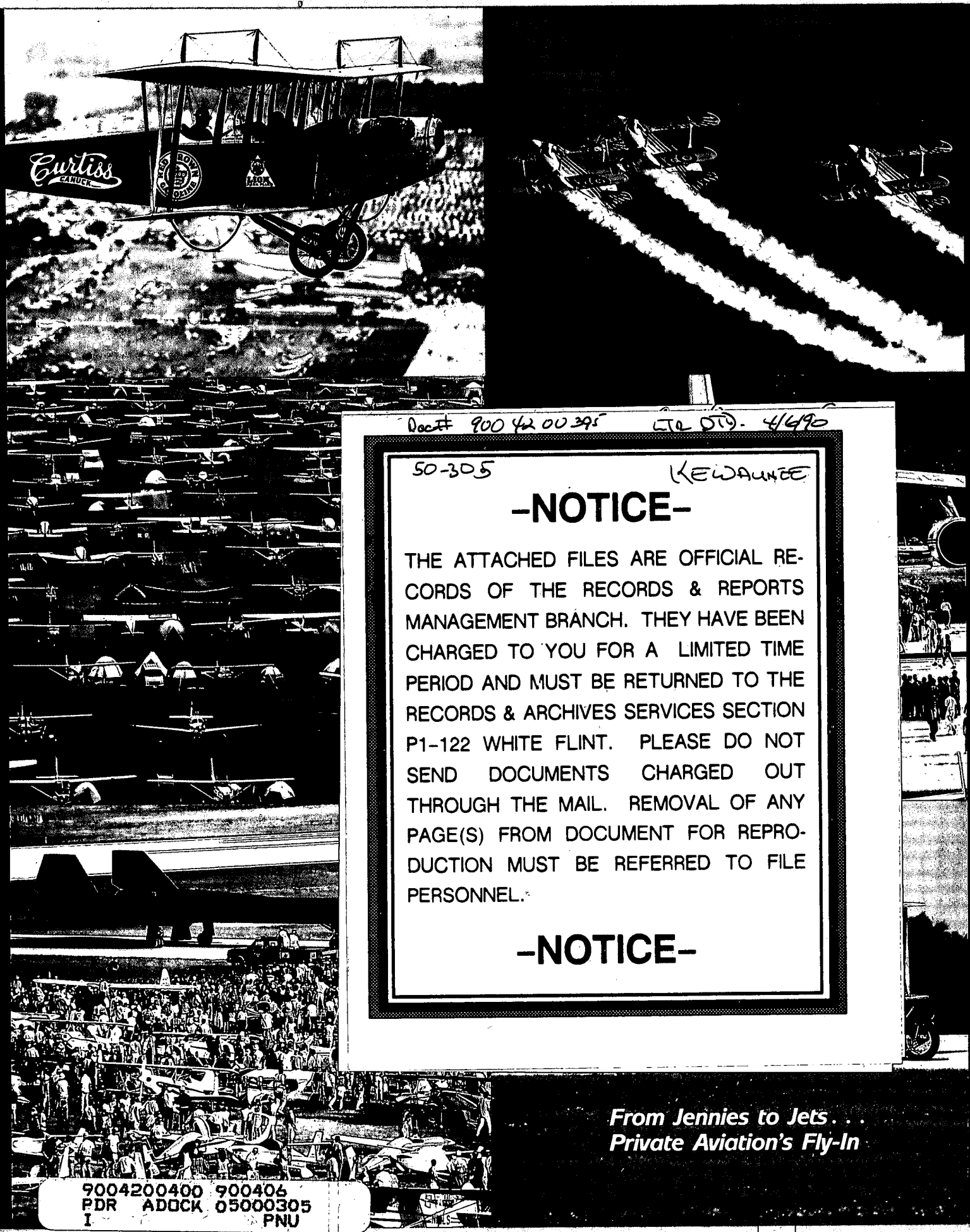
WISCONSIN PUBLIC SERVICE CORPORATION / 1989 ANNUAL REPORT

"Looking to the 90s"



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-NOTICE-

From Jennies to Jets . . .
Private Aviation's Fly-In

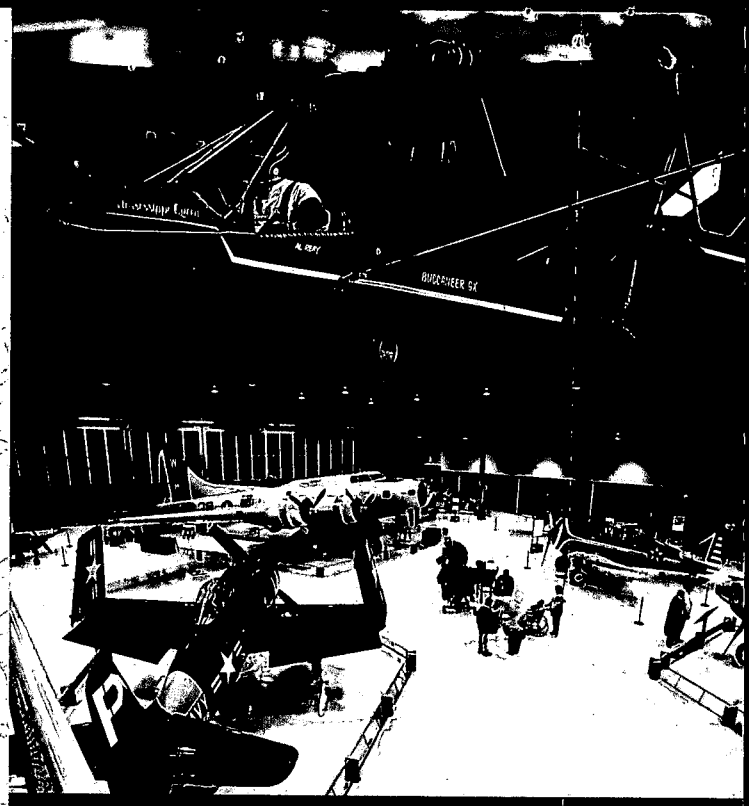
Experimental Aircraft Association — The World of Sport Aviation

Each summer the international private/sport aviation community makes its fly-in pilgrimage to the Experimental Aircraft Association (EAA) Center in Oshkosh, Wisconsin. The annual convention week makes Wittman Field the world's busiest airport, with the FAA Controllers recording aircraft movement of nearly 55,000 airplanes during the seven-day period. . . four times busier than Chicago's O'Hare Field. Aircraft traffic consists of everything from supersonic intercontinental jets, one-passenger ultra lights to restored antique classics.

In 1989, the "Fly-In" theme was "From Jennies to Jets," as illustrated on the cover. EAA hosted over 840,000 visitors, including 2,265 visitors from 71 different countries, with nearly 15,000 airplanes flying in. Educational forums, workshops, seminars and special exhibit shows included a visit from the Soviet cargo jet ANTONOV AN-124 — one of the world's largest, the Qantas 747 "Oshkosh Express" carrying 400 EAA members from Australia and the first-ever showing of the U.S. Air Force's SR-71 "Blackbird." Other participants landed in a variety of aircraft: home-assembled Custom Builts, Antiques, Classics, Rotocraft, Warbirds, Replicas, Ultralight/Light Planes and Seaplanes.

EAA complex consists of the contemporary Air Adventure Museum with aviator theatres and special hangar displays. . . all open daily to the public, plus the Kermit Weeks Flight Research Center which implements the EAA Foundation research and development programs. The Association boasts more than 125,000 members "who simply enjoy airplanes," represented by over 700 active chapters in 71 countries throughout the world. Areas of special interest that focus on specific types of aircraft are: Antique/Classic, International Aerobatic and Warbirds of America.

Wisconsin Public Service is a participant in EAA's activities and is proud to have the Center within its service area.



EAA Photos By:
Jim Koepnick • Carl Schuppel • Pete Schroeder

"Looking to the 90s"

The vitality, diversification and progressive activities within the Wisconsin Public Service Corporation service area illustrate some of the key factors affecting the present and future growth and stability of the company. These vary from the internationally renowned Experimental Aircraft Association convention held annually in Oshkosh, to the hosting of visiting Wisconsin Government and a variety of ambitious projects preparing the company for the challenges of the 1990s.

Company operating properties and computer systems are continually upgraded in order to provide added service to customers and realize the benefits of efficiencies of operations. New marketing programs help customers control service bills. The company's participation in entrepreneurial research into innovative energy storage devices is another forward looking program. Employee training and future development needs are addressed in various ways. Other programs involving the company and the community are also illustrated in this report. We hope you will enjoy seeing the examples of these dynamic activities and their contribution to the continued economic health of Wisconsin Public Service Corporation.

Contents

Business

WISCONSIN PUBLIC SERVICE CORPORATION is an investor-owned electric and gas utility providing service to a 10,000 square mile area of Northeastern Wisconsin and an adjacent part of Upper Michigan.

Operating Highlights

	1989	1988	% Change 1-Yr	% Change 5-Yr	% Change 10-Yr
Revenues (Thousands)	**$585,812**	$604,334	– 3.1	– 9.1	53.3
Net Income (Thousands)	**49,130**	56,420	–12.9	–12.7	39.5
Earnings Per Average Share of Common Stock*	**1.98**	2.28	–13.2	– 7.5	40.4
Dividends Paid Per Share*	**1.60**	1.56	2.6	31.1	91.6
Book Value Per Share	**16.30**	16.00	1.9	19.9	60.0
Common Stock Year-End Price	**23¾**	**21⅝**	9.8	52.0	173.4
Construction Expenditures (Thousands)	**71,561**	68,841	4.0	23.1	–10.3
Capitalization (Thousands)	**680,242**	680,777	– .1	12.4	35.3
Electric Customers	**322,582**	317,695	1.5	8.4	17.1
Electric Sales (Kwh – Thousands)	**8,957,064**	8,840,298	1.3	19.9	35.0
Gas Customers	**172,519**	169,369	1.9	9.9	18.0
Gas Deliveries (Therms – Thousands)	**541,897**	501,098	8.1	15.1	2.0

Common Stock – Two Year Comparison

Share Data	Dividends Per Share	Price Range High	Price Range Low
1989			
1st Quarter	$ .395	22⅜	20½
2nd Quarter	.395	23¼	20¾
3rd Quarter	.405	24⅞	22¼
4th Quarter	.405	24¼	22⅛
Total	$1.60		
1988			
1st Quarter	$ .385	23¼	20
2nd Quarter	.385	22¾	20⅝
3rd Quarter	.395	22½	21
4th Quarter	.395	23⅜	21⅛
Total	$1.56		

*Adjusted to reflect 2 for 1 common stock split in June 1987.

Daniel A. Bollom (left)
Linus M. Stoll (right)

▼ TO OUR SHAREOWNERS:

The company's performance in 1989, although not its best ever, permitted us to close the decade of the 1980s as a financially strong, competitive and independent electric and natural gas utility that is capable of leading its competition into the decade of the 1990s, which some industry experts are hailing as the "Opportunity Decade."

This is due in no small part to the enthusiasm and energy exhibited by our employees, but also to the dedication of our shareowners, many of whom, either individually or as active members of Wisconsin Utility Investors, Inc. (WUI), are voluntarily using their time and experience to support the company's activities.

To each, we say *"thank you!"* and ask that you continue your efforts.

For 1989, earnings per average common share were $1.98, compared to $2.28 for 1988 and $2.11 for 1987. This reduction in earnings can be principally attributed to some maintenance costs being higher than expected; to a reduction in authorized rate of return by the Public Service Commission of Wisconsin (PSCW); and to milder summer weather reducing the air conditioning load.

Common stock quarterly dividends were increased to 40.5 cents with the September payment, an increase from 39.5 cents in 1988. This was the 31st consecutive year in which dividends paid per share were increased.

Customer satisfaction remained a top priority during the year. Although opinion surveys and research indicate that customers continue to have high regard for the manner in which we do business, several programs were instituted in 1989 to enable us to do more for customers, do it better and do it faster.

For example, a significant commitment of people and time has been made to ensure that our new Total Quality Focus (TQF) process receives a positive start and will go on to achieve long-term benefits that will improve products and processes, reduce costs, stabilize rates and improve customer service.

This focus on continuous quality improvement will also complement our cost management effort.

We are pleased to report that the employees involved in TQF training, which was started in late 1989, are enthusiastic and committed to improve the company's processes.

Other activities that helped us control costs during 1989 included:

- Purchasing lower-priced natural gas on the spot market, which saved customers about $14 million;
- Purchasing less expensive natural gas during "off-peak" periods during the year and storing it for use when needed, which saved customers about $500,000; and
- Improving the already high reliability factor (the percentage of time in a year when the plant is available for use) of the Weston 3 coal-fired plant near Wausau by increasing the efficiency of the fuel burn, which saved about $1.2 million.

The company and its employees will continue to aggressively seek new ways to manage costs while working to improve service quality and reliability, as well as meeting or surpassing all environmental standards associated with operations.

For example, at the multi-unit Pulliam coal-fired plant in Green Bay, old equipment is being replaced and upgraded, which will reduce emissions that affect the environment. The plant has recently been tested and is in compliance with all air quality rules. Environmental efficiency is also being improved at the three Weston coal-fired units and, system-wide, sulfur content

of the coal burned is being further reduced. In 1980, this averaged 3.2%. By 1993, the average will be down to .8%.

The company is revising its hydroelectric property management plan to enhance wildlife habitat and to improve land and water recreational facilities.

The company continues to lobby for changes in the proposed federal Clean Air Act Amendments. Some provisions of the legislation fail to recognize Wisconsin's utilities for the steps they have already taken to reduce sulfur dioxide emissions under the terms of a 1985 state law.

We are pleased to report that this lobbying effort has the cooperation and support of the other Wisconsin utilities, Governor Thompson and his administration, including the Wisconsin Department of Natural Resources (DNR), the PSCW, the Division of Energy and Intergovernmental Relations, and the entire 11-member Wisconsin Congressional delegation. This will continue to be one of our priority activities in the coming year.

In a November rate order issued to Wisconsin Power and Light Company (WP&L), the PSCW addressed the issue of alleged mishandling of a coal contract for the Columbia Energy Center near Portage. The Commission assessed WP&L, as operator of the jointly-owned facility, a $9 million payment. The portion associated with WP&L ratepayers would be about $4.1 million based on its 46.2% ownership. WP&L is appealing the PSCW decision in Dane County Circuit Court. Until the results of this legal action and any potential additional proceedings before the PSCW are concluded, the impact on our company, which owns 31.8% of the facility, will not be known.

In another legal matter involving the PSCW, the company has appealed to the Federal Energy Regulatory Commission (FERC) for a ruling on the question of transmission system access, which was part of the Commission's order for Advance Plan 5 (the statewide generation and transmission plan which is revised biennially). The PSCW proposes socializing the use of transmission systems now owned and managed by individual utilities. The company believes this would be a confiscation of property without due compensation, a possible violation of federal and state law. Another question is whether a federal agency, a state agency, or both have the authority to regulate the company's transmission system use.

As we look forward to the promise of the "Opportunity Decade," we anticipate that we will need to confront similar challenges and resolve new problems. We are confident that Wisconsin Public Service Corporation, at year-end 1989, has the financial and organizational strength to permit it to remain flexible enough, responsive enough, and resilient enough to take advantage of the increasingly competitive nature of the industry.

In 1989, job openings created by retirements for several key management positions were all filled by experienced and well-trained individuals from within the company. This not only speaks well for our employees as a group, but also speaks well for our future.

One part of this future is cogeneration. Cogeneration supplied by our customers will permit us to secure additional electric capacity to forestall construction of large-scale plants. In 1989, we entered into an agreement with one of our largest Green Bay customers, under which we plan to purchase about 50 megawatts of electricity from a new cogeneration facility scheduled to be completed in 1992.

Another part of the future is a new, state-of-the-art Customer Information System (CIS) that was implemented throughout the company on May 1, 1989. We are the first utility anywhere in the world to use this new approach to information processing technology. CIS will allow a quick response to changing customer and regulatory needs and provide a competitive edge as we move into the "Opportunity Decade."

We are convinced that we are positioned to benefit from the potential of the coming "Opportunity Decade." We are confident that the company's performance will permit it to display leadership even among its strongest competition. This confidence is due in a large part to our fellow employees, who continue to demonstrate that dedication, competence, energy and creativity can meet any challenge.

Linus M. Stoll

Linus M. Stoll
Chairman and
Chief Executive Officer

Daniel A. Bollom

Daniel A. Bollom
President and
Chief Operating Officer

February 26, 1990

Year In Review

Kewaunee Plant

A. East Meets West. Minister Nikolai Lukonin, Minister of Atomic Energy for the USSR (left) presents Linus Stoll (right) with a commemorative certificate following the inaugural meeting of the World Association of Nuclear Operators, or WANO, in Moscow. Stoll was among 350 delegates from 31 countries who took part in the meeting. WANO's goal is to raise the performance level and operating standards of all nuclear power plants on a worldwide basis.

B. The 535-megawatt Kewaunee nuclear plant heads into the 1990s with the distinction of being the Nuclear Regulatory Commission (NRC) top-rated plant. The most recent NRC Systematic Appraisal of Licensee Performance review found the Kewaunee plant on top of the nation's 108 licensed commercial reactors for overall performance.

▼ FINANCIAL

A program was initiated to purchase and retire 600,000 shares of common stock during the 12-month period beginning July 1989 to alleviate the common stock equity build-up. Repurchases of about 312,000 shares were made during 1989.

The only financing expected in the next three years is the sale of about $45 million of First Mortgage Bonds late in 1990 to reduce short-term debt.

The company implemented a leveraged employee stock ownership plan during the last quarter of 1988. The plan currently has an outstanding loan of approximately $5 million and is holding approximately 210,000 shares of company stock as collateral. The plan is expected to provide benefits to the company through tax deductible dividends and by enabling it to reduce customer rates while also increasing employee stock ownership.

▼ RATES

In January 1989, electric rates increased $2.7 million and natural gas rates decreased $1.1 million for our Wisconsin customers. The small increase still meant customers paid electric rates well below the national average. The last time electric rates were increased was March 1983. Electric rates in Wisconsin were reduced $7.3 million effective January 1, 1990, while gas rates were increased $900,000. The company unsuccessfully appealed this electric rate order for increased operating costs at the Kewaunee nuclear plant. The additional amount in the appeal was based on requirements arising from unpredicted Nuclear Regulatory Commission (NRC) type regulations.

Michigan electric rates were reduced effective with the beginning of 1990 to about $300,000 lower than the 1989 level.

Wholesale rates under FERC were reduced $1 million in January 1989.

Reduced electric rates result from negotiations for lower fuel costs, cost control measures and lower authorized rates of return. Gas rate increases reflect higher operating costs.

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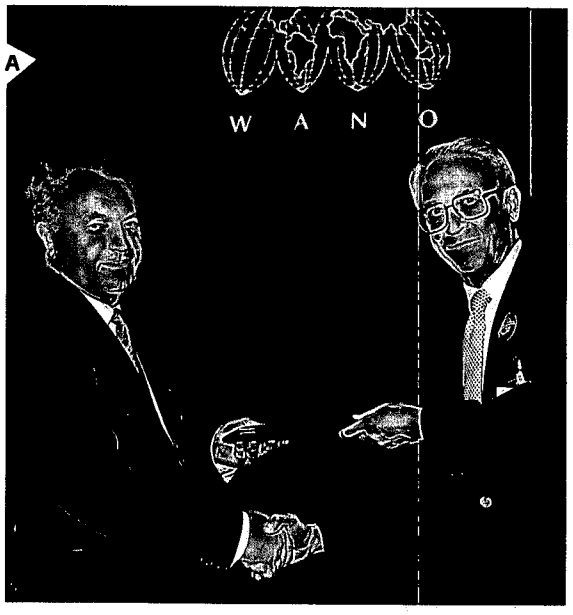

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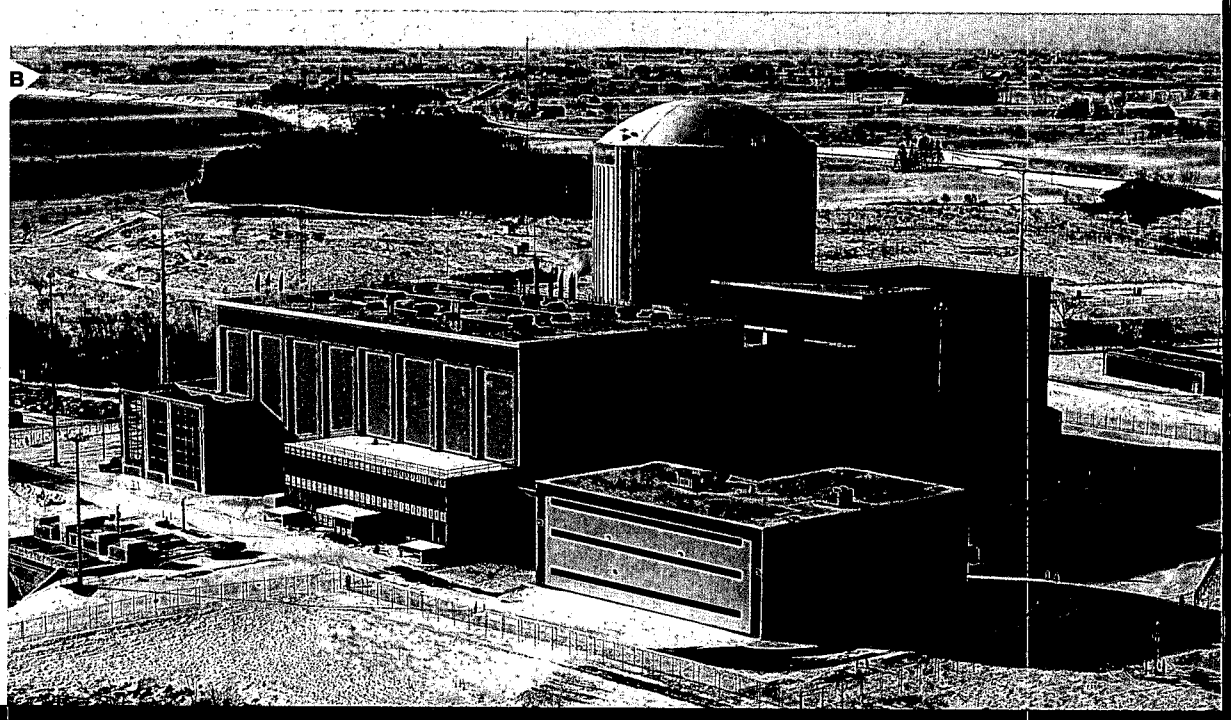


▼ MANAGEMENT

At the annual shareholders' meeting held in May, Richard A. Bemis, Daniel A. Bollom and James H. Liethen were elected as directors for a term of three years.

Linus M. Stoll, formerly president and chief executive officer, was promoted to chairman of the board, replacing Paul D. Ziemer. Ziemer retained a seat on the Board and Stoll continued as chief executive officer. Daniel A. Bollom, who served as senior vice president-operations, was promoted to president and assumed the responsibilities of chief operating officer.

Patrick D. Schrickel, former vice president-gas engineering and supply, replaced Bollom as senior vice president-operations, and former vice president-marketing, J. Gus Swoboda, was named senior vice president-marketing and corporate services. Swoboda replaced John V. Henderson, senior vice president-corporate services, who retired on October 1, with 41 years of service to the company. Richard A. Krueger was promoted to senior vice president-power supply and engineering.

New officers elected were Clark R. Steinhardt, assistant vice president-nuclear power, and Larry L. Weyers, assistant vice president-energy supply.

Eugene R. Mathews, executive vice president-power and a director, retired after 42 years of service to the company. He was replaced on the Board by Daniel A. Bollom.

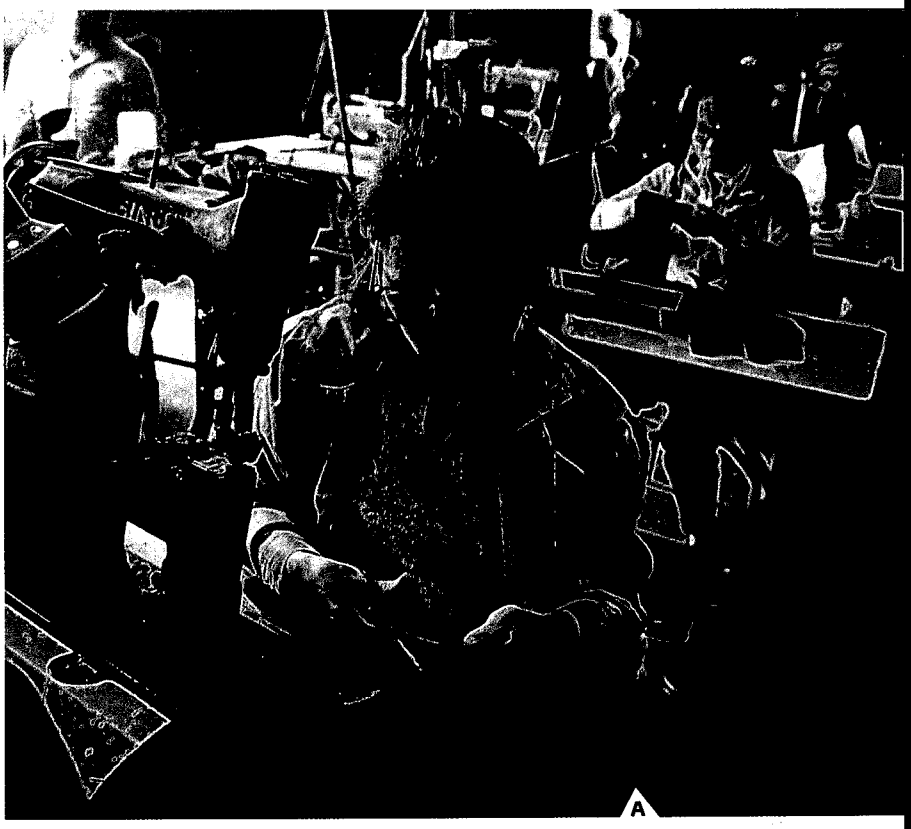
William O. Neddersen, assistant vice president-system planning and engineering, retired after 42 years of service to the company.

▼ ELECTRICAL SYSTEM

A number of construction projects were completed on our electric system this year. Three of the larger projects included an $8.8 million, 138,000 volt transmission line to Marinette, a $6 million, 115,000 volt reinforcement to the city of Marshfield, and a $1 million transmission line in Sturgeon Bay to reinforce electric service to customers throughout Door County.

Our peak gross hourly electrical demand in 1989 was 1,550,000 kilowatt-hours set on August 4. This did not exceed the previous year's high gross hourly demand of 1,567,000 kilowatt-hours reached on August 16, 1988 when we experienced the hottest summer of the past 40 years.

The company's 20-year Advance Plan 5 was approved by order of the PSCW in April 1989. The Commission's directive, which addresses generation, conservation, load management and transmission, integrates the plans of all Wisconsin utilities to show how electrical needs in the future can be best satisfied on a statewide basis.



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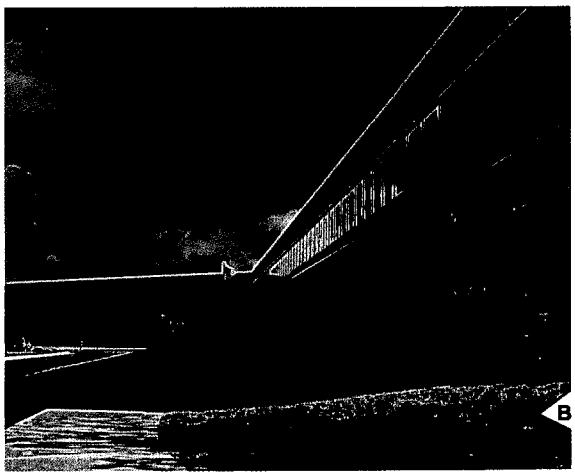

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Industrial and Commercial Development

A. *Our economic development efforts include assisting the United Hmong American Corporation's start-up of a shoe stitching operation at Wausau's industrial incubator Project in Marathon County. The incubator assists businesses in starting up by providing space until the new business is able to rent or purchase an independent facility.*

B. *An excellent environment in which to conduct business is the reason management of the 92-year old Church Mutual Insurance Company stayed in Merrill and expanded its operations. The company added 55,000 square feet to its offices and has seen strong steady growth.*

Year In Review

Concern For Customers

A. The company developed its own Customer Information System, or CIS, to improve overall response to customers. The system allows us to have instant access to pertinent information when responding to customer requests.

B. The CIS allows contractors in the field to get instantaneous answers to questions regarding gas and electric service at new home construction sites. This eliminates unnecessary construction delays and helps to improve overall customer satisfaction.

The company's need for new generating capacity is continually being assessed. To meet electric load growth in the near term, the company plans to purchase about 50 megawatts of new cogeneration capacity to be constructed by a paper-producing company in Green Bay and to continue to pursue other customer-owned cogeneration prospects in addition to new conservation and load management programs. There are also plans to purchase about three megawatts of capacity from a landfill gas generator being installed by Winnebago County.

The PSCW, in its recent advance plan order, directed the Wisconsin utilities to develop agreements with other contiguous utilities and municipalities and to file wheeling tariffs with the FERC that in effect provide access to the company-owned electrical transmission system. Although the company has been willing to provide access on a voluntary basis, the PSCW order which mandates access under specific conditions is being challenged by us through legal action.

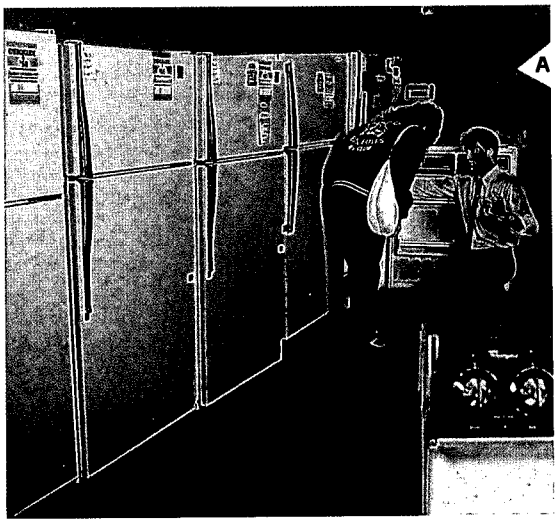
To ensure reliability of service we have developed an enhanced "Preventative Repair of Electric Plant" program, or PREP. The program ensures that on a specific schedule, our electric distribution facilities will be checked for safety, will be maintained adequately for the purpose for which they were designed and built, and will continue quality service to our customers.

Being prepared before electrical storm outages is the idea behind the company's satellite weather reporting system. The new system was installed to provide cloud, radar, lightning data and other storm information on-screen which dispatchers use to better anticipate destructive weather and the outage problems it may cause, and also improve the response time to customers in emergencies.

▼ *NUCLEAR POWER*

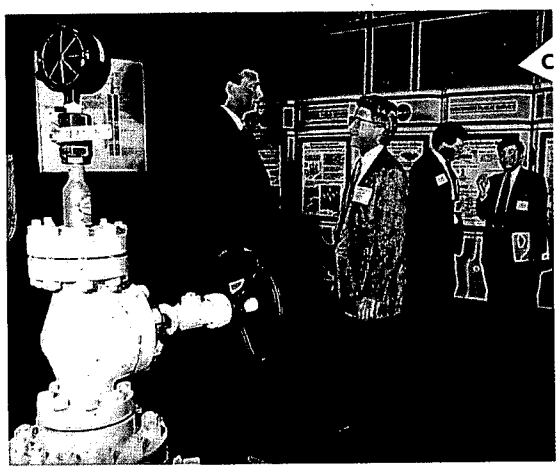
The NRC granted a five-year extension on the Kewaunee nuclear plant operating license which will now expire December 21, 2013. New nuclear plants' 40-year licenses are now granted at the time the plants begin to operate, not from the time plant construction began, as was the case at Kewaunee. The plant is in its 15th year of commercial operation.

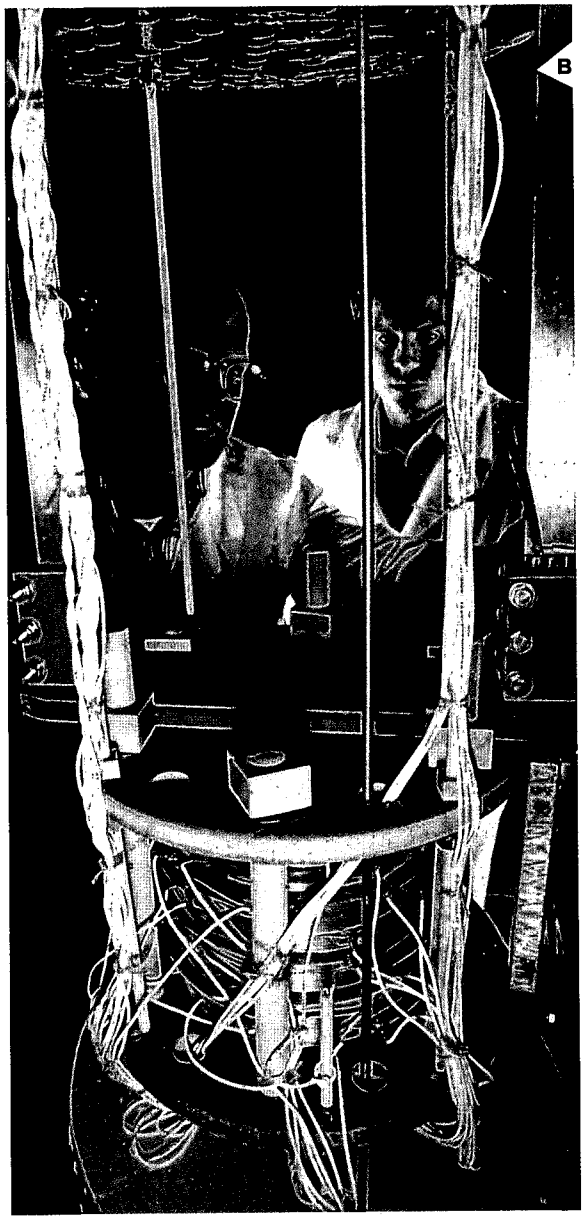
The NRC also commended plant management following an analysis of the safety and operating practices during the past 18 months. Known as the Systematic Appraisal of Licensee Performance (SALP), the highest possible rating was given in ten categories in seven functional areas. This is the first time since SALP was established in the early 1980s that a plant received a perfect score.

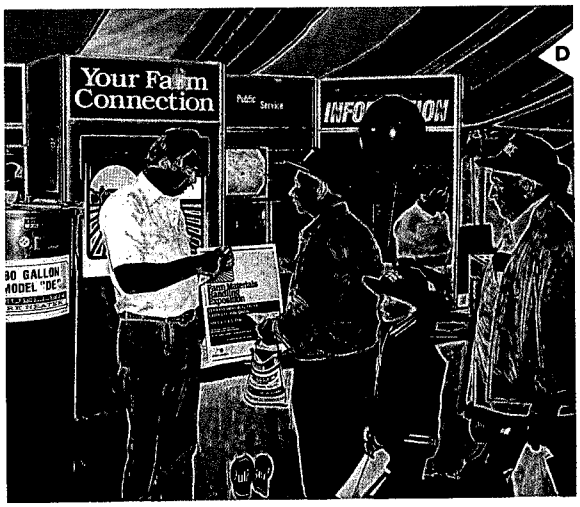


During its spring refueling and maintenance overhaul, a sleeving project for the steam generators was completed at a cost of $12 million. This extension of the life of both steam generators compares with a complete replaeement which would have cost between $65 and $90 million.

The Kewaunee uranium fuel requirements will be supplied through open market purchases and long-term eontracting in future years. With the change in the fuel market, the company's uranium mining subsidiary, Dolores Bench Limited Partnership, is no longer needed to assure a secure supply of fuel. In 1989, the company divested over two-thirds of the in-ground uranium reserves being held, and pursued negotiations that will result in divestiture of the remaining properties. Additionally, all the mining equipment was sold.







Marketing

A. *"Wise Buys," our energy efficient rebate program, is explained to customers in appliance stores. The conservation program results in lower energy bills for customers and reduces the overall energy needs of the company. The progrom has exceeded its original goal of 15,000 rebate applications since it began in April.*

B. *New technologies bring excellent marketing opportunities. Field testing for Superconducting Storage Devices, or SSDs, is now underwoy. We are funding the reseorch for the new technology with four other utilities. One application will be to increase the short-term power delivery of an uninterruptible power supply.*

C. *Large commercial and industrial gas customers receive an annual update on the natural gas situation which could affect their business. The event, which was sponsored jointly by the company ond ANR Pipeline, our natural gas supplier, is designed to bring the 170 attendees up-to-date on gas supply issues which include market expectations, changing regulations, pricing and availability. About half of our total gas sales come from these large commercial and industrial customers.*

D. *The company's form conservation progroms are presented to attendees of the 1989 Wisconsin Farm Progress Days. Our marketing representatives are quite active in working with our 11,000 farm customers who represent about 4% of our customer base.*

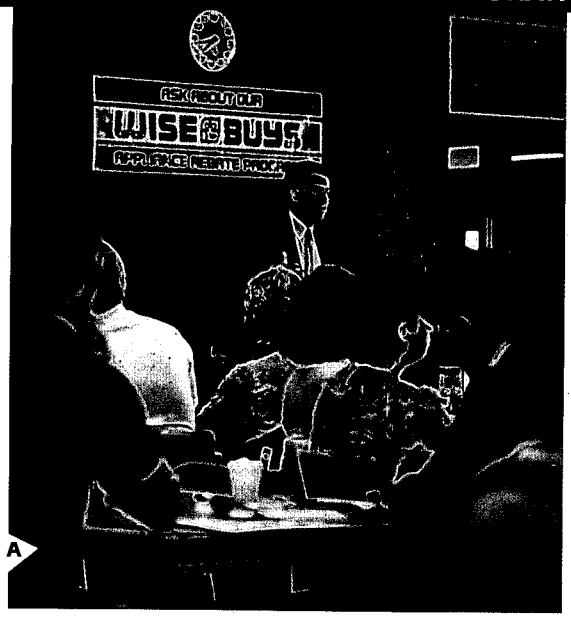
Year In Review

Employee Events

A. A series of employee informational meetings were held before the workday to offer employees a chance to learn more about company marketing programs. A marketing representative informs employees about the highly successful "Wise Buys Energy Efficient Appliance Rebate" program.

B. Linus Stoll updated employees, retirees, and their spouses at a company "Family Night." Family Night enables everyone to be updated on the company and allows employees to mingle in a social setting.

C. A joint educational program developed by the company and the University of Maryland University College allowed five nuclear plant reactor operators to receive their college degrees. The nuclear science program began in 1984 and there are now 700 students enrolled nationwide, 90 of them from the company's nuclear group.



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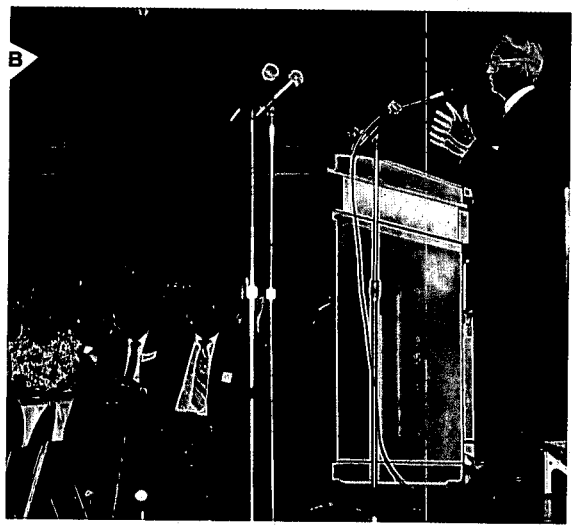

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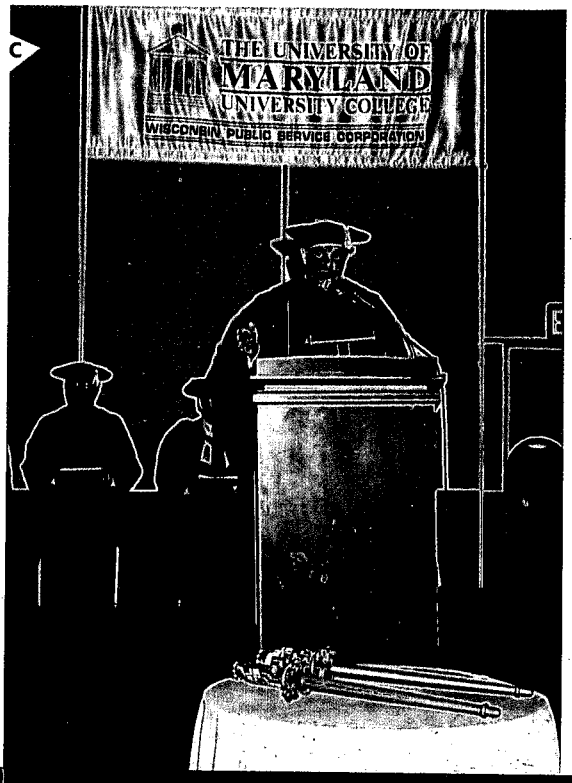
In July 1987, the company established external trusts to fund the future decommissioning costs related to the Kewaunee nuclear plant, to the extent of our ownership interest. Prior to 1987, funds collected for this purpose were retained internally. The establishment of the trusts were ordered by the PSCW and this method was affirmed by the FERC in that same year. The primary purpose of these trusts is to segregate the funds and to ensure that the funds will be available to decommission the Kewaunee nuclear plant when it reaches the end of its productive life.



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▼ COAL POWER

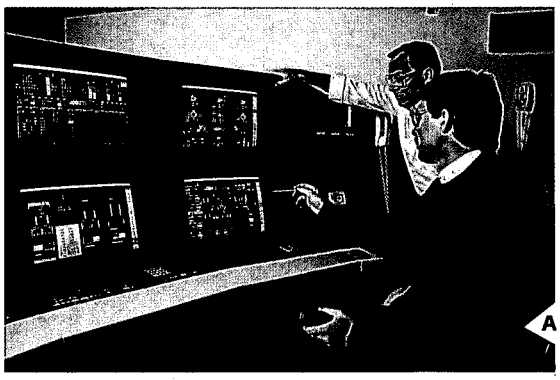
Railroad contract agreements for transportation of coal were renegotiated which will result in significant fuel cost reductions beginning in 1990.

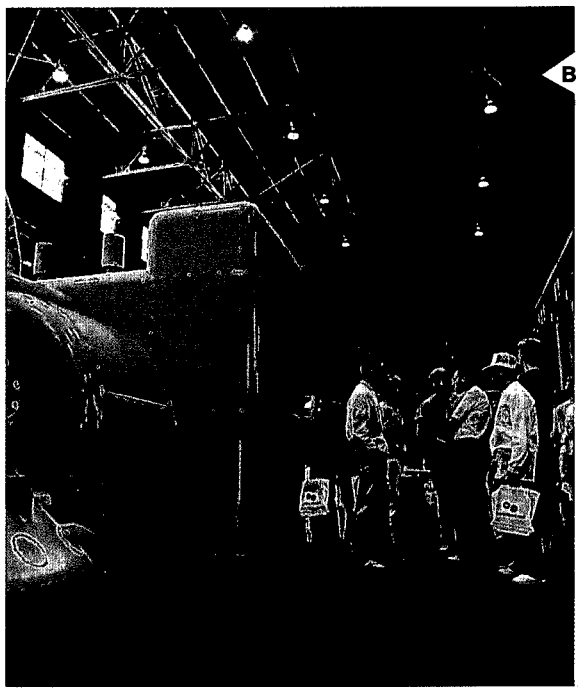
A controls upgrade project continues at the Pulliam plant in Green Bay preparing it for the 1990s and beyond. This $8.5 million project at the 373 megawatt coal plant will impact virtually all aspects of operation. The new system will control the boilers, turbines and generators and is expected to be fully operational by March 1990.

The company's Weston Unit 3, near Wausau, continued its highly reliable operation. This plant, the company's largest wholly-owned fossil unit, operated during the year at 91% availability. This constancy of generation provides a solid base for our electrical system, improves efficiency and overall unit performance, and also results in lower generating costs.

▼ HYDRO POWER

Relicensing of the company's hydro plants is actively being pursued with the FERC. The company recently received a 40-year license renewal for the Otter Rapids hydro plant on the Wisconsin River. This is the second license applied for by the company under new FERC regulations. A new Grandfather Falls license became effective April 1, 1988 for a 30-year period. All six plants on the Peshtigo River, along with one plant on the Menominee River, one on the Tomahawk River, and a plant on the





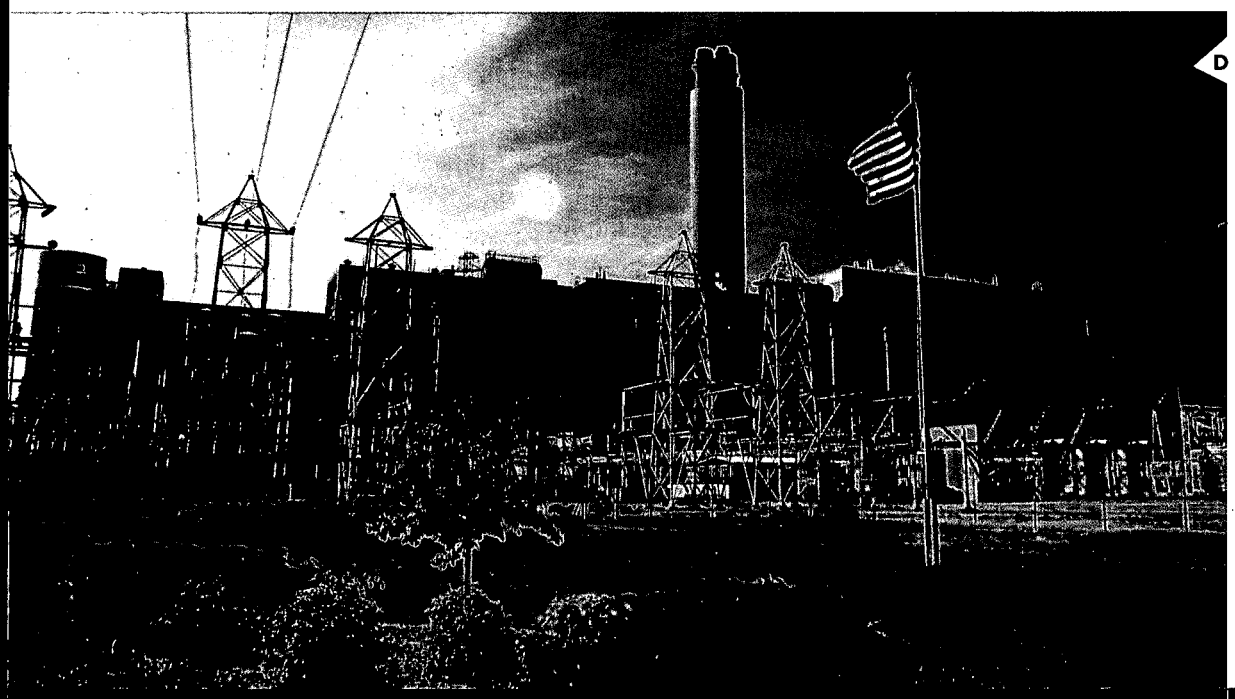
Wisconsin River, will have their licenses expire between 1993 and 1995.

▼ GENERATION AND FUEL COSTS

In 1989, electrical generation on company units was down slightly from previous years due to the availability of economic purchased power outside the system and reduced hydro generation due to drought conditions.

Fuel costs in 1989 compared with 1988, expressed in dollars per million Btu, were: nuclear, $.45, up from $.44; coal, $1.89, up from $1.84; natural gas, $3.10, down from $3.47; and No. 2 fuel oil, $4.20, up from $3.48.

The generation mix of fuels needed to operate our power plants in 1989 compared with 1988 was: coal, 63.6%, down from 66.1%; nuclear, 16.0%, down from 17.0%; hydro, 2.0%, down from 2.1%; combined natural gas and fuel oil, .7%, up from .6%; and power purchased from other utilities, 17.7%, up from 14.2%.



Pulliam Plant

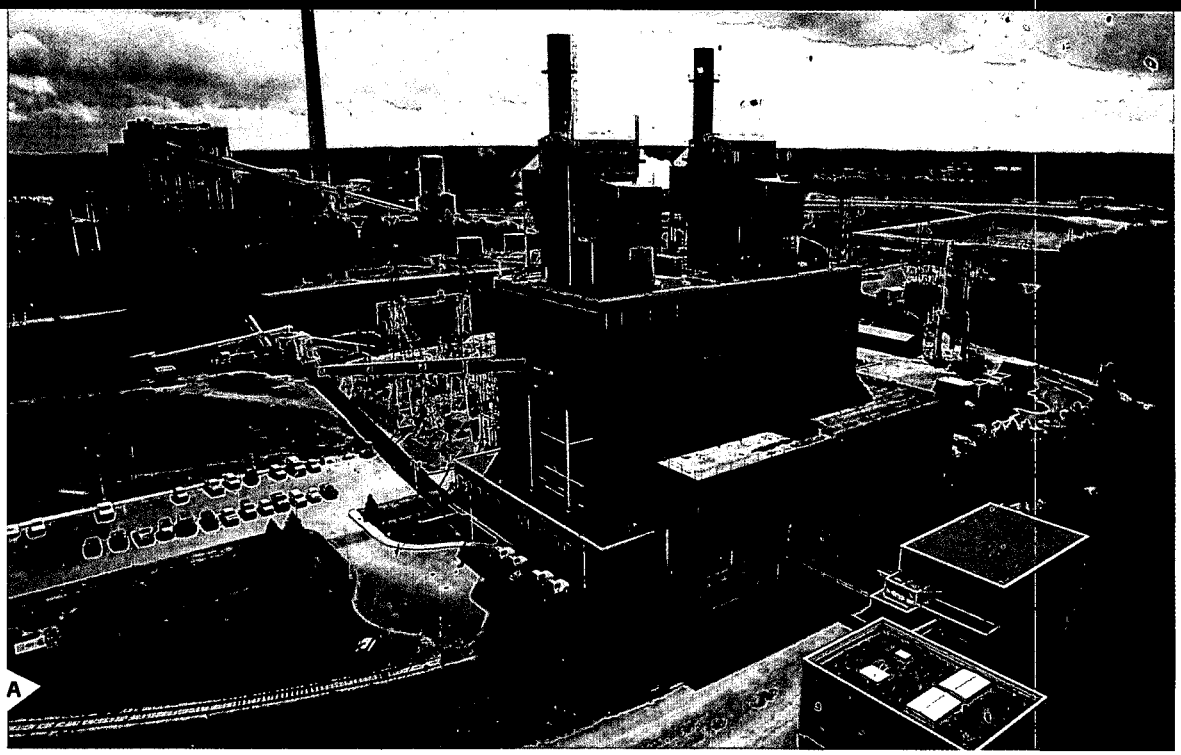
A. Part of the Pulliam plant's upgrade included a new control system for the plant's boilers, turbines and generators. The consolidation of control rooms resulted in easier operator monitoring and increased efficiency in the production of electricity. The new control system has a price tag of $8.5 million and is expected to be fully operational in 1990.

B. About 30 teachers from a National Science Foundation education program, coordinated by the University of Wisconsin-Green Bay, got a first hand look at the environmental improvements made at the Pulliam plant in Green Bay.

C. Fly ash, a by-product of burning coal, is being used in the construction of a local expressway interchange. About 100,000 cubic yards of ash is being used to build up the embankment where the roads are being constructed. All of the Pulliam plant's fly ash was used in various landfill projects in 1989.

D. The 373,000 kilowatt Pulliam plant in Green Bay is in the final stages of a major upgrade as it prepares to generate reliable and environmentally clean electricity to customers in the decade ahead.

Year In Review



Weston Plant

A. Weston Units 1, 2 and 3 received their final operating permits from the Wisconsin Department of Natural Resources to allow construction of an ash disposal site, located 15 miles southeast of the plant. The site will handle all of the plant's ash disposal for the next 15 to 20 years.

B. Worn out tubes were replaced in Weston Unit 2 condenser. The replacement of 39.5 miles of tubing improved the plant's overall efficiency.

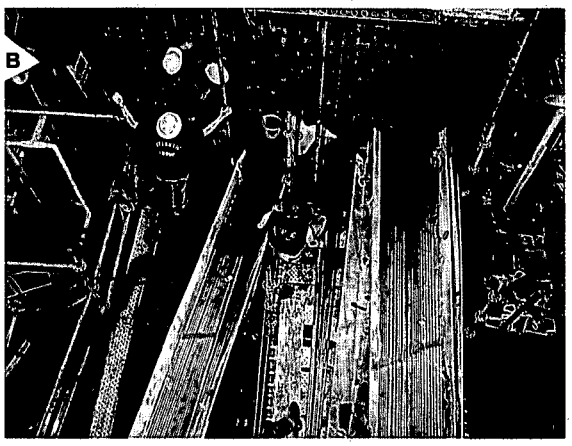
C. Workers at Weston Unit 2 replaced the rotor on the induced draft fan. The fan induces the exhaust air from the plant's boiler. The Unit was built in 1960.

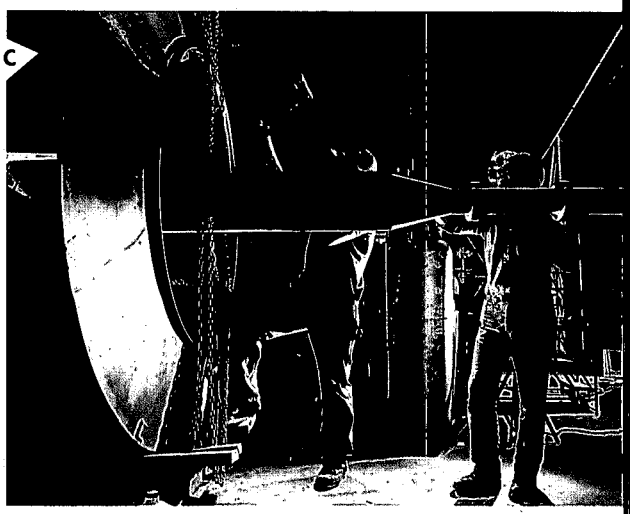
During 1989, the McGraw Hill publication, "Nuclear Fuel," reported that Kewaunee had the third lowest fuel cost of all nuclear reactors in the United States in 1988. This is an improvement from the plant's No. 4 ranking in 1987. Kewaunee holds the No. 3 ranking for lowest reported fuel cost for the three-year period of 1986 through 1988.

▼ *NATURAL GAS*

Our gas procurement plan is to supplement the purchase of gas from the pipeline with transportation gas acquired in the spot market. The end result of this is lower gas rates for our customers. Last year we purchased approximately 60% of our firm customer needs on the spot market, reducing our gas cost by about $14 million. We are presently negotiating contracts with terms up to three years with producers to purchase spot market gas.

We are also pursuing purchasing lower-cost gas during the off season and storing it until it is needed during the heating season. This was done during the summer of 1989. This lower-cost stored gas is used to offset purchases of higher-priced gas during the heating season. The total gas savings of $500,000 were passed on to our customers in lower rates. The storing of customer-owned gas by a pipeline company is new to the gas industry and is expected to become the normal method of operation in the future.





Gas storage was the topic for a one-day seminar which the Wiseonsin gas utilities, including our company, presented to the PSCW. Mcetings such as this help the Commission and utilities understand each other and work together in the best interest of customers.

We continually look at enhancing our natural gas system. The largest gas extension project since the late 1960s was completed this year in the Rhinelander area. About 12 miles of pipe was installed to provide natural gas service to 215 ncw residential and commercial customers.

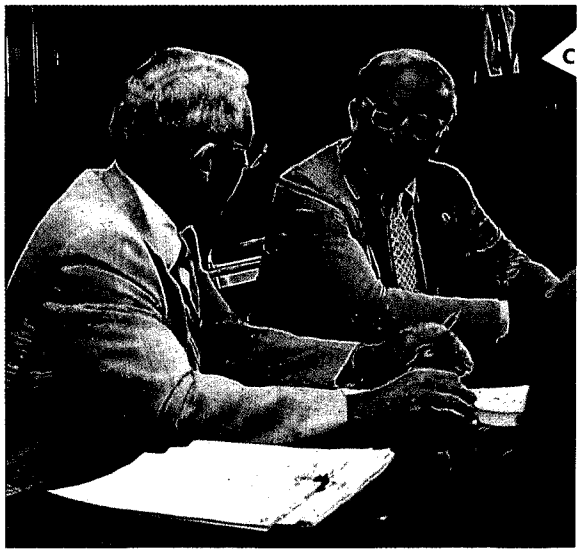
To ensure a quality natural gas workforce in the future, the company is working with a local technical college to provide a one-year degrec program in natural gas operations. Twelve students graduated from the program last year and 16 students were enrollcd in the program this year. Thc purpose of the program is to provide students with a basic background in the various facets of the gas business.

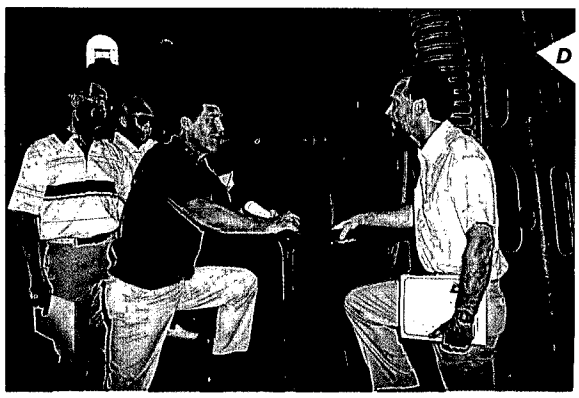
▼ ENVIRONMENT

A final operating permit has been received from the Wisconsin DNR to construct an ash disposal site in the Wausau area. The site will handle the disposal of ash from Weston Units 1, 2 and 3 for the next 15-20 years.

An ongoing program to reduce the use of polychlorinated biphenyls (PCBs) is continuing. We have removed all PCB items from our power generating stations in addition to complying with the requirements of the Toxic Substance Control Act. This was done as part of a continuing environmental risk reduction program.

The Pulliam plant has been tested to be in compliance with all air quality rules. These tests were part of a eonsent decrec bctween our company and the State of Wisconsin to correct opacity problems. The plant improvements will also aid in allowing the use of lower sulfur coal required to meet the statc acid rain rules in 1993.





State Government in Northeastern Wisconsin

A. ***Wisconsin Governor Tommy Thompson said heilo to Northeastern Wisconsin as the entire state government set up shop in this area for one week during the summer. Thompson was canoeing on the Peshtigo River promoting the state's $5 billion tourism industry. We operate six hydroelectric stations on the Peshtigo River.***

B. ***Local iegisiators, including Wisconsin Governor Tommy Thompson (center) met with reporters while touring the Peshtigo River area.***

C. ***The Public Service Commission of Wisconsin's Chairman, Charles Thompson, met with Linus Stoil and his staff to discuss gas and electric utility regulations in the state of Wisconsin. The Commission regulates all aspects of the company's operations.***

D. ***The Wiscansin Department of Natural Resources Board toured the company's Grand Rapids hydroelectric operations on the Menaminee River and held a meeting in nearby Marinette to discuss its role in hydro relicensing. The Grand Rapids plant is up for relicensing in 1993.***

Year In Review

Operations

A. Looking for potential gas problems before they happen is the primary function for this "gas sniffer" truck. The company maintains the highest possible quality in its gas distribution system for reliability and safety purposes.

B. The "Preventative Repair of Electric Plant" (PREP) program, developed by the company, ensures that electric distribution facilities are constructed in accordance with electrical codes and do not present a hazard to the public or employees. A scheduled maintenance inspection is made at every pole on the entire electric distribution system.

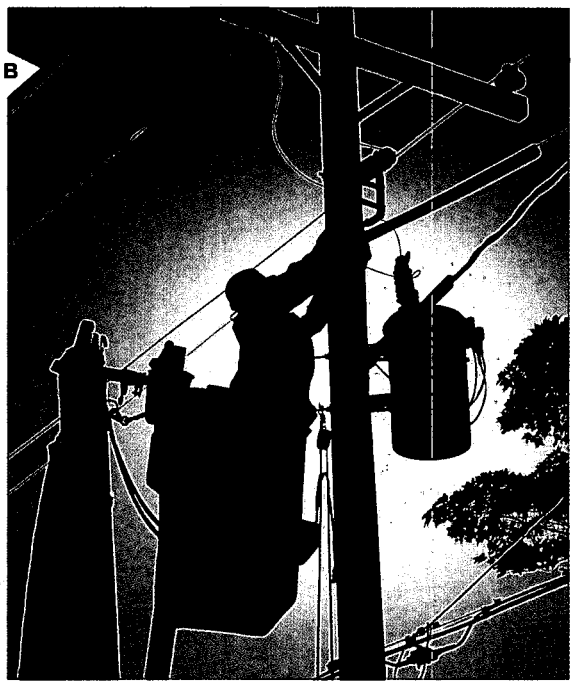
C. Management received its initial indoctrination into the Quality Process, a process developed by Dr. W. Edwards Deming, known for his work in revolutionizing management quality and productivity. The company is taking an overall quality focus as it heads into the next decade.

A

The many environmental assessment projects required for the relicensing of eight hydroelectric stations were initiated in 1989. Upon completion, applications for new licenses will be developed prior to year-end 1991.

We have been monitoring the progress of the Clean Air Bill offered by President Bush and we support federal legislation that equitably treats all states and individual sources. However, there are features in the proposed legislation that may deny utilities like our company the use of cost effective options to meet the proposed standards. We will continue our work to modify the proposed legislation to guarantee fair and equal treatment.

The Wisconsin Pollution Discharge Elimination System Permit was issued for the Kewaunee nuclear power plant. This permit was reissued for five years without significant changes which attests to the excellent previous operation of the plant.



B

C

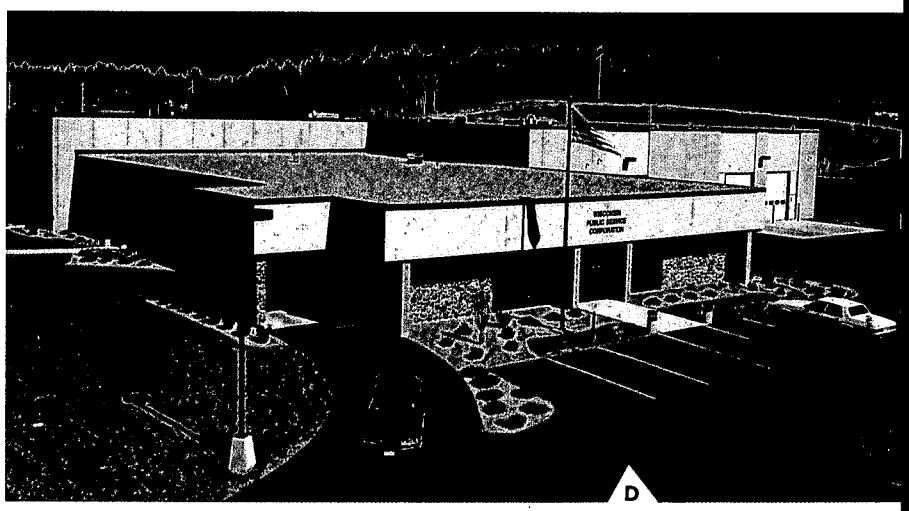
▼ MARKETING

More energy options were introduced this year to encourage customers to use energy wisely. The customer benefits because of lower energy bills and the company benefits because of lower energy demands, deferring the need to build new power plants.

Several new rebate programs were introduced for residential, commercial and industrial customers. The "Wise Buys" program offers rebates to customers who buy high energy-efficient appliances. During the first eight months of offering the program there have been over 15,000 applications accounting for more than 4,000 kilowatts of reduction in the company's peak load, exceeding our expectations.

The "Design Incentives" program encourages commercial and industrial customers to use state-of-the-art energy saving technologies in the design of new construction projects and building expansions.

The economy of our service territory continues to prosper as we head into a new decade. Industry continues to develop throughout the service territory. Paper mills, which make up about 20% of our electric sales, continue to expand.



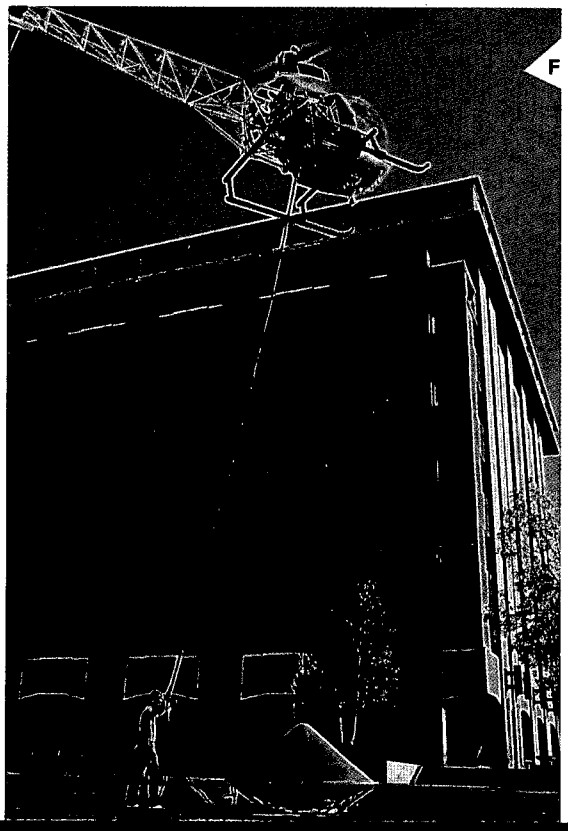
D

E

Revitalization of communities and industrial expansions are other encouraging signs in our service territory as we head into the 1990s.

▼ RESEARCH AND DEVELOPMENT

Our company and four other utilities are funding research through a new company called "Superconductivity, Inc." This company is attempting to build Superconducting Storage Devices (SSDs). These devices use the proven low temperature technology of superconducting magnets. This technology was developed at the Fermi Lab particle accelerator near Chicago. Field testing will be taking place in 1990. The SSDs have special electric motor starting applications and could be used in larger applications to provide an uninterruptible power supply for momentary carry-over during power outages.



F

D. A new 28,000 square foot building is now the home of Wisconsin Public Service in Merrill. The new building allows us to better serve our 3,746 gas customers in the city of Merrill and electricity to 8,650 customers in Merrill and parts of Lincoln County.

E. "Power Quality" experts from the company analyzed customer problems as businesses rely more and more on electrically sensitive equipment. Any small glitches in the constancy of power can mean problems for computer-related equipment. Trained personnel assist customers in identifying any wiring problems which could cause minor voltage fluctuations.

F. The microwave antenna pictured and two communication towers were installed this year as the company develops its own tele-communications system. The independent system increases reliability and at the same time reduces overall operating costs.

Year In Review

Hydroelectric Activities

A. The Federal Energy Regulatory Commission's Division of Dam Safety visited company hydroelectric plants on the Peshtigo River. The concern with potential flooding at the hydro stations is part of the relicensing effort. The Washington, D.C. group inspected the company's Johnson Falls, Caldron Falls, Sandstone Rapids and High Falls plants.

B. The president of the village of Crivitz discussed hydro plant relicensing with company personnel. The company held a series of informational meetings to discuss hydro plant relicensing in communities near plants that are seeking license renewals. The company has a total of 15 hydroelectric stations. Eight of those licenses expire in 1993.

▼ BUSINESS VENTURES

WPS Development, Inc., the company's software sales subsidiary, merged into Geographic Systems Corporation, a new company whose principal owners are IBM Corporation and our company. Geographic Systems Corporation also acquired essentially all the assets of Integrated Information Systems of San Diego, California. The new company will provide software and services primarily to municipal and utility clients based on the IBM Geographic Information System. Geographic Systems Corporation will be headquartered in Green Bay with regional offices in San Diego, Houston and New York.

Developing opportunities in the decade ahead are the priorities for the NorLight Fiber Optics Network. WPS Communications, Inc., our telecommunications subsidiary, owns 31.9% of NorLight. The fiber optics venture, whose revenues increased over 100% from 1988, is "turning the corner" and is expected to move into profitability in 1990 based on this continued revenue growth. With the completion of the NorLight network extension between Milwaukee and Green Bay, the company's own telecommunications system is now able to use the NorLight network to reduce operating costs and dependency on other commercial long distance carriers.

We have a $2.5 million investment in a venture capital partnership called UTECH. UTECH invests in new technologies associated with the electric and gas utility industry.

▼ EMPLOYEES

Construction of an addition to the Annex in Green Bay is scheduled to start in early 1990. The three-story addition, which will increase the building size by approximately one-third, is expected to be ready for occupancy by March 1991. When completed, employees working in leased space will be moved to the new office complex.

A "Total Quality Focus" program, our continuous quality improvement process which follows the principles developed by Dr. W. Edwards Deming, was initiated in 1989. Training of executives and employee advisors in these philosophies and practices will help the company continuously improve its products and processes, which will lead to reduced costs.

Providing employees with information to make better lifestyle and health care choices is the whole idea behind the company's "Taking Care" program which is in its second year of operation. Every four months, focus

programs are held company-wide covering topics such as weight, stress, back care and exercise.

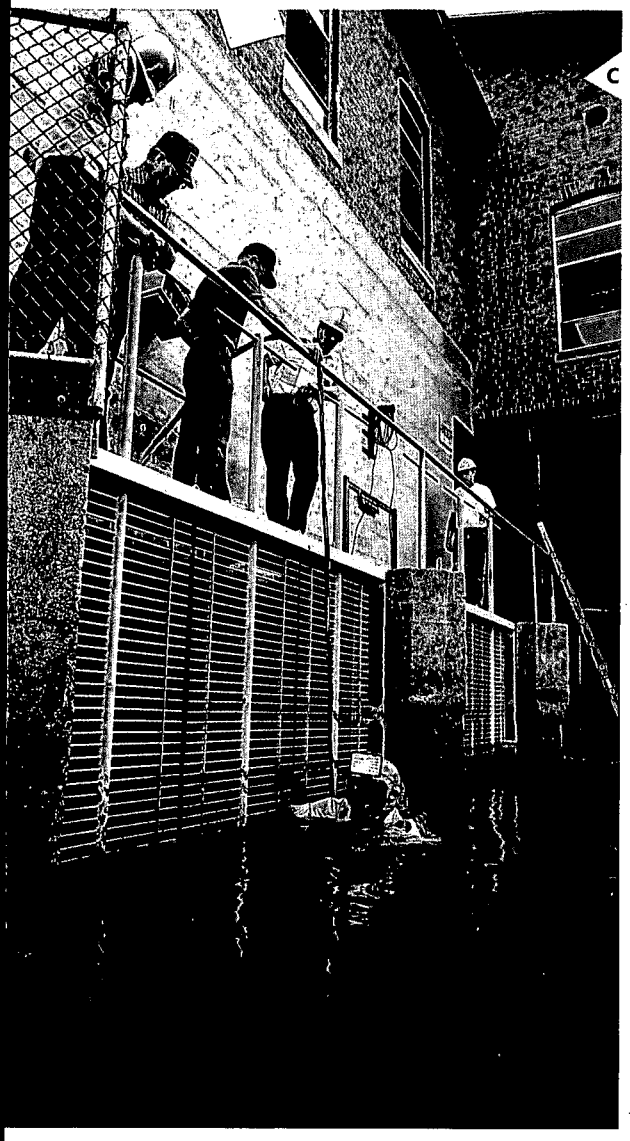
Employees participated in a company-wide "Health Risk Assessment" program. The overall goal is to improve the general health and well-being of all company employees and at the same time control health care costs. Of those employees participating who were surveyed, 80% indicated they had a better understanding of health information.

The use of the computer is becoming quite prevalent in the way employees are trained. Known as Computer Based Training, or CBT, this method trains employees using a computer terminal. Over 450 employees used the in-house developed courses on the computer, saving approximately 30% of the student's time that would have been necessary for a more traditional classroom training approach.

▼ *BUSINESS/SCHOOL PARTNERSHIP PROGRAM*

Our strong continual commitment to education is evidenced by the company's annual college scholarship program, available to our customers and employees. Since the program began in 1965, 364 students have received funding for their college educations. Over $1.2 million has been distributed to those students in need.

Since 1977, we have held Energy Educators Seminars throughout the company's service territory. The seminars are designed to keep educators informed of energy and environmental matters and to assist them in developing curriculums dealing with energy related issues. About 12,000 teachers have participated in these annual seminars.

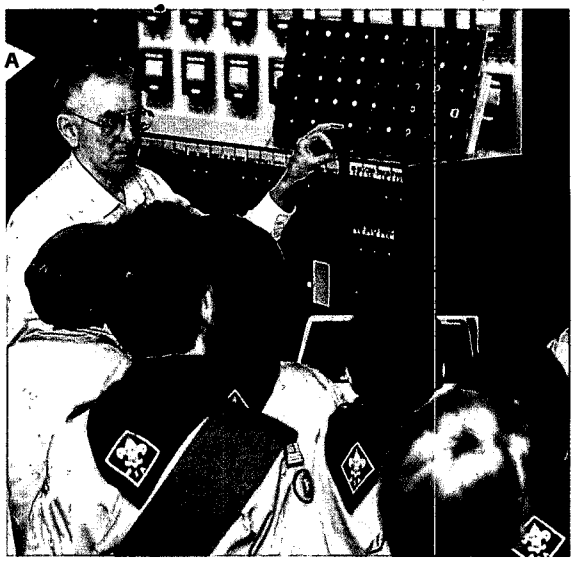


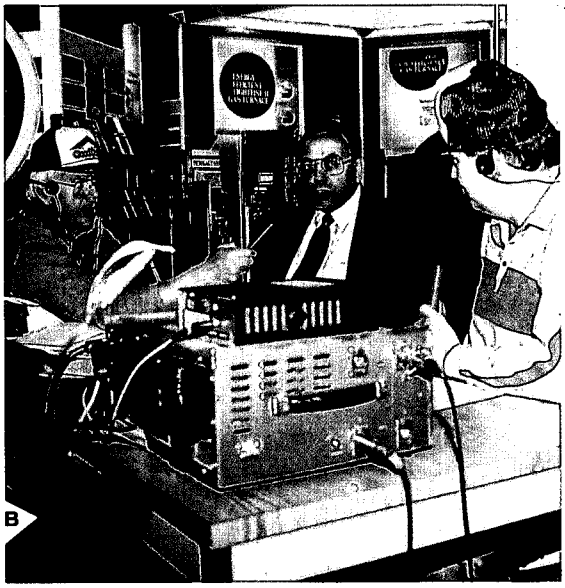
C. *A screen was installed at the Peshtiga hydraelectric plant to protect sturgeon and other fish. The improvements are part of the company's continuing environmental review of all its hydro operations.*

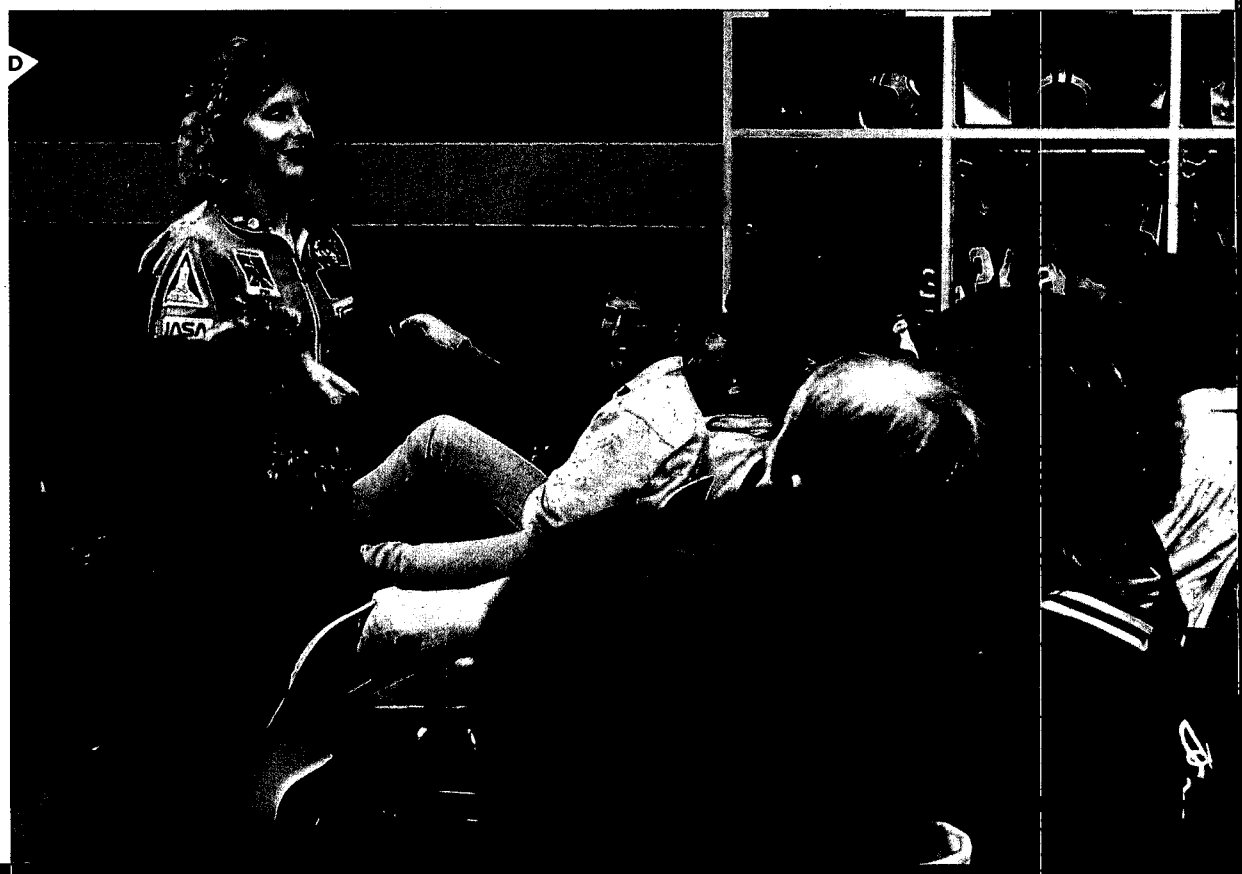
D. *Part of the environmental effort in the company includes fish planting to improve sport fishing near our hydroelectric dam flowages. Personnel inspect walleye and catfish fingerlings prior to releasing them into the Wisconsin River.*

Year In Review

Company employees work with schools to heighten awareness levels of students to the importance of a good education. An example of this can be seen at Franklin Middle School in Green Bay where a "Business-School Partnership" program has been in existence for the past two years. The program also assists educators in getting a better understanding of business. The end result is a well-educated graduate entering the workforce.







Community Involvement

A. *We work with local Boy Scout groups to sponsor the electricity merit badge clinic. About 150 scouts attend each year. Company volunteers help the boys meet their 11 merit badge requirements. Here, the group tours the after-hours emergency call center.*

B. *A local Green Bay radio station broadcast its morning program from the Green Bay Division's Customer Center. A marketing representative explained the many different energy options available to customers.*

C. *Company employees participated in "Career Days" in Oshkosh. The informational exchanges help students plan for their futures, including job opportunities at electric and gas utilities.*

D. *Susan Forte, a finalist in NASA's "Teacher in Space" program, conducts a seminar for interested students at the Green Bay Packer Hall of Fame during the company's annual Farm Materials Handling Expo. This year's 29th annual expo attracted around 33,000 persons to see the latest agricultural advancements.*

DIRECTORS

Linus M. Stoll
Chairman and Chief Executive Officer of the Company

Daniel A. Bollom
President and Chief Operating Officer of the Company

A. Dean Arganbright
Chairman, President and CEO, Wisconsin National Life Insurance Company, Oshkosh, WI

Michael S. Ariens
President and Chief Executive Officer, Ariens Company, Brillion, WI

Richard A. Bemis
President, Bemis Manufacturing Company, Sheboygan, WI

Kathryn M. Hasselblad-Pascale
Partner and General Manager, Hasselblad Machine Company, Green Bay, WI

James L. Kemerling
President and Chief Executive Officer, Shade Information Systems, Inc., Green Bay, WI

James H. Liethen
Senior Vice President of the Company

Paul D. Ziemer
Retired Chairman and President of the Company, Green Bay, WI

OFFICERS

Linus M. Stoll*
Chairman and Chief Executive Officer

Daniel A. Bollom*
President and Chief Operating Officer

Richard A. Krueger*
Senior Vice President, Power Supply and Engineering

James H. Liethen*
Senior Vice President, Finance

Patrick D. Schrickel*
Senior Vice President, Operations

J. Gus Swoboda*
Senior Vice President, Marketing and Corporate Services

Daniel P. Bittner
Vice President, Treasurer

Robert D. Valesano
Vice President, Human Resources

Robert H. Knuth
Secretary and Assistant Treasurer

David W. Schonke
Assistant Vice President, Electric Distribution Engineering

Clark R. Steinhardt*
Assistant Vice President, Nuclear Power

Larry L. Weyers
Assistant Vice President, Energy Supply

MANAGEMENT

James A. Derbique
Division Manager, Green Bay

James L. Dobratz
Superintendent, Pulliam Plant

Kenneth H. Evers
Manager, Nuclear Power

Ronald K. Grosse
Manager, Customer Accounts

Charles K. Heidemann
Manager, Substation and Transmission

Richard E. James
Manager, Rates and Economic Evaluation

Randall G. Johnson
Manager, Information Services

Roger W. Lange
Manager, Fossil Operations

Paul J. Liegeois
Director, Retail Marketing

Mark L. Marchi
Manager, Kewaunee Plant

John J. Mattila
Division Manager, Sheboygan

Gerald L. Mroczkowski
Superintendent, Weston Plant

Leonard B. Pehlke
Division Manager, Rhinelander

Jack A. Picard
Division Manager, Lakeshore

Jack C. Rasmussen
Manager, Purchasing and Stores

John E. Ruppenthal
Division Manager, Oshkosh

Glen R. Schwalbach
Manager, Gas Engineering and Supply

Kenneth P. Swect
Division Manager, Marinette and Menominee

Peter J. Van Beek
Division Manager, Wausau

*Senior Staff

SHAREHOLDER INFORMATION

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700 North Adams Street
P.O. Box 19001
Green Bay, Wisconsin 54307
Telephone: (414) 433-1598 for general information or (414) 433-1050 for shareholder information.

COMMON STOCK
Listed on New York and Midwest Stock Exchanges
Ticker Symbol: WPS
Transfer Agent and Registrar:
First Wisconsin Trust Company
P.O. Box 2077
Milwaukee, Wisconsin 53201
As of December 31, 1989, there were 25,752 common stock shareholders of record.

ANNUAL SHAREHOLDERS' MEETING
Midway Motor Lodge
780 Packer Drive
Green Bay, Wisconsin
Thursday, May 3, 1990
at 10:30 a.m.

ANNUAL SEC REPORT FORM 10-K
This report (not including exhibits thereto) will be available without charge about April 1, 1990 to shareholders who make requests to:
Robert H. Knuth, Secretary
700 North Adams Street
P.O. Box 19001
Green Bay, Wisconsin 54307

PREFERRED STOCK
Over-the-counter markets.
Transfer Agent and Registrar:
First Wisconsin Trust Company, Milwaukee

WISCONSIN UTILITY INVESTORS
WUI is an independent, non-profit organization representing the collective voice of utility shareholders before regulators, legislators and the general public. WUI invites the participation of all utility investors.
For information write:
Wisconsin Utility Investors, Inc.
161 W. Wisconsin Avenue
Suite 6058
Milwaukee, Wisconsin 53203
or telephone: (414) 221-3849

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

1989 Compared to 1988

Electric operating revenues increased 1.6% in 1989 compared to 1988. This slight increase can be attributed principally to a 1% Wisconsin retail rate increase, effective January 28, 1989, along with a 1% increase in kilowatt-hour sales.

Residential kilowatt-hour sales declined slightly during 1989 compared to 1988 due to a cooler summer in 1989 compared to 1988. The summer of 1988 produced record high temperatures while 1989 was near normal weather. Offsetting this decline was an increase in sales during the heating season due to record cold temperatures in December 1989.

Small commercial and industrial kilowatt-hour sales rose 4.5% during 1989 due to customer growth, offset in part by a decline in cooling degree days.

Kilowatt-hour sales to our large commercial and industrial customers remained steady during 1989 as these customers have experienced a pattern of stabilized demand.

Gas operating revenues decreased 15% during 1989 compared to 1988. Under a purchased gas adjustment clause, the company is allowed to recover in its revenues all costs of gas purchased for resale. First, gas revenues were reduced by approximately $21 million due to a refund from the company's major natural gas supplier as discussed in Note 1 to the financial statements. (There was an offsetting reduction recorded in gas purchased for resale, thus having no impact on net income.) In addition, lower gas costs also resulted in corresponding reduced purchased gas adjustment clause revenues. Finally, a gas rate decrease of approximately 1% became effective January 28, 1989 for our Wisconsin retail customers. Although gas revenues decreased from 1988, therm sales increased during 1989 due to an increase in heating degree days and the addition of customers.

Operating expenses had a net decrease of 2% in 1989. The largest decrease was in gas purchased for resale because of the refund mentioned previously and the lower average cost of gas on the spot market. The provision for income taxes decreased primarily because of lower taxable income. Purchased power increased significantly because the company was able to secure power from other sources at favorable rates and maintenance at our power plants, in general, took longer than in 1988. Other operating expenses increased reflecting higher costs in employee benefits, uncollectible accounts and the amortization of deferred costs for the company's new Customer Information System that went on-line in May 1989.

Other interest expense increased due to higher levels of short-term borrowings and higher interest rates compared to 1988.

1988 Compared to 1987

Electric operating revenues increased 1.5% in 1988 compared to 1987 primarily due to a 6% overall increase in kilowatt-hour sales which more than offset reductions in rates to our Wisconsin retail and our FERC wholesale customers.

Increased kilowatt-hour sales were experienced in the residential, commercial and industrial, and resale markets due to significant increases in both heating and cooling degrees as a result of unusual seasonal variations in temperature. Heating degree days increased approximately 17% and cooling degree days increased approximately 21% over 1987. In addition, customer growth was evident in both the residential and small commercial and industrial sectors.

Residential kilowatt-hour sales increased 6% during 1988 for the reasons noted above. Commercial and industrial sales increased approximately 5% for the same reasons as well as increased demand from

paper mill customers. In addition, several large industrial customers experienced below average internal hydro generation as a result of the abnormally hot and dry summer necessitating additional energy purchases from the company. Kilowatt-hour sales to our wholesale customers increased 8.5% over 1987 which can be attributed primarily to their below average hydro generation and higher energy requirements because of the extremely hot summer.

Both gas operating revenues and gas therm sales increased approximately 11% during 1988 compared to 1987 with the most significant increases being experienced in the residential (17%) and commercial and industrial (25%) markets because of colder than normal weather during the heating season and customer growth. A gas rate increase took effect for Wisconsin retail customers in January of 1988.

Gas transportation therm sales to commercial and industrial customers increased approximately 5% during 1988 over 1987. We anticipate gas transportation sales will be at about the same level in 1989 as was experienced during 1988.

Operating expenses experienced a net increase of 4% in 1988, primarily in gas purchases because of the colder weather noted above partially offset by a lower average cost per therm resulting from purchases on the spot market. There was a significant increase in purchased power because the company was able to acquire power from other sources at favorable rates. Maintenance expense was also higher due to increased maintenance activity at the company's coal-fired generating units and its nuclear plant. Additional depreciation decreased in 1988 primarily for two reasons: the reversal of deferred taxes provided at rates in excess of current rates and an adjustment recorded in 1987 which reflects the results of an Internal Revenue Service (IRS) depreciation audit with no similar item being recognized in 1988. Federal income tax decreased due to lower tax rates noted above and lower taxable income. Investment tax credit restored decreased significantly in 1988 because of an adjustment recorded in 1987 that reflected two IRS investment credit audits with no similar item being recorded in 1988. State income tax decreased because of lower taxable income.

Other income increased because of increased earnings from nuclear decommissioning trusts and temporary investments.

Interest expense on long-term debt also increased as a result of the issuance of $45 million in first mortgage bonds in December of 1987 and other interest experienced a significant decrease because of reduced short-term borrowing requirements for the year.

FINANCIAL CONDITION

The company has maintained good liquidity levels and its financial position is considered to be strong by utility analysts. No funding difficulties are anticipated in the near or long-term future. The company's commercial paper ratings of A-1+ (S & P) and P-1 (Moody's) are the highest given.

The company continues to have low levels of short-term debt. During 1989, internally generated funds were about the same as construction and other capital expenditures. Short-term borrowing levels are anticipated to be moderate, also, during much of 1990. For the five-year period 1990-1994, internally generated funds, forecast at $390 million, are expected to exceed construction expenditures of $368 million. In addition, the company plans to spend $38 million on other investments including nuclear decommissioning trusts.

The only long-term financing anticipated through 1994 is the sale of bonds in late 1990. Several contingencies could change this, including federal clean air legislation, accelerated construction requirements, or additional securities repurchases. Since 1986, the company has repurchased approximately $34 million of the 11.50% Bond Series Due 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The company's bonds are rated AA+ (S & P) and Aaa (Moody's). These excellent ratings are due in part to strong pretax interest coverage which was 3.8 times for 1989. This favorable ratio is partially due to low embedded cost of debt and strong equity ratios. However, it has been declining somewhat in the last five years due to additional bond sales, tax law changes, and rate treatment.

Common and preferred shareholders' equity was 62% of long-term capitalization at December 31, 1989, which is greater than most electric and gas utilities. Company management has been taking action, however, to control this equity ratio. In recent years, the company has retired some of its highest dividend rate preferred stock and its common stock. The company has a program to purchase up to 600,000 shares of its common stock on the open market, depending on market conditions. During 1989, approximately 312,000 shares of common stock costing $7.5 million were purchased and retired.

The company may also continue directing small investments to nonutility projects. For ratemaking purposes, these investments are considered made solely with common equity. Although the PSCW has restricted nonutility investment somewhat in recent years, the PSCW has also indicated that it will continue allowing additional minor investments in existing nonutility operations as long as the utility's financial integrity permits.

Refer to the "Notes To Financial Statements" for discussion of the impact of Statement of Financial Standards No. 96 on the company's financial statements.

IMPACT OF INFLATION

Current financial statements are prepared in accordance with generally accepted accounting principles and report operating results in terms of historic cost. They provide a reasonable, objective, quantifiable statement of financial results but do not evaluate the impact of inflation. Under ratemaking prescribed by the commissions regulating the company, projected operating costs are recoverable in revenues. Because forecasts are prepared assuming inflation, the majority of inflationary effects on normal operating costs are recoverable in rates. However, the company is only allowed to recover the historical cost of plant via depreciation in these forecasts. Any effects of inflation on utility plant are generally offset by the holding gain resulting from the use of debt to finance utility construction.

STATEMENTS OF INCOME

	Years Ended December 31		
	1989	1988	1987
		(Thousands)	
Operating Revenues:			
Electric	$442,938	$435,958	$429,443
Gas	142,874	168,376	151,013
	585,812	604,334	580,456
Operating Expenses:			
Operation —			
Electric production fuels	134,719	134,437	132,430
Gas purchased for resale	97,927	120,702	109,447
Purchased power, net	31,125	24,887	19,109
Other	109,765	101,935	100,305
Maintenance	43,363	43,422	35,142
Depreciation —			
Straight-line provision	53,135	50,486	49,170
Additional depreciation	3,418	5,705	8,491
Taxes —			
Federal income	17,125	20,042	28,604
Investment credit restored, net	(2,256)	(2,826)	(4,040)
State income	4,802	5,954	6,603
Other	22,403	22,399	21,309
	515,526	527,143	506,570
Operating Income	70,286	77,191	73,886
Other Income and (Deductions):			
AFUDC, other funds	595	659	456
Other, net	1,464	823	(2,815)
Income taxes	556	697	1,912
	2,615	2,179	(447)
Income Before Interest Expense	72,901	79,370	73,439
Interest Expense:			
Interest on long-term debt	21,327	21,583	18,309
AFUDC, borrowed funds	(341)	(363)	(275)
Other interest	2,785	1,730	2,634
	23,771	22,950	20,668
Net Income	49,130	56,420	52,771
Preferred Stock Dividend Requirements	3,436	3,594	3,751
Earnings On Common Stock	$ 45,694	$ 52,826	$ 49,020
Earnings Per Share On Common Stock*	$1.98	$2.28	$2.11
Dividends Per Share On Common Stock*	$1.60	$1.56	$1.52

*Adjusted to reflect 2 for 1 common stock split in June 1987.

The accompanying notes to financial statements are an integral part of these statements.

BALANCE SHEETS

	December 31		
	1989	1988	1987
		(Thousands)	
Assets			
Utility Plant (at original cost):			
In service — Electric	$1,193,195	$1,146,227	$1,101,697
Gas	149,877	143,089	135,044
	1,343,072	1,289,316	1,236,741
Less — Accumulated provision for depreciation	730,334	682,722	635,454
	612,738	606,594	601,287
Nuclear decommissioning trusts, at cost	36,003	31,715	25,502
Construction in progress	6,678	9,946	10,776
Nuclear fuel	127,266	117,048	108,028
Less — Accumulated provision for amortization	104,427	97,035	89,142
	22,839	20,013	18,886
Net utility plant	678,258	668,268	656,451
Investments	16,151	17,507	20,367
Current Assets:			
Cash and equivalents	1,370	(3,904)	(9,174)
Customer and other receivables (less uncollectible reserves)	69,738	58,795	54,882
Accrued utility revenues	30,425	28,220	27,225
Fossil fuel, at average cost	29,769	23,081	27,936
Materials and supplies, at average cost	15,495	13,596	12,210
Prepayments and other	18,927	18,021	17,591
Total current assets	165,724	137,809	130,670
Deferred Charges	16,916	19,809	17,141
	$ 877,049	$ 843,393	$ 824,629
Capitalization and Liabilities			
Capitalization:			
Common stock equity	$ 373,125	$ 371,168	$ 360,101
Preferred stock with no mandatory redemption	51,200	51,200	51,200
Preferred stock with mandatory redemption	642	2,145	3,645
Long-term debt	255,275	256,264	254,867
Total capitalization	680,242	680,777	669,813
Current Liabilities:			
Note payable	10,000	10,000	10,000
Commercial paper	26,000	11,500	3,000
Accounts payable	49,327	50,367	49,640
Accrued taxes	1,129	1,865	(76)
Accrued interest	5,281	5,308	5,427
Accrued contributions to benefit plans	134	137	4,036
Gas refunds	23,578	(83)	721
Other	4,057	4,583	1,759
Total current liabilities	119,506	83,677	74,507
Other Credits:			
Accumulated deferred investment credit	42,462	44,727	47,551
Other	34,839	34,212	32,758
	77,301	78,939	80,309
Commitments and Contingencies			
	$ 877,049	$ 843,393	$ 824,629

The accompanying notes to financial statements are an integral part of these balance sheets.

STATEMENTS OF CAPITALIZATION

			December 31		
			1989	1988	1987
				(Thousands)	
COMMON STOCK EQUITY:					
Common stock, $4 par value, 32,000,000 shares authorized: 22,888,620, 23,200,552 and 23,200,552 shares outstanding, respectively*			$ 91,555	$ 92,802	$ 92,802
Premium on capital stock			49,711	50,385	50,385
Retained earnings			236,741	233,521	216,914
ESOP loan guarantee			(4,882)	(5,540)	—
Total common stock equity			373,125	371,168	360,101
PREFERRED STOCK:					
Cumulative, $100 par value, 1,000,000 shares authorized:					
With no mandatory redemption —					
	Series	Shares outstanding			
	5.00%	132,000	13,200	13,200	13,200
	5.04%	30,000	3,000	3,000	3,000
	5.08%	50,000	5,000	5,000	5,000
	6.76%	150,000	15,000	15,000	15,000
	7.72%	150,000	15,000	15,000	15,000
			51,200	51,200	51,200
With mandatory redemption — 10.50% Series, 6,418, 21,445 and 36,445 shares outstanding, respectively			642	2,145	3,645
LONG-TERM DEBT:					
First mortgage bonds —	Series	Year due			
	4⅜%	1993	8,726	8,726	8,726
	4½%	1994	10,944	10,944	10,944
	9.50%	1994	45,000	45,000	45,000
	6⅜%	1997	23,482	23,482	23,482
	7¼%	1999	24,039	24,039	24,039
	8¼%	2001	25,000	25,000	25,000
	8⅛%	2003	25,000	25,000	25,000
	7⅞%	2005	11,000	11,000	11,000
	8.20%	2012	45,000	45,000	45,000
	9.70%	2014	22,000	22,000	22,000
	10⅛%	2014	1,000	1,000	1,000
	11.50%	2015	10,705	11,155	15,450
			251,896	252,346	256,641
Unamortized discount and premium on bonds, net			(1,503)	(1,622)	(1,774)
Total first mortgage bonds			250,393	250,724	254,867
ESOP loan guarantee			4,882	5,540	—
Total long-term debt			255,275	256,264	254,867
Total capitalization			$680,242	$680,777	$669,813

*Adjusted to reflect 2 for 1 common stock split in June 1987.

The accompanying notes to financial statements are an integral part of these statements.

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	1989	1988	1987
		(Thousands)	
Cash Flows From Operating Activities:			
Net income	$ 49,130	$ 56,420	$ 52,771
Items Not Affecting Cash Flow —			
Depreciation	56,553	56,191	57,661
Amortization of nuclear fuel	7,412	7,582	8,392
Investment credit restored, net	(2,256)	(2,826)	(4,040)
AFUDC equity	(595)	(659)	(456)
Other, net	5,631	6,745	13,896
	66,745	67,033	75,453
Changes in Working Capital Other Than Cash —			
Customer and other receivables	(10,943)	(3,913)	(3,128)
Accrued utility revenues	(2,205)	(995)	200
Fossil fuel	(6,688)	4,855	8,698
Accounts payable	(1,040)	727	5,063
Accrued taxes	(736)	1,941	(5,902)
Gas refunds	23,661	(804)	276
Other, net	(2,049)	(4,891)	(7,032)
	—	(3,080)	(1,825)
Net cash provided by operating activities	115,875	120,373	126,399
Cash Flows From (Used For) Investing Activities:			
Construction expenditures and nuclear fuel, including AFUDC debt	(72,545)	(65,728)	(61,123)
Decommissioning funding, net	(4,288)	(6,213)	(22,314)
Other, net	1,517	(6,054)	(11,193)
Net cash from (used for) investing activities	(75,316)	(77,995)	(94,630)
Cash Flows From (Used For) Financing Activities:			
Redemption and maturities of first mortgage bonds	(450)	(4,295)	(11,062)
Redemption of other long-term debt	—	—	(12,600)
Repurchase of common stock	(7,472)	—	—
Redemption of preferred stock	(1,503)	(1,500)	(1,500)
Sale of first mortgage bonds	—	—	45,000
Change in commercial paper	14,500	8,500	(20,400)
Preferred stock cash dividends	(3,462)	(3,620)	(3,777)
Common stock cash dividends	(36,898)	(36,193)	(35,265)
Net cash from (used for) financing activities	(35,285)	(37,108)	(39,604)
Net Increase (Decrease) in Cash and Equivalents	5,274	5,270	(7,835)
Cash and Equivalents at Beginning of Year*	(3,904)	(9,174)	(1,339)
Cash and Equivalents at End of Year*	$ 1,370	$ (3,904)	$ (9,174)
Cash Paid During Year For:			
Interest, less amount capitalized	$ 22,601	$ 21,878	$ 19,724
Income taxes	$ 24,421	$ 24,690	$ 39,606
Construction expenditures and nuclear fuel including accruals and AFUDC	$ 71,561	$ 68,841	$ 62,601

*Includes short-term investments with a maturity of three months or less.

The accompanying notes to financial statements are an integral part of these statements.

STATEMENTS OF RETAINED EARNINGS

	Years Ended December 31		
	1989	1988	1987
		(Thousands)	
Balance at Beginning of Year	$233,521	$216,914	$203,258
Add — Net income	49,130	56,420	52,771
	282,651	273,334	256,029
Deduct —			
Cash dividends declared on preferred stock			
5.00% Series ($5.00 per share)	660	660	660
5.04% Series ($5.04 per share)	151	151	151
5.08% Series ($5.08 per share)	254	254	254
6.76% Series ($6.76 per share)	1,014	1,014	1,014
7.72% Series ($7.72 per share)	1,158	1,158	1,158
10.50% Series ($10.50 per share)	225	383	540
Cash dividends declared on common stock	36,898	36,193	35,265
Premium paid for repurchase of common stock	5,550	—	—
Other	—	—	73
	45,910	39,813	39,115
Balance at End of Year	$236,741	$233,521	$216,914

The accompanying notes to financial statements are an integral part of these statements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Wisconsin Public Service Corporation has prepared and is responsible for the financial statements and related financial information encompassed in this annual report.

The financial statements have been prepared in conformity with generally accepted accounting principles, and financial information included elsewhere in this report is consistent with the financial statements.

The company maintains a system of internal accounting control designed to provide reasonable assurance that the company's 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.

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

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

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

D. P. Bittner
Vice President-Treasurer

L. M. Stoll
Chairman and
Chief Executive Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders, Wisconsin Public Service Corporation:

We have audited the accompanying balance sheets and statements of capitalization of Wisconsin Public Service Corporation (a Wisconsin corporation) as of December 31, 1989, 1988 and 1987, and the related statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wisconsin Public Service Corporation as of December 31, 1989, 1988 and 1987, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Milwaukee, Wisconsin,
January 25, 1990.

ARTHUR ANDERSEN & CO.

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Jurisdictional Accounting — The company uses jurisdictional accounting which reflects the effects of the different ratemaking principles followed by the various jurisdictions regulating the company. These include the Public Service Commission of Wisconsin (PSCW), the Michigan Public Service Commission (MPSC) and the Federal Energy Regulatory Commission (FERC).

The retail portion of the business is regulated by the PSCW and MPSC which comprise approximately 87% and 2%, respectively, of the company's operating revenues. The FERC regulates the electric wholesale portion which is approximately 11% of such revenues.

Effective January 1, 1990, the PSCW has adopted the FERC Uniform System of Accounts. As a result, the company will make significant reclassifications beginning with the first quarter of 1990. No material impact on net income is expected as a result of these changes, since it is anticipated that such changes will be reflected in future rates.

(b) Utility Plant — Utility plant is stated at the original cost of construction, which includes an allowance for funds used during construction (AFUDC). All retail jurisdictional construction work in progress (CWIP) is subject to AFUDC using a rate based on the company's overall cost of capital (approximately 11%).

AFUDC is recorded on wholesale jurisdictional electric construction work in progress at debt and equity percentages specified in the FERC Uniform System of Accounts. For 1989, the rate was approximately 8.9%.

Substantially all of the company's utility plant is subject to a first mortgage lien.

(c) Property Additions, Maintenance and Retirements — The cost of renewals and betterments of units of property (as distinguished from minor items of property) is charged to utility plant accounts. The cost of units of property retired, sold or otherwise disposed of, plus removal costs, less salvage, is charged to the accumulated provision for depreciation. No profit or loss is recognized in connection with ordinary retirements of property units. Maintenance and repair costs and replacement and renewal of items less than units of property are generally charged to operating expenses.

(d) Nuclear Fuel — The cost of nuclear fuel is amortized to fuel expense based on the quantity of heat produced for the generation of electric energy by the Kewaunee plant (Kewaunee). The tax effect of using an accelerated method of depreciating the fuel for income tax purposes is recorded as additional depreciation as discussed in Note 1(i). Amortization and additional depreciation are included in the accumulated provision for amortization of nuclear fuel. The costs amortized to fuel expense (which assume no salvage values for uranium or plutonium) include an amount for ultimate disposal and are recovered through current rates. As required by the Nuclear Waste Policy Act of 1982, a contract with the Department of Energy (DOE) has been signed, and quarterly payments are being made to the DOE for the fee related to generation. Interim storage space for spent nuclear fuel is provided at Kewaunee, and expenses associated with this storage are recognized as current operating costs.

	As of December 31		
	1989	1988	1987
		(Thousands)	
Accumulated amortization	$103,763	$97,891	$91,922
Accumulated additional depreciation (benefit)	664	(856)	(2,780)
Accumulated provision for amortization of nuclear fuel	$104,427	$97,035	$89,142

(e) Deferred Charges — Deferred charges primarily represent costs recoverable in future rates, including such items as coal contract buy-outs, major computer systems development, purchased software and leasehold improvements.

(f) Revenue — The company accrues revenues related to electric and gas service through the end of the month.

Automatic fuel adjustment clauses are used for the FERC wholesale electric and MPSC retail electric portions of the company's business. The PSCW retail electric portion of the business uses a "cost variance range approach." This range is based on a specific estimated fuel cost for the upcoming year. If the company's actual fuel costs fall outside this range, a hearing may be held and a rate increase or decrease may result.

The company's rates permit, subject to PSCW and MPSC review, passing on to all classes of gas customers changes in the cost of gas purchased from its suppliers.

Some of the company's larger gas customers purchase gas directly from the pipeline supplier. This gas continues to be transported through the company's distribution facilities for which the company earns a transportation fee. This transport fee is designed to recover approximately the same profit margin as if the gas had been purchased and resold by the company; therefore, there is a minimal effect on net income.

In December 1989, the company received a refund of approximately $21.1 million from its primary gas supplier representing a settlement involving rate levels and modification of a number of tariffs for the period November 1986 to October 1989. As prescribed by the PSCW, the refund was also credited against gas purchased for resale with an offsetting reduction in gas revenues (thus having no impact on net income) and is to be refunded to gas customers in 1990.

(g) Employee Benefit Plans — The company has non-contributory retirement plans covering substantially all employees under which annual contributions are 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. It is the company's policy to fund retirement contributions to meet current costs of the plans as determined using the entry-age normal, frozen initial liability actuarial method to the extent deductible for tax purposes. Because the plans are fully funded, the 1989 tax deductible amount is zero.

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7% in 1989 and 1988, and 5½% for 1987.

The following tables disclose the plans' funded status and amounts using the provisions of that statement.

	As of December 31		
	1989	1988	1987
		(Thousands)	
Vested benefit obligation	$114,695	$103,876	$ 90,435
Non-vested benefit obligation	5,767	6,171	8,462
Total actuarial present value of accumulated benefit obligation	$120,462	$110,047	$ 98,897
Projected benefit obligation for service rendered to date	$(157,744)	$(146,099)	$(128,835)
Plan assets at fair value	259,495	216,551	199,760
Plan assets in excess of projected benefit obligation	$101,751	$ 70,452	$ 70,925
Unrecognized net gain	(51,223)	(14,707)	(10,668)
Prior service cost not yet recognized	8,233	5,766	(161)
Unrecognized net asset at January 1, being recognized over 17 years	(44,242)	(47,706)	(51,171)
Prepaid retirement plan cost	$ 14,519	$ 13,805	$ 8,925

The assumed rates for calculations used in the above table were:

	1989	1988	1987
Expected long-term rate of return	7.00%	7.00%	7.00%
Average rate for future salary increases	6.25%	6.25%	6.25%
Discount rate to compute projected benefit obligation	8.50%	8.50%	8.50%

NOTES TO FINANCIAL STATEMENTS

The net retirement plan expense includes the following components:

	1989	1988	1987
		(Thousands)	
Service cost — benefits earned during the year	$ 3,764	$ 3,758	$ 3,440
Interest cost on projected benefit obligation	12,360	11,404	10,020
Actual return on plan assets	(48,025)	(18,859)	(11,026)
Net amortization and deferral	31,187	2,790	(1,132)
Regulatory adjustment to funded amount	714	907	2,238
Net retirement plan expense	$ —	$ —	$ 3,540

The company also has self-funded health care plans which provide medical and dental benefits to employees, retirees and their dependents. The health care expenses for active employees are expensed as incurred. However, anticipated post-retirement medical and dental benefits are funded to irrevocable trusts within the limits of the current deduction for tax purposes. These funded amounts are expensed currently. The unfunded past service costs associated with post-retirement medical and dental benefits are currently amortized over the average remaining service life of the participants, which is approximately 17 years. As of December 31, 1989, these trusts had assets with a market value of $39,445,000 and unfunded liabilities of $36,725,000.

The company also has survivor benefits plans for its employees and retirees. These plans include a Survivor Income Benefits (SIB) Plan, which provides benefits to survivors of employees and retirees over a period of time, and a Group Life Insurance Plan for those not covered by SIB. These survivor benefits are paid from a trust funded by the company. The funded amount is expensed currently. Because the trust is nearly fully funded, no provisions were made to it in 1989, 1988 or 1987. As of December 31, 1989, this trust had assets with a market value of $4,175,000 and unfunded liabilities of $1,251,000.

	1989	1988	1987
		(Dollars in Thousands)	
Health Care Plans:			
Post-retirement medical and dental plans funding	$4,656	$3,906	$3,143
Active employee medical and dental costs	$5,606	$4,477	$4,002
Survivor Benefits Plans:			
Number of active participants	2,354	2,330	2,336
Number of retired participants	626	593	558

In 1988, the company revised its Employee Stock Ownership Plan and Trust (ESOP) to obtain additional tax benefits. As a result of the revision, the ESOP borrowed $5,526,000 from a bank to purchase 238,900 shares of the company's common stock on the open market for the future benefit of its participants. This loan is guaranteed by the company, and is to be repaid from dividends on undistributed stock in the ESOP, and employee and company contributions. At the end of 1989 the loan balance was $4,882,000 with 209,913 shares being unallocated.

(h) Investments — Included in investments are various immaterial subsidiaries and affiliates, whose operations are accounted for as other income and deductions using the equity method of accounting.

(i) Depreciation — Straight-line depreciation expense is recorded over the estimated useful life of the property as approved by the PSCW.

Based on an order of the PSCW, the company also records the deferred income taxes applicable to plant and nuclear fuel as additional depreciation expense. For an explanation of deferred income taxes recorded as additional depreciation see Note 1(k).

	1989	1988	1987
Composite depreciation rates (for the year)			
Electric	4.14%	4.10%	4.12%
Gas	4.73%	4.73%	4.80%
		(Thousands)	
Additional depreciation (benefit) expense (for the year)			
Federal	$3,847	$6,564	$9,007
State	$(429)	$(858)	$(516)
Accumulated additional depreciation (end of year)	$152,336	$150,438	$146,657

(j) Nuclear Decommissioning — External trust funds are maintained to cover the estimated future decommissioning costs of the Kewaunee nuclear plant. These costs are currently recovered from customers in rates as depreciation expense. Earnings on these trusts are reflected in other income in the statements of income.

Through December 31, 1989, all amounts collected from customers for this purpose have been deposited in these trusts. The company's 41.2% ownership share of future decommissioning costs of this plant is estimated to be $274,430,000.

(k) Income Taxes - Depreciation expense recorded for federal and state income tax purposes differs from the amount recorded as straight-line depreciation due to differences in the time period over which the assets are depreciated and the use of accelerated methods for income tax purposes. The federal income tax benefit arising from these differences is recorded as additional depreciation. Beginning in 1985, as a result of a PSCW order, the estimated reduction in current state income taxes resulting from the utilization of accelerated depreciation for state income tax purposes is being flowed currently to the retail customers. The accumulated additional depreciation related to state income taxes as of December 31, 1984 is being amortized to income over 17 years for the retail jurisdiction.

Certain book-tax property differences have not been normalized; the cumulative tax effect of such differences as of December 31, 1989 is $15,048,000. The ratemaking policies of the jurisdictions which regulate the company provide for recovery of such future taxes that have not been normalized.

Income tax expense also includes minor provisions for certain other timing differences as provided for in the ratemaking process.

The effective income tax rates are computed by dividing total income tax expense, including net investment credit restored and additional depreciation, by the sum of such expense and net income. Previously deferred investment tax credits are currently being restored over the life of the related utility plant.

	1989		1988		1987	
	(Thousands except for percentages)					
	Amount	Rate	Amount	Rate	Amount	Rate
Statutory federal income tax	$24,365	34.0%	$28,764	34.0%	$36,162	40.0%
State income taxes, net	2,498	3.5	2,997	3.6	3,463	3.8
Investment credit restored	(2,570)	(3.6)	(2,680)	(3.2)	(3,093)	(3.4)
Rate difference on deferred tax reversals	(1,551)	(2.2)	(1,545)	(1.8)	(439)	(.5)
Other differences, net	(209)	(.3)	643	.7	1,653	1.8
Effective income tax	$22,533	31.4%	$28,179	33.3%	$37,746	41.7%

Classification of income taxes:

	1989	1988	1987
		(Thousands)	
Included in operating expenses	$19,671	$23,171	$31,167
Included in other income and deductions	(556)	(697)	(1,912)
Additional depreciation	3,418	5,705	8,491
Total income tax expense	$22,533	$28,179	$37,746

The Financial Accounting Standards Board has issued a new standard on accounting for income taxes which must be adopted by the company not later than January 1992. The company has determined that it will reflect the initial application of the standard as a cumulative effect in 1992.

This new standard requires adjustments of previously recorded deferred taxes to reflect income tax rate changes, recognition of previously unrecorded deferred taxes and reclassification of deferred taxes previously netted against certain assets and liabilities. Although the company has not yet determined the amounts of such adjustments, management believes that any additional assets and liabilities resulting from adoption of the standard will be offset by regulatory assets and liabilities representing the expected future rate treatment of these adjustments. As such, management does not expect the new standard to have a significant impact on future operations.

NOTES TO FINANCIAL STATEMENTS

(l) Leases — Leases are not material in the aggregate.

(m) Earnings Per Share — Earnings per share on common stock are computed on the basis of the weighted average number of shares outstanding adjusted to reflect 2 for 1 common stock split in June 1987.

(2) JOINTLY-OWNED FACILITIES:
Information with respect to the company's share of jointly-owned electric generating facilities in service at December 31, 1989 is as follows:

	Columbia Energy Center	Edgewater Unit No. 4	Kewaunee
	(Thousands except for percentages)		
Ownership	31.8%	31.8%	41.2%
Utility plant in service	$110,694	$17,988	$119,550
Accumulated provision for depreciation	$62,446	$11,773	$101,484
Plant capacity (Mw)	335.2	104.9	221
In-service date	1975 and 1978	1969	1974

The company's share of direct expenses for these plants is included in the corresponding operating expenses in the statements of income, and the company has supplied its own financing for all jointly-owned projects.

(3) OTHER DEBT AND LINES OF CREDIT: To support outstanding commercial paper, the company maintains unused bank lines of credit. Many of these lines may be withdrawn at the discretion of the lenders. While certain cash balances represent compensating balances for credit lines and bank services, there are no legal restrictions as to withdrawal of these funds. The majority of the lines of credit require a fee based on the unused balance.

The following information relates to short-term borrowings and lines of credit for the years indicated:

	1989	1988	1987
	(Thousands except for percentages)		
As of end of year —			
Discount rate on outstanding commercial paper	8.4% to 8.5%	9.1% to 9.2%	7.9%
Interest rate on note payable	7.5%	8.6%	7.0%
Unused lines of credit	$28,940	$42,590	$50,365
Compensating balance requirements	$172	$215	$321
For the year —			
Maximum amount of borrowings	$50,000	$21,500	$51,500
Average amount of borrowings	$23,321	$11,590	$33,449
Weighted average interest rate on borrowings	8.9%	7.8%	6.8%

Included in the above lines of credit are agreements with commercial banks that permit the company to borrow up to $16,000,000 at any time provided compliance with certain financial covenants is maintained. These agreements extend for 13 months or more. As of December 31, 1989, no amounts were outstanding under these agreements.

(4) FIRST MORTGAGE BONDS: Sinking fund requirements on first mortgage bonds may be satisfied by the deposit of cash or reacquired bonds with the trustee and for certain series by the application of net expenditures for bondable property in an amount equal to 166⅔% of the annual requirements.

All series requiring cash or reacquired bonds for sinking funds purposes have been satisfied to maturity. The company has adequate unpledged property to satisfy the remaining series for at least ten years. In 1993, $8,726,000 of 4⅜% bonds will mature and in 1994, $10,944,000 of 4½% bonds and $45,000,000 of 9½% bonds will mature.

(5) PREFERRED STOCK: The 10.50% Series Preferred Stock has a mandatory 5% annual sinking fund requirement and an additional 5% is redeemable annually at the company's option at a price of $100 per share plus accrued dividends.

In each of the years 1989, 1988 and 1987, the company redeemed 15,000 shares to meet the sinking fund requirements. This amount represents both annual requirements and optional repurchases.

(6) COMMON EQUITY: In 1989, the board of directors approved a program to repurchase and retire up to 600,000 shares of the company's outstanding common stock. During 1989, the company repurchased 311,932 shares of common stock for $7,472,696. This repurchase reduced the common stock balance by $1,247,728 ($4 par per share), premium on capital stock by $674,641 ($2.17 per share) and retained earnings by $5,550,327.

Shareholders authorized a 2 for 1 common stock split in May 1987. This action reduced the par value of common stock from $8 per share to $4 per share and increased the number of authorized common stock shares from 16,000,000 to 32,000,000.

(7) COMMITMENTS AND CONTINGENCIES: To ensure a long-term, reliable, low-cost supply of coal for the jointly-owned Edgewater 4 unit, the company is a party to a coal contract that contains demand charges totalling approximately $36,100,000 for the company's share through 1994, of which approximately $15,600,000 has been paid to date. The company is required to pay these demand charges in future years, even if it is unable to fully utilize all contracted quantities of coal under future emission limits and acid rain legislation. In the opinion of management, any such costs incurred to meet mandatory emission limits would be considered a legitimate cost of service expense subject to recovery in rates.

The Price-Anderson Act, provides for the payment of funds for public liability claims arising out of a nuclear incident. In the event of a nuclear incident involving any of the nation's licensed reactors, the company is subject to an assessment which is approximately $27,000,000 per incident for its licensed reactor, not to exceed $4,120,000 per incident, per calendar year. These amounts represent the company's 41.2% ownership share of Kewaunee.

The Columbia Energy Center (Columbia) is owned 31.8% by Wisconsin Public Service Corporation (WPSC), 46.2% by Wisconsin Power and Light Company (WP&L), and 22.0% by Madison Gas and Electric Company (MG&E). WP&L operates Columbia. In 1989, the PSCW concluded that WP&L did not properly administer a coal contract for Columbia and ordered WP&L to refund $9 million to the ratepayers of WPSC, WP&L and MG&E proportionately according to the ownership shares of each utility in Columbia. WP&L is appealing this order. If WP&L is not required to reimburse WPSC ratepayers, the PSCW might seek reimbursement of WPSC's share (31.8% of $9 million) directly from WPSC in its next rate case to be filed in 1990. Although the ultimate outcome of this matter is uncertain, in the opinion of company management, there will be no material effect on the company's results of operations or financial position.

ANR Pipeline Company (ANR), the company's primary gas supplier, filed with the FERC for approval to recover a portion of certain "take-or-pay" costs it incurred from renegotiating its gas long-term contracts. As a result of the filing, ANR was allowed to recover a portion of these costs from its customers. The company began paying these take-or-pay costs to ANR in 1989 and recovering these costs directly from customers. Recently, a federal circuit court has ruled unlawful the method used by ANR to allocate these take-or-pay costs to pipeline customers. Therefore, the company has filed with FERC to have ANR refund all of the company's payments made to-date. While the company may be obligated to pay certain take-or-pay costs, the amount cannot be determined at this time; however, the PSCW has to-date granted the company recovery of such costs.

The company is not currently engaged in any major construction projects. Utility plant construction expenditures for 1990 are estimated to be approximately $69,728,000.

NOTES TO FINANCIAL STATEMENTS

(8) SEGMENTS OF BUSINESS:

The following table presents information for the respective years pertaining to the company's operations segmented by lines of business. The information does not represent ratemaking treatment since the company is regulated by three jurisdictions with differing ratemaking practices.

	1989			1988			1987		
				(Thousands)					
	Electric	Gas	Total	Electric	Gas	Total	Electric	Gas	Total
Operating revenues	$442,938	$142,874	$585,812	$435,958	$168,376	$604,334	$429,443	$151,013	$580,456
Operating expenses —									
Operation and maintenance	294,217	122,682	416,899	282,285	143,098	425,383	263,323	133,110	396,433
Straight-line depreciation	46,470	6,665	53,135	44,170	6,316	50,486	43,006	6,164	49,170
Other taxes	19,620	2,783	22,403	19,679	2,720	22,399	18,401	2,908	21,309
	360,307	132,130	492,437	346,134	152,134	498,268	324,730	142,182	466,912
Operating income before income taxes	82,631	10,744	93,375	89,824	16,242	106,066	104,713	8,831	113,544
Total AFUDC	910	26	936	967	55	1,022	704	27	731
Provisions for income tax (a)	20,549	2,540	23,089	23,784	5,091	28,875	36,851	2,807	39,658
Operating income including AFUDC	$ 62,992	$ 8,230	71,222	$ 67,007	$ 11,206	78,213	$ 68,566	$ 6,051	74,617
Other income, net			2,020			1,520			(903)
Interest expense			24,112			23,313			20,943
Net income			$ 49,130			$ 56,420			$ 52,771
Identifiable assets (b)	$729,129	$116,769	$845,898	$705,220	$110,176	$815,396	$702,601	$101,748	$804,349
Assets not allocated (c)			31,151			27,997			20,280
Total assets			$877,049			$843,393			$824,629
Construction and nuclear fuel expenditures including AFUDC	$ 64,494	$ 7,067	$ 71,561	$ 59,466	$ 9,375	$ 68,841	$ 55,536	$ 7,065	$ 62,601

(a) Income taxes include amounts recorded as additional depreciation representing the estimated changes in income taxes due to using accelerated depreciation for income tax purposes. See Note 1(k).

(b) At December 31 and net of the respective accumulated provisions for depreciation.

(c) Primarily includes cash, investments, nonutility property and other receivables.

(9) QUARTERLY FINANCIAL INFORMATION (Unaudited):

	Three Months Ended (Thousands except for per share data)			
	1989			
	March	June	September	December
Operating revenues	$184,150	$129,019	$127,613	$145,030
Operating income	$24,345	$11,053	$15,410	$19,478
Net income	$19,352	$5,930	$10,094	$13,754
Earnings on common stock	$18,487	$5,065	$9,228	$12,914
Average number of shares of common stock outstanding	23,201	23,201	23,057	22,892
Earnings per average share on common stock	$.80	$.22	$.40	$.56
	1988			
	March	June	September	December
Operating revenues	$183,795	$126,977	$131,035	$162,527
Operating income	$25,901	$12,942	$18,030	$20,318
Net income	$20,462	$7,910	$13,418	$14,630
Earnings on common stock	$19,557	$7,005	$12,513	$13,751
Average number of shares of common stock outstanding	23,201	23,201	23,201	23,201
Earnings per average share on common stock	$.84	$.30	$.54	$.60
	1987			
	March	June	September	December
Operating revenues	$164,351	$127,655	$130,883	$157,567
Operating income	$21,889	$14,775	$17,256	$19,966
Net income	$16,423	$9,898	$11,816	$14,634
Earnings on common stock	$15,479	$8,953	$10,872	$13,716
Average number of shares of common stock outstanding*	23,201	23,201	23,201	23,201
Earnings per average share on common stock*	$.67	$.39	$.47	$.58

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

*Adjusted to reflect 2 for 1 common stock split in June 1987.

STATISTICS - FINANCIAL

Statements Of Income (Thousands)

	1989	1988	1987	1986	1985	1984	1979
Operating Revenues:							
Electric	$442,938	$435,958	$429,443	$410,514	$403,801	$405,420	$248,663
Gas	142,874	168,376	151,013	181,756	234,703	238,771	133,349
	585,812	604,334	580,456	592,270	638,504	644,191	382,012
Operating Expenses:							
Operation —							
Electric production fuels	134,719	134,437	132,430	132,028	125,179	125,457	78,942
Gas purchased for resale	97,927	120,702	109,447	141,656	190,195	198,172	103,680
Purchased power, net	31,125	24,887	19,109	9,015	10,070	6,276	5,980
Other	109,765	101,935	100,305	95,258	89,399	83,404	43,954
Maintenance	43,363	43,422	35,142	32,927	36,166	34,634	19,135
Depreciation —							
Straight-line provision	53,135	50,486	49,170	47,271	47,486	45,634	26,992
Additional depreciation	3,418	5,705	8,491	4,681	8,843	7,933	7,973
Taxes —							
Federal income	17,125	20,042	28,604	31,825	32,198	34,364	20,897
Net investment credit	(2,256)	(2,826)	(4,040)	(2,122)	1,325	2,966	6,877
State income	4,802	5,954	6,603	5,958	6,696	7,672	4,339
Other	22,403	22,399	21,309	21,293	14,908	20,313	12,591
	515,526	527,143	506,570	519,790	562,465	566,825	331,360
Operating Income	70,286	77,191	73,886	72,480	76,039	77,366	50,652
Other Income and (Deductions):							
AFUDC, other funds	595	659	456	595	717	—	—
Other, net	1,559	823	(2,815)	(306)	(275)	(2,405)	(27)
Income taxes	461	697	1,912	(182)	125	1,212	40
Gains on bonds reacquired	—	—	—	—	195	449	352
	2,615	2,179	(447)	107	762	(744)	365
Income Before Interest Expense	72,901	79,370	73,439	72,587	76,801	76,622	51,017
Interest Expense:							
Interest on long-term debt	21,327	21,583	18,309	19,914	16,834	16,205	14,189
AFUDC, borrowed funds	(341)	(363)	(275)	(277)	(350)	(154)	(537)
Other interest	2,785	1,730	2,634	1,409	2,902	4,301	2,148
	23,771	22,950	20,668	21,046	19,386	20,352	15,800
Net Income	49,130	56,420	52,771	51,541	57,415	56,270	35,217
Preferred Stock Dividend Requirements	3,436	3,594	3,751	4,392	5,519	5,789	4,786
Earnings On Common Stock	$ 45,694	$ 52,826	$ 49,020	$ 47,149	$ 51,896	$ 50,481	$ 30,431

Income Statistics

Common Stock:							
Shares outstanding, Dec. 31*	22,888,620	23,200,552	23,200,552	23,200,552	23,200,552	23,644,412	21,747,546
Shares outstanding, Avg.*	23,086,474	23,200,552	23,200,552	23,200,552	23,347,514	23,644,412	21,653,540
Earnings per share†*	$1.98	$2.28	$2.11	$2.03	$2.22	$2.14	$1.41
Dividends paid per share*	$1.60	$1.56	$1.52	$1.465	$1.355	$1.22	$.835
Times Interest Earned:							
Before income taxes	3.85	4.49	5.13	5.17	6.12	6.27	5.65
After income taxes	2.95	3.33	3.41	3.34	3.77	3.74	3.16
Times Interest and Preferred Dividends Earned	2.60	2.90	2.91	2.78	2.97	2.92	2.44

*Adjusted to reflect 2 for 1 common stock split in June 1987.

†Based on weighted average shares outstanding.

STATISTICS - FINANCIAL

Balance Sheets (Thousands)

	1989	1988	1987	1986	1985	1984	1979
Assets							
Utility Plant:							
Electric	$1,199,700	$1,155,645	$1,111,987	$1,076,400	$1,038,867	$1,000,596	$682,283
Gas	150,050	143,617	135,530	131,556	126,716	122,742	103,217
	1,349,750	1,299,262	1,247,517	1,207,956	1,165,583	1,123,338	785,500
Less - accumulated depreciation	730,334	682,722	635,454	591,727	544,319	494,931	287,105
	619,416	616,540	612,063	616,229	621,264	628,407	498,395
Nuclear decommissioning trusts, at cost	36,003	31,715	25,502	—	—	—	—
Nuclear fuel, net	22,839	20,013	18,886	19,780	19,857	12,805	16,305
Net utility plant	678,258	668,268	656,451	636,009	641,121	641,212	514,700
Investments	16,151	17,507	20,367	19,573	13,464	10,012	12,137
Current assets	165,724	137,809	130,670	142,030	167,011	137,905	85,979
Deferred charges	16,916	19,809	17,141	16,415	13,875	4,167	2,955
Total assets	$ 877,049	$ 843,393	$ 824,629	$ 814,027	$ 835,471	$ 793,296	$615,771
Capitalization and Liabilities							
Common stock and premium	$ 141,266	$ 143,187	$ 143,187	$ 143,187	$ 143,187	$ 145,923	$126,971
Retained earnings	231,859	227,981	216,914	203,258	191,091	175,686	94,610
Preferred stock with no mandatory redemption	51,200	51,200	51,200	51,200	51,200	51,200	51,200
Preferred stock with mandatory redemption	642	2,145	3,645	5,144	20,147	21,684	12,750
Long-term debt	255,275	256,264	254,867	228,631	244,362	210,481	217,398
Total capitalization	680,242	680,777	669,813	631,420	649,987	604,974	502,929
Short-term borrowings	36,000	21,500	13,000	33,400	28,995	36,470	10,000
Bond sinking fund requirements and maturing first mortgage bonds	—	—	—	5,062	—	—	2,380
Other liabilities and credits	160,807	141,116	141,816	144,145	156,489	151,852	100,462
Total capitalization and liabilities	$ 877,049	$ 843,393	$ 824,629	$ 814,027	$ 835,471	$ 793,296	$615,771
Book Value Per Share, Dec. 31*	$16.30	$16.00	$15.52	$14.94	$14.41	$13.60	$10.19
Return On Average Equity	12.1%	14.4%	14.0%	13.9%	15.9%	16.2%	14.3%
Capitalization Ratios							
Common stock and premium	20.8	21.0	21.4	22.7	22.0	24.1	25.3
Retained earnings	34.1	33.5	32.4	32.2	29.4	29.0	18.8
Preferred stock	7.6	7.8	8.1	8.9	11.0	12.1	12.7
Long-term debt	37.5	37.6	38.1	36.2	37.6	34.8	43.2
Percent Long-Term Debt to Net Utility Plant	37.6	38.3	38.8	35.9	39.3	32.8	42.2
Average Bond Rate	8.1	8.1	8.2	7.9	8.3	7.6	7.0
Average Preferred Stock Rate	6.4	6.5	6.6	6.7	7.5	7.6	7.2
Shareholders —							
Common stock	25,752	26,858	27,243	27,240	29,687	31,440	37,589
Preferred stock	4,821	5,164	5,402	5,756	6,219	6,553	8,434
Number of Employees, Dec. 31	2,472	2,466	2,495	2,497	2,485	2,390	1,875

*Adjusted to reflect 2 for 1 common stock split in June 1987.

STATISTICS - OPERATING

	1989	1988	1987	1986	1985	1984	1979
Electric Operations							
Operating Revenues (Thousands):							
Residential	$146,472	$145,087	$139,940	$138,365	$137,502	$135,833	$ 84,217
Commercial and industrial	228,980	222,157	223,133	212,180	207,772	209,468	127,461
All other	67,486	68,714	66,370	59,969	58,527	60,119	36,985
Total electric revenues	$442,938	$435,958	$429,443	$410,514	$403,801	$405,420	$248,663
Kwh Sales (Thousands)	8,957,064	8,840,298	8,351,062	7,772,905	7,445,019	7,469,964	6,636,006
Number of Customers, Dec. 31:							
Residential	289,004	285,387	281,111	276,407	271,407	267,461	248,557
Commercial and industrial	32,566	31,820	31,262	30,673	30,185	29,702	25,917
All other	1,012	488	485	479	478	475	993
Total electric customers	322,582	317,695	312,858	307,559	302,070	297,638	275,467
Annual Average Use (Kwh):							
Residential	7,450	7,616	7,294	7,340	7,288	7,269	7,175
Commercial and industrial	152,797	152,225	148,158	141,793	136,764	138,244	140,269
Average Kwh Price (Cents):							
Residential	6.86	6.73	6.89	6.89	7.01	7.05	4.78
Commercial and industrial	4.66	4.63	4.88	4.93	5.08	5.14	3.54
Production Data:							
System Capacity (Kw):							
Steam	1,269,240	1,269,240	1,269,240	1,269,240	1,269,240	1,269,240	967,640
Nuclear	221,000	221,000	221,000	221,000	221,000	221,000	221,000
Hydraulic	64,236	64,236	64,236	64,236	64,236	64,236	62,156
Combustion turbine	156,200	156,200	156,200	156,200	156,200	156,200	156,200
Other	4,040	4,040	4,040	4,040	4,040	4,040	4,000
Total	1,714,716	1,714,716	1,714,716	1,714,716	1,714,716	1,714,716	1,410,996
Interest in Wisconsin River Power Company	11,667	11,667	11,667	11,667	11,667	11,667	11,667
Total system capacity	1,726,383	1,726,383	1,726,383	1,726,383	1,726,383	1,726,383	1,422,663
Generation and Purchases (Thousands of Kwh):							
Steam	6,178,771	6,313,838	6,091,075	5,916,885	5,448,302	5,443,590	4,862,769
Nuclear	1,541,647	1,612,880	1,651,626	1,588,287	1,523,780	1,569,519	1,417,890
Hydraulic	188,617	198,150	206,397	340,488	352,000	307,911	338,760
Purchases	1,714,075	1,371,811	993,319	459,468	691,002	649,557	510,845
Total	9,623,110	9,496,679	8,942,417	8,305,128	8,015,084	7,970,577	7,130,264
System peak — firm (Kw)	1,504,000	1,509,500	1,381,300	1,292,600	1,219,700	1,202,900	1,103,700
Annual load factor	71.97%	70.24%	72.72%	71.93%	74.03%	73.57%	70.50%
Gas Operations							
Operating Revenues (Thousands):							
Residential	$ 98,181	$ 97,184	$ 84,529	$ 91,513	$100,078	$ 97,114	$ 51,820
Commercial and industrial	55,021	58,251	54,160	82,755	130,642	139,662	80,130
All other	(10,328)	12,941	12,324	7,488	3,983	1,995	1,399
Total gas revenues	$142,874	$168,376	$151,013	$181,756	$234,703	$238,771	$133,349
Therm Sales (Thousands)	331,695	313,646	272,939	351,014	451,419	470,912	531,178
Transportation (Therms-Thousands)	210,202	187,452	178,754	99,407	28,730	—	—
Total gas volume	541,897	501,098	451,693	450,421	480,149	470,912	531,178
Number of Customers, Dec. 31:							
Space heating	165,002	161,615	158,229	154,672	150,833	147,646	132,171
All other	7,517	7,754	7,949	8,241	8,788	9,376	14,074
Total gas customers	172,519	169,369	166,178	162,913	159,621	157,022	146,245

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