	.00
Third	27	24 3/4	.00
Fourth	28 1/4	25 1/8	.00

## Internet Address

[www.northwestern.com](http://www.northwestern.com)

## Corporate Headquarters

600 Market Street SE,  
Huron, S.D. 57350-1605  
(605) 352-8415

## Equity Plan, Employee Stock, DRIP Administrator

Equity Plan Administrator

Northwestern

Huron, S.D.

(605) 352-8415



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**NORTHWESTERN PUBLIC SERVICE**

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## NORCOM ADVANCED TECHNOLOGIES, INC.

P.O. BOX 1318  
HURON, SD 57350DATE 1/19/98 78-4180  
914PAY TO THE ORDER OF South Dakota Public Utilities Commission \$ 250.00Two Hundred FiftyDOLLARS Norwest Bank South Dakota, N.A.  
405 Dakota South  
P.O. Box 1238  
Huron, SD 57350FOR Filing FeeDon Oberlander

⑈001002⑈ ⑆091400046⑆ 1800015608⑈

South Dakota  
Public Utilities Commission  
State Capitol 500 E. Capitol  
Pierre, SD 57501-5070  
Phone: (605) 773-3705  
Fax: (605) 773-3809

## TELECOMMUNICATIONS SERVICE FILINGS

These are the telecommunications service filings that the Commission has received for the period of:

**01/16/98 through 01/22/98**

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five days of this filing.

DOCKET NUMBER	TITLE/STAFF/SYNOPSIS	DATE FILED	INTERVENTION DEADLINE
<b>REQUEST FOR CERTIFICATE OF AUTHORITY</b>			
TC98-005	Application by NorCom Advanced Technologies, Inc. for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: DJ/KC) "Applicant is a non-switching, facilities-based provider of directly connected telecommunications services. Current offerings include telephone systems, data and voice network cabling, radio communication systems and telecommunication consulting services. Applicant seeks to include leasing and sale of microwave and fiber optic transmission services, dark fiber, and point-to-point wired and wireless services. Applicant intends to provide high quality services that meet industry reliability standards."	01/20/98	02/06/98
TC98-006	Application by Pride America, Inc. for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: DJ/CH) "Pride America offers inbound and outbound telecommunications services to residential and business customers utilizing switched access. Switched access service is available on a presubscription basis from equal access originating end offices. Pride America also offers travel card and debit card services."	01/21/98	02/06/98

Important Notice: The Commission is compiling a list of internet addresses. If you have an internet address please notify the Commission by E-mailing it to Terry Norum at [terryn@puc.state.sd.us](mailto:terryn@puc.state.sd.us). Faxing the address to the Commission at 605-773-3809.

NorCom Advanced Technologies, Inc.

600 Market Street West

HURON, SOUTH DAKOTA 57350

TELEPHONE (605) 352-8411

February 4, 1998

RECEIVED

FEB 10 1998

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

Mr. Dave Jacobson  
South Dakota Public Utilities Commission  
500 East Capital Avenue  
Pierre, SD 57501-5070

Re: Request for Waiver

Dear Dave:

On behalf of NorCom Advanced Technologies, I would like to request a waiver to offer negotiated rates instead of filing a tariff pursuant to ARSD 20:10:24:02(8). This waiver request is similar to the application of PAM Communications (TC96-205), which was granted March 5th, 1997.

NorCom intends to offer inter-exchange and intra-exchange point to point non switched services to business customers. We will not be offering these services to residential customers at large. One way this service will be provided is by building custom designed fiber optic systems. Each system will be unique and they may or may not be part of an interconnected network from which to reference operating costs and develop a tariff. We also intend to build a new digital microwave system to interconnect various towns within South Dakota. This system will have capabilities similar to fiber and give us the ability to offer digital services to customers throughout the state. It is our intention that when, and if, we interconnect with exchange carriers and provide connection to switched services, we will file an amended application and submit appropriate tariffs.

Respectfully submitted,

*Paul A. Bachman*

Paul A. Bachman, PE  
Vice President - Technical Services  
NorCom Advanced Technologies, Inc.



TELECOMMUNICATIONS SERVICE TARIFF

NORCOM ADVANCED TECHNOLOGIES, INC.  
HURON  
SOUTH DAKOTA

Original  
Canceling

Section No. 1  
Sheet No. 1  
Sheet No.

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General Terms and Conditions

FEB 19 1998

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

1. Applicability

This tariff contains the descriptions, and regulations applicable to the furnishing of service or facilities for Telecommunication Services furnished by NorCom Advanced Technologies, Inc. (NorCom), with principle offices at 33 Third Street SE, Huron, SD 57350. This tariff applies for services within the State of South Dakota and is on file with the South Dakota Public Utilities Commission (Commission). Copies may be inspected, during normal business hours, at the company's principle place of business.

2. Undertaking of the Company

NorCom undertakes to provide telecommunications services as described herein to non-residential business and commercial customers (Business Customers). NorCom is a non-switching, facilities-based provider of directly connected telecommunications services. Current offerings include telephone systems, data and voice network cabling, radio communication systems and telecommunication consulting services. NorCom seeks to include leasing and sale of microwave and fiber optic transmission services, dark fiber, and point-to-point wired and wireless services. NorCom intends to provide high quality services that meet industry reliability standards. Its services will be available on a full-time basis, 24 hours a day, seven days a week, to customers within the geographic boundaries of the State of South Dakota.

3. Limitations

3.1 NorCom reserves the right to discontinue service, or limit the use of service for non-payment of charges; or when the customer's use of a service becomes or is in violation of the law or the provisions of the tariff.

(continued)

Date Filed: February 19, 1998

Effective Date: February 24, 1998

Paul A. Bachman

Issued By: Vice President-Technical Services

# TELECOMMUNICATIONS SERVICE TARIFF

NORCOM ADVANCED TECHNOLOGIES, INC.  
HURON  
SOUTH DAKOTA

	Section No. 1
Original	Sheet No. 1.1
Canceling	Sheet No.

3.2 NorCom offers service to all customers equally and on a non-discriminatory basis. Service is offered subject to the availability of the facilities and services of NorCom, the provisions of this tariff, and within good business practices of NorCom.

## 4. Liabilities of Company

4.1 NorCom will endeavor to provide continuous service but does not guarantee uninterrupted service. NorCom will not be responsible for any loss or damage resulting from the interruption or disturbance of service for any cause other than gross negligence of NorCom. NorCom will not be liable for any loss of profits of other consequential damages resulting from the use of service or any interruption or disturbance of service.

4.2 NorCom assumes no liability for damages caused by interruption, delays, defects in the transmission of customer's telecommunications traffic due to acts of God, fire, war, civil disturbance, act of government, or due to any other causes beyond NorCom's control.

4.3 NorCom's liability for such damages, not caused by willful misconduct by NorCom or its agents, in no case will exceed an amount equivalent to the proportionate charge to the customer for the period during which such interruptions, delays, mistakes, or defect in transmission occurred.

## 5. Interruption of Service

5.1 It shall be the Business Customer's obligation to notify NorCom of any interruption of service for credit. The customer should check to insure that any action or trouble within the business customer's control or equipment does not cause the trouble.

5.2 Service outage due to such failure as caused by or occurs due to Norcom's control are limited to a credit for the outage as defined in Section 4.

(continued)

Date Filed: February 19, 1998

Effective Date: February 24, 1998

Paul A. Bachman  
Issued By: Vice President-Technical Services

## TELECOMMUNICATIONS SERVICE TARIFF

NORCOM ADVANCED TECHNOLOGIES, INC.  
HURON  
SOUTH DAKOTA

	Section No. 1
<u>Original</u>	Sheet No. 1.2
<u>Canceling</u>	Sheet No.

### 6. Deposits

NorCom does not require a deposit from Business Customer's, but reserves the right to require such a deposit not to exceed two months estimated, or if known, two month's historical charges for service, whenever the financial circumstances of the customer so warrants. NorCom will return any deposits required, plus the applicable 7% simple interest, after one year of consistent timely payments by the customer. Up to the full amount of a deposit shall be applied to any charges unpaid after thirty days from the invoice date.

### 7. Payment and Billing

7.1 Service is provided and billed on a monthly or annual basis. Usage charges are billed in arrears. Recurring fixed charges are billed monthly in advance.

7.2 All billings presented for payment by NorCom will show the type of service rendered, the related charges, and the total bill for such services.

7.3 Bills are payable and due upon receipt. A late charge calculates at a rate of one percent per month will be charged on any amount unpaid after thirty days from rendering.

7.4 A Bad Check Charge of \$30.00 will be added to the Business Customer's current amount due, if a Business check for payment of services is returned for any reason, such as non-sufficient funds or closed account.

7.5 If NorCom service has been discontinued for nonpayment, the Business Customer will be required to pay any unpaid balance due to NorCom before service is restored.

(continued)

Date Filed: February 19, 1998

Effective Date: February 24, 1998

Paul A. Bachman  
Issued By: Vice President-Technical Services

# TELECOMMUNICATIONS SERVICE TARIFF

NORCOM ADVANCED TECHNOLOGIES, INC.  
HURON  
SOUTH DAKOTA

Original  
Canceling

Section No. 1  
Sheet No. 1.3  
Sheet No.

7.6 If a Business Customer's service is disconnected for nonpayment of sum due to NorCom, and wishes to reconnect service, a one time charge of \$65.00 for the re-establishment of service will be billed to the Business Customer. Payment of the re-establishment charge and any outstanding amounts will be due in full prior to reconnection of service.

## 8. Disconnection of Service by Business Customer

During the disconnection process the Business Customer is responsible for payment of any charges incurred during the relevant time period.

## 9. Advance Payments

9.1 NorCom does not require an advance payment, but reserves the right to collect an amount not to exceed one month's estimated charges as an advance payment for service whenever the financial circumstances of the Business Customer may warrant. Such advance payment required shall be applied against the next month's charges and if necessary a new advance payment will be collected for the following month.

9.2 All "Disconnection of Service" requests by the Business Customer are subject to the terms and conditions of the Contract between NorCom and the Business Customer.

## 10. Taxes

Federal, State, and Local taxes are separate line items and are not included in the NorCom's rates

(continued)

Date Filed: February 19, 1998

Effective Date: February 24, 1998

Paul A. Bachman

Issued By: Vice President-Technical Services



TELECOMMUNICATIONS SERVICE TARIFF

NORCOM ADVANCED TECHNOLOGIES, INC.  
HURON  
SOUTH DAKOTA

Section No. 1  
Original Sheet No. 1.4  
Canceling Sheet No.

**11. Excess Construction**

11.1 NorCom will provide services only where facilities currently exist and are capable of providing such services without construction of additional facilities or enhancement of existing facilities. If the Business Customer requests service where current facilities do not exist or require upgrading, customer will be notified of related construction charges. The Business Customer may elect to order service and pay for the related construction charges, for which 100% will be due upon order.

11.2 NorCom may offer the Business Customer terms to include such costs as part of the monthly payment.

**12. Business Inquiries and Complaints**

12.1 Business inquiries or complaints regarding service or billings may be made in writing or by phone to NorCom at:

Attn: Paul Bachman, VP Technical Services  
33 Third Street SE  
Huron, South Dakota 57350  
1-605-352-8411

12.2 If the Business Customer is dissatisfied with NorCom's response to a complaint or inquiry, they may file with the South Dakota Public Utilities Commission for resolution of the conflict. The South Dakota Public Utilities Commission can be reached at:

South Dakota Public Utilities Commission  
500 East Capitol  
Pierre, South Dakota 57501-5070  
(605) 773-3201

Date Filed: February 19, 1998

Effective Date: February 24, 1998

Paul A. Bachman  
Issued By: Vice President-Technical Services

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA**

<b>IN THE MATTER OF THE APPLICATION OF )</b>	<b>ORDER GRANTING</b>
<b>NORCOM ADVANCED TECHNOLOGIES, INC. )</b>	<b>CERTIFICATE OF</b>
<b>FOR A CERTIFICATE OF AUTHORITY TO )</b>	<b>AUTHORITY</b>
<b>PROVIDE TELECOMMUNICATIONS )</b>	
<b>SERVICES IN SOUTH DAKOTA )</b>	<b>TC98-005</b>

On January 20, 1998, the Public Utilities Commission (Commission), in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, received an application for a certificate of authority from NorCom Advanced Technologies, Inc. (NorCom).

Applicant is a non-switching, facilities-based provider of directly connected telecommunications services. Offerings will include telephone systems, data and voice network cabling, radio communication systems and telecommunication consulting services. Applicant intends to include leasing and sale of microwave and fiber optic transmission services, dark fiber, and point-to-point wired and wireless services on a local and interexchange basis. Applicant intends to provide high quality services that meet industry reliability standards. A proposed tariff was filed by NorCom.

On January 22, 1998, the Commission electronically transmitted notice of the filing and the intervention deadline of February 6, 1998, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled February 24, 1998, meeting, the Commission considered NorCom's request for a certificate of authority. Commission Staff recommended granting a certificate of authority as well as granting a waiver of ARSD 20:10:24:02(8).

The Commission finds that it has jurisdiction over this matter pursuant to Chapter 49-31, specifically 49-31-3 and ARSD 20:10:24:02 and 20:10:24:03. The Commission finds that NorCom has met the legal requirements established for the granting of a certificate of authority. NorCom has, in accordance with SDCL 49-31-3, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. The Commission approves NorCom's application for a certificate of authority. As the Commission's final decision in this matter, it is therefore

**ORDERED**, that NorCom's application for a certificate of authority is hereby granted, effective March 22, 1998. It is

**FURTHER ORDERED**, that ARSD 20:10:24:02(8) is hereby waived. It is

FURTHER ORDERED, that NorCom shall file informational copies of tariff changes with the Commission as the changes occur.

Dated at Pierre, South Dakota, this 27<sup>th</sup> day of February, 1998.

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By

Helaine Kalbo

Date

3/2/98

(OFFICIAL SEAL)

**BY ORDER OF THE COMMISSION:**

James A. Burg  
JAMES A. BURG, Chairman

Pam Nelson  
PAM NELSON, Commissioner

Laska Schoenfelder  
LASKA SCHOENFELDER, Commissioner

# **SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

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## ***CERTIFICATE OF AUTHORITY***

**To Conduct Business As A Telecommunications Company  
Within The State Of South Dakota**

Authority was Granted February 24, 1998, effective March 22, 1998  
Docket No. TC98-005

*This is to certify that*

**NORCOM ADVANCED TECHNOLOGIES, INC.**

*is authorized to provide telecommunications services in South Dakota.*

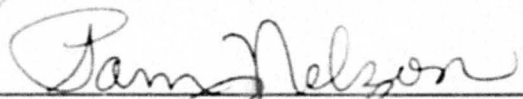
This certificate is issued in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

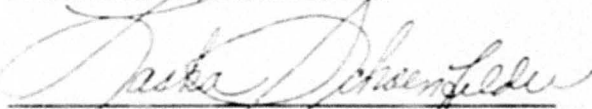
Dated at Pierre, South Dakota, this 27<sup>th</sup> day of February, 1998.

**SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION:**



  
JAMES A. BURG, Chairman

  
PAM NELSON, Commissioner

  
LASKA SCHOENFELDER, Commissioner