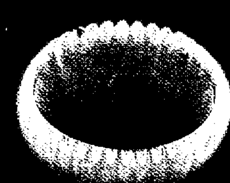
1999 Annual Report



Striding Into The New World

WPS

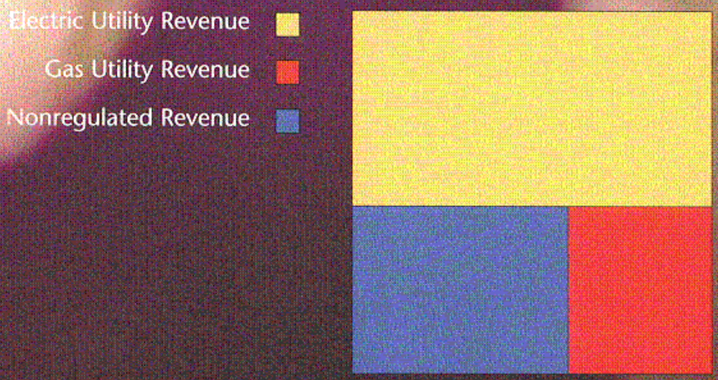
WPS Resources Corporation

Striding Into The New World

Highlights

Year Ended December 31	1999	1998	Percent Change
Revenues – utility (Thousands)	**$773,992**	$708,371	9.3
Revenues – nonregulated (Thousands)	**324,548**	355,365	(8.7)
Net Income (Thousands)	**59,565**	46,631	27.7
Basic and diluted earnings per average share of common stock	**$ 2.24**	$ 1.76	27.3
Dividend paid per share	**2.00**	1.96	2.0
Book value per share	**20.03**	19.52	2.6
Common stock price at year end	**$25.125**	$35.25	(28.7)
Electric sales – utility (Kilowatt-hours – Thousands)	**12,503,487**	12,172,432	2.7
Gas deliveries – utility (Therms – Thousands)	**662,615**	608,092	9.0

Sources of Money



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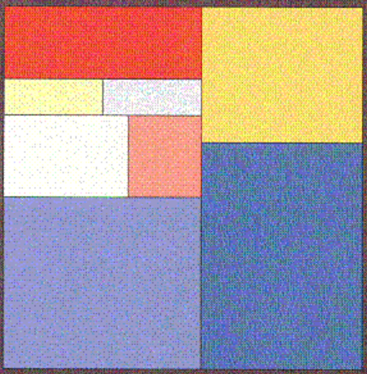
Uses of Money



- Gas Utility Purchased Gas Costs
- Electric Utility Fuel and Purchased Power
- Nonregulated Cost of Sales
- Operating and Maintenance Expense
- Depreciation and Decommissioning
- Common Dividends
- Interest, Other Income, and Preferred Dividends
- Taxes – Income

In November, Wisconsin Public Service filed an application with the Public Service Commission of Wisconsin for the construction of a 250-mile, 345-kilovolt transmission line. We believe this line is the largest transmission project being pursued in the nation right now. Certainly, it's the largest transmission project in Wisconsin in terms of dollars, distance, and voltage, and it's the first new transmission line to be built in Wisconsin in 30 years. The investment opportunity is around $150 million, and we are targeting completion for 2003. This line will strengthen the electric network in Wisconsin and provide resources for many consumers in the state.

In September, Wisconsin Public Service began installing automated meter reading equipment that is capable of hourly meter reads. This equipment allows us to read gas and electric meters electronically and gives our customers flexibility on when and how often their meters are read. We feel this technology is consistent with where commerce in the energy industry is going and that it will give us the capability to serve our customers better while aiding in the creation of a competitive environment in Wisconsin.

Our jointly-owned Kewaunee Nuclear Power Plant celebrated its 25th year of operation. Kewaunee also completed the year with 100 percent availability for the first time in its history as a result of our move to an 18-month refueling cycle. As an owner and operator of the plant, we are proud of the plant's 440-day continuous operating record which began in 1998 and continues today. Kewaunee enjoys a reputation as one of the best operated plants in the world and is a flagship in the industry.

We became partners with three other utilities in the creation of Nuclear Management Company, LLC in 1999. This new company will assume the day-to-day operating responsibility for the seven nuclear plants owned by the partners, representing 3,800 megawatts of nuclear capacity, by mid-2000. The short-term goals of the Nuclear Management Company are to sustain long-term safety, optimize reliability, and improve operational performance. We expect to transfer our operating license for the Kewaunee plant to the Nuclear Management Company sometime in 2000.

We also continue to play a role in shaping the energy industry in Wisconsin and indeed the nation. Since our subsidiaries operate in several states, we are involved in the restructuring initiatives being championed both by the legislators and regulators in those states. Restructuring is occurring differently in each of these states, and we've been successful in understanding and influencing the restructuring plans of the states in which we operate.

Financial Hurdles

For any marathon or like undertaking, participants must be assured that their pace will take them through to the finish. It is no different in our industry.

Wisconsin Public Service owns just under 1,800 megawatts of generation. We recently completed detailed analysis which suggests that these generation assets are worth up to five times their current book value. Our current strategy is to retain existing generation, but the low book value and competitive position of our generation, especially considering transmission limitations in Wisconsin, offer both insurance against stranded investment and increased shareholder value potential as generation deregulation evolves in the Midwest.

In 1999, we increased our dividend for the 41st consecutive year. We view the continued moderate growth of dividends as a necessity to attract and retain the type of investors that a company of our size, our profile, and our strategy needs.

We are growing our earnings to bring our payout ratio in line with our targeted payout ratio of 70 percent or less. Your investment in our company provides a rising cash return from the dividends over the long run while offering the additional benefit of price appreciation.

We are using our financial strength and financial flexibility to support the planned growth of our nonregulated subsidiaries. We are using nonrecourse financing for our nonregulated projects, and our utilities are moving away from first mortgage bonds to give us more financing flexibility when we need it.

We understand the risks associated with our energy business as it becomes deregulated and have strategies in place to allow us to mitigate risks and seize opportunities. As a result, we have extensive policies and procedures requiring daily monitoring of the use of financial instruments to take advantage of synergistic opportunities as well as to enhance the profitability of energy purchases.

Our officers are compensated in part through incentive pay plans that require them to meet certain operational targets. A portion of our officers' and directors' compensation is also provided via stock options. These compensation policies help to align the interests of our officers and directors with those of our shareholders.

Wisconsin Public Service's rates are from 10 percent to 15 percent lower than the average rates for all customer classes of the major investor-owned utilities in Wisconsin. In fact, in 2000, Wisconsin Public Service's typical residential electric customer will pay only about one percent more than they paid in 1993.

One area of disappointment in 1999 has been our stock price. From a high of $35.50 on January 4, 1999, our stock dropped to $25.125 on December 31, 1999. Our stock tracks the trend of the electric utility industry, which has experienced difficulty with deregulation and merger uncertainties. Wisconsin utilities have been particularly affected by the slow pace of deregulation in this state, unfavorable weather, and state power reliability legislation. But the single most important event in the broad economic environment is the increased yield on the 30-year government bond. Our stock trades in an inverse relationship to bond yields. Thus, our stock price peaked at the same time that the government bond yields were at their lowest, and our stock price was near its lowest point at year-end when government bonds were yielding their highest rate in two years. But looking at the stock price positively, as the economic uncertainty is alleviated and given our financial strength, we expect our stock price to recover. Eventually, the market will begin to recognize the success of our growth strategies, which will then be reflected in our stock price.

Financial Goals

Our future course includes the following financial goals:

- Achieving a return for Wisconsin Public Service consistent with the Public Service Commission of Wisconsin's allowed rate of return of 12.1 percent for 2000.

Striding Into The New World

To Our Shareholders

WPS Resources Corporation is striding into a new world! We have hastened our pace and are surging forward in our goal to create value for you, our shareholders. As in most tests of endurance, we have experienced hills and valleys that require both strategy and strength. Let me describe for you the course we traveled during 1999 and our new world stride.

An Overview

Our financial performance has improved.

WPS Resources Corporation

- Revenues were $1,098.5 million in 1999 compared with $1,063.7 million in 1998.
- Net income was $59.6 million in 1999 compared with $46.6 million in 1998.
- Earnings per share were $2.24 in 1999 compared with $1.76 in 1998.

Utility Operations - Wisconsin Public Service Corporation and Upper Peninsula Power Company

- Revenues were $781.9 million in 1999 compared with $715.1 million in 1998.
- Net income was $67.3 million in 1999 compared with $56.4 million in 1998.
- Assets were $1,515.2 million in 1999 compared with $1,363.8 million in 1998.

Nonregulated Subsidiaries - WPS Energy Services, Inc. and WPS Power Development, Inc.

- Revenues were $327.6 million in 1999 compared with $357.2 million in 1998.
- Losses totaled $7.3 million in 1999 compared with $9.3 million in 1998.
- Assets were $255.1 million in 1999 compared with $104.7 million in 1998.
- WPS Energy Services' revenues have grown from $13.6 million in 1994 to $292.2 million in 1999.
- WPS Power Development's assets have grown from $4.8 million in 1995 to $190.2 million in 1999.

A number of factors contributed to our success in 1999. Wisconsin Public Service Corporation, our electric and natural gas utility, was granted a rate increase at the start of 1999. Wisconsin retail rates were increased 6.3 percent for electric and 5.1 percent for gas for 1999 and 2000. A fall rate reopener on certain issues that were not resolved in that rate case yielded an additional 4.6 percent electric increase effective January 1, 2000. Additionally, Wisconsin Public Service earned its 12.1 percent allowed rate of return for 1999 as authorized by the Public Service Commission of Wisconsin.

Unfortunately, we struggled in achieving one of our five goals set out in last year's report. Achieving profitability within the nonregulated sector of our business starting in 1999 proved difficult for us. This was in part due to a poor return from an investment made by WPS Power Development for two-thirds of a facility in Alabama. We've since solved the problems, which will allow WPS Power Development to move forward in 2000 to achieve its projected returns on this investment.

The Milestones

Our progress in 1999 began with the course we set in 1998. The strategies we developed then allowed us to grow in many areas. Our pace is confident and it allows us to lengthen our stride as we pass numerous milestones.

WPS Power Development, our nonregulated electric generation asset development company, is a good example of the confident strides we made with the purchase of power plants in different areas of the country. In June, we completed the purchase of electric generation assets with an aggregate capacity of 92 megawatts from Maine Public Service Company. The $37.4 million transaction yielded hydroelectric facilities, diesel peaking units, and oil-fired generation in Maine and the Canadian province of New Brunswick. We also were successful in placing 64 percent of the project cost as nonrecourse debt with Bayerische Landesbank Girozentrale.

We immediately found a market for the energy these plants produce. In November of 1999, the Maine Public Utilities Commission selected WPS Energy Services to serve all residential and industrial accounts taking service under the "standard offer" in the Maine Public Service Company service territory as well as providing 80 percent of the market for mid-size business customers in Northern Maine. This is very important because starting March 1, 2000, consumers in Maine will be able to choose from competing power producers.

In November, WPS Power Development completed the purchase of a four-unit, coal-fired power plant located in Pennsylvania. The $107 million transaction yielded assets with a nameplate capacity of 472 megawatts.

These purchases by WPS Power Development are a part of our strategy to develop a portfolio of power generation assets which produce energy that is then marketed by WPS Energy Services, our diversified nonregulated energy supply and services company.

Our DENet® technology, patented in 1999, was designed from the ground up to meet the needs of our customers, and it has quickly set us apart from companies focused solely on electricity and gas as commodities. WPS Energy Services' DENet system allows real-time monitoring of energy and process information as well as the ability to verify bills and analyze load profiles, which helps our customers identify energy management opportunities. Internet access allows our customers to access their information from anywhere in the world at their convenience.

Our DENet product is also used in conjunction with our 24-hour energy monitoring, dispatch, and coordination center as it allows us to monitor and control our generation plants located in other parts of the nation from our Green Bay offices.

Twice in 1999, national recognition came our way for our extraordinary customer service and extremely competitive energy prices. Wisconsin Public Service was recognized when a J. D. Powers & Associates' residential customer survey found us tied for 2nd in the nation in customer satisfaction among approximately 100 utilities surveyed. Later in 1999, WPS Energy Services was recognized when Mastio & Co. performed an independent, nation-wide customer satisfaction survey in which we were ranked 6th out of 77 energy marketers in the survey. We take great pride in the recognition of our exemplary customer service because we have always believed that our customers are the cornerstone of our business. It is important we serve them well.

Also in 1999, Wisconsin Public Service installed 14 wind turbines on a wind farm in Kewaunee County at a cost of $10.1 million. When operating at full capacity, they will produce enough electricity to serve 3,600 homes. These wind turbines represent our latest entry into the renewable resources environment and will allow us to learn more about this technology, its impact on Wisconsin, and whether it is a viable resource for future investment.

WPS Resources Corporation *at a glance*

WPS Resources Corporation is a holding company based in Green Bay, Wisconsin. System companies provide products and services in both regulated and nonregulated energy markets.

Wisconsin Public Service Corporation

Business: Wisconsin Public Service Corporation is a regulated electric and natural gas utility serving an 11,000 square-mile area of northeastern and central Wisconsin and an adjacent portion of Upper Michigan (see map at right). Wisconsin Public Service has 2,493 employees.

Market: Wisconsin Public Service provides 388,451 electric and 229,905 natural gas customers with a full range of products and services customarily offered by regulated utilities. Electric and gas service is provided to residential, farm, commercial, and industrial customers. Electric power is also provided to wholesale customers. Electric operations accounted for 73% of 1999 revenues, while gas operations contributed 27%. Electric revenues are comprised of 89% retail sales and 11% wholesale sales. Wisconsin customers accounted for 96% of the utility's 1999 revenues, compared with 4% from Michigan customers.

Facilities: Electric generating capacity based on 1999 summer capacity was 1,994 megawatts, including Wisconsin Public Service's share of jointly-owned facilities. Wisconsin Public Service has 1,559 miles of electric transmission and 19,745 miles of electric distribution lines. Gas properties include 5,099 miles of main and 66 gate and city regulator stations.

Upper Peninsula Power Company

Business: Upper Peninsula Power Company is a regulated electric utility which serves a 4,500 square-mile area of primarily rural countryside covering 10 of the 15 counties in the Upper Peninsula of Michigan (see map at right). Upper Peninsula Power has 170 employees.

Market: Upper Peninsula Power provides a full range of electric products and services to 48,805 electric customers in 99 communities and adjacent areas, in addition to providing electric energy to 9 wholesale customers. The main industries in Upper Peninsula Power's service area are forest products, iron mining and processing, tourism, and small manufacturing. Electric revenues are comprised of 92% retail sales and 8% wholesale sales.

Facilities: Electric generating capacity based on 1999 summer capacity was 95 megawatts. Upper Peninsula Power has 806 miles of electric transmission and 2,764 miles of distribution lines.

WPS Resources Capital Corporation

WPS Resources Capital Corporation is an intermediate holding company for the nonregulated subsidiaries.

WPS Power Development, Inc.

Business: WPS Power Development, Inc. develops, owns, and operates nonregulated electric generation facilities and provides services to the electric power generation industry nationwide (see map below). WPS Power Development has 129 employees.

Products and Services: WPS Power Development's services include acquisition and investment analysis, project development, engineering and management services, and operations and maintenance services. WPS Power Development's areas of expertise include cogeneration, distributed generation, generation from renewables, and generation plant repowering projects.

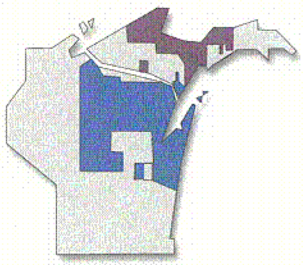
Facilities: WPS Power Development owns a two-thirds interest in the Stoneman Power Plant, a 53-megawatt coal-fired merchant steam plant located in Cassville, Wisconsin. In June, WPS Power Development acquired 92 megawatts of generation assets from Maine Public Service Company. These facilities are located in the State of Maine and in New Brunswick, Canada. In November, WPS Power Development acquired the 472-megawatt Sunbury Generation Station in Pennsylvania from PP&L Resources, Inc. WPS Power Development is a two-thirds owner and the operator of a facility in Alabama which produces synthetic fuel from coal which is burned in utility boilers. WPS Power Development also owns landfill and wood waste gas generating facilities in Wisconsin and steam boilers in other states.

WPS Energy Services, Inc.

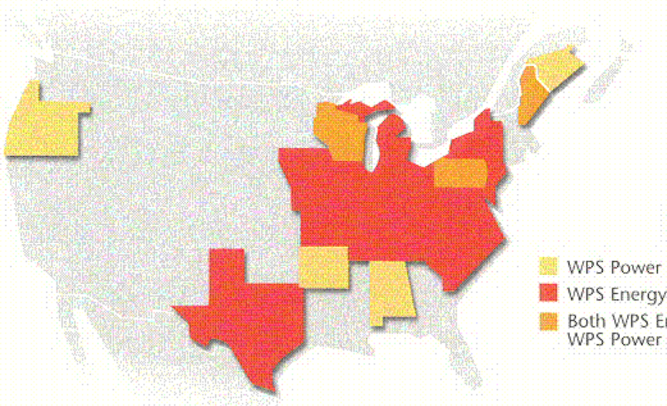
Business: WPS Energy Services, Inc. is a diversified nonregulated energy supply and services company with principal operations in Illinois, Maine, Michigan, Ohio, and Wisconsin (see map below). Wholesale products are provided on a nationwide basis. WPS Energy Services has 71 employees.

Market: WPS Energy Services operates in the retail and wholesale nonregulated energy marketplace. Emphasis is on serving commercial, industrial, and wholesale customers in the northeast quadrant of the United States.

Products and Services: WPS Energy Services provides individualized energy supply options and strategies that allow customers to manage energy needs while capitalizing on opportunities resulting from deregulation. WPS Energy Services provides natural gas, electric, and alternate fuel products, real-time energy management services, energy utilization consulting, and project management. Patented DENet® computer technology allows customers to monitor their energy usage and to access energy supply information.



Wisconsin Public Service Corporation
Upper Peninsula Power Company



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WPS Power Development, Inc.
WPS Energy Services, Inc.
Both WPS Energy Services, Inc. and WPS Power Development, Inc.

- Achieving profitability within the nonregulated segment of our business in 2000.
- Achieving 10 percent of our earnings from WPS Energy Services and WPS Power Development in 2000.
- Achieving a dividend payout ratio of 70 percent within three years.
- Achieving earnings growth of 10 percent per annum.

Passing the Baton

The membership on our Board of Directors has changed. Sister Lois Bush, a valued member of our Board since 1993, did not seek re-election in 1999. As the Board had expanded in 1998 as a result of our merger with Upper Peninsula Energy Corporation and the addition of Clarence R. Fisher to the Board, we did not replace Sister Lois and instead returned the Board to nine members.

December 31, 1999, brought the retirement of another Board member. Daniel A. Bollom has served our company for over 41 years in roles that included not only Board member, but also Chairman, President, and Chief Executive Officer. Dan's leadership and true concern for our company will be missed. Our new Board member is John C. Meng, who joined our Board on February 10, 2000.

Retirement also claimed our Corporate Secretary in 1999 when Francis J. Kicsar retired after more than 33 years of service in numerous capacities throughout his tenure. Barth J. Wolf has stepped into the newly created role of Secretary and Manager-Legal Services.

We also saw the appointment of new officers during the past year. Diane L. Ford became Vice President-Controller and Chief Accounting Officer.

At Wisconsin Public Service, Lawrence T. Borgard became Vice President-Transmission.

At WPS Energy Services, Mark A. Radtke became President, Daniel J. Verbanac became Vice President in our Green Bay office, Ruqaiyah Z. Stanley-Lolles became Vice President in our Chicago office, and Betty J. Merlina became Vice President-FSG Energy Services in our Columbus, Ohio, office.

These individuals fill strategic positions within our company and will support our confident pace into the new world.

Around the Next Corner

As we view the road ahead, we are confident that the skills and knowledge of our employees combined with our strategy will carry us forward. Our employees are instrumental in allowing us to stride with confidence in a world of constant change, and thus we have in place initiatives to allow every employee an opportunity to understand our strategic plan and to be a part of ensuring its success by using their skills and knowledge.

Examples of this include the integration of Upper Peninsula Power Company and the Sunbury Plant in Pennsylvania into WPS Resources. We were able to accomplish these integrations at a great savings while at the same time offering employees whose jobs were eliminated a job opportunity should they choose. We feel it is important to use the skills and knowledge of employees who join us as part of an integration, whether in their existing job or in another position that is suited to their skills and talents. This allows us to retain valued employees. As a result, we are able to continue striding forward rather than taking steps backward to ramp up because of personnel changes.

And, to be a success as a company, we must be a success in the communities we serve. So, we actively support our communities through involvement by our employees and contributions from our foundations.

Approaching the next corner in the road, we must be confident we can proceed in stride, without losing speed. Our strategy, as detailed in the following article, will provide insights into why we believe we will be able to take that next corner with ease.

Striding Forward

We are striding with confidence and bringing value to our shareholders and customers through our technological innovations, our mastery of power plant development and optimization, and our customer solutions.

We appreciate the confidence you have shown in our company and ask that you continue your support. We are in a competitive race, but we have studied and trained for this time. We are ready to yield impressive results.

Sincerely,

Larry L. Weyers

Larry L. Weyers
Chairman, President, and
Chief Executive Officer

February 11, 2000

Striding Into The New World

A new world of energy beckons, and WPS Resources Corporation is answering this call to discover and grow.

The landscape of the energy world has changed. It is more expansive, extending into other states and regions. And, it is filled with the architecture of competition and customers who have choice.

Backed by a strong growth strategy, advances in technology, and our dedicated employees, we are striding forward with confidence on the road ahead.

Expanding Through New Customers and New Investments

At WPS Resources, we believe our strategy must begin with our customers. We can provide value in the marketplace only when we truly understand what our customers value in energy and aggressively pursue the solutions they seek.

WPS Energy Services, Inc.

Taking the Lead with Natural Gas Marketing

WPS Energy Services, our diversified nonregulated energy supply and services company, leads into new markets with natural gas marketing, because customers in many states are able to choose their natural gas supplier. Then, as the states restructure their electric industries, we provide electricity to these customers as well. With this strategy, we refine the tools and talents we need to grow, and we build a foundation for entering the competitive electric market.

Making Inroads to the Competitive Electric Market

The volatility of the emerging competitive electric market exposes customers to risk. All customers must begin to deal with this risk, and our customer representatives at WPS Energy Services are prepared to be a resource for these customers. They work to understand each customer's business and the challenges in that industry. Then they recommend an energy strategy to address those needs.

Investing in Growth

Historically, we have made substantial investments in our growth at WPS Energy Services. As a result, the number of WPS Energy Services' customers has grown by 25 percent or more annually.

That growth has resulted in a negative financial impact in the short term. Our objective in 2000 is to continue expanding WPS Energy Services, but at a measured rate that provides more immediate rewards for WPS Resources' shareholders.

Establishing a Regional Presence

As we grow, WPS Energy Services establishes a physical presence in the major regional markets the company serves. Our office in Traverse City, Michigan, for example, opened in December 1999, hiring seasoned energy professionals from that area. Our staff there specializes in creating products that serve the needs of producers, utilities, other energy marketing companies, and end-use customers. Because there's significant natural gas production and storage in Michigan, our Traverse City office develops products and services that marry the needs of gas producers with those of end-use customers.

WPS Energy Services has used this distributed business design, which puts us close to our customers, with positive results.

WPS Power Development, Inc.

Building the Architecture

Our strategy at WPS Power Development is to increase WPS Resources' asset base. This is the steel and concrete side of our nonregulated business, including fossil power plants, hydroelectric stations, and renewable energy sources. It is the infrastructure we believe is necessary to serve our new customers well.

As electric markets deregulate, many utilities are selling their generation assets. WPS Power Development continually evaluates these opportunities. We've been successful at winning bids to purchase plants that have great potential in this new world of energy. And more importantly, we've taken those purchases and managed them to extract value for WPS Resources' shareholders. We're also evaluating the construction of new plants and the possibility of repowering existing plants. Diversity in these projects—in location, market, technology, and fuel—brings us strength.

Producing Power in Maine and Pennsylvania

In 1999, WPS Power Development made great strides by bringing to reality our theories about buying and developing generation facilities, and then significantly reducing their operating costs to be competitive in the marketplace.

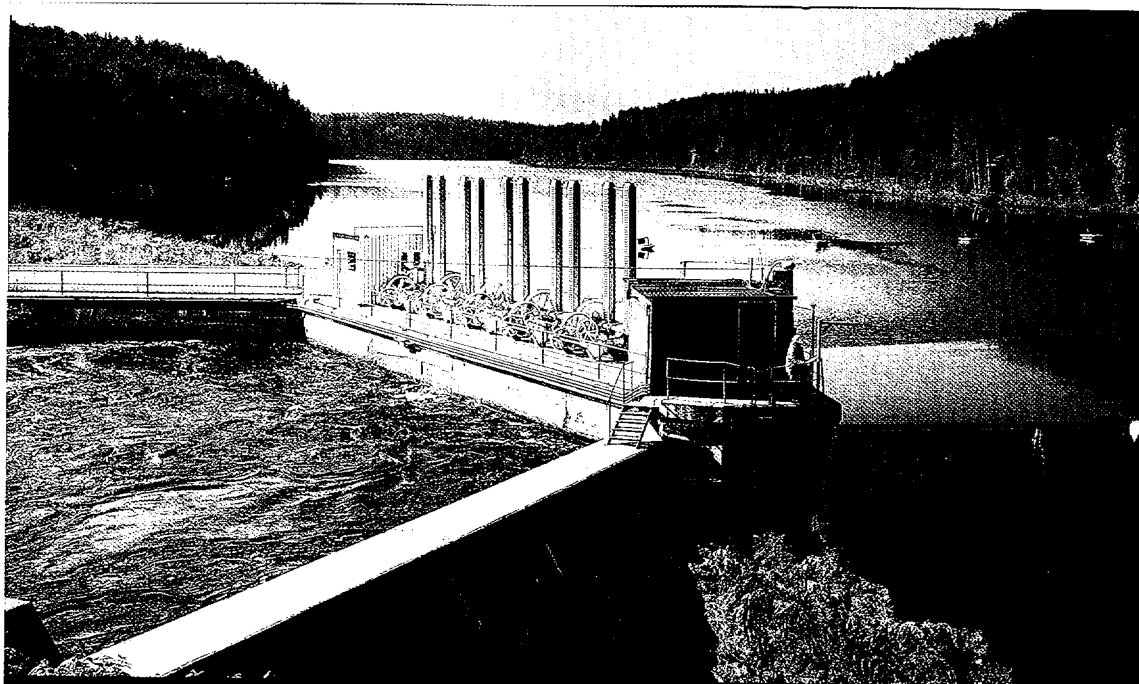
In June, WPS Power Development purchased 92 megawatts of generation facilities from Maine Public Service. This $37.4 million acquisition included 35.8 megawatts of hydroelectric generation and 55.9 megawatts of fossil-fueled generation in Northern Maine and New Brunswick, Canada. As a result, we are able to participate in Maine's newly opened energy marketplace.

In November, we purchased the 472-megawatt Sunbury Power Plant in Pennsylvania. This plant, purchased for $107 million, will enable us to compete as an energy supplier in the sizable Pennsylvania, New Jersey, and Maryland marketplace. These states have already established open electric markets, so they provide a good opportunity for us to extract value from the plant.

Mark Radtke (center), President of WPS Energy Services, co-developed the patented DENet® energy management system. Using DENet, customers like Wausau-Mosinee Paper Corp., based in Mosinee, Wisconsin, can manage multiple plants' energy and processes from one central point.

Synergy in the Competitive Marketplace

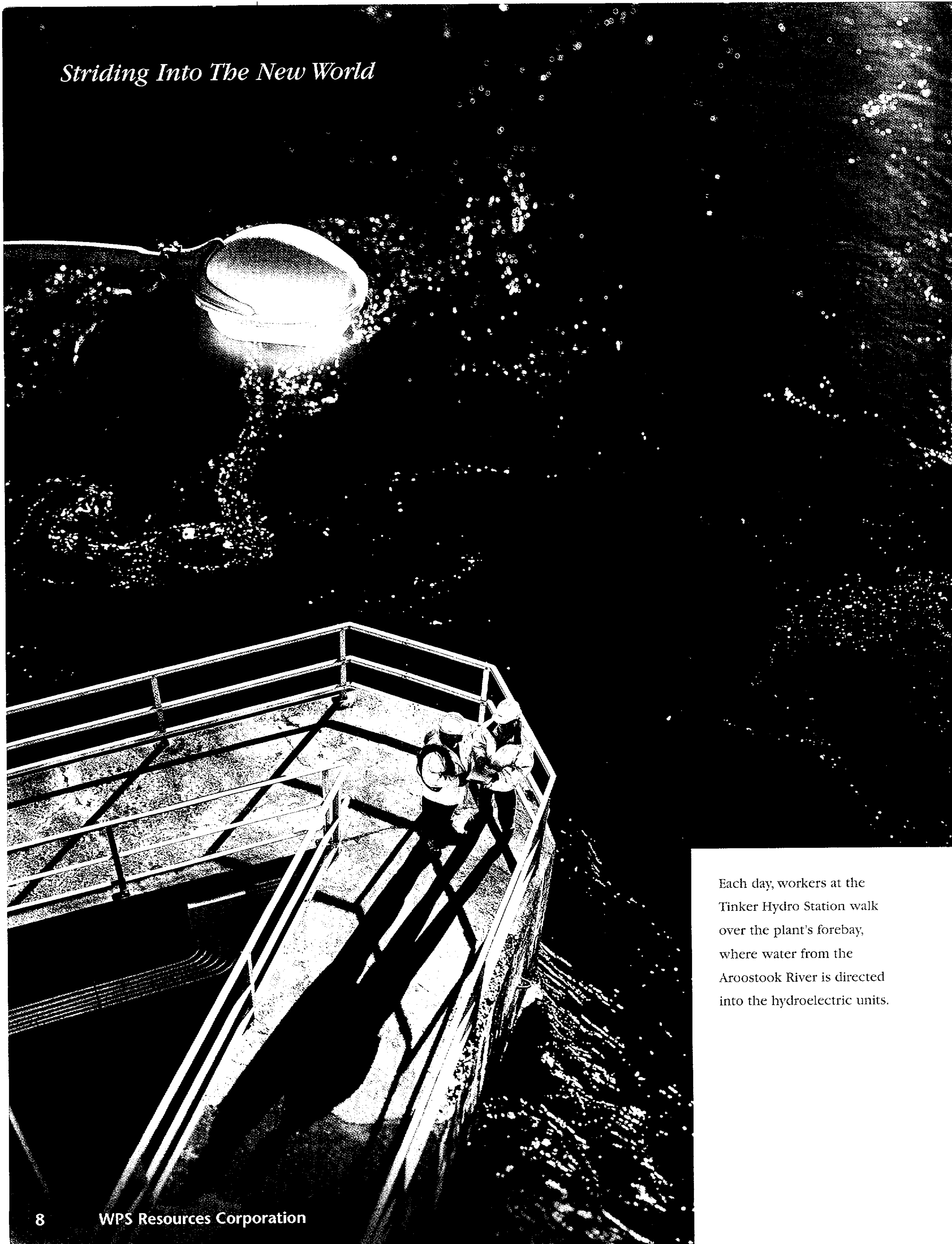
In 1995, WPS Energy Services and WPS Power Development began a journey together into the competitive marketplace. Today, they continue to travel as partners and support one another as we stride into the new world.



The Tinker Hydro Station, on the Aroostook River in New Brunswick, Canada, is one of three hydroelectric facilities WPS Power Development purchased in 1999. Coexisting on the river with wildlife such as salmon, bald eagles, and moose, the Tinker plant offers a stunning view of the new energy landscape.

At our utility companies, storm restoration can mean more than restoring power. Wisconsin Public Service employees delivered dry ice following the most damaging summer storm in the area in 1999.

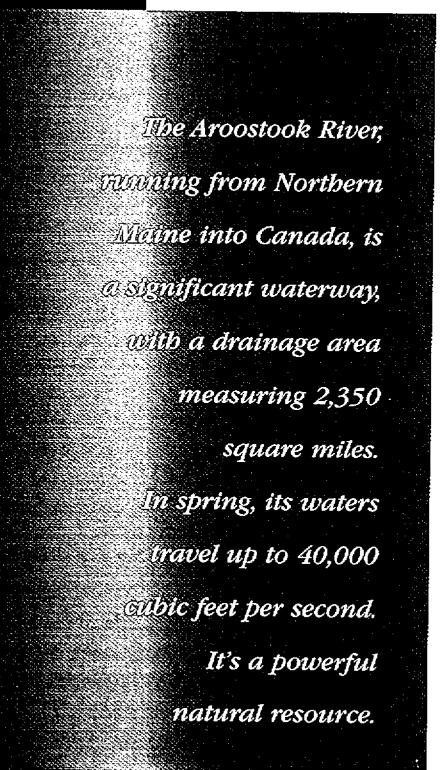
Striding Into The New World



Each day, workers at the Tinker Hydro Station walk over the plant's forebay, where water from the Aroostook River is directed into the hydroelectric units.

When WPS Power Development purchases generation assets, WPS Energy Services moves in to market the energy produced and maximize the value of those assets. For example, when WPS Power Development bought generating facilities in Maine in 1999, WPS Energy Services immediately opened a marketing office there. As a result, WPS Energy Services now serves more than 90 percent of the electric customers in Northern Maine. Substantial additional value was derived from our assets in Maine because we actively marketed the power through WPS Energy Services.

Conversely, when WPS Energy Services enters a new retail market, it will require generation supplies (to be provided by WPS Power Development wherever possible) to back its electric sales.



In the new world of energy, our strategy is to continue growing through the synergy our two nonregulated subsidiaries offer—putting WPS Power Development's assets to work to support the market growth WPS Energy Services achieves.

A Competitive Position for Our Regulated Utilities

Finding a Place in This World

WPS Resources believes our regulated companies—Wisconsin Public Service Corporation, based in Green Bay, Wisconsin, and Upper Peninsula Power Company, based in Houghton, Michigan—will also expand in this new environment. In a new world of energy, a large number of customers will continue to desire the comfort, ease, and value brought by a regulated energy supplier. The regulated delivery of energy will also continue to be a profitable business, meeting a critical customer need. Our utility companies have the expertise to serve customers reliably and at a reasonable cost.

Remaining a Low-Cost Provider

The entire energy marketplace is becoming more volatile. This was evident in skyrocketing prices—up to 100 times higher than usual—some companies paid for electricity over the past two summers. The new energy market has brought unprecedented price spikes, and costs are increasing because investments in new generation, transmission systems, and technology have become necessary.

Wisconsin Public Service has proven, however, that even as energy costs rise across the system, we are able to operate our facilities efficiently, acquire capacity in advance to meet our customers' needs, and tap new generation resources such as the De Pere Energy Center. We are proud to say Wisconsin Public Service is the lowest-cost electric supplier among all major investor-owned utilities in Wisconsin. This is true even after a rate increase of 4.6 percent that began on January 1, 2000. Wisconsin Public Service is also among the low-cost providers of natural gas in the state.

We believe our use of technology and more efficient systems in the years ahead will enable us to remain a low-cost provider—always operating in an effective, least-cost manner that facilitates the new marketplace.

Advancing Through Technology

Operating Systems for the New World of Energy

Technology for Customers and Backroom Operations

We take pride in the technology we've developed to offer advanced real-time energy management systems to our customers and also streamline our own backroom operations. With WPS Energy Services' patented DENet® energy management system, customers can manage their energy and processes in real time, access this information remotely over the Internet, and generate historical reports for analysis. System flexibility allows monitoring of virtually any utility or process parameter, such as gas, electricity, water, steam, temperature, and production output.

WPS Energy Services and WPS Power Development also use DENet to tie together our nonregulated plants through an integrated computer network. All of our employees in these nonregulated businesses, wherever they are located along the energy landscape, have access to this system.

In addition to DENet and the benefits it provides for our customers and backroom operations, we've developed Internet-based customer enrollment, information, and billing systems to support the needs of our diverse customers—from large industrial accounts to residential homes. This is part of the technological infrastructure that supports our growth strategy.

Centralizing Plant Operations

In 1999, our nonregulated companies established a 24-hour energy monitoring, dispatch, and coordination center in Green Bay, Wisconsin, operated by WPS Energy Services. This center monitors and controls our production facilities and generating plants in Maine, Pennsylvania, Alabama, Arkansas, Wisconsin, and Oregon—scheduling operations, bringing units on line or taking them off line in response to market prices, and coordinating operations with the employees at the plants. A centralized operation contributes greatly to the savings we've achieved in operating our new plants.

WPS Power Development has contracted with WPS Energy Services for this function. WPS Energy Services' employees are on duty 24 hours a day, scheduling energy delivery. They're familiar with the markets for energy and are prepared to make decisions about the energy we produce at our generating facilities.

Wind Energy

Perhaps the most striking visible evidence of the new world of energy is the sight of wind turbines along the horizon. In 1999, Wisconsin Public Service erected 14 wind turbines, capable of producing approximately 10 megawatts of wind power, in the Town of Lincoln, Wisconsin.

The turbines are operating well, with the capacity to power about 3,600 homes. In addition, they are giving us more experience and more data as we move into a future that will call for more renewable energy resources.

Wisconsin Public Service has a history of developing wind power. Several years ago, we built a wind turbine in Kewaunee, Wisconsin, and in 1998 we built two wind turbines on the Niagra Escarpment, outside of Green Bay. We've also conducted wind studies to evaluate possible future sites. The experience we've gained will help us make decisions about wind generation as we continue to look at renewable options.

Wisconsin Act 9, signed into law in October 1999, requires that by the end of 2011, 2.2 percent of energy sold to Wisconsin Public Service customers must come from renewable resources. Our strategy will be to fine-tune the renewable options that make the most sense for our customers, our shareholders, and the environment.

A New High-Voltage Transmission Line

As a good economy continues and business and industry expand, the electric system in Wisconsin is becoming increasingly strained. The state's electric load over the last two summers has brought utilities throughout the state close to maximizing the system.

Wisconsin needs more generation and more transmission to improve electric reliability in the state and to make available abundant supplies of energy from other regions. The Wisconsin Reliability Assessment Organization has strongly recommended a line from the middle of Wisconsin north and west to access power from Canada and the West.

In 1999, Wisconsin Public Service, along with Minnesota Power, took the lead in developing plans for a 250-mile-long, 345-kilovolt transmission line from Wausau, Wisconsin, to Duluth, Minnesota. We filed our request to build the line in November, and we hope to receive approval from the Public Service Commission of Wisconsin in 2000. Our goal is to complete construction of the line in 2003.

Distributive Superconducting Magnetic Energy Storage

While plans are under way to remedy Wisconsin's strained transmission system for the long term, Wisconsin Public Service is working on energy solutions for the near term.

In February 2000, Wisconsin Public Service was the first utility in the world to use distributed superconducting magnetic energy storage (D-SMES) to stabilize the voltage on its electric system. This technology, while not new, has typically been used only by individual businesses to control their power. Our use will benefit thousands of electric customers in northern Wisconsin, where significant growth and summer tourism have been straining power lines.

Six D-SMES units, each self-contained in a semi-trailer, will be installed on concrete pads at electric substations throughout the northern portion of our service area. When our system detects a voltage drop, electricity stored in the D-SMES units will instantaneously flow onto the electric grid. So, the power will keep flowing, and customers won't feel the negative impact of momentary outages.

The D-SMES technology has reasonable costs, is quicker to deploy than transmission lines, and has less environmental impact. And while we believe the true answer to Wisconsin's reliability concerns is the proposed Wausau-Duluth transmission line, this innovative, temporary solution will mean good things for our customers. Later, we will redeploy this equipment elsewhere on the energy landscape—always pursuing what is needed by our customers.

WPS Power Development purchased the coal-fired Sunbury Power Plant in 1999. The plant is located near Sunbury, Pennsylvania, one of the first cities Thomas Edison wired for electricity.

Bringing Value to Shareholders

WPS Resources Corporation is striving for a position of strength in the new world of energy. Strategy, of course, is key to our success—but we also need employees who can perform in a competitive environment. The combination of a strong growth strategy and people with excellent skills and work ethic is what allows us to stride confidently into the new world.

At WPS Resources, we continue to rely on our strengths—the commitment of our employees, our low-cost production and low rates, a commitment to quality facilities, and financial performance. These strengths will carry us into the future.

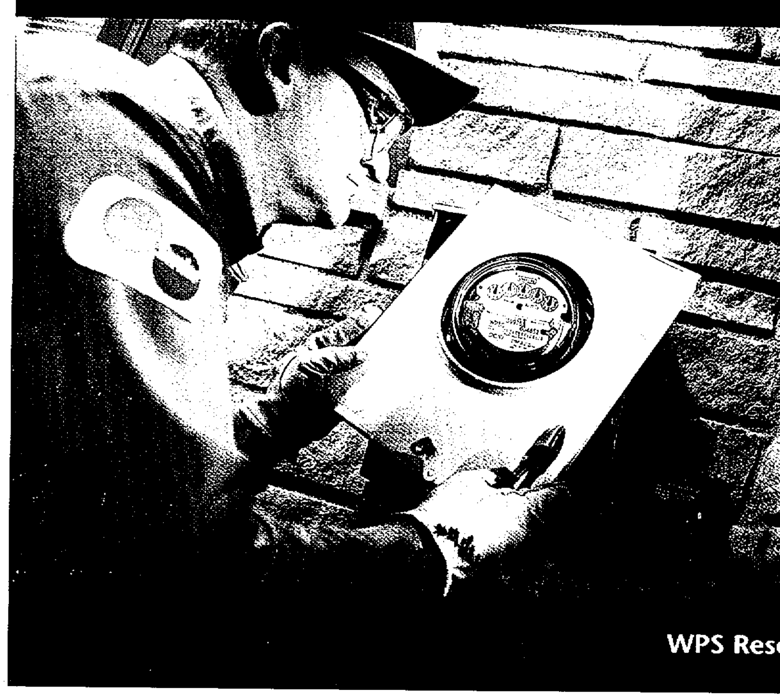
We continue to maintain our focus on providing value to customers in a way that creates value for our shareholders. We're increasing our efforts to understand our customers, and we're investing in systems and technology that support service to our customers.

We are not resting. We're looking for ways to improve our operations. We continue our efforts to control costs. We've taken steps to ensure that we can improve cost projections for each of our business units.

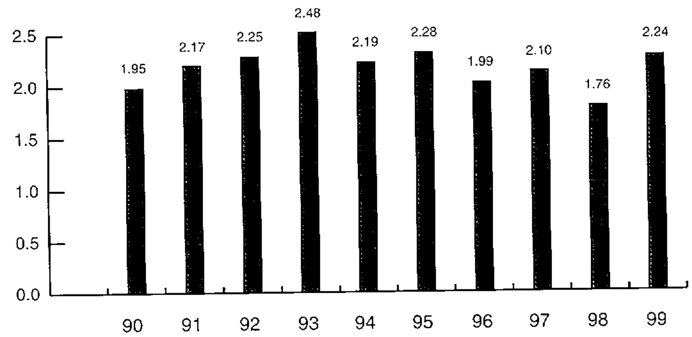
With a strong financial foothold and the flexibility to grow, we are in a position of strength for whatever the new world brings.

"We're successful because we understand which plants are profitable, which ones aren't, and how to optimize those that aren't," says Jerry Mroczkowski (below right), Vice President of WPS Power Development.

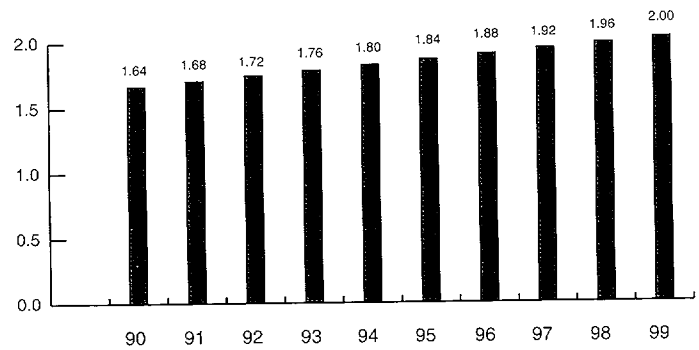
In September 1999, Wisconsin Public Service began installing automated meter reading equipment in its service area. This system, which electronically reads gas and electric meters, is a hallmark of where the energy industry is going. We save by not having to travel to customers' properties, and we gain up-to-the-hour energy use data.



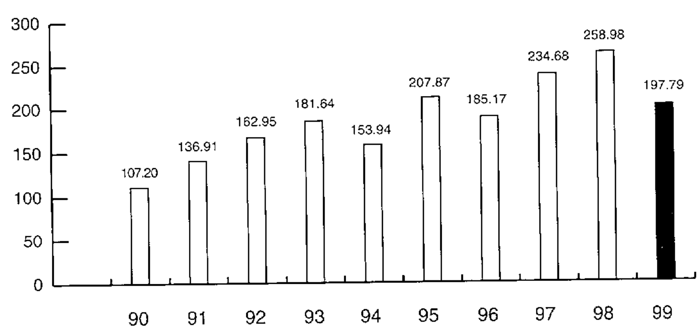
Earnings per Share
1990-1999
Dollars



Dividend per Share
1990-1999
Dollars



Cumulative Total Return*
1990-1999
Dollars



** Assumes $100 investment in common stock at year-end 1989 and all dividends reinvested quarterly. Cumulative total return for the ten-year period is equilavent to an average annual return of 7.06%.*

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. You can identify these statements by the fact that they do not relate strictly to historical or current facts and often include words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," and other similar words. Although we believe we have been prudent in our plans and assumptions, there can be no assurance that indicated results will be realized. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated.

Forwarding-looking statements speak only as of the date on which they are made, and we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise. We recommend that you consult any further disclosures we make on related subjects in our 10-Q, 8-K, and 10-K reports to the Securities and Exchange Commission.

The following is a cautionary list of risks and uncertainties that may affect the assumptions which form the basis of forward-looking statements relevant to our business. These factors, and other factors not listed here, could cause actual results to differ materially from those contained in forward-looking statements.

- General economic, business, and regulatory conditions
- Legislative and regulatory initiatives regarding deregulation and restructuring of the utility industry which could affect costs and investment recovery
- State and federal rate regulation
- Growth and competition and the extent and timing of new business development in the markets of subsidiary companies
- The performance of projects undertaken by subsidiary companies
- Business combinations among our competitors and customers
- Energy supply and demand
- Financial market conditions, including availability, terms, and use of capital
- Nuclear and environmental issues
- Weather and other natural phenomena
- Commodity price and interest rate risk

Results of Operations

WPS Resources Corporation is a holding company. Our wholly-owned subsidiaries include two regulated utilities, Wisconsin Public Service Corporation and Upper Peninsula Power Company. Another wholly-owned subsidiary, WPS Resources Capital Corporation, is a holding company for our nonregulated businesses including WPS Energy Services, Inc. and WPS Power Development, Inc. Approximately 83% of our assets at December 31, 1999 and approximately 71% of our 1999 revenues were derived from electric and gas utility operations. Substantially all of our 1999 net income was derived from utility operations.

1999 Compared with 1998

WPS Resources Corporation Overview

WPS Resources' 1999 and 1998 results of operations are shown in the following chart:

WPS Resources' Results (Millions, except share amounts)	1999	1998	Percent Change
Consolidated operating revenues	$1,098.5	$1,063.7	3.3
Net income	59.6	46.6	27.9
Basic and diluted earnings per share	$2.24	$1.76	27.3

The primary reasons for the higher earnings were increased sales volumes at Wisconsin Public Service coupled with the implementation of new Wisconsin retail electric and gas rates and the elimination of net trading losses at WPS Energy Services.

Overview of Utility Operations (Wisconsin Public Service and Upper Peninsula Power)

Revenues and earnings for our electric and gas utility operations are shown in the following chart:

Results (Millions)	1999	1998	Percent Change
Wisconsin Public Service			
Operating revenues	$719.4	$652.5	10.3
Earnings	65.3	52.9	23.4
Upper Peninsula Power			
Operating revenues	62.4	62.7	(0.5)
Earnings	2.0	3.5	(42.9)

The primary reasons for higher earnings at Wisconsin Public Service were increased sales coupled with the implementation of new Wisconsin retail electric and gas rates.

Electric Utility Operations (Wisconsin Public Service and Upper Peninsula Power)

Our consolidated electric margins increased $19.1 million, or 5.1%. This increase was due to increased sales volume at Wisconsin Public Service coupled with the January 15, 1999 implementation of new Wisconsin retail electric rates. A 6.3% increase in electric rates was authorized by the Public Service Commission of Wisconsin.

WPS Resources' Consolidated Electric Utility Results

(Thousands)	1999	1998	1997
Revenues	$582,471	$543,260	$536,885
Fuel and purchased power	187,399	167,256	171,935
Margin	$395,072	$376,004	$364,950
Sales in kilowatt-hours	12,503,487	12,172,432	11,993,358

Our consolidated electric utility revenues increased $39.2 million, or 7.2%, primarily due to the electric rate increase at Wisconsin Public Service. Also contributing to higher electric revenues was a 2.8% increase in overall kilowatt-hour sales at Wisconsin Public Service. Included in 1998 electric revenues, but not in 1999 electric revenues, are surcharge revenues at Wisconsin Public Service of $3.8 million related to the recovery of the deferred costs for the 1997 Kewaunee Nuclear Power Plant steam generator repairs. Wisconsin Public Service is the operator and 41.2% owner of the Kewaunee plant.

Our consolidated electric production fuel expense increased $3.0 million, or 2.7%, primarily as a result of increased generation requirements at Wisconsin Public Service's combustion turbine and nuclear generating plants in 1999. Partially offsetting this factor was a decrease in production at Wisconsin Public Service's coal-fired generation plants as a result of both scheduled and unscheduled maintenance activities.

Our consolidated purchased power requirements increased $17.2 million, or 30.4%, primarily due to additional purchase requirements at both Wisconsin Public Service and Upper Peninsula Power in 1999. Purchase requirements increased 20.1% at Wisconsin Public Service due to the lack of production at its coal-fired generation plants during the time they were off-line for maintenance in 1999. In addition, the cost of purchases was 12.8% higher in 1999 than in 1998.

The Public Service Commission of Wisconsin allows Wisconsin Public Service to adjust prospectively the amount billed to Wisconsin retail customers for fuel and purchased power if costs fall outside a specified range. Wisconsin Public Service is required to file an application to adjust rates either higher or lower when costs are plus or minus 2.0% from forecasted costs on an annualized basis. Annual 1999 fuel costs at December 31, 1999 were within this 2.0% window and, accordingly, no adjustment will be made.

Gas Utility Operations (Wisconsin Public Service)

The consolidated gas utility margin represents gas revenues less purchases exclusive of intercompany transactions. The consolidated gas utility margin increased $13.4 million in 1999. The gas utility margin at Wisconsin Public Service increased $13.4 million, or 22.2%, in 1999. This increase was primarily due to the implementation of a Public Service Commission of Wisconsin rate order which authorized a 5.1% increase in Wisconsin retail gas rates and to an increase in therm sales.

Wisconsin Public Service's Gas Utility Results (Thousands)	1999	1998	1997
Revenues	**$191,521**	$165,111	$211,090
Purchase costs	**117,582**	104,608	147,493
Margin	**$ 73,939**	$ 60,503	$ 63,597
Sales in therms	**662,615**	608,092	662,008

Wisconsin Public Service's gas operating revenues increased $26.4 million, or 16.0%. This increase was due to the implementation of new Wisconsin retail gas rates and a 9.0% increase in overall therm sales as a result of colder weather in 1999. Although the winter weather was 11.4% colder in 1999 than in 1998, it was still 8.3% warmer than normal.

Note that 1998 gas utility revenues were reduced by $7.5 million for refunds from ANR Pipeline Company which were passed on to Wisconsin Public Service's customers. Gas purchase costs in 1998 were likewise reduced as this $7.5 million refund was credited to gas expense.

Wisconsin Public Service's gas purchase costs increased $13.0 million, or 12.4%. This increase was due to increased sales and to a higher cost of gas. Under current regulatory practice, the Public Service Commission of Wisconsin and the Michigan Public Service Commission allow Wisconsin Public Service to pass changes in the cost of gas on to customers through a purchased gas adjustment clause.

Other Utility Expenses/Income (Wisconsin Public Service and Upper Peninsula Power)

Other operating expenses at Wisconsin Public Service increased $12.6 million, or 9.1%, primarily due to higher customer service expenses of $5.1 million related to conservation expenditures, and higher pension costs of $3.4 million due to a change in the assumptions used to calculate this expense. Also contributing to increased operating expenses were higher medical benefit expenses of $1.2 million and higher electric distribution expenses of $1.2 million.

Maintenance expense at Wisconsin Public Service increased $7.2 million, or 14.6%, primarily due to additional costs of $8.0 million at its coal-fired generation plants and $1.6 million at its other power generation plants for both scheduled and unscheduled maintenance activities. Offsetting these costs was a decrease in maintenance expense of $8.5 million at the Kewaunee plant. A scheduled refueling outage at the Kewaunee plant in 1998 caused 1998 nuclear maintenance expenses to be higher. In addition, $3.8 million in deferred costs for the 1997 Kewaunee plant's steam generator repairs was recognized in 1998. Maintenance of overhead distribution lines increased $4.7 million in 1999 due to additional tree trimming, line clearance, and storm damage repairs.

Price Risk Management Activities (Wisconsin Public Service and Upper Peninsula Power)

WPS Resources engages in minimal price risk management activities at its utility operations because much of the utility price risk exposure is recoverable through customer rates.

Overview of Nonregulated and Nonutility Operations

Nonregulated operations consist of the gas and electric sales at WPS Energy Services, Inc., a diversified energy supply and services company. Nonregulated operations also include those of WPS Resources as a holding company and those of WPS Power Development, Inc., an electric generation asset development company. Nonutility operations refer to the activities of Wisconsin Public Service and Upper Peninsula Power which do not fall under utility regulation.

Nonregulated and nonutility operations experienced a loss of $7.8 million in 1999 compared with a loss of $9.8 million in 1998. Although margins on nonregulated energy sales continue to grow, losses are being experienced primarily due to operating expenses associated with new facilities, market expansion, and the pursuit of additional projects. Nonutility operations in 1999 included a one-time special dividend of $0.5 million. This special dividend was related to a land sale from an investment held at Wisconsin Public Service. Nonregulated earnings in 1998 included a one-time dividend of $2.0 million received by WPS Resources from a venture capital investment.

Overview of WPS Energy Services, Inc.

Revenues at WPS Energy Services were $292.2 million in 1999 compared with $351.3 million in 1998, a decrease of 16.8%. The revenue decrease is attributable to a combination of lower overall natural gas prices experienced in 1999, and a deliberate change in the wholesale product mix. WPS Energy Services experienced an improvement in operating results, reducing net losses by 49.3% in 1999. Net losses were $3.5 million in 1999 compared with $6.9 million in 1998. The primary reason for the decrease in losses was the elimination of trading losses that occurred in 1998. WPS Energy Services implemented a deliberate shift in focus within its trading unit to emphasize capturing present opportunities in the market rather than taking a position in anticipation of a future market movement. While not without risk, this lower-risk approach did yield gains in 1999. WPS Energy Services also experienced an increase in total gas margin due to improved gas procurement operations and processes, and an increased emphasis on creation of wholesale products providing greater value, thus higher margin, to customers in the wholesale marketplace. Partially offsetting these factors was a one-time pretax write-down of $0.7 million related to an investment in a gas production field.

Nonregulated Margins (WPS Energy Services)

Gas margins at WPS Energy Services were $4.6 million in 1999 compared with $4.0 million in 1998, an increase of 15.0%. Electric margins remained fairly stable. Gas revenues at WPS Energy Services were $288.0 million in 1999 compared with $330.0 million in 1998. This decrease was the result of lower overall natural gas market prices and an increased emphasis on higher quality and lower-risk wholesale products rather than a large volume of wholesale transactions with lower margins. Electric revenues were $3.4 million in 1999 and $20.5 million in 1998, a decrease of 83.4%. This decrease was the result of WPS Energy Services' efforts to focus participation in the wholesale electric markets where transactions are based on physical generation assets controlled by an affiliate of WPS Resources.

WPS Energy Services' cost of sales was $286.6 million in 1999 and $346.4 million in 1998, a decrease of 17.3%. This decrease was due to decreased gas purchases of $42.7 million primarily due to lower natural gas prices and, to a lesser extent, reduced wholesale sales volumes. Also contributing to the lower cost of sales was continued improvement in gas procurement processes. Electric purchases decreased $17.1 million due to decreased sales.

Other Nonregulated Expenses/Income (WPS Energy Services)

Other operating expenses at WPS Energy Services increased $1.0 million, or 11.1%, primarily due to costs of $0.7 million associated with entering into expanded retail customer-choice programs. Improved processes and strategies emphasizing reduced risk at WPS Energy Services resulted in a gas trading gain in 1999 compared with gas trading losses of $4.9 million in 1998. Essentially no electric trading losses were experienced in 1999 compared with $1.2 million in 1998.

Price Risk Management Activities (WPS Energy Services)

WPS Energy Services uses derivative financial and commodity instruments to reduce market risk associated with the changing prices of natural gas and electricity sold at firm prices to customers. WPS Energy Services also uses derivatives to manage market risk associated with anticipated energy purchases, as well as trading activities. Derivatives may include futures and forward contracts, basis swap agreements, or call and put options.

Gains and losses on derivatives are recognized immediately in earnings when it is no longer probable that the related forecasted transaction will occur. Each accounting period, WPS Energy Services records gains or losses on changes in market value of trading derivatives in other income. WPS Energy Services recorded net trading gains of $0.1 million in 1999 and net trading losses of $6.1 million in 1998.

At December 31, 1999, WPS Energy Services had outstanding 11.4 million notional dekatherms of natural gas under futures and option agreements and 5.9 million notional dekatherms of natural gas under basis swap agreements in order to manage market risk. These financial instruments expire at various times through October 2001. WPS Energy Services has gas sales commitments through October 2000 with a range of sale prices from $2.06 to $3.09 per dekatherm and a range of associated gas purchase costs of $2.05 to $3.00 per dekatherm.

At December 31, 1999, the fair value of trading instruments included assets of $7.5 million and liabilities of $6.8 million. Natural gas derivatives were used for all trading activities in 1999 and 1998, except for a small amount of electric trading transactions. At December 31, 1999, WPS Energy Services had outstanding 1.4 million notional dekatherms of natural gas under futures and option agreements and 1.7 million notional dekatherms of natural gas under basis swap agreements for trading purposes.

***Derivatives** (contract amounts in millions)*

	Expected Maturity 2000	2001	2002	Total	Fair Value
Futures NYMEX – hedging					
Long (billion cubic feet)	25.3				
Weighted average settlement price (per dekatherm)	$2.54				
Contract amount	$64.4			$64.4	$(5.1)
Short (billion cubic feet)	23.1	0.4			
Weighted average settlement price (per dekatherm)	$2.60	$2.80			
Contract amount	$59.9	$1.1		$61.0	$5.8
Futures NYMEX – trading					
Long (billion cubic feet)	10.3				
Weighted average settlement price (per dekatherm)	$2.63				
Contract amount	$27.2			$27.2	$(3.0)
Short (billion cubic feet)	10.8				
Weighted average settlement price (per dekatherm)	$2.63				
Contract amount	$28.5			$28.5	$3.2
OTC futures – hedging					
Long (billion cubic feet)	7.8	0.7	0.18		
Weighted average settlement price (per dekatherm)	$2.36	$2.22	$2.22		
Contract amount	$18.5	$1.6	$0.4	$20.5	$0.4
Short (billion cubic feet)	3.2				
Weighted average settlement price (per dekatherm)	$2.64				
Contract amount	$8.4			$8.4	$0.9

Derivatives (contract amounts in millions)

	Expected Maturity 2000	2001	2002	Total	Fair Value
OTC futures – trading					
Long (billion cubic feet)	0.8				
Weighted average settlement price (per dekatherm)	$2.47				
Contract amount	$2.0			$2.0	$(0.1)
Short (billion cubic feet)	0.5				
Weighted average settlement price (per dekatherm)	$2.77				
Contract amount	$1.4			$1.4	$0.2
Options – hedging					
Long calls (billion cubic feet)	2.3				
Weighted average strike price (per dekatherm)	$3.03				
Contract amount	$6.9			$6.9	$(0.5)
Long puts (billion cubic feet)	2.9				
Weighted average strike price (per dekatherm)	$2.31				
Contract amount	$6.6			$6.6	$0.0
Short calls (billion cubic feet)	1.1				
Weighted average strike price (per dekatherm)	$3.07				
Contract amount	$3.4			$3.4	$0.2
Short puts (billion cubic feet)	5.8				
Weighted average strike price (per dekatherm)	$2.31				
Contract amount	$13.3			$13.3	$(0.1)
Options – trading					
Long calls (billion cubic feet)	0.2				
Weighted average strike price (per dekatherm)	$2.30				
Contract amount	$0.3			$0.3	$0.0
Long puts (billion cubic feet)	1.9				
Weighted average strike price (per dekatherm)	$2.11				
Contract amount	$3.9			$3.9	$0.0
Short calls (billion cubic feet)		0.3			
Weighted average strike price (per dekatherm)		$2.50			
Contract amount		$0.6		$0.6	$0.0
Short puts (billion cubic feet)	0.8				
Weighted average strike price (per dekatherm)	$2.30				
Contract amount	$1.7			$1.7	$0.1
Basis swaps – hedging					
Receive fixed (billion cubic feet)	28.9	0.7			
Weighted average settlement price (per dekatherm)	$0.11	$0.22			
Contract amount	$3.3	$0.2		$3.5	$(0.9)
Receive floating (billion cubic feet)	23.7				
Weighted average settlement price (per dekatherm)	$0.12				
Contract amount	$2.8			$2.8	$(0.1)
Basis swaps – trading					
Receive fixed (billion cubic feet)	39.1				
Weighted average settlement price (per dekatherm)	$0.18				
Contract amount	$7.0			$7.0	$(3.7)
Receive floating (billion cubic feet)	36.3	1.1			
Weighted average settlement price (per dekatherm)	$0.19	$0.12			
Contract amount	$7.0	$0.1		$7.1	$4.0

Overview of WPS Power Development

Losses at WPS Power Development were $3.8 million in 1999 compared with $2.4 million in 1998. The increase in losses at WPS Power Development was primarily due to additional costs incurred in 1999 for the development and operation of newly acquired facilities and the evaluation of new projects.

WPS Power Development experienced an increase of $9.5 million in its margin on operating generation facilities in 1999. This increase was due to the operation of the electric generation assets acquired in Maine and Canada on June 8, 1999, and in Pennsylvania on November 1, 1999. Other operating expenses at WPS Power Development increased

$10.5 million largely due to operating expenses related to the electric generation assets acquired in Maine and Canada from Maine Public Service and the Sunbury plant acquired in Pennsylvania from PP&L Resources. Higher operating expenses at ECO Coal Pelletization #12, LLC also contributed to the increase. Partially offsetting increased expenses at ECO #12 was the benefit of tax credits received for these operations. Although ECO #12 experienced problems with materials and customers in the early part of 1999, these problems have been resolved and sales have increased significantly. Additional costs related to the pursuit and development of new projects also contributed to higher operating expenses at WPS Power Development in 1999.

Overview of Other Nonregulated and Nonutility Operations

A one-time dividend of $0.5 million was received by Wisconsin Public Service in 1999 related to a land sale from an investment. This dividend represented a one cent per share increase to earnings for 1999. A one-time dividend of $2.0 million was received by WPS Resources in 1998 from a venture capital investment. This dividend represented a four cents per share increase in earnings for 1998.

1998 Compared With 1997

WPS Resources Corporation Overview

WPS Resources' results of operations and financial position for 1998 and 1997 include the effects of the merger with Upper Peninsula Energy Corporation which was effective September 29, 1998 and was accounted for as a pooling of interests. In accordance with the terms of the merger, each of the 2,950,001 outstanding shares of Upper Peninsula Energy Corporation common stock (no par value) was converted into 0.90 shares of WPS Resources' common stock. The conversion was subject to adjustment for cash payments for fractional shares. In conjunction with this merger, we expensed transaction charges of approximately $1.6 million in 1998 and $2.7 million in 1997. These merger transaction charges consisted of the following:

Merger Charges (Millions)	1998	1997
Investment bankers	$0.8	$0.9
Legal	0.7	0.9
Accounting	–	0.2
Other	0.1	0.7
Total	$1.6	$2.7

In addition, Upper Peninsula Power, Upper Peninsula Energy Corporation's primary subsidiary, recorded severance costs of $1.1 million and an additional $0.5 million in other merger-related expenses in 1998.

WPS Resources' 1998 and 1997 results of operation are shown in the following chart:

WPS Resources' Results (Millions, except share amounts)	1998	1997	Percent Change
Consolidated operating revenues	$1,063.7	$935.8	13.7
Net income	46.6	55.8	(16.5)
Basic and diluted earnings per share	$1.76	$2.10	(16.2)

The primary reasons for the decrease in earnings were the impact of unusually warm winter weather, the effects of a full year electric rate decrease at Wisconsin Public Service, higher maintenance expenses at Wisconsin Public Service, decreased other income, higher other operating expenses, and a decrease in Wisconsin Public Service's gas margin. Partially offsetting these factors were an increase in electric utility margins and an increase in nonregulated margins.

Overview of Utility Operations (Wisconsin Public Service and Upper Peninsula Power)

Revenues and earnings for our electric and gas utility operations are shown in the following chart:

Results (Millions)	1998	1997	Percent Change
Wisconsin Public Service			
Operating revenues	$652.5	$690.5	(5.5)
Earnings	52.9	57.5	(8.0)
Upper Peninsula Power			
Operating revenues	62.7	60.2	4.2
Earnings	3.5	3.7	(5.4)

The primary reasons for the decrease in earnings at Wisconsin Public Service were the impact of unusually warm winter weather, increased maintenance expenses, a decrease in other income, an increase in other operating expenses, and a decrease in the gas margin. Partially offsetting these factors were an increase in the electric utility margin and a decrease in interest expense.

The primary reasons for the decrease in earnings at Upper Peninsula Power were higher maintenance and other operating expenses partially offset by an increase in the electric margin.

Electric Utility Operations (Wisconsin Public Service and Upper Peninsula Power)

Our consolidated electric utility margins increased $11.1 million, or 3.0%, primarily due to increased kilowatt-hour sales of 3.0% to Wisconsin Public Service's customers as a result of warmer summer weather in 1998. Partially offsetting the increase in electric margins in 1998 was the impact on Wisconsin Public Service of a Public Service Commission of Wisconsin 8.1% retail electric rate decrease which was effective for the entire year in 1998 but was only effective in 1997 for the period after February 21, 1997.

Our consolidated electric utility revenues increased $6.4 million, or 1.2%, largely due to increased revenues of

$4.8 million from Wisconsin Public Service's wholesale customers and $1.5 million from Wisconsin Public Service's commercial and industrial customers as a result of the warmer summer weather. Also included in 1998 electric revenues were surcharge revenues at Wisconsin Public Service of $3.8 million related to the recovery of deferred costs for the 1997 Kewaunee plant steam generator repairs. Partially offsetting these factors were the electric rate reduction and a $1.0 million refund of Wisconsin Public Service's transmission revenues as the result of a 1998 Federal Energy Regulatory Commission settlement related to open access transmission tariff rates.

Our consolidated electric production fuel expense increased $2.8 million, or 2.6%, primarily as a result of increased generation expense. The Kewaunee plant was out of service for the first six months of 1997 as the result of an extended outage to repair steam generators, thus, in comparison, the higher generation expense in 1998.

Our consolidated purchased power expense decreased $7.5 million, or 11.7%, primarily due to decreased purchase requirements at Wisconsin Public Service in the first half of 1998. Purchase requirements at Wisconsin Public Service in the first half of 1997 were higher due to lack of production at the Kewaunee plant in the first and second quarters of 1997 as a result of an extended outage. The Kewaunee plant was also off-line in 1998 for a six-week scheduled refueling outage. Also contributing to lower purchased power expense at Wisconsin Public Service was a $1.2 million credit to purchased power expense in the fourth quarter of 1998 related to the settlement of litigation involving a contract with a power supplier.

Gas Utility Operations (Wisconsin Public Service)

The consolidated gas utility margin decreased $4.1 million, or 6.5%, in 1998. This decrease was primarily due to winter weather that was 19.4% warmer in 1998 than in 1997. The gas utility margin at Wisconsin Public Service decreased $3.1 million, or 4.9%, in 1998.

Wisconsin Public Service's gas operating revenues decreased $46.0 million, or 21.8%. This decrease was due to unusually mild winter weather in 1998 resulting in lower gas therm sales for 1998 of 8.1%.

Note that 1998 gas utility revenues were reduced by $7.5 million for refunds from ANR Pipeline Company which were passed on to Wisconsin Public Service's customers. Gas purchase costs in 1998 were likewise reduced as this $7.5 million refund was credited to gas expense.

Wisconsin Public Service's gas purchase costs decreased $42.9 million, or 29.1%. This decrease was due to reduced customer demand as a result of the mild weather during 1998.

Other Utility Expenses/Income (Wisconsin Public Service and Upper Peninsula Power)

Other operating expenses at Wisconsin Public Service increased $4.1 million, or 3.1%, primarily due to higher benefit costs in 1998.

Other operating expenses at Upper Peninsula Power increased $0.6 million, or 3.6%, primarily as the result of the accrual of $1.1 million in merger-related severance expense in 1998. Other operating expenses at Upper Peninsula Power in 1997 included costs incurred related to the termination of Upper Peninsula Power's Presque Isle Plant Operating Agreement with Wisconsin Electric Power Company. Upper Peninsula Power had staffed and operated Wisconsin Electric's Presque Isle Power Plant through December 31, 1997, at which time the operating agreement was terminated.

Maintenance expense at Wisconsin Public Service increased $7.8 million, or 18.6%, primarily as a result of increased expenses at the Kewaunee plant during the second and fourth quarters of 1998. This increase was partly due to the recognition of the deferred expenses for the 1997 Kewaunee plant's steam generator repairs. The Public Service Commission of Wisconsin approved deferral of the repairs in 1997, the cost of which had been collected in the second quarter of 1998 through a $3.8 million electric revenue surcharge. In addition, maintenance expense at the Kewaunee plant increased in the fourth quarter of 1998 due to a scheduled refueling outage.

Depreciation and decommissioning expenses at Wisconsin Public Service increased $2.4 million, or 3.1%, due to an increased plant base and to the accelerated recovery of investment in the Kewaunee plant and accelerated funding of the Kewaunee plant's decommissioning costs. Accelerated recovery of investment and funding began on February 21, 1997 and, therefore, was effective for all of 1998 but only a portion of 1997.

Price Risk Management Activities (Wisconsin Public Service and Upper Peninsula Power)

WPS Resources engages in minimal price risk management activities at its utility operations because much of the utility price risk exposure is recoverable through customer rates.

Overview of Nonregulated and Nonutility Operations

Nonregulated and nonutility operations experienced a loss of $9.8 million in 1998 compared with a loss of $5.4 million in 1997. Although nonregulated margins continued to grow, losses were experienced due to gas and electric trading losses and expenses associated with the expansion of customer base. Nonutility operations experienced a one-time gain of $4.8 million on the sale of nonutility property in 1997.

Overview of WPS Energy Services

Revenues at WPS Energy Services were $351.3 million in 1998 compared with $189.4 million in 1997, an increase of 85.5%. WPS Energy Services experienced a loss of $6.9 million in 1998 compared with a loss of $4.9 million in 1997. The primary reasons for the increased loss at WPS Energy Services were increased electric and gas trading losses primarily due to market volatility, and higher operating expenses due to expansion of the energy trading business. Partially offsetting these factors was an increase in the gas margin.

Nonregulated Margins (WPS Energy Services)

Gas margins at WPS Energy Services were $4.0 million in 1998 compared with $1.9 million in 1997, an increase of 110.5%. Electric margins at WPS Energy Services remained fairly stable. Gas revenues at WPS Energy Services were $330.0 million in 1998 compared with $182.3 million in 1997, an increase of $147.7 million, or 81.0%. This increase was the result of sales volume growth and expansion to additional geographic areas. Electric revenues at WPS Energy Services were $20.5 million in 1998 and $6.4 million in 1997, an increase of $14.1 million, or 220.3%. This increase was also the result of sales volume growth.

WPS Energy Services' cost of sales were $346.4 million in 1998 and $186.6 million in 1997, an increase of $159.8 million, or 85.6%. This increase was primarily due to increased gas purchases of $145.6 million and increased purchased power expense of $14.2 million. These increases were the result of customer growth and higher costs of purchases.

Other Nonregulated Expenses/Income (WPS Energy Services)

Other operating expenses at WPS Energy Services increased $1.1 million, or 13.6%, due to expansion of the business. WPS Energy Services experienced gas trading losses of $4.9 million in 1998 and $1.4 million in 1997 largely due to market volatility. WPS Energy Services also experienced electric trading losses of $1.2 million in 1998 primarily due to losses in the third quarter related to the unprecedented market volatility in the electric trading market.

Price Risk Management Activities (WPS Energy Services)

WPS Energy Services uses derivative financial and commodity instruments to reduce market risk associated with changing prices of natural gas and electricity sold at firm prices to customers. WPS Energy Services also uses derivatives to manage market risk associated with anticipated energy purchases, as well as trading activities. Derivatives may include futures and forward contracts, price swap agreements, or call and put options.

Gains and losses on derivatives are recognized immediately in earnings when it is no longer probable that the related forecasted transaction will occur. Each accounting period, WPS Energy Services records gains or losses on changes in market value of trading derivatives in other income. WPS Energy Services recorded net trading losses of $6.1 million in 1998 and $1.4 million in 1997.

At December 31, 1998, WPS Energy Services had outstanding 27.4 million notional dekatherms of natural gas under futures and option agreements and 0.9 million notional dekatherms of natural gas under basis swap agreements in order to manage market risk. These financial instruments expire at various times through August 2000. WPS Energy Services had gas sales commitments through August 2000 with a range of sale prices from $2.36 to $2.38 per dekatherm and a range of associated gas purchase costs of $2.29 to $2.31 per dekatherm.

At December 31, 1998, the fair value of trading instruments included assets of $29.2 million and liabilities of $30.0 million. Virtually all trading activities in 1998 and 1997 involved natural gas derivatives, except for a small amount of electric trading transactions. At December 31, 1998, WPS Energy Services had outstanding 0.4 million notional dekatherms of natural gas under futures and option agreements and 2.8 million notional dekatherms of natural gas under basis swap agreements for trading purposes.

Derivatives (contract amounts in millions)

	Expected Maturity 1999	Expected Maturity 2000	Total	Fair Value
Futures NYMEX – hedging				
Long (billion cubic feet)	34.8	2.2		
Weighted average settlement price (per dekatherm)	$2.26	$2.32		
Contract amount	$78.8	$5.1	$83.9	$(13.4)
Short (billion cubic feet)	18.4	0.8		
Weighted average settlement price (per dekatherm)	$2.18	$2.50		
Contract amount	$40.0	$2.1	$42.1	$6.2
Futures NYMEX – trading				
Long (billion cubic feet)	33.5			
Weighted average settlement price (per dekatherm)	$2.28			
Contract amount	$76.3		$76.3	$(15.3)
Short (billion cubic feet)	37.0			
Weighted average settlement price (per dekatherm)	$2.25			
Contract amount	$83.2		$83.2	$16.0
OTC futures – hedging				
Long (billion cubic feet)	7.2	3.4		
Weighted average settlement price (per dekatherm)	$2.21	$2.28		
Contract amount	$15.9	$7.8	$23.7	$(1.6)
Short (billion cubic feet)	1.5	0.1		
Weighted average settlement price (per dekatherm)	$2.12	$2.18		
Contract amount	$3.1	$0.3	$3.4	$0.4

Management's Discussion and Analysis

***Derivatives** (contract amounts in millions)*

	Expected Maturity 1999	Expected Maturity 2000	Total	Fair Value
OTC futures – trading				
Long (billion cubic feet)	6.0			
Weighted average settlement price (per dekatherm)	$2.21			
Contract amount	$13.1		$13.1	$(1.9)
Short (billion cubic feet)	3.1	0.1		
Weighted average settlement price (per dekatherm)	$2.15	$1.85		
Contract amount	$6.8	$0.2	$7.0	$1.0
Options – hedging				
Long calls (billion cubic feet)	0.6			
Weighted average strike price (per dekatherm)	$2.46			
Contract amount	$1.6		$1.6	$(0.1)
Long puts (billion cubic feet)	0.6			
Weighted average strike price (per dekatherm)	$1.87			
Contract amount	$1.1		$1.1	$0.0
Short calls (billion cubic feet)	0.7			
Weighted average strike price (per dekatherm)	$2.43			
Contract amount	$1.7		$1.7	$0.2
Short puts (billion cubic feet)	0.8	0.5		
Weighted average strike price (per dekatherm)	$2.25	$2.43		
Contract amount	$1.8	$1.1	$2.9	$0.0
Options – trading				
Long calls (billion cubic feet)	2.2			
Weighted average strike price (per dekatherm)	$2.27			
Contract amount	$5.1		$5.1	$(0.2)
Long puts (billion cubic feet)	5.9			
Weighted average strike price (per dekatherm)	$2.05			
Contract amount	$12.0		$12.0	$0.5
Short calls (billion cubic feet)	1.5			
Weighted average strike price (per dekatherm)	$2.17			
Contract amount	$3.2		$3.2	$0.1
Short puts (billion cubic feet)	5.0	0.5		
Weighted average strike price (per dekatherm)	$2.14	$2.30		
Contract amount	$10.7	$1.0	$11.7	$(0.5)
Basis swaps – hedging				
Receive fixed (billion cubic feet)	12.2	0.9		
Weighted average settlement price (per dekatherm)	$0.17	$0.29		
Contract amount	$2.1	$0.3	$2.4	$(0.9)
Receive floating (billion cubic feet)	13.5	0.5		
Weighted average settlement price (per dekatherm)	$0.20	$0.09		
Contract amount	$2.7		$2.7	$1.2
Basis swaps – trading				
Receive fixed (billion cubic feet)	80.5	2.6		
Weighted average settlement price (per dekatherm)	$0.25	$0.24		
Contract amount	$20.9	$0.6	$21.5	$(12.1)
Receive floating (billion cubic feet)	82.1	3.8		
Weighted average settlement price (per dekatherm)	$0.25	$0.23		
Contract amount	$20.4	$0.9	$21.3	$11.6

Overview of WPS Power Development

Losses at WPS Power Development were $2.4 million in 1998 compared with $1.9 million in 1997. The increase in losses at WPS Power Development was primarily due to additional expenses incurred in 1998 for the start-up of new projects. Other operating expenses at WPS Power Development increased $1.1 million, or 25.4%, due to higher project expenses.

Overview of Other Nonregulated and Nonutility Operations

Other income at the WPS Resources holding company in 1998 included a dividend of $2.0 million on a venture capital investment.

BALANCE SHEET

1999 Compared With 1998

Nuclear decommissioning trusts increased $26.6 million due to continued funding and favorable investment returns. Construction in progress increased $31.8 million largely as a result of construction expenditures at Wisconsin Public Service related to the Kewaunee plant's steam generator replacement project and the combustion turbine project at West Marinette which Wisconsin Public Service is building for Madison Gas and Electric Company. Customer receivables increased $15.1 million primarily as a result of increased sales at Wisconsin Public Service and WPS Power Development. Net nonutility and nonregulated plant increased $126.9 million as a result of the acquisition of additional generation assets at WPS Power Development.

Long-term debt increased $170.6 million and commercial paper increased $32.3 million as a result of equity infusions to subsidiaries and nonrecourse financing at WPS Power Development. Cash requirements exceeded internally generated funds at WPS Resources.

FINANCIAL CONDITION

Investments and Financing

Nonutility assets of $11.9 million were transferred from Wisconsin Public Service to WPS Resources in 1999. Special common stock dividends of $25.0 million were paid by Wisconsin Public Service to WPS Resources in 1999. Equity infusions of $60.0 million were made by WPS Resources to Wisconsin Public Service in 1999. These special dividends and equity infusions allowed Wisconsin Public Service's average equity capitalization ratio for ratemaking to remain at its target level as established by the Public Service Commission of Wisconsin in its most recent rate order.

Cash requirements exceeded internally generated funds in 1999 and new financing of $211.5 million was necessary to obtain funds for the acquisition of generating units from Maine Public Service and the Sunbury plant from PP&L Resources. Our pretax interest coverage was 3.20 times for the 12 months ended December 31, 1999. See the following table for WPS Resources' credit ratings.

Credit Ratings	Standard & Poor's	Moody's
WPS Resources Corporation		
Senior unsecured debt	AA	Aa3
Commercial paper	A1+	P1
Trust preferred securities	A+	aa3
WPS Resources Capital Corporation		
Unsecured debt *	AA	Aa3
Wisconsin Public Service Corporation		
Bonds	AA+	Aa1
Preferred stock	AA	aa2
Commercial paper	A1+	P1

** No securities currently outstanding.*

WPS Resources normally uses internally generated funds and short-term borrowing to satisfy most of its capital requirements. Long-term debt and common stock may periodically be issued to reduce short-term debt and to maintain desired capitalization ratios.

The specific forms of financing, amounts, and timing will depend on the availability of projects, market conditions, and other factors. WPS Resources filed a shelf registration with the Securities and Exchange Commission, which allows the issuance of $400.0 million in the aggregate of long-term debt and common stock. Long-term debt of $150.0 million was issued under the shelf registration in November 1999. New shares of common stock were issued for the Stock Investment Plan in January through November of 1999. The leveraged Employee Stock Ownership Plan may also be expanded during the next three years.

Wisconsin Public Service makes large investments in capital assets. Construction expenditures for Wisconsin Public Service are expected to be approximately $530.0 million in the aggregate for the 2000 through 2002 timeframe. This includes expenditures for replacement of the Kewaunee plant's steam generators and construction of a proposed transmission line between Wausau and Duluth which is estimated to cost between $125.0 million and $175.0 million.

In addition, other capital requirements for Wisconsin Public Service for the three-year period 2000 through 2002 include contributions of approximately $14.1 million to the Kewaunee plant decommissioning trust fund.

Wisconsin Public Service's agreement to purchase electricity from the De Pere Energy Center, a gas-fired cogeneration facility, is accounted for as a capital lease. The De Pere Energy Center lease was capitalized at $74.1 million on the in-service date, June 14, 1999.

Upper Peninsula Power will incur construction expenditures of approximately $22.0 million in the aggregate for the period 2000 through 2002, primarily for electric distribution improvements.

On November 1, 1999, WPS Power Development completed the purchase of the Sunbury plant from PP&L Resources, Inc. The $107.0 million purchase includes a coal-fired plant and two oil-fired combustion turbines with a total nameplate capacity of 472 megawatts, coal inventories, and a coal transshipment facility. The purchase was temporarily financed with debt from WPS Resources. This temporary debt will be refinanced with nonrecourse debt and equity infusions.

WPS Power Development's purchase of generation assets for $37.4 million from Maine Public Service, which was originally financed with short-term debt was refinanced with $24.0 million of nonrecourse long-term debt and an equity infusion.

Other investment expenditures for nonregulated projects are uncertain since there are no firm commitments at this time. Financing for most nonregulated projects is expected to be obtained through nonrecourse project financing and/or through a subsidiary, WPS Resources Capital Corporation, which was formed to obtain funding for those projects.

Regulatory

Wisconsin Public Service received a rate order in the Wisconsin jurisdiction on January 15, 1999. The impact is an estimated $26.9 million increase in electric revenues and an estimated $10.3 million increase in gas revenues on an annual basis. The new rates are effective for 1999 and 2000. The Public Service Commission of Wisconsin authorized a 12.1% return on Wisconsin Public Service's equity for 1999 and 2000.

On July 1, 1999, Wisconsin Public Service filed to reopen this rate order to consider issues related to the Kewaunee plant, the recovery of deferred expenses related to the repowering of Pulliam Unit 3, and the fuel forecast for 2000. Hearings on the rate reopener were held on October 12, 1999. As a result of those hearings, Wisconsin Public Service received an order on December 15, 1999 approving a 4.6% electric rate increase. The new rates were implemented on January 1, 2000.

Year 2000 Compliance

The Year 2000 issue arose because software programs, computer hardware, and equipment that have date sensitive software or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000. This may have resulted in system failures or other disruptions of operations.

WPS Resources and its subsidiary companies were committed to eliminating or minimizing the adverse effects of the Year 2000 computer compliance issue on our business operations, including the products and services provided to our customers, and to maintaining our reputation as an efficient and reliable supplier of energy. Our commitment paid off when December 31, 1999 was non-eventful. No Year 2000 energy problems have been reported through the first eight weeks of 2000.

In all, no negative reaction was apparent from either customers or employees. The large scale communications effort, patterned after our procedures involved in nuclear exercises and drills, was extremely successful.

Fewer expenditures were made for hardware and software than originally anticipated. Expenditures for the Year 2000 project incurred through January 31, 2000 were $3.9 million.

TRENDS

Accounting Standards

Wisconsin Public Service and Upper Peninsula Power follow Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," and their financial statements reflect the effects of the different ratemaking principles followed by the various jurisdictions regulating each utility. For Wisconsin Public Service these include the Public Service Commission of Wisconsin, 89% of revenues; the Michigan Public Service Commission, 2% of revenues; and the Federal Energy Regulatory Commission, 9% of revenues. In addition, the Kewaunee plant is regulated by the Nuclear Regulatory Commission. Environmental matters are primarily governed by the United States Environmental Protection Agency and the Wisconsin Department of Natural Resources.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires all derivatives to be measured at fair value and recognized as either assets or liabilities in the statement of financial position. The accounting for changes in the fair value of a derivative depends upon the use of the derivative and its resulting designation. Unless specific hedge accounting criteria are met, changes in the derivative's fair value must be recognized currently in earnings. In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137. This new statement delays the effective date of Standard No. 133 to fiscal periods beginning after June 15, 2000. We will be adopting the requirements of this statement on January 1, 2001. We have inventoried the outstanding contracts at our utility subsidiaries. Based on our understanding of the current interpretation of this statement, we have limited exposure at the utilities at this time. However, the requirements of this statement could increase volatility in earnings and other comprehensive income at the nonregulated subsidiaries.

Utility Restructuring

Electric reliability issues have replaced restructuring and retail competition issues as the focus of attention in Wisconsin. Electric reliability continues to be the primary focus for the Public Service Commission of Wisconsin and the Wisconsin legislature. The Public Service Commission of Wisconsin's first priorities are to develop the utility infrastructure necessary to assure reliable electric service and to remove the barriers to competition at the wholesale level. In 1998, the Public Service Commission of Wisconsin and the major utilities in Wisconsin, including Wisconsin Public Service, made legislative proposals to address reliability and restructuring concerns, including market power, among other issues. This resulted in the 1998 Electric Reliability Act. In 1999, the Public Service Commission of Wisconsin created three rulemaking projects in response to the Electric Reliability Act. These projects define the requirements for the construction of merchant plants in Wisconsin, establish rules for opportunity sales by regulated utilities, address the asset cap relief provision, and address issues related to the development of a transmission company. In addition, a new biennial Strategic Energy Assessment process was defined. This process replaces the existing Advance Plan process. Also in 1999, Wisconsin enacted the Reliability 2000 Act which addresses asset cap relief provisions, the transfer of transmission assets into a statewide transmission company, targets for retail electric sales from renewable resources, and ratepayer funding of public benefits spending.

On June 5, 1997, the Michigan Public Service Commission ordered utilities under its jurisdiction to file electric open access plans and related tariffs. The Michigan Public Service Commission order called for generation open access in increments of 2.5% of retail load each year starting in 1997 and ending in 2001. The Michigan Public Service Commission order requires full generation open access for retail load in 2002. Wisconsin Public Service and Upper Peninsula Power submitted plans which provide full retail open access in 2002. On June 29, 1999, the Michigan Supreme Court found that the Michigan Public Service Commission did not have the statutory authority to order retail open access. The Michigan Public Service Commission then determined that it had the authority to regulate open access programs if the utilities volunteered to implement such programs. This authority to approve voluntary open access programs is being challenged.

Should electric deregulation occur such that Wisconsin Public Service and Upper Peninsula Power would no longer qualify to reflect the effects of ratemaking under Statement of Financial Accounting Standards No. 71 in their financial statements, we anticipate no impairment of significant recorded assets or reduction in reported equity. Wisconsin Public Service and Upper Peninsula Power do not have significant assets which are foreseen as being potentially stranded and no potential disparity between the depreciable lives of capital assets and those lives applicable to a competitive environment has been identified. Increased competition is likely to put pressure on electric utility margins. At this time, however, we cannot predict the ultimate results of deregulation.

The 1998 Electric Reliability Act requires all eastern Wisconsin utilities with transmission systems to join the Midwest Independent System Operator by June 30, 2000. Under the Reliability 2000 Act, Wisconsin utilities are also required to join and transfer their assets into the Wisconsin Transmission Company in order to obtain relief from the holding company system asset cap limitation on nonutility investments.

Both the Public Service Commission of Wisconsin and the Michigan Public Service Commission continue to review gas industry restructuring. In a current docket, the Public Service Commission of Wisconsin is addressing gas restructuring issues including unbundling of rates, pricing of contracted services in potential gas transportation situations, and the separation of gas utilities from their nonregulated gas marketing affiliates. The Michigan Public Service Commission is conducting pilot studies to test the development of competitive retail gas markets in Michigan.

Wisconsin Public Service has historically recovered gas costs through a purchased gas adjustment clause. The Public Service Commission of Wisconsin has recently allowed utilities to select either an incentive gas cost recovery mechanism or a modified one-for-one mechanism for gas cost recovery. Wisconsin Public Service has selected the modified one-for-one gas cost recovery plan, and implementation of the new mechanism, which is similar to the recovery received under the purchased gas adjustment clause previously in effect, began in January of 1999.

Environmental

Wisconsin Public Service continues to investigate the environmental cleanup of eight manufactured gas plant sites. The cleanup of the Stevens Point manufactured gas plant site has been substantially completed with monitoring of the site continuing. Costs of this cleanup were within the range expected for this site. Future investigation and cleanup costs for the remaining seven sites is estimated to be in the range of $34.3 million to $41.0 million. These estimates may be adjusted in the future contingent upon remedial technology, regulatory requirements, and experience gained through cleanup activities.

An initial liability for cleanup of $41.7 million had been established with an offsetting regulatory asset (deferred charge). Expenditures have reduced the liability to $38.6 million. Management believes that cleanup costs net of insurance recoveries, but not the carrying costs associated with the cleanup expenditures, will be recoverable in current and future customer rates. Wisconsin Public Service has received $12.6 million in insurance recoveries which have been recorded as a reduction in the regulatory asset.

Wisconsin Public Service is in compliance with both the Phase I and Phase II sulfur dioxide and nitrogen oxide emission limits established by the Federal Clean Air Act Amendments of 1990. Management believes that all costs incurred for additional compliance will be recoverable in future customer rates.

In late September of 1998, the United States Environmental Protection Agency required certain states, including Wisconsin to develop plans to reduce the emissions of nitrogen oxides from sources within the state by late 2003. On a preliminary basis, Wisconsin Public Service projects potential capital costs of between $62.5 million and $112.0 million to comply with possible future regulations. The annual operating and maintenance expense associated with these possible future regulations are projected to range from $2.0 million to $6.0 million. The costs depend on the state-specific compliance method to be adopted in the future and the effectiveness of the various technologies available for nitrogen oxide emission control. Under Wisconsin Public Service's current practice, the capital costs (as reflected in depreciation expenses and return on capital allowed) and the annual operating costs are anticipated to be recovered through future customer rates.

On December 24, 1998, Wisconsin Public Service joined other parties in a petition challenging the Environmental Protection Agency's regulations that require Wisconsin to prepare and submit a nitrogen oxide implementation plan. On January 22, 1999, the State of Wisconsin intervened in the litigation and challenged the geographic scope of the rule and the required timing for implementation of nitrogen oxide controls within the state. The court heard arguments on November 9, 1999. No decision has yet been rendered.

The Sunbury plant, acquired by WPS Power Development in November 1999, currently purchases emission allowances to comply with air regulations. Additional technology may be required by 2003 in order to comply with nitrogen oxide standards. Expenditures for this technology could be significant.

Kewaunee Nuclear Power Plant

On September 29, 1998, Wisconsin Public Service and Madison Gas and Electric entered into an agreement pursuant to which Wisconsin Public Service will acquire Madison Gas and Electric's 17.8% share of the Kewaunee plant. This agreement, the closing of which is contingent upon regulatory approval and steam generator replacement scheduled for the fall of 2001, will result in Wisconsin Public Service's ownership interest in the Kewaunee plant increasing to 59.0%.

IMPACT OF INFLATION

Our financial statements are prepared in accordance with generally accepted accounting principles and report operating results in terms of historic cost. The statements provide a reasonable, objective, and quantifiable statement of financial results; but they do not evaluate the impact of inflation. Under rate treatment prescribed by utility regulatory commissions, Wisconsin Public Service's and Upper Peninsula Power's projected operating costs are recoverable in revenues. Because rate forecasting assumes inflation, most of the inflationary effects on normal operating costs are recoverable in rates. However, in these forecasts, Wisconsin Public Service and Upper Peninsula Power are only allowed to recover the historic cost of plant via depreciation.

Consolidated Statements of Income, Comprehensive Income, and Retained Earnings

Year Ended December 31 (Thousands, except share amounts)	1999	1998	1997
Operating revenues			
Electric utility	$ 582,471	$ 543,260	$536,885
Gas utility	191,521	165,111	211,090
Nonregulated energy and other	324,548	355,365	187,862
Total operating revenues	1,098,540	1,063,736	935,837
Operating expenses			
Electric production fuels	113,780	110,809	107,988
Purchased power	73,619	56,447	63,947
Gas purchased for resale	118,889	105,908	147,755
Nonregulated energy cost of sales	301,451	346,663	182,863
Other operating expenses	194,938	172,876	165,982
Maintenance	60,564	52,813	44,325
Depreciation and decommissioning	83,744	86,274	83,441
Taxes other than income	31,818	31,902	31,375
Total operating expenses	978,803	963,692	827,676
Operating income	119,737	100,044	108,161
Other income			
Allowance for equity funds used during construction	716	173	154
Other, net	8,233	2,505	11,952
Total other income	8,949	2,678	12,106
Income before interest expense	128,686	102,722	120,267
Interest on long-term debt	27,162	23,987	26,273
Other interest	8,507	4,827	4,910
Allowance for borrowed funds used during construction	(2,901)	(177)	(167)
Total interest expense	32,768	28,637	31,016
Distributions – preferred securities of subsidiary trust	3,501	1,488	–
Income before income taxes	92,417	72,597	89,251
Income taxes	29,741	23,445	31,106
Minority interest	–	(611)	(797)
Preferred stock dividends of subsidiaries	3,111	3,132	3,133
Net income	59,565	46,631	55,809
Other comprehensive income	–	–	–
Comprehensive income	59,565	46,631	55,809
Retained earnings at beginning of year	335,154	339,508	333,375
Cash dividends on common stock	(53,018)	(50,985)	(49,676)
Retained earnings at end of year	$ 341,701	$ 335,154	$339,508
Average shares of common stock	26,644	26,511	26,527
Basic and diluted earnings per average share of common stock	$2.24	$1.76	$2.10
Dividend per share of common stock	2.00	1.96	1.92

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

At December 31 (Thousands)

Assets	1999	1998
Utility plant		
Electric	**$1,797,832**	$1,715,882
Gas	**285,048**	267,892
Property under capital lease	**74,130**	–
Total	**2,157,010**	1,983,774
Less – Accumulated depreciation and decommissioning	**1,293,354**	1,206,123
Net	**863,656**	777,651
Nuclear decommissioning trusts	**198,052**	171,442
Construction in progress	**74,187**	42,424
Nuclear fuel, less accumulated amortization	**15,007**	18,641
Net utility plant	**1,150,902**	1,010,158
Current assets		
Cash and equivalents	**10,547**	7,134
Customer and other receivables, net of reserves	**132,355**	117,206
Accrued utility revenues	**38,533**	34,175
Fossil fuel, at average cost	**24,657**	13,152
Gas in storage, at average cost	**29,344**	20,795
Materials and supplies, at average cost	**28,618**	21,788
Prepayments and other	**28,871**	26,462
Total current assets	**292,925**	240,712
Regulatory assets	**70,490**	70,041
Net nonutility and nonregulated plant	**168,143**	41,235
Pension assets	**65,622**	60,018
Investments and other assets	**68,466**	88,223
Total	**$1,816,548**	$1,510,387

Capitalization and Liabilities		
Capitalization		
Common stock equity	**$ 536,300**	$ 517,190
Preferred stock of subsidiary with no mandatory redemption	**51,193**	51,200
Company-obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely WPS Resources 7.00% subordinated debentures	**50,000**	50,000
Long-term capital lease obligation	**73,585**	–
Long-term debt	**510,917**	343,037
Total capitalization	**1,221,995**	961,427
Current liabilities		
Current portion of long-term debt and capital lease obligation	**1,362**	884
Notes payable	**10,403**	12,703
Commercial paper	**79,855**	47,590
Accounts payable	**103,437**	115,490
Accrued taxes	**9,844**	2,838
Accrued interest	**7,561**	7,594
Other	**21,099**	9,095
Total current liabilities	**233,561**	196,194
Long-term liabilities and deferred credits		
Accumulated deferred income taxes	**111,092**	122,642
Accumulated deferred investment tax credits	**25,748**	27,150
Regulatory liabilities	**64,148**	50,474
Postretirement health care liability	**47,115**	41,713
Environmental remediation liabilities	**40,557**	40,478
Other long-term liabilities	**72,332**	70,309
Total long-term liabilities and deferred credits	**360,992**	352,766
Commitments and contingencies (See Note 13)	–	–
Total	**$1,816,548**	$1,510,387

The accompanying notes are an integral part of these statements.

Consolidated Statements of Capitalization

At December 31 (Thousands, except share amounts)			**1999**	1998
Common stock equity				
Common stock, $1 par value, 100,000,000 shares authorized; 26,851,045 shares outstanding at December 31, 1999 and 26,551,405 shares outstanding at December 31, 1998			**$ 26,851**	$ 26,551
Premium on capital stock			**172,108**	163,438
Retained earnings			**341,701**	335,154
Shares in deferred compensation trust; 71,097 shares at an average cost of $30.04 per share at December 31, 1999 and 49,477 shares at an average cost of $30.42 per share at December 31, 1998			**(2,136)**	(1,505)
Employee Stock Ownership Plan loan guarantees			**(2,224)**	(6,448)
Total common stock equity			**536,300**	517,190
Preferred stock – Wisconsin Public Service Corporation				
Cumulative, $100 par value, 1,000,000 shares authorized; with no mandatory redemption				
	Shares Outstanding			
Series	1999	1998		
5.00%	131,950	132,000	**13,195**	13,200
5.04%	29,980	30,000	**2,998**	3,000
5.08%	50,000	50,000	**5,000**	5,000
6.76%	150,000	150,000	**15,000**	15,000
6.88%	150,000	150,000	**15,000**	15,000
Total preferred stock of subsidiary with no mandatory redemption			**51,193**	51,200
Company-obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely WPS Resources 7.00% subordinated debentures			**50,000**	50,000
Capital lease obligation – Wisconsin Public Service Corporation			**74,004**	–
Less current portion			**419**	–
Long-term capital lease obligation			**73,585**	–
Long-term debt				
First mortgage bonds – Wisconsin Public Service Corporation				
Series	Year Due			
7.30%	2002		**50,000**	50,000
6.80%	2003		**50,000**	50,000
6⅛%	2005		**9,075**	9,075
6.90%	2013		**22,000**	22,000
8.80%	2021		**53,100**	53,100
7⅛%	2023		**50,000**	50,000
6.08%	2028		**50,000**	50,000
First mortgage bonds – Upper Peninsula Power Company				
Series	Year Due			
7.94%	2003		**15,000**	15,000
10.0%	2008		**4,800**	6,000
9.32%	2021		**18,000**	18,000
Unsecured senior notes – WPS Resource Corporation				
Series	Year Due			
7.00%	2009		**150,000**	–
Term loan – nonrecourse, secured by nonregulated assets of PDI New England and PDI Canada				
Series	Year Due			
8.75%	2010		**24,000**	–
Employee Stock Ownership Plan loan guarantees			**2,224**	6,448
Notes payable to bank, secured by nonregulated plant			**11,136**	10,943
Senior secured note			**3,722**	3,886
Other long-term debt			**142**	286
Total			**513,199**	344,738
Unamortized discount and premium on bonds and debt securities, net			**(1,339)**	(817)
Total long-term debt			**511,860**	343,921
Less current portion			**(943)**	(884)
Net long-term debt			**510,917**	343,037
Total capitalization			**$1,221,995**	$961,427

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Year Ended December 31 (Thousands)	1999	1998	1997
Cash flows from operating activities			
Net income	$ 59,565	$ 46,631	$ 55,809
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and decommissioning	83,744	86,274	83,441
Amortization of nuclear fuel and other	14,949	16,257	14,665
Deferred income taxes	(12,624)	(11,940)	(6,220)
Investment tax credit restored	(1,402)	(2,311)	(1,949)
Allowance for equity funds used during construction	(716)	(173)	(154)
Pension income	(5,604)	(9,669)	(12,548)
Postretirement health care funding	5,402	4,491	6,424
Unrealized gains and losses on gas futures contracts	7,586	(6,380)	(575)
Other, net	(2,746)	(2,156)	(7,278)
Changes in			
Customer and other receivables	(15,149)	(21,106)	17,343
Accrued utility revenues	(4,358)	(3,425)	4,636
Fossil fuel inventory	(11,505)	(2,530)	(2,112)
Gas in storage	(8,549)	1,285	(2,093)
Accounts payable	(12,053)	25,743	(10,794)
Accrued taxes	7,006	(7,276)	1,937
Environmental remediation insurance recovery	–	–	12,374
Miscellaneous current and accrued liabilities	11,312	(4,004)	(3,373)
Net cash from operating activities	114,858	109,711	149,533
Cash flows from (used for) investing activities			
Construction of utility plant and nuclear fuel expenditures	(140,697)	(94,734)	(58,258)
Purchase of other property and equipment	(132,486)	(16,075)	(8,057)
Decommissioning funding	(9,180)	(17,239)	(16,059)
Other	12,840	4,046	5,086
Net cash used for investing activities	(269,523)	(124,002)	(77,288)
Cash flows from (used for) financing activities			
Issuance of notes payable	34,350	196,353	97,260
Redemption of notes payable	(36,650)	(203,150)	(109,360)
Issuance of other long-term debt	174,433	50,233	1,789
Redemption of other long-term debt	(1,484)	(53,660)	–
Issuance of mandatorily redeemable trust preferred securities	–	50,000	–
Issuance of commercial paper	1,661,095	2,157,808	700,540
Redemption of commercial paper	(1,628,830)	(2,130,924)	(711,184)
Cash dividends on common stock	(53,018)	(50,985)	(49,698)
Issuance of common stock	8,970	–	–
Other	(788)	(2,745)	(1,139)
Net cash from (used for) financing activities	158,078	12,930	(71,792)
Net increase (decrease) in cash and equivalents	3,413	(1,361)	453
Cash and equivalents at beginning of year	7,134	8,495	8,042
Cash and equivalents at end of year	$ 10,547	$ 7,134	$ 8,495
Cash paid during year for			
Interest, less amount capitalized	$ 34,106	$ 26,879	$ 26,669
Income taxes	35,285	44,553	37,366
Preferred stock dividends of subsidiary	3,111	3,132	3,133

Supplemental schedule of noncash investing and financing activities:
A capital lease obligation of $74,130 was incurred when Wisconsin Public Service entered into a long-term lease agreement for utility plant assets.

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations—WPS Resources Corporation is a holding company. Approximately 71% of our 1999 revenues, 83% of our assets, and substantially all of our 1999 net income was derived from our utility subsidiaries. Our primary wholly-owned subsidiary, Wisconsin Public Service Corporation, is an electric and gas utility. Wisconsin Public Service supplies and distributes electric power and natural gas in its franchised service territory in northeastern Wisconsin and an adjacent portion of the Upper Peninsula of Michigan. Our other wholly-owned utility subsidiary, Upper Peninsula Power Company, is an electric utility. Upper Peninsula Power supplies and distributes electric energy in the Upper Peninsula of Michigan. Another wholly-owned subsidiary, WPS Resources Capital Corporation, is a holding company for our nonregulated businesses; WPS Energy Services, Inc., which is a diversified energy supply and services company and WPS Power Development, Inc., which develops, owns and operates, through its own subsidiaries, electric generation projects and provides service to the electric power generation industry. Our other nonregulated subsidiaries include Upper Peninsula Building Development Company, Penvest, Inc., and subsidiaries of Wisconsin Public Service and WPS Power Development.

The term "utility" refers to the regulated activities of Wisconsin Public Service and Upper Peninsula Power, while the term "nonutility" refers to the activities of Wisconsin Public Service and Upper Peninsula Power which are not regulated. The term "nonregulated" refers to activities other than those of Wisconsin Public Service and Upper Peninsula Power.

(b) Use of Estimates—We prepare our financial statements in conformity with generally accepted accounting principles. We make estimates and assumptions that affect reported amounts. These estimates and assumptions include assets, liabilities, the 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.

(c) Acquisitions and Nonregulated Investments—In 1999, WPS Power Development purchased the Sunbury plant, a 472-megawatt nameplate capacity coal and oil-fired generation facility in Pennsylvania from PP&L Resources, Inc., and 92 megawatts of hydro, steam, and diesel generation facilities in Maine and New Brunswick, Canada from Maine Public Service Company. In addition, WPS Power Development indirectly owns a two-thirds interest in a merchant generating plant in Cassville, Wisconsin, the Stoneman Power Plant, and owns a two-thirds interest in a coal pelletization plant currently located in Alabama.

The emission allowances acquired in the Sunbury plant acquisition have been assigned a value which is being amortized over the respective lives of the allowances.

At WPS Energy Services, the price paid in excess of fair value for identifiable assets acquired in 1995 and 1999 are being amortized over five-year periods.

(d) Consolidation—We consolidate all majority-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated.

(e) Derivative Instruments and Hedging Activities—In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires all derivatives to be measured at fair value and recognized as either assets or liabilities in the statement of financial position. The accounting for changes in the fair value of a derivative depends upon the use of the derivative and its resulting designation. Unless specific hedge accounting criteria are met, changes in the derivative's fair value must be recognized currently in earnings.

In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137. This new statement delays the effective date of Statement No. 133 to fiscal periods beginning after June 15, 2000. We will be adopting Statement No. 133 on January 1, 2001.

We have certain fixed price contracts for future purchases of commodities in our utility business that may be considered derivatives under Statement No. 133. We believe these contracts would qualify as hedges under current interpretations. Based on the limited number of contracts as of December 31, 1999, we do not expect the amount of derivative assets and liabilities that would be recognized on our balance sheet to be significant.

We are currently reviewing the impact of implementing Statement No. 133 at our nonregulated subsidiaries. At this time, we do not know the effect that Statement No. 133 will have on our financial statements. We expect that substantially all of the derivatives used by WPS Energy Services to hedge price risk associated with firm commitments and inventory will qualify for hedge accounting. Statement No. 133, in part, allows special hedge accounting for fair value and cash flow hedges. Statement No. 133 provides that the gain or loss on a derivative instrument designated and qualifying as a fair value hedging instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk be recognized currently in earnings in the same accounting period. Statement No. 133 provides that the effective portion of the gain or loss on a derivative designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income. The effective portion of the gain or loss will be reclassified into earnings in the period or periods during which the hedged forecasted transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, must be recognized currently in earnings.

Prior to the adoption of these new accounting requirements in January of 2001, we will continue to account for price risk management activities under existing accounting standards. Under these standards, we have not experienced significant price risk activities at our utility operations because much of the utility price risk exposure is recoverable through customer rates. WPS Energy Services experiences price risk under the existing accounting pronouncements. WPS Energy Services records gains or losses on derivatives related to firm commitments as adjustments to the cost of sales or to revenues when the related transactions affect earnings. Gains and losses on derivatives associated with forecasted transactions are recorded when the forecasted transactions affect earnings. WPS Power Development experiences electric power price risk, but does not use derivatives to manage risk.

(f) Property Additions, Maintenance, and Retirements of Utility Plant—Utility plant is stated at the original cost of construction which includes an allowance for funds used during construction. The cost of renewals and betterments of units of property (as distinguished from minor items of property) is capitalized as an addition to the utility plant accounts. Except for land, no gain or loss is recognized in connection with ordinary retirements of utility property units. The cost of units of property retired, sold, or otherwise disposed of, plus removal, less salvage, are charged to the accumulated provision for depreciation. Maintenance, repair, replacement, and renewal costs associated with items not qualifying as units of property are generally charged to operating expense.

Nonutility property and nonregulated property follow a similar policy except that interest is capitalized during construction and gains and losses are recognized in connection with retirements.

We capitalize software in accordance with the American Institute of Certified Public Accountants' Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." We capitalize certain costs related to software developed or obtained for internal use and amortize those costs to operating expense over the estimated useful life of the related software.

(g) Allowance for Funds Used During Construction—Approximately 50% of Wisconsin Public Service's retail jurisdictional construction work in progress expenditures are subject to allowance for funds used during construction. Wisconsin Public Service uses a factor based on its overall cost of capital. Certain major new generating facilities earn an allowance for funds used during construction based on total construction work in progress expenditures. This includes the combustion turbine being constructed at West Marinette for Madison Gas and Electric. For 1999, Wisconsin Public Service's allowance for funds used during construction retail rate was approximately 10.6%. A separately negotiated rate, however, is being used for the combustion turbine being constructed for Madison Gas and Electric. Upper Peninsula Power's construction work in progress expenditures are not subject to retail jurisdictional allowance for funds used during construction.

Allowance for funds used during construction is recorded on Wisconsin Public Service's and Upper Peninsula Power's wholesale jurisdictional electric construction work in progress at debt and equity percentages specified in the Federal Energy Regulatory Commission's Uniform System of Accounts. For 1999, the allowance for funds used during construction wholesale rate was approximately 6.7% for Wisconsin Public Service and 5.3% for Upper Peninsula Power.

(h) Leases—Wisconsin Public Service accounts for the agreement to purchase power from the De Pere Energy Center LLC (an affiliate of SkyGen LLC) as a capital lease according to Statement of Financial Accounting Standards No. 13, "Accounting For Leases." On June 14, 1999, Wisconsin Public Service recorded a leased asset and a lease obligation equal to the present value of the minimum lease payments. The leased asset is depreciated over 25 years, the life of the contract.

(i) Depreciation—Straight-line depreciation expense is recorded over the estimated useful life of property and includes amounts for estimated removal and salvage. Depreciation rates for Wisconsin Public Service were approved by the Public Service Commission of Wisconsin effective January 1, 1999. Wisconsin Public Service also uses the rates established by the Public Service Commission of Wisconsin to depreciate its property in the Upper Peninsula of Michigan. Depreciation of the Kewaunee Nuclear Power Plant is covered in a separate order from the Public Service Commission of Wisconsin as explained below.

Depreciation rates for Upper Peninsula Power were approved by the Michigan Public Service Commission on January 1, 1994 and remain in effect through 2001. A new depreciation study will be filed with the Michigan Public Service Commission in early 2001, with new rates expected to become effective January 1, 2002.

Depreciation expense also includes accruals for nuclear decommissioning. These accruals are not included in the annual composite rates shown below. An explanation of this item is included in Note 1(l).

WPS Resources	**1999**	1998	1997
Annual composite depreciation rates			
Electric	**3.56%**	3.57%	3.55%
Gas	**3.23%**	3.26%	3.26%
Wisconsin Public Service			
Annual composite depreciation rates			
Electric	**3.46%**	3.55%	3.52%
Gas	**3.23%**	3.26%	3.26%

Property recently acquired from Maine Public Service and PP&L Resources is depreciated using various lives. Depreciable lives are as long as 40 years on the Maine and Canada property and as long as 30 years on the Sunbury property. Property at the Stoneman plant is also depreciated using various lives. Some of the lives are as long as 40 years. Other nonutility and nonregulated property is depreciated using straight-line depreciation. Asset lives range from five to ten years.

Depreciation for the Kewaunee plant is being accrued based on a 1997 Public Service Commission of Wisconsin order. The order allows for full cost recovery by the end of 2002. The Public Service Commission of Wisconsin's depreciation rate order effective for 1999 also includes a change in methodology for the Kewaunee plant after steam generators have been replaced. The replacement is estimated for completion in the fall of 2001. At that time, the unrecovered basis of the Kewaunee plant, including the new steam generators, will be recovered over an 8.5-year remaining life using the sum-of-the-years depreciation method.

(j) Impairment—Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment losses resulting from application of this statement are reported in income in the period the recognition criteria are first applied and met. This statement does not have a material impact on the current carrying amount of our assets.

(k) Nuclear Fuel—The quantity of heat produced for the generation of electric energy by the Kewaunee plant is the basis for the amortization of the costs of nuclear fuel to electric production fuel expense. Costs amortized to electric fuel expense assume no salvage values for uranium and plutonium. Included in the costs was an amount for ultimate disposal. These costs are recovered currently from customers in rates. The ultimate storage of fuel is handled by the United States Department of Energy pursuant to a contract. The contract was required by the Nuclear Waste Act of 1982. The Department of Energy receives quarterly payments for the storage of fuel based on generation. Spent nuclear fuel storage space is provided at the Kewaunee plant on an interim basis. The expenses associated with this storage are recognized as current operating costs. With minor plant modifications planned for 2001, the Kewaunee plant should have sufficient fuel storage capacity until the end of its useful life in 2013. At December 31, 1999, the accumulated provision for nuclear fuel totaled $162.7 million compared with $156.6 million at December 31, 1998.

(l) Nuclear Decommissioning—Nuclear decommissioning costs to date have been accrued over the estimated service life of the Kewaunee plant, recovered currently from customers in rates, and deposited in external trusts. Such costs totaled $9.2 million in 1999, $17.2 million in 1998, and $16.1 million in 1997. The decrease in 1999 was the result of the Public Service Commission of Wisconsin's approval of a change in Wisconsin Public Service's decommissioning funding levels in a rate order issued on January 14, 1999. The revised funding level continues to use a recovery period ending in 2002 as described in Note 1(i).

Based on the standard cost escalation assumptions required by a July 1994 Public Service Commission of Wisconsin order, the undiscounted amount of Wisconsin Public Service's decommissioning costs forecasted to be expended between the years 2013 and 2043 is $675.2 million under the revised funding plan which became effective in 1999. In developing the funding plan, a long-term after-tax earnings rate of approximately 5.3% was assumed.

Wisconsin Public Service's share of the Kewaunee plant decommissioning is estimated to be $200.7 million in current dollars based on a site-specific study. The study, which was performed in 1998, uses immediate dismantlement as the method of decommissioning and assumes shutdown in 2013. As of December 31, 1999, the market value of the external nuclear decommissioning trusts totaled $198.1 million. Based on that study, Wisconsin Public Service's contributions for 2000 under the 1999 Public Service Commission of Wisconsin rate order will be $8.3 million.

Depreciation expense includes future decommissioning costs collected in customer rates and an offsetting charge for earnings from external trusts. As of December 31, 1999, the accumulated provision for depreciation and decommissioning included accumulated provisions for decommissioning totaling $198.1 million. Realized trust earnings totaled $4.6 million in 1999, $3.3 million in 1998, and $3.7 million in 1997. Unrealized trust earnings totaled $16.2 million in 1999, $16.8 million in 1998, and $13.8 million in 1997. Unrealized gains, net of tax, in external trusts are reflected as an increase to the decommissioning reserve, since decommissioning expense will be recognized as the gains are realized, in accordance with regulatory requirements.

Investments in the nuclear decommissioning trusts are recorded at market value. Investments at December 31, 1999 consisted of 61.0% equity securities and 39.0% corporate and municipal debt securities. The investments classified as utility plant are presented net of related income tax effects on unrealized gains and represent the amount of assets available to accomplish decommissioning. The nonqualified trust investments designated to pay income taxes when unrealized gains become realized are classified as other assets. An offsetting regulatory liability reflects the expected reduction in future rates as unrealized gains in the nonqualified trust are realized. Information regarding the cost and market value of the external nuclear decommissioning trusts is set forth below:

1999 (Thousands)	Market	Cost	Unrealized Gain (Loss)
Security Type			
Debt	$ 77,156	$ 78,394	$ (1,238)
Equity	120,896	62,861	58,035
Balance at December 31	$198,052	$141,255	$56,797

1998 (Thousands)	Market	Cost	Unrealized Gain (Loss)
Security Type			
Debt	$ 71,771	$ 69,911	$ 1,860
Equity	99,680	58,231	41,449
Balance at December 31	$171,451	$128,142	$43,309

(m) Cash and Equivalents—We consider short-term investments with an original maturity of three months or less to be cash equivalents.

(n) Revenue and Customer Receivables—We accrue revenues related to electric and gas service. These accruals include estimated amounts for service rendered but not billed.

Approximately 12% of our total revenue is from companies in the paper products industry.

Automatic fuel adjustment clauses are used for Federal Energy Regulatory Commission wholesale-electric and the Michigan Public Service Commission retail-electric portions of Wisconsin Public Service's and Upper Peninsula Power's businesses.

The Wisconsin retail-electric portion of Wisconsin Public Service's business uses a "cost variance range" approach. This range is based on a specific estimated fuel cost for the forecast year. If Wisconsin Public Service's actual fuel costs fall outside this range, a hearing can be held resulting in an adjustment to future rates.

The Public Service Commission of Wisconsin has approved a modified one-for-one gas cost recovery plan for Wisconsin Public Service. Utilities were given the choice between continuing under a modified one-for-one gas cost recovery plan or switching to an incentive gas cost recovery mechanism. Implementation of the modified one-for-one gas cost recovery plan began in January 1999. This plan allows Wisconsin Public Service to pass changes in the cost of gas purchased from its suppliers on to system gas customers, subject to regulatory review.

Billings to Upper Peninsula Power's customers under the Michigan Public Service Commission's jurisdiction include base rate charges and a power supply cost recovery factor. Approximately 44% of Upper Peninsula Power's operating expenses are power supply costs. Upper Peninsula Power receives Michigan Public Service Commission approval each year to recover projected power supply costs by establishment of power supply cost recovery factors. These factors are subject to annual reconciliation to actual costs and permit 100% recovery of allowed power supply costs. Any over or under recovery is deferred on Upper Peninsula Power's balance sheet. Additional billings or refunds are made to relieve these deferrals.

Wisconsin Public Service and Upper Peninsula Power are required to provide service and grant credit to customers within their service territories. Wisconsin Public Service is precluded from discontinuing service to residential customers during certain periods of the year. Wisconsin Public Service and Upper Peninsula Power continually review their customers' credit-worthiness and obtain deposits or refund deposits accordingly.

(o) Regulatory Assets and Liabilities—Wisconsin Public Service and Upper Peninsula Power are subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation." Regulatory assets represent probable future revenue associated with certain incurred costs. Revenue will be recovered from customers through the ratemaking process. Regulatory liabilities represent amounts that are refundable in future customer rates. The following regulatory assets and liabilities were reflected in our Consolidated Balance Sheets as of December 31:

WPS Resources (Thousands)	1999	1998
Regulatory assets		
Demand-side management expenditures	**$23,862**	$23,860
Environmental remediation costs (net of insurance recoveries)	**30,942**	30,285
Funding for enrichment facilities	**4,579**	5,056
Other	**11,107**	10,840
Total	**$70,490**	$70,041
Regulatory liabilities		
Income tax related items	**$29,080**	$29,617
Unrealized gain on decommissioning trust	**19,129**	16,397
Kewaunee deferred revenue	**2,819**	4,009
De Pere Energy Center deferred revenue	**3,263**	–
Deferred gain on emission allowance sales	**3,705**	3,304
Interest from tax refunds	**3,730**	–
Other	**2,422**	(2,853)
Total	**$64,148**	$50,474

Wisconsin Public Service (Thousands)	1999	1998
Regulatory assets		
Demand-side management expenditures	**$23,862**	$23,860
Environmental remediation costs (net of insurance recoveries)	**29,017**	29,021
Funding for enrichment facilities	**4,579**	5,056
Other	**10,711**	10,398
Total	**$68,169**	$68,335
Regulatory liabilities		
Income tax related items	**$21,660**	$22,734
Unrealized gain on decommissioning trust	**19,129**	16,397
Kewaunee deferred revenue	**2,819**	4,009
De Pere Energy Center deferred revenue	**3,263**	–
Deferred gain on emission allowance sales	**3,705**	3,304
Interest from tax refunds	**3,730**	–
Other	**2,422**	(2,853)
Total	**$56,728**	$43,591

As of December 31, 1999, most of Wisconsin Public Service's regulatory assets are being recovered through rates charged to customers over periods ranging from one to ten years. Recovery periods for Upper Peninsula Power's regulatory assets are up to 35 years. Carrying costs for all of Wisconsin Public Service's regulatory assets are being recovered except for those associated with environmental costs. No carrying costs are being recovered for Upper Peninsula Power's regulatory assets in 1999. Starting in 2000, Upper Peninsula Power is permitted to recover carrying costs on environmental regulatory assets. Based on prior and current rate treatment for such costs, we believe it is probable that Wisconsin Public Service and Upper Peninsula Power will continue to recover from customers the regulatory assets described above.

See Notes 11 and 12 for specific information on pension and income tax related regulatory liabilities. See Note 13 for information on environmental remediation deferred costs.

(p) Investments and Other Assets—Investments include Wisconsin Public Service's ownership interests in Wisconsin River Power Company and Wisconsin Valley Improvement Company. Income related to these investments is included in other income and deductions using the equity method of accounting. Other assets include operating deposits for jointly-owned plants, the cash surrender value of life insurance policies, the long-term portion of energy conservation loans to customers, and the decommissioning trust investments designated for payment of income taxes.

(q) Stock Options—Beginning in 1999, we issued options under our stock option plans. We account for these plans using the intrinsic value based method described in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The intrinsic value based method only records compensation expense for the excess of the quoted market price of the stock at the measurement date over the amount an employee must pay to acquire the stock. See Note 8 for more information on our stock option plans.

(r) Reclassifications—Certain prior year financial statement amounts have been reclassified to conform to current year presentation.

(s) Retirement of Debt—Historically, gains or losses resulting from the settlement of long-term utility debt obligations have been deferred and amortized concurrent with rate recovery as required by regulators.

NOTE 2—JOINTLY-OWNED UTILITY FACILITIES

Information regarding Wisconsin Public Service's share of major jointly-owned electric-generating facilities in service at December 31, 1999 is set forth below:

Wisconsin Public Service *(Thousands, except for percentages)*	West Marinette Unit No. 33	Columbia Energy Center	Edgewater Unit No. 4	Kewaunee Nuclear Power Plant
Ownership	68.0%	31.8%	31.8%	41.2%
Plant capacity (Megawatts)	77.0	322.6	105.8	205.2
Utility plant in service	$15,932	$113,311	$22,574	$134,425
Accumulated depreciation	$ 4,251	$ 71,432	$14,051	$106,240
In-service date	1993	1975 and 1978	1969	1974

Wisconsin Public Service's share of direct expenses for these plants is included in the corresponding operating expenses in the consolidated statements of income. Wisconsin Public Service has supplied its own financing for all jointly-owned projects.

We have an agreement with Madison Gas and Electric Company, which is contingent upon steam generator replacement, that Wisconsin Public Service will acquire Madison Gas and Electric's 17.8% share of the Kewaunee plant. This will increase Wisconsin Public Service's ownership in the Kewaunee plant to 59.0%. See Note 13 for additional information regarding the Kewaunee plant.

NOTE 3—CAPITAL LEASE

In June 1999, Phase I of a 25-year power purchase contract became effective with the De Pere Energy Center LLC. We have accounted for the contract as a capital lease. In Phase I, an initial asset and corresponding obligation were recorded at $74.1 million. The asset and obligation represent the present value of minimum lease payments. Excluded from the payments are executory costs such as insurance, maintenance, and taxes. When the contract expires in 2024, Wisconsin Public Service may renew the contract for two additional five-year periods with proper notice. The leased asset is being amortized on a straight-line basis over the original 25-year term of the contract. The following is a schedule of future minimum lease payments, excluding executory costs, under the De Pere Energy Center LLC capital lease:

Year ending December 31 (Thousands)	
2000	$ 4,869
2001	5,048
2002	5,234
2003	5,426
2004	5,625
Later years	108,380
Net minimum lease payments	134,582
Less: Amount representing interest	(60,578)
Present value of net minimum lease payments	$ 74,004

NOTE 4—SHORT-TERM DEBT AND LINES OF CREDIT

To provide short-term borrowing flexibility and security for commercial paper outstanding, WPS Resources and its subsidiaries maintain bank lines of credit. These lines of credit require a fee.

The information in the table below relates to short-term debt and lines of credit for the years indicated:

(Thousands, except for percentages)	1999	1998	1997
As of end of year			
Commercial paper outstanding	**$ 79,855**	$ 47,590	$20,706
Average discount rate on outstanding commercial paper	**6.55%**	4.84%	6.55%
Short-term notes payable outstanding	**$ 10,403**	$ 12,703	$19,500
Average interest rate on short-term notes payable	**8.10%**	5.88%	7.06%
Available (unused) lines of credit	**$127,000**	$ 62,102	$27,500
For the year			
Maximum amount of short-term debt	**$218,545**	$102,033	$80,017
Average amount of short-term debt	**$ 68,620**	$ 50,939	$37,609
Average interest rate on short-term debt	**5.34%**	5.93%	6.06%

NOTE 5—LONG-TERM DEBT

In November 1999, we issued $150.0 million of 7.00% unsecured senior notes due in 2009. At Wisconsin Public Service and Upper Peninsula Power, utility plant assets secure first mortgage bonds. In December 1998, Wisconsin Public Service issued $50.0 million of 6.08% senior notes due in 2028 secured by a pledge of first mortgage bonds. The 1998 notes become unsecured if Wisconsin Public Service retires all of its outstanding first mortgage bonds.

WPS Resources is not required to make sinking fund payments on our outstanding debt. Wisconsin Public Service also has no sinking fund payment requirements. Upper Peninsula Power, however, is required to make bond sinking fund payments for its outstanding first mortgage bonds. PDI New England and PDI Canada, subsidiaries of WPS Power Development, make semiannual installment payments on a $24.0 million nonrecourse term loan obtained in 1999 for financing the purchase of Maine Public Service's generating assets. A schedule of all debt payments including bond maturities is as follows:

Year ending December 31 (Thousands)	
2000	$ 14,538
2001	1,695
2002	52,863
2003	68,134
2004	3,406
Future years	372,563
Total payments	$513,199

As of December 31, 1999, $8.0 million has been drawn against WPS Power Development's revolving credit note of $11.5 million, which is secured by the assets of the Stoneman plant. An additional $3.3 million, which is to be borrowed in the year 2000, has been committed against this note. The note, which is guaranteed by WPS Resources, is due in 2000 or when the plant is converted to a gas-fired combined cycle facility.

NOTE 6—COMPANY-OBLIGATED MANDATORILY REDEEMABLE TRUST PREFERRED SECURITIES OF SUBSIDIARY TRUST

On July 30, 1998, WPSR Capital Trust I issued $50.0 million of trust preferred securities to the public. The Trust is a Delaware business trust. WPS Resources owns all of the outstanding trust common securities of the Trust, and the only asset of the Trust is $51.5 million of subordinated debentures that we issued. The debentures are due on June 30, 2038 and bear interest at 7.0% per year. The terms and interest payments on the debentures correspond to the terms and distributions on the trust preferred securities. We have consolidated the preferred securities of the Trust into our financial statements. We reflect the interest payments on the debentures as "Distributions - preferred securities of subsidiary trust." These payments are tax deductible by WPS Resources.

We may defer interest payments on the debentures for up to 20 consecutive quarters. This would cause the deferral of distributions on the trust preferred securities as well. If we would defer interest payments, interest and distributions would continue to accrue. We would also accrue compounding interest on the deferred amounts. We may redeem all or part of the debentures after July 30, 2003. This would require the Trust to redeem an equal amount of trust securities at face value plus any accrued interest and unpaid distributions. We entered into a limited guarantee of payment of distributions, redemption payments, and liquidation payments with respect to the trust preferred securities. This guarantee, together with our obligations under the debentures, and under other related documents, provides a full and unconditional guarantee by us of amounts due on the outstanding trust preferred securities.

NOTE 7—COMMON EQUITY

Effective December 1999, we commenced purchasing common stock on the open market to meet annual requirements of the Stock Investment Plan. From January 1999 through November 1999, we issued new stock to satisfy shareholder and employee purchase requirements under our Stock Investment Plan. We also purchase stock on the open market in connection with our stock-based employee benefit plans.

In December 1996, we adopted a Shareholder Rights Plan. The plan is designed to enhance the ability of the Board of Directors to protect shareholders and the company if efforts are made to gain control of our company in a manner that is not in our best interests or the best interests of shareholders. The plan gives existing shareholders, under certain circumstances, the right to purchase stock at a discounted price. The rights expire on December 11, 2006.

At December 31, 1999, we had $335.4 million of retained earnings available for dividends. Wisconsin Public Service is restricted by a Public Service Commission of Wisconsin order to paying normal common stock dividends of no more than 109.0% of the previous year's common stock dividend without the Public Service Commission of Wisconsin's approval. Special dividends may be declared in order to maintain utility common equity levels consistent with those allowed by the regulators. Wisconsin law prohibits Wisconsin Public Service from making loans to or guaranteeing obligations of WPS Resources or our other subsidiaries.

Upper Peninsula Power's indentures relating to first mortgage bonds contain certain limitations on the payment of cash dividends on common stock. Under the most restrictive of these provisions, approximately $6.4 million of consolidated retained earnings were available at December 31, 1999, for the payment of common stock cash dividends by Upper Peninsula Power.

During 1999, we made equity infusions of $60.0 million to Wisconsin Public Service. Wisconsin Public Service paid special common dividends of $25.0 million to WPS Resources in 1999. The equity infusions and special dividends allowed Wisconsin Public Service's average equity capitalization ratio for ratemaking to remain at about its target level of 54.0% as established by the Public Service Commission of Wisconsin in its most recent rate order.

NOTE 8—STOCK OPTION PLANS

In 1999, shareholders approved the WPS Resources Corporation 1999 Stock Option Plan for certain management personnel. In December 1999, the Board of Directors approved the WPS Resources Corporation 1999 Non-Employee Directors Stock Option Plan. Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations are used to account for these plans. Accordingly, no compensation costs have been recognized for these plans in 1999. Had compensation cost been determined consistent with Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation," net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(Thousands)	**1999**	1998	1997
Net income			
As reported	**$59,565**	$46,631	$55,809
Pro forma	**59,450**	46,631	55,809
Basic and diluted earnings per share			
As reported	**$2.24**	$1.76	$2.10
Pro forma	**2.23**	1.76	2.10

Under the provisions of our 1999 Stock Option Plan, options cannot be granted for more than an aggregate of 1,500,000 shares and no single employee can be granted options for more than 400,000 shares during any five-year period. The Compensation Committee of the Board of Directors may grant options at any time. No options may be granted after February 10, 2004, under this plan. All options have a ten-year life. The exercise price of each option is equal to the fair market value of the stock on the date the option was granted. Options granted on May 6, 1999 have an exercise price of $29.875. One-fourth of the options granted May 6, 1999 become vested and exercisable on February 11 of each of the first four years beginning February 11, 2000.

Under the provisions of our 1999 Non-Employee Directors Stock Option Plan, the aggregate number of shares for which options may be granted under the plan cannot exceed 100,000. Options are granted at the discretion of the Compensation Committee of the Board of Directors. No options may be granted under this plan after December 31, 2008. All options have a ten-year life, but may not be exercised until one year after the date of grant. Options granted under this plan are immediately vested. The exercise price of each option is equal to the fair market value of the stock on the date the option was granted. Options were granted on December 9, 1999 with an exercise price of $25.4375.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model assuming:

	WPS Resources 1999 Stock Option Plan	WPS Resources 1999 Non-Employee Directors Stock Option Plan
Annual dividend yield	6.63%	7.94%
Expected volatility	14.00%	14.90%
Risk-free interest rate	5.52%	6.14%
Expected life (in years)	10	10

The status of the option plans as of December 31, 1999 is presented below:

Options	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	–	–
Granted		
Employee plan	478,000	$29.8750
Director plan	21,000	$25.4375
Exercised	–	–
Forfeited	–	–
Outstanding at end of year		
Employee plan	478,000	$29.8750
Director plan	21,000	$25.4375
Options exercisable at year-end	–	–
Weighted-average fair value of options granted during the year		
Employee plan	$2.04	
Directors plan	$1.38	

NOTE 9—FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash, Short-Term Investments, Energy Conservation Loans, Notes Payable, and Outstanding Commercial Paper: The carrying amount approximates fair value due to the short maturity of those investments and obligations.

Nuclear Decommissioning Trusts: The value of Wisconsin Public Service's nuclear decommissioning trust investments is recorded at market value.

Long-Term Debt, Preferred Stock, and Employee Stock Ownership Plan Loan Guarantees: The fair value of Wisconsin Public Service's long-term debt, preferred stock, and Employee Stock Ownership Plan loan guarantees is estimated based on the quoted market price for the same or similar issues or on the current rates offered to Wisconsin Public Service for debt of the same remaining maturity.

The estimated fair values of our financial instruments as of December 31 were:

(Thousands)	**1999**		1998	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents	**$ 10,547**	**$ 10,547**	$ 7,134	$ 7,134
Energy conservation loans	**5,198**	**5,198**	7,810	7,810
Nuclear decommissioning trusts – utility plant	**198,052**	**198,052**	171,442	171,442
Nuclear decommissioning trusts – other assets	**19,129**	**19,129**	16,397	16,397
Notes payable	**10,403**	**10,403**	12,703	12,703
Commercial paper	**79,855**	**79,855**	47,590	47,590
Employee Stock Ownership Plan loan guarantees	**2,224**	**2,249**	6,448	6,702
Trust preferred securities	**50,000**	**40,260**	50,000	50,250
Long-term debt	**509,636**	**497,369**	337,473	366,038
Preferred stock	**51,193**	**47,881**	51,200	53,026
Gas commodity instruments	**(692)**	**1,265**	6,894	(8,833)

NOTE 10—PRICE RISK MANAGEMENT ACTIVITIES

WPS Energy Services uses derivative financial and commodity instruments to reduce market risk associated with changing prices of natural gas and electricity sold at firm prices to customers. WPS Energy Services also utilizes derivatives to manage market risk associated with anticipated energy purchases, as well as trading activities. Derivatives may include futures and forward contracts, price swap agreements, and call and put options.

Gains and losses on derivatives are recognized immediately in earnings when it is no longer probable that the related forecasted transaction will occur. Each accounting period, WPS Energy Services records gains or losses on changes in market value of trading derivatives in other income. WPS Energy Services recorded net trading gains of $0.1 million in 1999 and net trading losses of $6.1 million in 1998.

At December 31, 1999, WPS Energy Services had outstanding 11.4 million notional dekatherms of natural gas under futures and option agreements and 5.9 million notional dekatherms of natural gas under basis swap agreements in order to manage market risk. These financial instruments expire at various times through October 2001. WPS Energy Services has gas sales commitments through October 2000 with a range of sale prices from $2.06 to $3.09 per dekatherm and a range of associated gas purchase costs of $2.05 to $3.00 per dekatherm.

At December 31, 1999, the fair value of trading instruments included assets of $7.5 million and liabilities of $6.8 million. Virtually all trading activities in 1999 and 1998 involved natural gas derivatives, except for a small amount of electric trading transactions. At December 31, 1999, WPS Energy Services had outstanding 1.4 million notional dekatherms of natural gas under futures and option agreements and 1.7 million notional dekatherms of natural gas under basis swap agreements for trading purposes.

NOTE 11—EMPLOYEE BENEFIT PLANS

WPS Resources and our subsidiaries have non-contributory retirement plans covering substantially all employees under which annual contributions may be made to an irrevocable trust established to provide retired employees with a monthly payment if conditions relating to age and length of service have been met. The plans are administered and maintained by Wisconsin Public Service. These plans are fully funded, and no contributions were made in 1999, 1998, or 1997.

WPS Resources and our subsidiaries also currently offer medical, dental, and life insurance benefits to employees, retirees, and their dependents. The expenses for active employees are expensed as incurred. We fund these benefits through irrevocable trusts as allowed for income tax purposes. The funded amounts at Wisconsin Public Service and Upper Peninsula Power, our utility subsidiaries, have been expensed and recovered through customer rates. Funded amounts associated with WPS Resources and all other nonregulated subsidiaries have been expensed but are not recovered through customer rates. Our non-administrative plan is a collectively bargained plan and, therefore, is tax exempt. The investments in the trust covering administrative employees are subject to federal unrelated business income taxes at a 39.6% tax rate.

All pension costs and postretirement plan costs are accounted for under Statement of Financial Accounting Standards Nos. 87 and 106. The standards require the cost of these benefits to be accrued as expense over the period in which the employee renders service. The transition obligation for current and future retirees is recognized over 20 years beginning in 1993.

The following tables provide a reconciliation of the changes in the plan's benefit obligations and fair value of assets over the three one-year periods ending December 31, 1999, 1998, and 1997, and a statement of the funded status as of December 31, of each year:

(Thousands)	**1999**	1998	1997
Reconciliation of benefit obligation – pension			
Obligation at January 1	**$399,364**	$350,669	$299,587
Service cost	**10,904**	9,014	7,019
Interest cost	**27,524**	25,264	22,919
Plan amendments	**3,956**	5,762	7,224
Actuarial (gain) loss	**(31,515)**	26,085	28,989
Acquisitions	**4,863**	–	–
Benefit payments	**(18,445)**	(17,430)	(15,911)
Curtailments	**–**	–	842
Obligation at December 31	**$396,651**	$399,364	$350,669
Reconciliation of benefit obligation – other			
Obligation at January 1	**$138,815**	$127,705	$116,354
Service cost	**4,632**	3,874	3,500
Interest cost	**9,410**	9,126	9,496
Plan amendments	**–**	–	6,803
Actuarial (gain) loss	**(13,835)**	2,599	34
Acquisitions	**2,174**	–	–
Benefit payments	**(5,985)**	(4,489)	(4,174)
Curtailments	**–**	–	(4,308)
Obligation at December 31	**$135,211**	$138,815	$127,705

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(Thousands)	1999	1998	1997
Reconciliation of fair value of plan assets – pension			
Fair value of plan assets at January 1	**$610,483**	$537,756	$470,176
Actual return on plan assets	**57,984**	89,618	79,731
Employer contributions	**–**	539	3,783
Plan expenses paid	**–**	–	(23)
Acquisitions	**4,229**	–	–
Benefit payments	**(18,445)**	(17,430)	(15,911)
Fair value of plan assets at December 31	**$654,251**	$610,483	$537,756
Funded status at December 31	**$257,599**	$211,119	$187,087
Unrecognized transition (asset) obligation	**(9,890)**	(13,467)	(17,043)
Unrecognized prior-service cost	**21,242**	19,336	15,523
Unrecognized (gain) loss	**(204,057)**	(156,972)	(132,227)
Net amount recognized	**$ 64,894**	$ 60,016	$ 53,340
Reconciliation of fair value of plan assets – other			
Fair value of plan assets at January 1	**$139,841**	$121,930	$104,367
Actual return on plan assets	**15,226**	21,161	20,376
Employer contributions	**660**	1,239	1,361
Benefit payments	**(5,985)**	(4,489)	(4,174)
Fair value of plan assets at December 31	**$149,742**	$139,841	$121,930
Funded status at December 31	**$ 14,530**	$ 1,026	$ (5,776)
Unrecognized transition (asset) obligation	**36,605**	39,434	42,286
Unrecognized prior-service cost	**3,935**	4,259	4,583
Unrecognized (gain) loss	**(104,989)**	(87,011)	(78,496)
Net amount recognized	**$ (49,919)**	$(42,292)	$(37,403)

The net amounts recognized for 1997 and 1998 pension benefits have been reduced for an additional unrecognized regulatory liability related to pension costs. The entire regulatory liability was recognized by year-end 1998.

The following table provides the amounts recognized in the statement of financial position as of December 31 of each year:

(Thousands)	1999	1998	1997
Prepaid benefit cost – pension			
Prepaid benefit cost	**$ 64,894**	$ 60,016	$ 52,867
Accrued benefit liability	**–**	–	(2,525)
Intangible asset	**–**	–	2,998
Net amount recognized	**$ 64,894**	$ 60,016	$ 53,340
Prepaid benefit cost – other			
Accrued benefit liability	**(49,919)**	(42,292)	(37,403)
Net amount recognized	**$(49,919)**	$(42,292)	$(37,403)

The table below and on the following page provides the components of net periodic benefit cost for the plans for fiscal years 1999, 1998, and 1997:

(Thousands)	1999	1998	1997
Net periodic benefit cost – pension			
Service cost	**$10,904**	$ 9,014	$ 7,019
Interest cost	**27,524**	25,264	22,919
Expected return on plan assets	**(42,414)**	(38,282)	(33,883)
Amortization of transition (asset) obligation	**(3,576)**	(3,576)	(3,576)
Amortization of prior-service cost	**2,050**	1,950	921
Amortization of net (gain) loss	**–**	(507)	(781)
Net periodic benefit cost	**$(5,512)**	$(6,137)	$(7,381)
Curtailment (gain) loss	**–**	–	1,088
Net periodic benefit cost after curtailments	**$(5,512)**	$(6,137)	$(6,293)

(Thousands)	1999	1998	1997
Net periodic benefit cost – other			
Service cost	**$4,632**	$3,874	$3,500
Interest cost	**9,410**	9,126	9,496
Expected return on plan assets	**(8,302)**	(7,356)	(6,378)
Amortization of transition (asset) obligation	**2,828**	2,852	3,010
Amortization of prior-service cost	**324**	324	324
Amortization of net (gain) loss	**(2,780)**	(2,692)	(2,196)
Net periodic benefit cost	**$6,112**	$6,128	$7,756
Curtailment (gain) loss	**–**	–	356
Net periodic benefit cost after curtailments	**$6,112**	$6,128	$8,112

Under a contract with Wisconsin Electric Power Company, Upper Peninsula Power had operated Wisconsin Electric Power's Presque Isle Power Plant in Michigan since 1988. That contract terminated on December 31, 1997, and all employees at the plant became employees of Wisconsin Electric Power. In 1997, Upper Peninsula Power recognized a $1.1 million pension curtailment loss and a $0.4 million other benefit plan curtailment loss from the termination of the Presque Isle Power Plant operating agreement.

The assumptions used in measuring WPS Resources' benefit obligation are shown in the following table:

	1999	1998	1997
Weighted average asumptions as of December 31 – pension			
Discount rate	**7.50%**	6.75%	7.25%
Expected return on plan assets	**8.75%**	8.75%	8.75%
Rate of compensation increase	**5.50%**	5.50%	5.50%
Weighted average asumptions as of December 31 – other			
Discount rate	**7.50%**	6.75%	7.25%
Expected return on plan assets	**8.75%**	8.75%	8.75%

The assumed health care cost trend rates for 1999 are 8.0% for medical and 7.5% for dental, both decreasing to 5.0% by the year 2006. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1.0% change in assumed health care cost trend rates would have the following effects:

(Thousands)	1.0% Increase	1.0% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ 2,721	$ (2,127)
Effect on the health care component of the accumulated postretirement benefit obligation	$22,339	$(17,804)

Wisconsin Public Service has a leveraged Employee Stock Ownership Plan and Trust that held 1,912,002 shares of WPS Resources common stock (market value of approximately $48.0 million) at December 31, 1999. At that date, the Employee Stock Ownership Plan also had a loan guaranteed by Wisconsin Public Service and secured by common stock. Principal and interest on the loan are to be paid using contributions from Wisconsin Public Service and dividends on our common stock held by the Employee Stock Ownership Plan. Shares in the Employee Stock Ownership Plan are allocated to participants as the loan is repaid. Tax benefits from dividends paid to the Employee Stock Ownership Plan are recognized as a reduction in Wisconsin Public Service's cost of providing service to customers. The Public Service Commission of Wisconsin has allowed Wisconsin Public Service to include in cost of service an additional employer contribution to the plan. The net effect of the tax benefits and of the employer contribution is an approximately equal sharing of the tax benefits of the program between customers and employees.

NOTE 12—INCOME TAXES

We account for income taxes using the liability method as prescribed by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under the liability method, deferred income tax liabilities are established for all temporary differences in the book and tax basis of assets and liabilities based upon enacted tax laws and rates applicable to the periods in which the taxes become payable. Taxes provided in prior years at rates greater than current rates are being refunded to customers prospectively as the temporary differences reverse. The net regulatory liability for these refunds totaled $21.7 million as of December 31, 1999.

As of December 31, 1999 and 1998, we had the following significant temporary differences that created deferred tax assets and liabilities:

(Thousands)	**1999**	1998
Deferred tax assets		
Plant related	**$ 72,077**	$ 76,400
Customer advances	**11,512**	10,599
Capital losses/state net operating losses	**3,368**	3,652
Environmental cleanup	**3,835**	3,992
Employee benefits	**32,486**	28,021
Other	**5,186**	4,302
Total	**$128,464**	$126,966
Deferred tax liabilities		
Plant related	**$201,826**	$210,418
Demand-side management expenditures	**7,043**	9,421
Employee benefits	**26,442**	24,009
Other	**4,190**	5,760
Total	**$239,501**	$249,608
Net deferred tax liabilities	**$111,037**	$122,642

Previously deferred investment tax credits are being amortized as a reduction in income tax expense over the life of the related utility plant. The components of income tax expense are set forth in the table below:

(Thousands, except for percentages)	**1999**		1998		1997	
	Rate	*Amount*	*Rate*	*Amount*	*Rate*	*Amount*
Statutory federal income tax	**35.0%**	**$32,346**	35.0%	$25,623	35.0%	$31,525
State income taxes, net	**5.0**	**4,611**	5.9	4,344	5.4	4,862
Investment tax credit restored	**(1.9)**	**(1,789)**	(2.6)	(1,924)	(2.2)	(1,949)
Rate difference on reversal of income tax temporary differences	**(1.6)**	**(1,461)**	(2.4)	(1,761)	(2.1)	(1,888)
Dividends paid to Employee Stock Ownership Plan	**(1.5)**	**(1,349)**	(1.9)	(1,414)	(1.5)	(1,381)
Section 29 and 45 credits	**(1.6)**	**(1,520)**	(1.0)	(751)	(0.2)	(220)
Other differences, net	**(1.2)**	**(1,097)**	(1.0)	(672)	0.2	157
Effective income tax	**32.2%**	**$29,741**	32.0%	$23,445	34.6%	$31,106
Current provision						
Federal		**$33,788**		$29,492		$31,444
State		**9,436**		7,779		7,527
Total current provision		**43,224**		37,271		38,971
Deferred (benefit) provision		**(11,694)**		(11,902)		(5,916)
Investment tax credit restored, net		**(1,789)**		(1,924)		(1,949)
Total income tax expense		**$29,741**		$23,445		$31,106

NOTE 13—COMMITMENTS AND CONTINGENCIES

Coal Contracts

To ensure a reliable, low-cost supply of coal, Wisconsin Public Service entered into a long-term contract that has take-or-pay obligations totaling $94.2 million from 2000 through 2016. The obligations are subject to force majeure provisions which provide Wisconsin Public Service other options if the specified coal does not meet emission limits which may be mandated in future legislation. We believe that any amounts paid under the take-or-pay obligations described above would be considered costs of service subject to recovery in customer rates.

Purchased Power

Wisconsin Public Service has several take-or-pay contracts for either capacity or energy related to purchased power. These contracts total $68.0 million through April 2003. We expect to recover these costs in future customer rates.

Long-Term Power Supply

In November 1995, Wisconsin Public Service signed a 25-year agreement to purchase power from De Pere Energy Center LLC (an affiliate of SkyGen Energy LLC), an independent power producer that built a cogeneration facility and is selling electrical power to Wisconsin Public Service. Phase I of the project went into operation in June of 1999 and is accounted for as a capital lease. The amount recorded as a part of utility plant was $74.1 million. This amount will be depreciated over 25 years, the term of the contract. Phase II is currently projected to be operational within five years of the start of Phase I. If Phase II becomes operational, an additional utility plant asset of approximately $80.0 million will be recorded.

Gas Costs

Wisconsin Public Service has natural gas supply and transportation contracts that require total estimated demand payments of $125.1 million through October 2008.

In April 1992, the Federal Energy Regulatory Commission issued Order No. 636 which required natural gas interstate pipelines to restructure their sales and transportation services. As a result, Wisconsin Public Service was obligated to pay for a portion of ANR Pipeline Company's transition costs through various Federal Energy Regulatory Commission approved surcharges. Though there may be additional transition costs, which could be significant, the amount and timing of these costs are unknown at this time. We expect to recover these costs in future customer rates since the Public Service Commission of Wisconsin and the Michigan Public Service Commission have allowed such recovery to date.

Nuclear Liability

The Price Anderson Act ensures that funds will be available to pay for public liability claims arising out of a nuclear incident. Wisconsin Public Service may be required to pay up to a maximum of $36.3 million per incident. The payments will not exceed $4.1 million per incident in a given calendar year. These amounts represent Wisconsin Public Service's 41.2% ownership in the Kewaunee plant.

Nuclear Plant Operation

On September 29, 1998, Wisconsin Public Service and Madison Gas and Electric entered into an agreement pursuant to which Wisconsin Public Service will acquire, at Madison Gas and Electric's book value, Madison Gas and Electric's 17.8% share of the Kewaunee plant including Madison Gas and Electric's decommissioning trust assets and will assume Madison Gas and Electric's share of the decommissioning obligation. This agreement, the closing of which is contingent upon regulatory approval and steam generator replacement scheduled for the fall of 2001, will result in Wisconsin Public Service's ownership interest in the Kewaunee plant increasing to 59.0%.

The net book value of Wisconsin Public Service's share of the Kewaunee plant at December 31, 1999 is $28.2 million. In addition, the current cost of Wisconsin Public Service's share of the estimated costs to decommission the Kewaunee plant, assuming early retirement, exceeds the trust assets at December 31, 1999 by $2.6 million. On January 3, 1997, the Public Service Commission of Wisconsin accepted Wisconsin Public Service's recommendation to accelerate recovery of the Wisconsin retail portion of both the current undepreciated plant balance and the unfunded decommissioning costs over a six-year period, 1997 through 2002. The Public Service Commission of Wisconsin depreciation rate order authorizing new rates for 1999 includes a change in methodology for recovery of the Kewaunee plant investment after new steam generators have been installed, estimated to be the fall of 2001. At that time, the unrecovered basis of the Kewaunee plant, including the new steam generators, will be recovered over an 8.5 year remaining life using the sum-of-the-years depreciation method.

Clean Air Regulations

Wisconsin Public Service is in compliance with both the Phase I and Phase II sulfur dioxide and nitrogen oxide emission limits established by the Federal Clean Air Act Amendments of 1990. We believe that all costs incurred for additional compliance will be recoverable in future customer rates.

Wisconsin Public Service is evaluating the installation of a baghouse at its Weston Unit 3 plant. Currently, an electrostatic precipitator is used as a pollution control device, but it is in need of replacement due to degradation. A baghouse is an alternative pollution control device to an electrostatic precipitator. If the installation of the baghouse proceeds, it is estimated that it will cost $25.7 million.

In late September of 1998, the United States Environmental Protection Agency required certain states, including Wisconsin, to develop plans to reduce the emission of nitrogen oxides from sources within the state by May of 2003. Compliance is required during the ozone season of May through September. On a preliminary basis,

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Wisconsin Public Service projects potential capital costs of between $62.5 million and $112.0 million to comply with possible future regulations. The annual operating and maintenance expense associated with these possible future regulations are projected to range from $2.0 million to $6.0 million. The costs depend on the state-specific compliance method to be adopted in the future and the effectiveness of the various technologies available for nitrogen oxide emission control. Under Wisconsin Public Service's current practice, the capital costs (as reflected in depreciation expenses) and the annual operating costs are anticipated to be recovered through future customer rates.

On December 24, 1998, Wisconsin Public Service joined other parties in a petition challenging the Environmental Protection Agency's regulations that require Wisconsin to prepare and submit a nitrogen oxide implementation plan. On January 22, 1999, the State of Wisconsin intervened in the litigation and challenged the geographic scope of the rule and the required timing for implementation of nitrogen oxide controls within the state. The court heard arguments on November 9, 1999. No decision has yet been rendered.

The Sunbury plant, acquired by WPS Power Development in November 1999, currently purchases emission allowances to comply with air regulations. Additional technology may be required by 2003 in order to comply with nitrogen oxide standards. Expenditures for this technology could be significant.

Manufactured Gas Plant Remediation

Wisconsin Public Service continues to investigate the environmental cleanup of eight manufactured gas plant sites. The cleanup of Wisconsin Public Service's Stevens Point manufactured gas plant site is complete with monitoring of the site continuing. Costs of this cleanup were within the range expected for this site. Future investigation and cleanup costs for the remaining seven sites are estimated in the range of $34.3 million to $41.0 million. These estimates may be adjusted in the future contingent upon remedial technology, regulatory requirements, and experience gained through cleanup activities.

An initial liability for cleanup of $41.7 million was established with an offsetting regulatory asset (deferred charge). Of this amount, approximately $3.1 million has been spent to date. Wisconsin Public Service believes it will recover cleanup costs in current and future customer rates. Carrying costs associated with the cleanup expenditures will not be recoverable. Wisconsin Public Service has received $12.6 million in insurance recoveries which are recorded as a reduction in the regulatory asset.

Future Utility Expenditures

We estimate utility plant construction expenditures at Wisconsin Public Service for 2000 to be approximately $144.6 million and construction expenditures at Upper Peninsula Power for 2000 to be approximately $8.4 million. Demand-side management expenditures at Wisconsin Public Service are estimated to be $21.5 million in 2000. Of this amount, $17.7 million will be recovered in rates in 2000 with the remainder expected to be recovered in future rates. In addition, previously deferred demand-side management expenditures of $17.8 million are being recovered from customers through 2002.

NOTE 14—REGULATORY ENVIRONMENT

Wisconsin Public Service received a rate order in the Wisconsin jurisdiction on January 15, 1999. The impact is an estimated $26.9 million increase in electric revenues and an estimated $10.3 million increase in gas revenues on an annual basis. The new rates are effective for 1999 and 2000. The Public Service Commission of Wisconsin authorized a 12.1% return on Wisconsin Public Service's equity for 1999 and 2000.

Wisconsin Public Service received a new rate order in the Wisconsin retail jurisdiction effective on January 1, 2000 because of a rate reopener filed in July 1999. The impact is an estimated $21.1 million increase in electric revenues for the year 2000. The reopener addressed a limited number of issues for which information was not available when the original order for 1999 and 2000 was authorized. There were no changes to the 2000 gas revenues or return on equity which remains at 12.1% for 2000.

NOTE 15—SEGMENTS OF BUSINESS

Effective December 31, 1998, we adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." Our reportable segments are managed separately due to their different operating and regulatory environments. Our principal business segments are the regulated electric utility operations of Wisconsin Public Service and Upper Peninsula Power and the regulated gas utility operations of Wisconsin Public Service. Our other reportable segments include WPS Energy Services and WPS Power Development. WPS Energy Services is a diversified energy supply and services company, and WPS Power Development is an electric generation asset development company. The tables below and on the following page present information for the respective years pertaining to our operations segmented by lines of business. We restated 1998 and 1997 for comparative purposes due to changes in our reportable segments. The changes include adding a utility subtotal column and separating WPS Power Development from Other due to its increase in significance.

Segments of Business (Thousands)

	Regulated Utilities			Nonutility and Nonregulated Operations				
1999	Electric Utility*	Gas Utility*	Total Utility*	WPS Energy Services	WPS Power Development	Other	Reconciling Eliminations	WPS Resources Consolidated
Income Statement								
Operating revenues	$ 590,359	$191,521	$ 781,880	$292,212	$ 35,400	$ 5,718	$ (16,670)	$1,098,540
Depreciation and decommissioning	70,898	8,216	79,114	1,058	3,282	290	–	83,744
Other income (expense)	7,232	78	7,310	(221)	(253)	5,716	(3,603)	8,949
Interest expense	23,965	4,534	28,499	336	4,629	7,807	(8,503)	32,768
Income taxes	32,040	7,405	39,445	(2,579)	(4,683)	(2,442)	–	29,741
Net income (loss)	56,083	11,246	67,329	(3,488)	(3,799)	(477)	–	59,565
Balance Sheet								
Total assets	1,247,859	267,356	1,515,215	64,846	190,247	184,349	(138,109)	1,816,548
Cash expenditures for long-lived assets	120,929	19,768	140,697	70	132,137	279	–	273,183

* Includes only utility operations. Nonutility operations are included in the Other column.

Segments of Business (Thousands)

	Regulated Utilities			Nonutility and Nonregulated Operations				
1998	Electric Utility*	Gas Utility*	Total Utility*	WPS Energy Services	WPS Power Development	Other	Reconciling Eliminations	WPS Resources Consolidated
Income Statement								
Operating revenues	$ 550,004	$165,111	$ 715,115	$351,258	$ 5,919	$ 3,587	$(12,143)	$1,063,736
Depreciation and decommissioning	75,974	7,751	83,725	1,148	1,205	196	–	86,274
Other income (expense)	5,461	114	5,575	(5,765)	110	4,681	(1,923)	2,678
Interest expense	22,820	4,323	27,143	592	1,320	3,594	(4,012)	28,637
Income taxes	27,534	4,429	31,963	(4,783)	(2,516)	(1,219)	–	23,445
Net income (loss)	50,488	5,912	56,400	(6,869)	(2,432)	(468)	–	46,631
Balance Sheet								
Total assets	1,117,438	246,365	1,363,803	71,839	32,894	90,729	(48,878)	1,510,387
Cash expenditures for long-lived assets	75,589	19,145	94,734	291	15,029	755	–	110,809

* Includes only utility operations. Nonutility operations are included in the Other column.

Notes to Consolidated Financial Statements

Segments of Business (Thousands)

1997	Regulated Utilities: Electric Utility*	Regulated Utilities: Gas Utility*	Regulated Utilities: Total Utility*	Nonutility and Nonregulated Operations: WPS Energy Services	Nonutility and Nonregulated Operations: WPS Power Development	Nonutility and Nonregulated Operations: Other	Reconciling Eliminations	WPS Resources Consolidated
Income Statement								
Operating revenues	$ 539,590	$211,090	$ 750,680	$189,404	$ 2,623	$ 2,803	$ (9,673)	$ 935,837
Depreciation and decommissioning	74,016	7,349	81,365	1,048	671	357	–	83,441
Other income (expense)	7,395	(701)	6,694	(1,158)	(20)	6,422	168	12,106
Interest expense	25,266	4,841	30,107	905	1,153	1,112	(2,261)	31,016
Income taxes	29,461	4,211	33,672	(3,315)	(1,114)	1,863	–	31,106
Net income (loss)	53,294	7,878	61,172	(4,949)	(1,944)	1,530	–	55,809
Balance Sheet								
Total assets	1,089,875	246,842	1,336,717	44,779	18,133	57,703	(21,528)	1,435,804
Cash expenditures for long-lived assets	48,846	14,227	63,073	78	1,223	1,941	–	66,315

*Includes only utility operations. Nonutility operations are included in the Other column.

NOTE 16—QUARTERLY FINANCIAL INFORMATION (Unaudited)

(Thousands, except for share amounts) *Three Months Ended*

1999	March	June	September	December	Total
Operating revenues	**$329,834**	**$221,552**	**$251,005**	**$296,149**	**$1,098,540**
Net income	**$ 22,752**	**$ 10,041**	**$ 13,819**	**$ 12,953**	**$ 59,565**
Average number of shares of common stock	**26,520**	**26,601**	**26,682**	**26,768**	**26,644**
Basic and diluted earnings per share	**$.86**	**$.38**	**$.52**	**$.48**	**$2.24**

1998	March	June	September	December	Total
Operating revenues	$291,226	$232,054	$247,928	$292,528	$1,063,736
Net income	$ 17,952	$ 10,465	$ 11,799	$ 6,415	$ 46,631
Average number of shares of common stock	26,516	26,512	26,508	26,505	26,511
Basic and diluted earnings per share	$.68	$.39	$.45	$.24	$1.76

Because of various factors which affect the utility business, the quarterly results of operations are not necessarily comparable.

Report of Management and
Report of Independent Public Accountants

WPS Resources Corporation

ARTHUR ANDERSEN

The management of WPS Resources Corporation has prepared and is responsible for the consolidated financial statements and related financial information encompassed in this Annual Report. Our consolidated financial statements have been prepared in conformity with generally accepted accounting principles, and financial information included elsewhere in this report is consistent with our consolidated financial statements.

We maintain a system of internal accounting control designed to provide reasonable assurance that our assets are safeguarded and that transactions are executed and recorded in accordance with authorized procedures. Written policies and procedures have been developed to support the internal controls in place and are updated as necessary.

We also maintain an internal auditing department that reviews and assesses the effectiveness of selected internal controls, and reports to management as to their findings and recommendations for improvement.

Our Board of Directors has established an Audit Committee, comprised entirely of outside directors, which actively assists our Board in its role of overseeing our financial reporting process and system of internal control.

The accompanying consolidated financial statements have been audited by Arthur Andersen LLP, independent public accountants, whose report follows.

Larry L. Weyers

Larry L. Weyers
Chairman, President, and Chief Executive Officer

Daniel P. Bittner

Daniel P. Bittner
Senior Vice President and Chief Financial Officer

Diane L. Ford

Diane L. Ford
Vice President-Controller and Chief Accounting Officer

To the Board of Directors of
WPS Resources Corporation:

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of WPS Resources Corporation (a Wisconsin corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, comprehensive income, and retained earnings and cash flows for each of the three years in the period ended December 31, 1999. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of WPS Resources Corporation and subsidiaries as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Arthur Andersen LLP

Milwaukee, Wisconsin
January 27, 2000

Financial Statistics

Consolidated Statements of Income and Comprehensive Income

Year Ended December 31 *(Thousands, except share amounts)*	1999	1998	1997	1996	1995
Operating revenues					
Electric utility	$ 582,471	$ 543,260	$536,885	$548,701	$550,105
Gas utility	191,521	165,111	211,090	211,357	174,693
Nonregulated energy and other	324,548	355,365	187,862	156,391	56,155
Total operating revenues	1,098,540	1,063,736	935,837	916,449	780,953
Operating expenses					
Electric production fuels	113,780	110,809	107,988	105,449	105,085
Purchased power	73,619	56,447	63,947	55,844	59,339
Gas purchased for resale	118,889	105,908	147,755	149,388	116,253
Nonregulated energy cost of sales	301,451	346,663	182,863	155,133	53,983
Other operating expenses	194,938	172,876	165,982	183,768	169,067
Maintenance	60,564	52,813	44,325	51,782	54,658
Depreciation and decommissioning	83,744	86,274	83,441	70,762	71,345
Taxes other than income	31,818	31,902	31,375	31,671	30,555
Total operating expenses	978,803	963,692	827,676	803,797	660,285
Operating income	119,737	100,044	108,161	112,652	120,668
Other income and (deductions)					
Allowance for equity funds used during construction	716	173	154	255	180
Other, net	8,233	2,505	11,952	(903)	5,852
Total other income and (deductions)	8,949	2,678	12,106	(648)	6,032
Income before interest expense	128,686	102,722	120,267	112,004	126,700
Interest on long-term debt	27,162	23,987	26,273	25,494	26,839
Other interest	8,507	4,827	4,910	3,922	2,677
Allowance for borrowed funds used during construction	(2,901)	(177)	(167)	(299)	(80)
Total interest expense	32,768	28,637	31,016	29,117	29,436
Distributions – preferred securities of subsidiary trust	3,501	1,488	–	–	–
Income before income taxes	92,417	72,597	89,251	82,887	97,264
Income taxes	29,741	23,445	31,106	27,216	33,494
Minority interest	–	(611)	(797)	(348)	–
Preferred stock dividends of subsidiary	3,111	3,132	3,133	3,134	3,136
Net income	59,565	46,631	55,809	52,885	60,634
Other comprehensive income	–	–	–	–	–
Comprehensive income	$ 59,565	$ 46,631	$ 55,809	$ 52,885	$ 60,634
Shares of common stock less shares in deferred compensation trust					
Outstanding at December 31	26,780	26,502	26,518	26,537	26,551
Average	26,644	26,511	26,527	26,545	26,551
Basic and diluted earnings per average share of common stock	$2.24	$1.76	$2.10	$1.99	$2.28
Dividend per share of common stock	2.00	1.96	1.92	1.88	1.84

Financial Statistics

Consolidated Balance Sheets

At December 31 (Thousands)	**1999**	1998	1997	1996	1995
Assets					
Utility plant					
Electric	**$1,797,832**	$1,715,882	$1,685,413	$1,639,490	$1,603,632
Gas	**285,048**	267,892	251,603	240,791	228,346
Property under capital lease	**74,130**	–	–	–	–
Total	**2,157,010**	1,983,774	1,937,016	1,880,281	1,831,978
Less – Accumulated depreciation and decommissioning	**1,293,354**	1,206,123	1,113,142	1,028,266	977,163
Net	**863,656**	777,651	823,874	852,015	854,815
Nuclear decommissioning trusts	**198,052**	171,442	134,108	100,570	82,109
Construction in progress	**74,187**	42,424	11,776	24,827	18,508
Nuclear fuel, net	**15,007**	18,641	19,062	19,381	14,275
Net utility plant	**1,150,902**	1,010,158	988,820	996,793	969,707
Current assets	**292,925**	240,712	213,453	233,933	202,399
Net nonutility and nonregulated plant	**168,143**	41,235	28,188	28,470	9,033
Regulatory and other assets	**204,578**	218,282	205,343	204,120	212,769
Total assets	**$1,816,548**	$1,510,387	$1,435,804	$1,463,316	$1,393,908

Capitalization and Liabilities

Capitalization					
Common stock equity	**$ 536,300**	$ 517,190	$ 518,764	$ 510,642	$ 505,178
Preferred stock of subsidiaries	**51,193**	51,200	51,645	51,656	51,703
Long-term debt	**634,502**	393,037	347,015	349,054	350,098
Total capitalization	**1,221,995**	961,427	917,424	911,352	906,979
Liabilities					
Short-term borrowings	**90,258**	60,293	40,466	63,192	27,425
Deferred income taxes	**111,092**	122,642	131,197	135,904	141,518
Other liabilities and credits	**393,203**	366,025	346,717	352,868	317,986
Total liabilities	**594,553**	548,960	518,380	551,964	486,929
Total capitalization and liabilities	**$1,816,548**	$1,510,387	$1,435,804	$1,463,316	$1,393,908

Financial Statistics

Year Ended December 31	**1999**	1998	1997	1996	1995
Stock price	**$ $25\frac{1}{8}$**	$ $35\frac{1}{4}$	$$33\frac{13}{16}$	$ $28\frac{1}{2}$	$ 34
Book value per share	**$20.03**	$19.52	$19.56	$19.24	$19.03
Return on average equity	**11.3%**	9.0%	10.8%	10.3%	12.2%
Number of common stock shareholders	**25,020**	26,319	27,369	27,922	28,416
Number of employees	**2,900**	2,673	2,902	3,032	3,002
Capitalization ratios					
Common equity including Employee Stock Ownership Plan	**43.9**	53.8	56.6	56.0	55.7
Preferred stock of subsidiaries	**4.2**	5.3	5.6	5.7	5.7
Trust preferred securities of subsidiary trust	**4.1**	5.2	–	–	–
Long-term debt	**47.8**	35.7	37.8	38.3	38.6
Weather information					
Cooling degree days	**481**	519	255	352	808
Cooling degree days as a percent of normal	**103.0%**	107.0%	53.3%	73.6%	170.1%
Heating degree days	**7,273**	6,530	8,099	8,566	7,813
Heating degree days as a percent of normal	**91.7%**	82.4%	101.6%	107.5%	98.0%

Common Stock Comparison (by quarter)	Dividends Per Share	High	Low
1999			
1st quarter	**$ .495**	**$35\frac{3}{4}$**	**$29\frac{1}{4}$**
2nd quarter	**.495**	**$32\frac{1}{4}$**	**$28\frac{3}{8}$**
3rd quarter	**.505**	**$30\frac{11}{16}$**	**$27\frac{13}{16}$**
4th quarter	**.505**	**$29\frac{1}{16}$**	**$24\frac{1}{4}$**
	$2.00		
1998			
1st quarter	$ .485	$33\frac{13}{16}$	32
2nd quarter	.485	34	$29\frac{15}{16}$
3rd quarter	.495	$35\frac{3}{4}$	$31\frac{5}{8}$
4th quarter	.495	$37\frac{1}{2}$	33
	$1.96		

Shareholder Inquiries

Shareholders who have questions about their stock holdings or the WPS Resources Corporation Stock Investment Plan can contact our Shareholder Services Department between the hours of 7:30 a.m. and 4:30 p.m., central time, Monday through Friday by calling 920-433-1050 or 800-236-1551.

Addresses and additional telephone numbers are listed on the back cover of this report.

Common Stock

Common stock may be purchased and sold through our Stock Investment Plan described below or through brokerage firms and banks which offer brokerage services.

Common stock certificates issued before September 1, 1994 bear the name of Wisconsin Public Service Corporation and remain valid certificates.

Effective December 16, 1996, each share of our common stock has a Right associated with it which would entitle the owner to purchase additional shares of common stock under specified terms and conditions. The Rights are not presently exercisable. The Rights would become exercisable ten days after a person or group (1) acquires 15% or more of WPS Resources Corporation's common stock or (2) announces a tender offer to acquire at least 15% of WPS Resources' common stock.

On December 31, 1999, we had 26,851,045 shares of common stock outstanding which were owned by 25,020 holders of record.

Dividends

Cash dividends on common stock have been paid quarterly to shareholders since 1953. We expect to continue to pay quarterly cash dividends on common stock. Future dividends are dependent on regulatory limitations, earnings, capital requirements, cash flows, and other financial considerations.

Anticipated payment and record dates for common stock dividends paid in 2000 are:

Record Date	Payment Date
February 29	March 20
May 31	June 20
August 31	September 20
November 30	December 20

If a dividend check is not received on the payment date, wait approximately ten days to allow for delays in mail delivery. After that time, call our Shareholder Services Department to request a replacement check.

Shareholders may have dividends electronically deposited in a checking or savings account at a financial institution. If dividends are not electronically deposited, checks are mailed to shareholders.

Stock Investment Plan

We maintain a Stock Investment Plan for the purchase of common stock which allows persons who are not already shareholders (and who are not employees of WPS Resources or its system companies) to become participants in the Plan with a minimum initial cash investment of $100. The Plan enables participants to maintain registration with WPS Resources in their own name rather than with a broker in "street name."

The Stock Investment Plan also provides shareholders with options to reinvest dividends and make optional cash purchases of common stock directly through our Shareholder Services Department without paying brokerage commissions, fees, or service charges. Optional cash payments of not less than $25 per payment may be made subject to a maximum of $100,000 per calendar year.

Cash for investment must be received by the 18th day of the month. Cash is invested around the 20th day of the month or as soon thereafter as practicable.

Shares held in our Stock Investment Plan may be sold by the agent for the Plan at the direction of the shareholder, or a certificate may be requested for sale through a broker selected by the shareholder.

Participation in the Stock Investment Plan is being offered only by means of a Prospectus. Persons wishing to receive a Prospectus may contact our Shareholder Services Department.

Safekeeping Services

A participant in the Stock Investment Plan may transfer shares of common stock registered in his or her name into a Plan account for safekeeping. Contact our Shareholder Services Department for further details.

Preferred Stock of Subsidiary

The preferred stock of Wisconsin Public Service Corporation trades on over-the-counter markets. Payment and record dates for preferred stock dividends paid in 2000 are:

Record Date	Payment Date
January 14	February 1
April 14	May 1
July 14	August 1
October 13	November 1

Stock Transfer Agent and Registrar

Questions about transferring common or preferred stock, lost certificates, or changing the name in which certificates are registered should be directed to our transfer agent, Firstar Bank, N.A. at the address or telephone numbers listed on the back cover.

Address Changes

If your address changes, call or write our Shareholder Services Department.

Availability of Information

Company financial information is available on the Internet. The address is http://www.wpsr.com.

It is anticipated that 2000 quarterly earnings information will be released on April 19, July 20, and October 19.

Shareholders may obtain, without charge, a copy of our 1999 Form 10-K, without exhibits, as filed with the Securities and Exchange Commission, by contacting the Corporate Secretary, at the Corporate Office mailing address listed on the back cover, or by using the Internet.

Annual Shareholders' Meeting

Our Annual Shareholders' Meeting will be held on Thursday, May 11, 2000, at 10:00 a.m. at the Weidner Center, University of Wisconsin - Green Bay, 2420 Nicolet Drive, Green Bay, Wisconsin.

Proxy Statements for our May 11, 2000 Annual Shareholders' Meeting were mailed to shareholders of record on March 20, 2000.

Annual Report

If you receive more than one Annual Report because of differences in the registration of your accounts, please call our Shareholder Services Department so that account mailing instructions can be modified accordingly.

This Annual Report is prepared primarily for the information of our shareholders and is not given in connection with the sale of any security or offer to sell or buy any security.

Striding Into The New World

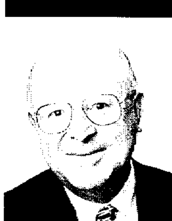
Board of Directors *

A. Dean Arganbright
(Age 69)
Oshkosh, Wisconsin
Retired Chairman, President,
and Chief Executive Officer
Wisconsin National Life
Insurance Company
(Director since 1972)

Michael S. Ariens
(Age 68)
Brillion, Wisconsin
Chairman
Ariens Company
(Director since 1974)

Richard A. Bemis
(Age 58)
Sheboygan, Wisconsin
President and Chief
Executive Officer
Bemis Manufacturing Company
(Director since 1983)

Daniel A. Bollom **
(Age 63)
Green Bay, Wisconsin
Retired Chairman and
Chief Executive Officer
WPS Resources Corporation
(Director since 1989)



Clarence R. Fisher
(Age 59)
Houghton, Michigan
President and Chief
Executive Officer
Upper Peninsula Power Company
(Director since 1998)

Robert C. Gallagher
(Age 61)
Green Bay, Wisconsin
President and Chief
Operating Officer
Associated Banc-Corp
(Director since 1992)

**Kathryn M.
Hasselblad-Pascale**
(Age 51)
Green Bay, Wisconsin
Managing Partner
Hasselblad Machine Company, LLP
(Director since 1987)

James L. Kemerling
(Age 60)
Wausau, Wisconsin
President and Chief
Executive Officer
Riiser Oil Company, Inc.
(Director since 1988)

Larry L. Weyers
(Age 54)
Green Bay, Wisconsin
Chairman, President, and
Chief Executive Officer
WPS Resources Corporation
(Director since 1996)

* Directors of WPS Resources Corporation are also Directors of Wisconsin Public Service Corporation.

** Retired from the Board on December 31, 1999.

Officers and Leadership Staff

WPS Resources Corporation

Larry L. Weyers
Chairman, President, and Chief Executive Officer
Age 54/Years of service 14

Patrick D. Schrickel
Executive Vice President
Age 55/Years of service 33

Daniel P. Bittner
Senior Vice President and Chief Financial Officer
Age 56/Years of service 34

Phillip M. Mikulsky
Senior Vice President-Development
Age 51/Years of service 28

Ralph G. Baeten
Vice President-Treasurer
Age 56/Years of service 29

Diane L. Ford
Vice President-Controller and Chief Accounting Officer
Age 46/Years of service 24

Richard E. James
Vice President-Corporate Planning
Age 46/Years of service 24

Thomas P. Meinz
Vice President-Public Affairs
Age 53/Years of service 30

Neal A. Siikarla
Vice President
Age 52/Years of service 1

Bernard J. Treml
Vice President-Human Resources
Age 50/Years of service 27

Glen R. Schwalbach
Assistant Vice President-Corporate Planning
Age 54/Years of service 31

Barth J. Wolf
Secretary and Manager-Legal Services
Age 42/Years of service 11

George R. Wiesner
Assistant Controller
Age 42/Years of service 15

Wisconsin Public Service Corporation

Larry L. Weyers
Chairman and Chief Executive Officer
Age 54/Years of service 14

Patrick D. Schrickel
President and Chief Operating Officer
Age 55/Years of service 33

Daniel P. Bittner
Senior Vice President and Chief Financial Officer
Age 56/Years of service 34

Charles A. Schrock
Senior Vice President-Energy Supply
Age 46/Years of service 20

Bradley W. Andress
Vice President-Marketing
Age 45/Years of service 1

Ralph G. Baeten
Vice President-Treasurer
Age 56/Years of service 29

Lawrence T. Borgard
Vice President-Transmission
Age 38/Years of service 15

Diane L. Ford
Vice President-Controller
Age 46/Years of service 24

Mark L. Marchi
Vice President-Nuclear
Age 52/Years of service 24

Thomas P. Meinz
Vice President-Public Affairs
Age 53/Years of service 30

Wayne J. Peterson
Vice President-Distribution and Customer Service
Age 41/Years of service 17

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Vice President-Human Resources
Age 50/Years of service 27

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Secretary and Manager-Legal Services
Age 42/Years of service 11

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Age 51/Years of service 28

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Age 38/Years of service 16

Darrell W. Bragg
Vice President
Age 40/Years of service 4

Betty J. Merlina
Vice President-FSG Energy Services
Age 39/Years of service 4

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Vice President
Age 45/Years of service 1

Daniel J. Verbanac
Vice President
Age 36/Years of service 15

Larry L. Weyers
Vice President
Age 54/Years of service 14

Barth J. Wolf
Secretary
Age 42/Years of service 11

Ralph G. Baeten
Treasurer
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Vice President
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Lynwood B. Hart
Vice President-Administration
Age 57/Years of service 17

Barth J. Wolf
Secretary
Age 42/Years of service 11

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Age 56/Years of service 29

Leadership Staff

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General Manager-Operations
Age 56/Years of service 20

Richard J. Bissing **
Director-Wisconsin Sales and Marketing
Age 39/Years of service 3

William L. Bourbonnais, Jr.
Manager-Rates and Economic Evaluation
Age 54/Years of service 31

Donald R. Carlson
Manager-Energy Supply and Control
Age 49/Years of service 24

Michael W. Charles
Manager-Fossil Fuel
Age 50/Years of service 22

Charles A. Cloninger
Regional Customer Service Manager
Age 41/Years of service 18

Kenneth H. Evers
Manager-Nuclear Plant Support Services
Age 54/Years of service 26

Ronald K. Grosse
Manager-Customer Strategy
Age 56/Years of service 34

David W. Harpole *
Manager-Corporate Services
Age 44/Years of service 22

Terry P. Jensky
Manager-Pulliam Plant
Age 46/Years of service 22

Bradley A. Johnson *
Corporate Planning Executive
Age 45/Years of service 20

Jerry A. Johnson
Manager-Information Services
Age 50/Years of service 27

Randall G. Johnson
Manager-Corporate Transformation
Age 52/Years of service 29

Timothy J. Kallies
Manager-Customer Care
Age 40/Years of service 16

Paul J. Liegeois
General Manager-Marketing and Business Development
Age 49/Years of service 26

Dennis J. Maki
Manager-Weston Plant
Age 51/Years of service 29

Roger M. McCambridge
Manager-Gas Engineering
Age 44/Years of service 15

Dale N. Miller
Regional Customer Service Manager
Age 54/Years of service 29

Edward N. Newman
Director-Environmental Services
Age 57/Years of service 25

Dale M. Quinn
Manager-Substation and Transmission
Age 54/Years of service 28

Michael I. Radtke
Manager-Electric Distribution Engineering
Age 45/Years of service 21

Jack C. Rasmussen
Manager-Purchasing and Stores
Age 52/Years of service 29

Richard J. Suslick ***
Director-Power Development
Age 56/Years of service 8

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Regional Customer Service Manager
Age 54/Years of service 31

Kenneth H. Weinhauer
General Manager-Kewaunee Plant
Age 55/Years of service 24

Ralph P. Zagrzebski
Regional Customer Service Manager
Age 55/Years of service 33

* Employee of WPS Resources Corporation.

** Employee of WPS Energy Services, Inc.

*** Employee of WPS Power Development, Inc.

Leadership Staff members are employees of Wisconsin Public Service Corporation, except as indicated.

FSG Energy Services is a division of WPS Energy Services, Inc.

Years of service take into consideration service with WPS Resources Corporation or a system company.

WPS Resources Corporation

Corporate Office

700 North Adams Street
Green Bay, WI 54301
Mailing Address:
WPS Resources Corporation
P. O. Box 19001
Green Bay, WI 54307-9001
Telephone: 920-433-4901
Fax: 920-433-1526
Internet Address: http://www.wpsr.com

Shareholder Services Department

WPS Resources Corporation
700 North Adams Street
Green Bay, WI 54301
Mailing Address:
WPS Resources Corporation
P. O. Box 19001
Green Bay, WI 54307-9001
Telephone: 920-433-1050 or 800-236-1551
Electronic Mail Address: investor@wpsr.com

Transfer Agent and Registrar

Investor Services
Firstar Bank, N.A.
P. O. Box 2077
Milwaukee, WI 53201
Telephone: 414-276-3737 or 800-637-7549

Financial Inquiries

Mr. Ralph G. Baeten
Vice President-Treasurer
WPS Resources Corporation
P. O. Box 19001
Green Bay, WI 54307-9001
Telephone: 920-433-1449

Stock Exchange Listing

New York Stock Exchange
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Listing Abbreviation: WPS Res

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