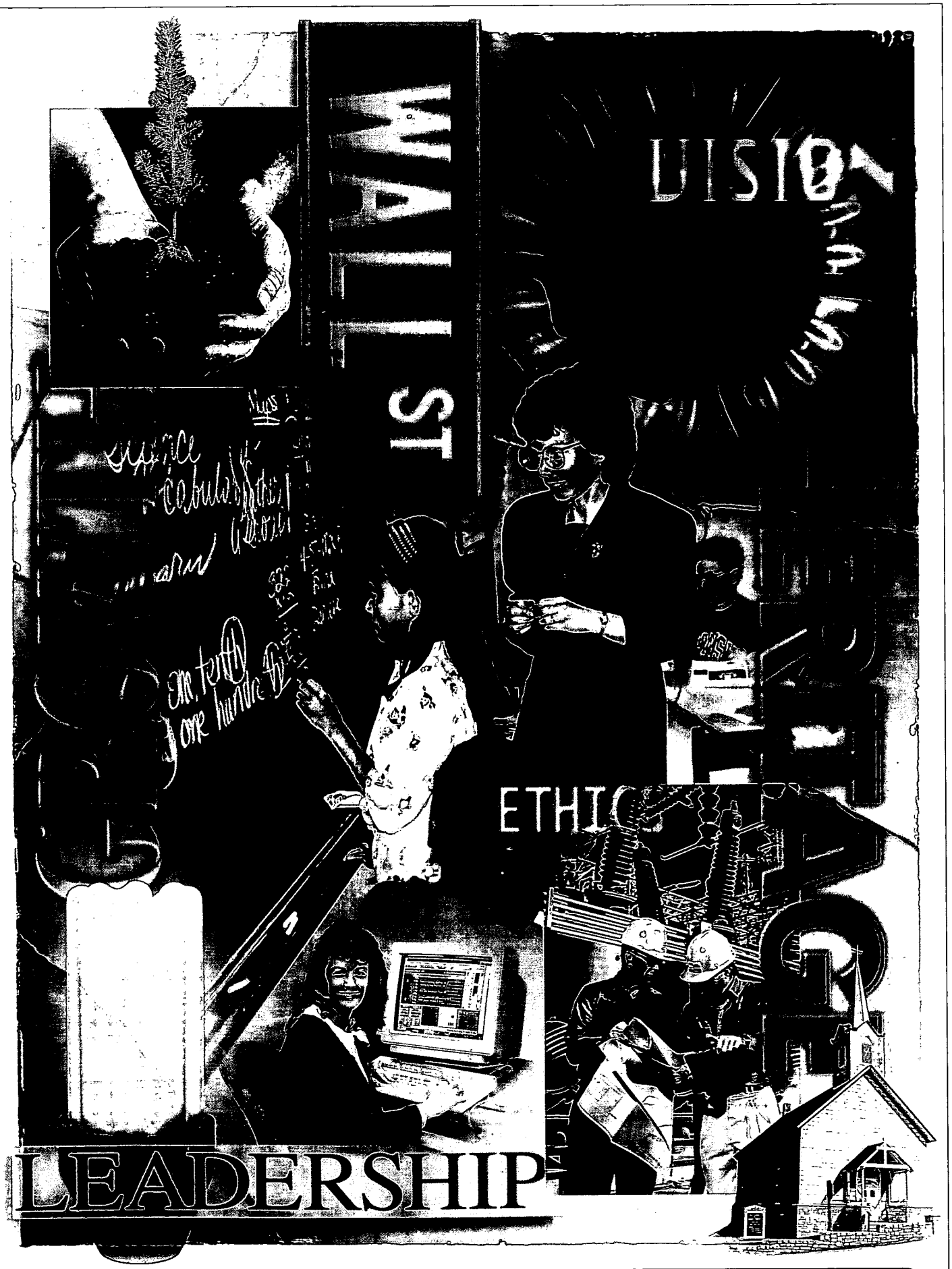
WPS RESOURCES CORPORATION 1996 Annual Report



CREATING VALUE FROM VALUES

OUR VISION

People Creating The World's Premier Energy Company

People...

Creating...

The World's Premier Energy Company...

OUR MISSION

Provide Customers with the Best Value in Energy and Related Services

Provide Customers...

With the Best Value...

In Energy and Related Services...

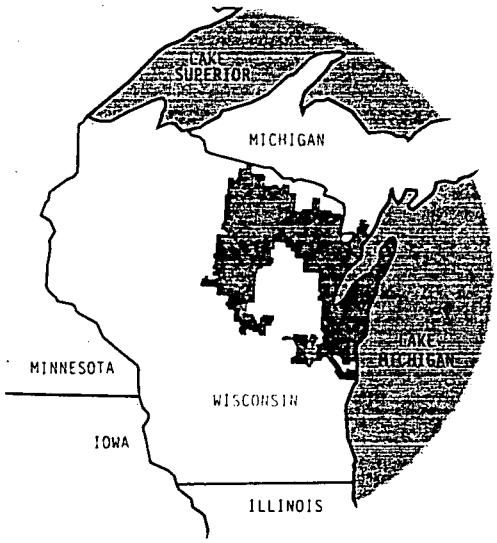
CONTENTS

WPS Resources Corporation
is a holding company based in Green Bay, Wisconsin. Profiles of operating subsidiaries follow:

Wisconsin Public Service Corporation
is a regulated electric and gas utility which serves 367,892 electric and 212,094 gas customers in an 11,000 square mile area of Northeastern Wisconsin and an adjacent portion of Upper Michigan, as depicted in green on the accompanying map.

WPS Energy Services, Inc.
is a diversified energy company organized to offer electric and gas marketing services; real-time energy management services; project management; and energy consulting services to wholesale and retail participants in the non-regulated energy marketplace.

WPS Power Development, Inc.
is a company organized to participate in the development of electric generation projects and to provide services to the non-regulated electric power generation industry. Services include acquisition and investment analyses; project development, engineering, and management services; and operations and maintenance services. Areas of expertise include cogeneration, distributed generation, generation from renewable resources, generating plant repowering projects, and disposal of certain types of industrial waste.



As we move forward in 1997, we see a vibrant company that has the capacity to confront short-term challenges head-on without sacrificing its values or its drive to reach its long-term aspiration of creating the world's premier energy company. We also see a company that is dedicated to creating value for its stakeholders.

FINANCIAL RESULTS

The year 1996 was a year of challenges and some disappointments at WPS Resources Corporation and our subsidiary companies: Wisconsin Public Service Corporation ("WPSC"), WPS Energy Services, Inc. ("ESI"), and WPS Power Development, Inc. ("PDI"). Here are the highlights:

> Revenues at WPSC were $701.9 million, an increase of 5.8% over 1995.

> Electric sales volume at WPSC was flat when compared to 1995, and gas deliveries increased 5.6% over 1995.

> Revenues at the non-regulated subsidiaries were $156.4 million, an increase of 178.5% over 1995.

> Gas deliveries at ESI increased 85.5% over 1995.

> Earnings per average common share were $2.00, a decrease of 32 cents, or 13.8%, compared to 1995.

> Dividends paid per common share increased for the 38th consecutive year.

The increase in revenues is primarily due to increased gas volumes sold by WPSC and ESI and increased gas prices at ESI. The decrease in earnings can be attributed to a number of factors including: (1) increased operating expenses at the non-regulated subsidiaries of approximately $7.1 million resulting primarily from expansion of the businesses; (2) decreased margins at ESI of $4.8 million resulting from volatile gas market prices; (3) a $4.0 million loss on an industrial processing facility investment which had been made in anticipation of energy sales opportunities; and (4) increased operating expenses of $4.5 million at WPSC as the utility expanded certain operating activities in anticipation of a deregulated energy marketplace. All of these amounts are before related income taxes. The above decreases were partially offset by increases in WPSC's electric and gas margins of $2.8 million and $3.5 million, respectively.

KEWAUNEE NUCLEAR POWER PLANT STATUS

Our ability to address short-term challenges and stay focused on our long-term aspiration of being highly successful in the energy marketplace can be seen when we look closely at the way we are managing the jointly-owned Kewaunee Nuclear Power Plant ("Kewaunee"). For the sixth time, plant employees have earned the Institute of Nuclear Power Operations' Award of Excellence as one of the top plants in the nuclear power industry. Only one other plant in the nation can make that claim. We view Kewaunee as a valuable asset and expect it to continue providing power safely and economically.

Kewaunee was taken out of service on September 21, 1996 for scheduled refueling and maintenance. Inspection of previously repaired steam generator tubes disclosed continued degradation of the tubes at the sleeve repair joints. Repairs were begun in November 1996 using a laser welding technique. Difficulties have been encountered with the welding, but repair efforts continue. We are unable to predict when the plant will be returned to service.

Tube repair, if successful, will allow Kewaunee to return to service for only a limited time. Steam generator replacement is necessary to assure continued long-term reliable operation of Kewaunee. To this end, WPSC filed an application with the Public Service Commission of Wisconsin ("PSCW") in March 1996 for permission to replace the steam generators in 1999. The PSCW is expected to act on this application in the

fourth quarter of 1997. The total capital cost for replacing the two steam generators would be approximately $89.0 million (WPSC's share being $36.7 million). The owners of Kewaunee hold differing views on the desirability of proceeding with replacement of the steam generators. Discussions continue in an effort to resolve the matter.

NON-REGULATED BUSINESS ACTIVITIES

Since its organization in 1994, ESI has experienced substantial increases in retail and wholesale sales each year. During 1996, ESI increased its competitiveness by making significant organizational changes and process improvements. During 1997, ESI's focus will be on improved margins and better management of risks. We expect these efforts to improve ESI's financial performance. The value that an efficient and agile ESI can create for all of our stakeholders will increase as opportunities unfold in an expanding deregulated marketplace.

The synergy between energy marketing and the ownership of generating capacity has provided additional business opportunities for both ESI and PDI. During 1996, PDI acquired a two-thirds interest in a small electric generating plant in western Wisconsin. We believe this is the first merchant plant in the country. In addition to providing turnkey project management and operations and maintenance services for the non-regulated electric power generation industry, PDI will continue to evaluate additional investments in generating-related assets.

REGULATORY DEVELOPMENTS

After being the only large investor-owned utility in Wisconsin to seek a 1997 rate decrease, the PSCW is expected to authorize a $35.5 million, or 8.3%, decrease in electric rates later this month. Our electric rates are already the lowest in the region and among the lowest in the nation. The PSCW order is also expected to authorize a $5.7 million, or 2.8%, increase in natural gas rates and an increase in the allowed return on equity from 11.5% to 11.8%. The PSCW is also expected to authorize a billing surcharge to enable prompt recovery of the additional power costs associated with the extended shutdown of Kewaunee. The PSCW order will also provide for the accelerated funding of Kewaunee decommissioning costs and the accelerated recovery of the remaining investment in the plant such that both would be complete by the end of the year 2002. This treatment of Kewaunee expenses recognizes the uncertain future of nuclear generation.

During 1997, the PSCW is expected to address the Certificate of Public Convenience and Necessity application filed by an independent power producer proposing to build a combustion turbine generating facility, the output of which would be sold to WPSC. Additional matters expected to be addressed by the PSCW in 1997 include: the formation of an independent system operator to operate certain aspects of the region's electric transmission system, issues arising from the PSCW's goal to give customers choices regarding their electric energy suppliers by 2001, and two merger proposals involving Wisconsin utilities. All of these matters will have a profound impact on the competitive environment in the region for many years to come.

THE STRENGTH OF A VISION AND VALUES

The environment in which we operate differs dramatically from that of just a few years ago. It is more dynamic, reflects stronger competitive forces, involves more players, includes significant new risks, and presents more challenges for employees. Our vision commits us to transforming our company into an agile, values-based energy company that delivers value to all of its stakeholders.

Our vision and related growth strategy are directing us to:

> Retain existing customers, add new customers in existing and new markets, and introduce new energy-related products and services. To this end, we will continue the aggressive natural gas system expansion we began a few years ago. We will also intensify our focus on delivering a select group of unbundled, high quality energy-related products and services to targeted markets. Although we anticipate growth at both our regulated and non-regulated subsidiaries, the non-regulated business activities are expected to expand at an accelerated rate.

> Establish value-producing alliances with wholesale customers and other energy companies.

> Transform our work environment so that it fully reflects our values and Dr. W. Edwards Deming's management philosophy. This strategy has already created a powerful atmosphere where employees work to innovate, improve processes, lower costs, improve products and services, and create value for stakeholders. We will intensify our effort to implement this strategy because the power of intrinsically motivated employees acting on their basic values is the key to success in the competitive marketplace.

THE FUTURE

Our efforts during 1997 are being directed toward continued participation in the re-regulation of the energy industry, resolution of the Kewaunee issues, improved performance of our regulated and non-regulated subsidiaries, and implementation of our growth strategy. Although our stock price was depressed throughout 1996, reflecting many factors including an uncertain regulatory environment, the issues surrounding Kewaunee, and disappointing financial results, we are confident that our employees will continue to make significant progress as they work to create the world's premier energy company.

At mid-year, I will retire as Chairman and Chief Executive Officer after 39 years of service. I will continue to serve as a member of the Board of Directors. Larry Weyers will become the new Chief Executive Officer.

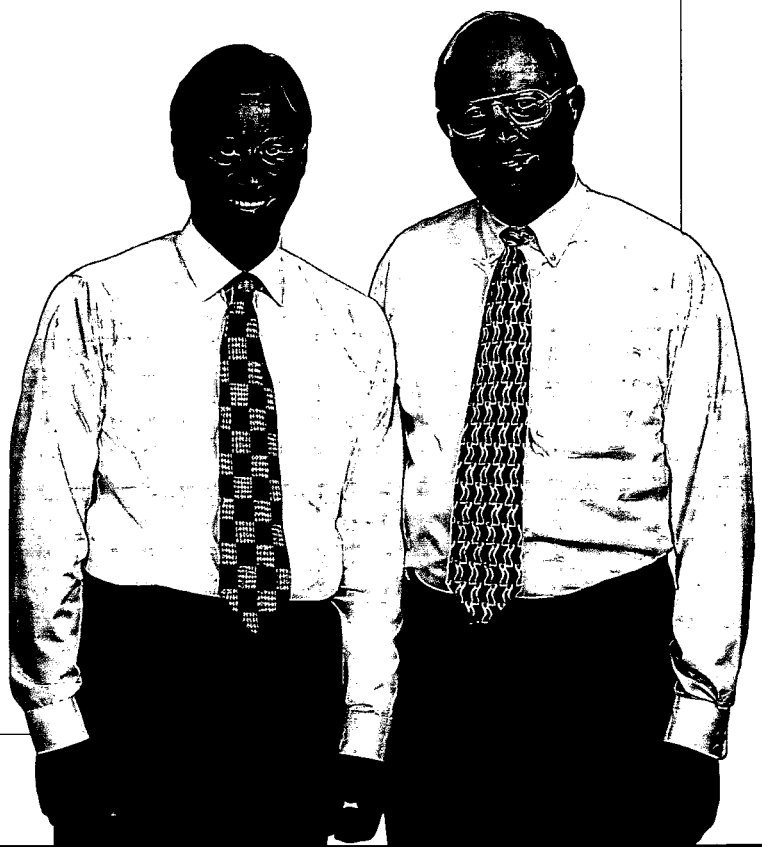
We thank you for your support of our efforts to be a highly effective company. We believe the feature story that follows will give you additional insights into how the energy industry is changing and how our commitment to our values, our vision, and our growth strategy create value for you, our shareholders.

Sincerely,

Daniel A. Bollom
Chairman and Chief Executive Officer
(right)

Larry L. Weyers
President and Chief Operating Officer
(left)

February 12, 1997



The **VALUE** our employees create, based on our values, benefits multiple **STAKEHOLDERS** including **SHAREHOLDERS, CUSTOMERS, SUPPLIERS, COMMUNITIES, BUSINESS PARTNERS,** and **OTHER EMPLOYEES.**

Our products and services make homes and businesses more comfortable, promote conservation, and assure the wise use of resources.

Our electric and natural gas rates, the lowest of any major utility in the state, contribute to the competitive success of commercial and industrial customers who provide jobs for the residents of our communities.

We believe that our **SHAREHOLDERS** truly **BENEFIT** from our **VALUES-BASED** products and services.

During rapidly changing times like these, past successes only give a company a chance to survive. WPS Resources Corporation (the "Company") is focused on something more than merely surviving the ambiguity arising as the utility industry reshapes itself into a competitive energy industry that is driven by market forces and technology rather than regulation. The Company is focused on long-term success.

Long-term success requires a solid business foundation which includes the ability to create value from values. In other words, it requires a healthy heart and broad shoulders – the heart to pump values into every decision and action and the broad shoulders to proudly accept the responsibility to serve the interests of a wide range of stakeholders including shareholders, customers, employees, suppliers, business partners, and local communities. The set of values at our company's core are summarized in six simple words:

> **People**...valuing all individuals and their right to grow through learning.

> **Integrity**...acting with honesty and respect toward all people.

> **Trust**...believing that people have integrity and act accordingly.

> **Creativity**...providing the opportunity to challenge the present and create the future.

> **Cooperation**...working together with a common aim and a shared set of values.

> **Community**...creating a spirit of oneness through service and stewardship.

Our commitment to these values is reflected in the Company's vision, management theory, strategy, and actions.

RESEARCH FINDS THAT VALUES ARE LINKED TO SUCCESS

Research conducted by Harvard's John Kotter suggests that our commitment to values is on target. Kotter found that firms with positive cultures that are rooted in values, emphasize key stakeholders, and have leadership at all levels, will outperform other firms that do not have these traits. These corporations, according to the research, have certain advantages. They have employees who are better aligned with stated goals, feel good about working for the company, and strive harder in their work. Values-oriented cultures also reduce the need for formal bureaucracies that often stifle initiative. This research supports the Company's belief that creating value from our values is what it takes to move rapidly and flexibly through changing times on the road to long-term success.

SWEEPING INDUSTRY CHANGES AFFECT EVERYONE

The profound changes sweeping our industry, similar to the changes that have recently occurred in the telephone industry, will touch every person, business, and community in the country. Market and technological forces are driving this massive change. These forces have combined to create energy supply options with costs that are lower than the existing prices being charged by certain electric utilities and the capability to take advantage of these lower prices. Based on the latest market information, commercial and industrial customers in a number of other states are already buying energy from several different suppliers.

A portion of this less expensive electricity is being generated using gas-fueled power plants which generally cost less to build than generating plants using other forms of fuel. While there are swings in gas prices, deregulation of the natural gas industry has generally made the fuel less expensive. Meanwhile, companies such as ours are taking advantage of railroad deregulation to reduce transportation costs associated with the delivery of the coal which fuels many of our power plants. We are successfully burning lower priced western coal in plants that were not designed to burn this type of coal.

The option to choose energy suppliers depends on the capabilities of electric transmission systems that were originally designed to deliver energy primarily from a limited number of sources to a defined service territory. Today, by taking advantage of new technology, transmission systems can be managed in a manner that allows more energy suppliers than ever to participate in the increasingly open energy marketplace.

Customers, particularly large commercial and industrial customers, believe that increased competition in energy markets will allow them to operate more cost effectively. We believe that the best way to achieve these expected benefits is by applying values in every decision and action and by recognizing the responsibility to serve simultaneously the interests of multiple stakeholders.

THE REGULATORY RESPONSE

Regulators and legislators across the country, aware of customer expectations, have been working on agendas to bring about higher levels of competitiveness in the generation sector of the industry. During 1996, the Federal Energy Regulatory Commission ordered electric utilities to open their transmission lines to wholesale customers who buy energy for resale to their customers. Wisconsin Public Service Corporation ("WPSC"), our utility subsidiary, has offered transmission access since 1990 and met the requirements of this order nearly a year early. Another order, intended to facilitate the separation of the energy supply and delivery functions, requires utilities to publish transmission information on an electronic bulletin board for all potential buyers to see and evaluate.

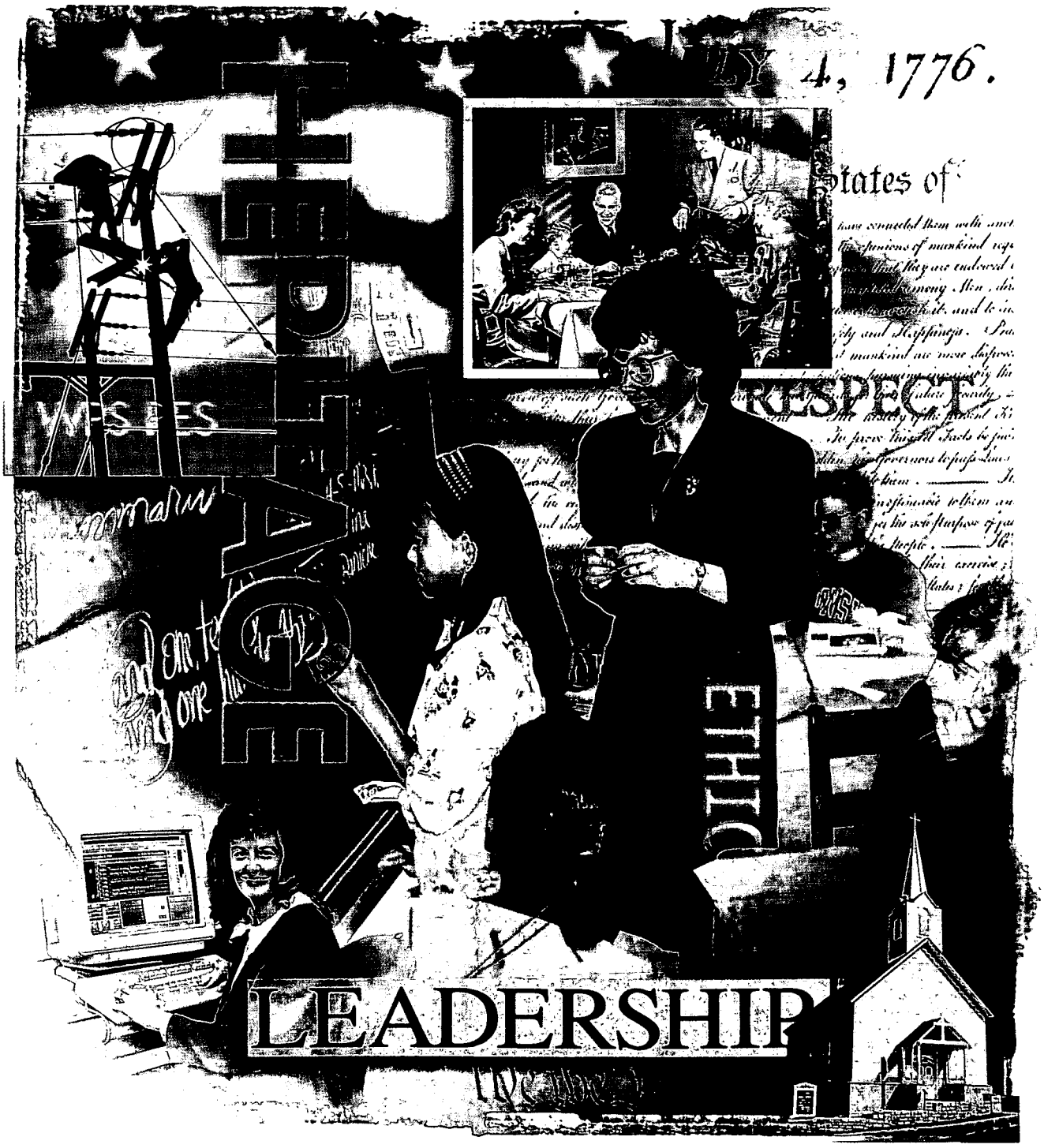
During 1996, the Public Service Commission of Wisconsin began work on four major initiatives in preparation for giving all customers their choice of electric suppliers by 2001. One initiative will define the quality requirements for electric distribution service. Another initiative will identify the characteristics to be possessed by an Independent System Operator of the transmission system. Today, individual utilities own and operate their own transmission systems. In the future, certain aspects of the transmission system will most likely be operated on a regional basis by an independent entity. The third initiative will recommend modifications to the process for licensing new power plants. The final initiative will address how public benefits, such as conservation programs and programs for low income customers, will be provided in a competitive setting.

We are diligently working with federal, Wisconsin, and Michigan regulators to create an energy marketplace that will meet customer desires for energy choices, honor our responsibilities to the customers and communities we serve, and create value for our stakeholders.

CHANGE PROVIDES A FORUM TO DELIVER VALUE

Values are influencing our approach to meeting the needs of customers. Within WPSC, we have developed a totally different way to serve new customers. Instead of waiting for customers to come to us for service, we identify and call them to offer new and different services on a schedule that respects their needs. Company-wide implementation of this innovative process is expected by 1999.

We have also found new ways to serve other utilities. Through several new contracts with cooperatives and with municipal and investor-owned utilities, we now provide a wide assortment of auxiliary services that support both their desire to remain independent and our desire to grow. The services range from answering their customers' outage calls to maintaining their substations.



Our employees tutoring children illustrates how our **VALUES**, which are nurtured in us by **OUR FAMILIES, RELIGIOUS UPBRINGING, SCHOOLS, AND COUNTRY**, influence our actions as individuals and as a company.

OUR VALUES ALLOW US TO SET ASIDE SELF INTEREST IN FAVOR OF THE GREATER COMMON GOOD by guiding our decisions about everything from the work environment we create to the way we treat customers and business partners.

The guidance provided by our values has lead to several **NEW PARTNERSHIPS** that bring new business to our company and fosters respect for others' desire to remain independent.

PERFORMANCE and **GROWTH** have been at the heart of our business since it was founded in 1883.

Our **INITIATIVE** was evident when we installed our first electric generator (pictured above) and is evident today as we expand our natural gas distribution system and operate one of the best nuclear power plants in the nation.

Our **VISION** of **"PEOPLE CREATING THE WORLD'S PREMIER ENERGY COMPANY"** focuses us on accomplishing even more through our non-regulated subsidiaries; while our values, as described in the accompanying feature, inspire us to work together like a well-conditioned rowing team.

WPS Energy Services, Inc., one of our non-regulated subsidiaries, has acquired new customers specifically because of our integrity. Customers noted that we honored our natural gas contracts when the weather turned—and stayed—frightfully cold during early 1996, while many other suppliers chose a different course.

Consistent with our trust of people, we have replaced most of our formal personnel policies with a few guidelines that provide order by emphasizing our core values. This increases everyone's ability to contribute to the Company's success without bureaucratic restraints.

OUR ACTIONS EMPHASIZE THE IMPORTANCE OF LEARNING

Personal development that leads to intrinsic motivation is an integral part of the learning environment at our company. During 1997, we are opening learning centers at three locations to help employees identify interests and aptitudes, take greater advantage of educational opportunities, and develop new skills. Additional sites are planned for 1998. The International Union of Operating Engineers, which represents about one-half of our employees, and the State of Wisconsin demonstrated their support for the learning center concept and the long-term success of the Company by making financial contributions in support of this endeavor.

One of the courses offered to employees who are interested in improving complex processes addresses the use of planned experimentation methods. The course introduces proven techniques which facilitate the study and optimization of processes which have multiple variables. When a vendor encountered difficulties applying a laser welding process to repair the Kewaunee steam generators, it was necessary to go into the laboratory and perform experiments in an effort to improve the effectiveness of laser welding. WPSC assisted in this experimentation by applying the planned experimentation methods. The same planned experimentation techniques have been helpful in other cases. We believe not only in working hard, but also in working smart.

During 1996, we initiated an all-employee process called Learn.Net which brings employees together on a monthly basis in both large and small groups to discuss matters of company-widc importance. With the spirit of cooperation and community as a guide, we have also actively supported cooperative learning between employees and dozens of people from education, business, and government who have attended a highly acclaimed seminar that we designed to teach the Deming system of management.

Our employees continue to support several school partnerships with volunteer hours and resources. One of those partnerships brings employees together with interested customers, solar technology advocates, and schools to teach young people about solar power and advance the development of this promising technology. Our efforts in support of education were recently recognized when we received an award from the National Association of Regulatory Utility Commissioners for leadership in helping to improve the Green Bay area school systems.

IN CONCLUSION

Our strategy of creating value by being true to our values draws strength from our years of experience in implementing the Deming management principles which are solidly centered on values that respect the dignity of people, inspire them to create improvements that benefit customers and society, and place a high premium on learning. Values-based growth is our goal as we work to provide customers with the best value in energy and related services. As we prosper in both regulated and non-regulated markets, our expectation is that financial results will be reflected in shareholder value for those who choose to invest their future in our future.

Through the years, **VALUES-BASED DECISIONS** have created the foundation for our **FINANCIALLY STRONG COMPANY.** Investors will find our common stock traded on the New York and Chicago stock exchanges and a full menu of services offered by our Shareholder Services Department.

As our employees continue to implement our growth strategy and we prosper in both regulated and non-regulated markets, our expectation is that financial results will be reflected in **SHAREHOLDER VALUE** for those who choose to invest their future in our future.

RESULTS OF OPERATIONS

WPS Resources Corporation (the "Company") is a holding company. Approximately 82% and 95% of the Company's 1996 revenues and assets, respectively, are derived from Wisconsin Public Service Corporation ("WPSC"), an electric and gas utility.

1996 Compared to 1995

Revenues at the Company increased from $719.8 million in 1995 to $858.3 million in 1996. Net income at the Company decreased from $55.3 million in 1995 to $47.8 million in 1996. Earnings per share decreased 13.8% from $2.32 in 1995 to $2.00 in 1996. The most significant reasons for the decrease in earnings at the Company were increased operating expenses at the non-regulated subsidiaries, decreased gas margins at WPS Energy Services, Inc. ("ESI"), a loss on an industrial processing facility investment, and increased operating expenses at WPSC. Revenues at WPSC increased from $663.7 million in 1995 to $701.9 million in 1996. Earnings on common stock at WPSC increased from $56.1 million in 1995 to $57.3 million in 1996.

Electric Utility Operations

Electric margins increased $2.8 million (see table below), or .8%, due primarily to increased sales volumes and decreased purchased power costs.

Electric Margins *($000)*	*1996*	*1995*	*1994*
Revenues	**$490,506**	$489,000	$480,816
Fuel and purchased power	**143,155**	144,451	149,642
Margins	**$347,351**	$344,549	$331,174
Sales *(kWh 000)*	**11,011,842**	10,978,131	10,552,017

The Public Service Commission of Wisconsin ("PSCW") allows WPSC to pass on to its customers, through a fuel adjustment clause, changes in the cost of fuel and purchased power within a specified range. WPSC is required to file an application to adjust rates either higher or lower when costs are plus or minus 2% from forecasted costs on an annual basis.

Electric operating revenues remained relatively stable between 1996 and 1995.

Electric production fuels and purchased power decreased $1.3 million, or .9%, as a result of $1.9 million lower purchased power costs, $1.8 million lower generation costs at the Kewaunee Nuclear Power Plant ("Kewaunee") due to an extended outage for maintenance, and $1.5 million lower combustion turbine generation costs due to increased generation at WPSC's coal-fired plants. Offsetting these decreases was a $3.9 million increase in generation costs at coal-fired plants.

Gas Utility Operations

Gas margins increased $3.5 million (see table below), or 6.0%, due to customer growth at WPSC and colder weather. The weather was 9.6% colder in 1996 than in 1995, based on degree days.

Gas Margins *($000)*	*1996*	*1995*	*1994*
Revenues	**$211,357**	$174,693	$182,058
Purchase costs	**149,388**	116,253	126,351
Margins	**$ 61,969**	$ 58,440	$ 55,707
Volume *(Therms 000)*	**666,598**	631,192	585,821

The PSCW allows WPSC to pass changes in the cost of gas on to customers through a purchased gas adjustment clause ("PGAC").

Gas operating revenues increased $36.7 million, or 21.0%, due to increased volumes as a result of customer growth and higher gas costs. Gas purchased for resale showed a net increase of $33.1 million, or 28.5%, due to increased volumes as a result of customer growth and higher gas costs.

Non-Regulated Operations

Non-regulated energy and other operating revenues increased $100.2 million, or 178.5%. Non-regulated energy revenues primarily represent the electric and gas sales of ESI, an energy marketing subsidiary which began operations in 1994. The increase in non-regulated energy revenues was due primarily to increased gas sales at ESI from $55.2 million in 1995 to $153.1 million in 1996, an increase of $97.9 million, or 177.2%. Such increased gas sales resulted from ESI's acquisition of a gas marketing company in the fourth quarter of 1995, additional customer growth in the wholesale market, and higher unit prices due to gas commodity market conditions. Other operating revenues increased $1.5 million, or 167.3%, and are comprised of consulting and construction revenue from ESI and WPS Power Development, Inc. ("PDI"), a company organized to participate in the development of electric generation projects and to provide services to the non-regulated electric power generation industry.

Non-regulated energy cost of sales increased $103.6 million, or 192.0%, due primarily to increased gas purchases and increased gas costs at ESI from $54.0 million in 1995 to $156.7 million in 1996, an increase of $102.7 million, or 190.3%. Negative gas margins on ESI sales were due primarily to the volatile gas commodity market experienced during 1996 in which ESI was not fully hedged for its customer commitments and ESI's decision to honor customer contracts, despite defaults by certain gas suppliers, during a period of exceptionally high demand.

Other Expenses

Other operating expenses increased $14.5 million, or 9.4%. At ESI and PDI, there was a $7.1 million increase in expenses reflecting the expansion of their businesses and the development of infrastructure including personnel and systems. Included in other operating expenses at WPSC was an increase of $4.5 million related to expansion of certain operating activities in anticipation of more competitive markets and an increase in gas operating expenses of $1.9 million as a result of customer growth. Partially offsetting these increases was a decrease in employee benefit costs of approximately $2.6 million due to a reduction in post-retirement benefit expenses.

Maintenance expense decreased $2.0 million, or 3.9%, due to lower maintenance activity at WPSC's coal-fired plants of $3.3 million. This decrease was partially offset by increased maintenance expense at Kewaunee of $1.0 million.

Other income decreased $4.7 million, or 75.5%, reflecting a $4.0 million loss on an industrial processing facility investment which had been made in anticipation of energy sales opportunities.

1995 Compared to 1994

Earnings per share increased 5.0% from $2.21 in 1994 to $2.32 in 1995. The most significant reasons for this change were higher electric margins due to burning less expensive low sulfur coal and increased sales volume.

Electric Utility Operations

Electric margins increased $13.4 million, or 4.0%, due primarily to increased sales volumes and decreased coal costs which were partially offset by a 2.6% Wisconsin retail rate reduction effective January 1, 1995.

Electric operating revenues increased $8.2 million, or 1.7%. Electric revenues were higher due to a 4.0% increase in kilowatt-hour ("kWh") sales. This was partially offset by a 2.6% decrease in Wisconsin retail rates that took effect on January 1, 1995. Residential kWh sales and commercial and industrial kWh sales increased 5.9% and 4.9%, respectively, due to warmer summer weather and customer growth. Wholesale kWh sales decreased .4% due primarily to lower demand by WPSC's largest wholesale customer.

Electric fuels and purchases decreased $5.2 million, or 3.5%. Coal-related costs decreased $12.1 million, or 11.4%, due to burning less expensive low sulfur coal. However, this was partially offset by increased coal-fired generation expenses of $4.8 million, or 5.4%, and higher purchased power expense of $1.0 million, or 2.5%, due to warmer weather and increased plant outages resulting from maintenance at certain plants.

Gas Utility Operations

Gas margins increased $2.7 million, or 4.9%, due to customer growth at WPSC and colder weather.

Gas operating revenues decreased $7.4 million, or 4.0%, due to lower gas costs.

Gas purchased for resale showed a net decrease of $10.1 million, or 8.0%, due to lower gas costs.

Non-Regulated Operations

Non-regulated energy and other operating revenues increased $45.2 million, or 414.2%, due to increased sales at ESI and increased consulting, construction, and investment revenue of $.9 million from ESI and PDI.

Non-regulated energy cost of sales increased $43.3 million or 406.3% due to increased gas purchases at ESI.

Other Expenses

Other operating expenses increased $5.5 million, or 3.7%. The majority of this increase is attributable to increased operating expenses at ESI and PDI.

Depreciation and decommissioning expense increased $9.2 million or 16.4%. There were two primary reasons for this increase. The first factor was an increase in decommissioning funding of $5.0 million that was reflected in customer rates which became effective January 1, 1995. The second factor was additional decommissioning expense recorded to offset a $1.1 million gain on the decommissioning portfolio discussed below and higher trust earnings of $2.4 million.

There were three significant non-recurring items impacting other income in 1995. First, a pretax gain of $1.6 million was realized on the decommissioning portfolio from the sale of certain investments. Second, insurance proceeds of $1.2 million were received as the result of the death of a retired WPSC executive. Third, these gains were partially offset by a $2.7 million loss resulting from cancellation of the Rhinelander Energy Center project.

BALANCE SHEET
1996 Compared to 1995

Nuclear decommissioning trusts increased $18.5 million due to continued funding and favorable investment returns. Customer receivables and accounts payable increased $27.7 million and $29.0 million, respectively, primarily as a result of business growth at ESI. Gas in storage increased $9.9 million as a result of an increase in the cost of gas at both WPSC and ESI. Regulatory assets decreased $14.2 million due to amortization of deferred conservation expenses and final amortization and recovery of the retail portion of deferred coal contract buyouts. Net non-utility and non-regulated plant increased $16.4 million due to increased non-utility assets at WPSC and the 1996 purchase of a merchant generating facility by PDI. Investments and other assets increased $4.7 million as a result of increased prepaid pension assets.

Short-term notes payable and commercial paper increased $11.6 million and $19.9 million, respectively, due to increased operational cash needs at ESI and refinancing $6.9 million of WPSC's First Mortgage Bonds, 8.80% Series, due in 2021, with short-term borrowings. Gas refunds decreased $6.2 million as WPSC has returned the majority of these refunds to its customers.

Other long-term liabilities increased $18.3 million due to reduced funding of the post-retirement medical liability and increased customer advances for construction at WPSC. In connection with its 1996 purchase of the Stoneman Power Plant, PDI recorded a long-term liability to the seller.

FINANCIAL CONDITION - WPSC

WPSC requires large investments in capital assets used to deliver electric and gas services. As a result, most of the Company's capital requirements relate to WPSC's construction expenditures. WPSC maintains good liquidity levels and a financial condition considered to be strong by analysts. Internally-generated funds closely approximate the utility's cash requirements. No external funding difficulties are anticipated. Pre-tax interest coverage was 4.36 times for the year ended December 31, 1996. WPSC's bond ratings are AA+ (Standard & Poor's), Aa2 (Moody's), and AA+ (Duff & Phelps).

WPSC is restricted by a PSCW order from paying normal common stock dividends of more than 109% of the previous year's common stock dividends without PSCW approval. Also, Wisconsin law prohibits WPSC from making loans to the Company and its subsidiaries and from guaranteeing their obligations. A special common stock dividend of $10 million was paid by WPSC to the Company in January 1997. The special dividend allows WPSC's average equity capitalization ratio to remain at approximately 54%, the level approved by the PSCW for ratemaking.

Anticipated construction expenditures for WPSC are $74.0 million, $110.0 million, and $74.7 million for 1997, 1998, and 1999, respectively. The 1997 expenditures include $43.0 million for electric construction, $8.0 million for nuclear fuel, $16.0 million for gas construction, and $7.0 million for other construction. Included in these expenditures is $36.7 million for WPSC's share of the Kewaunee steam generator replacement.

Anticipated investment expenditures for tbe non-regulated subsidiaries could be as high as $7.0 million, $68.0 million, and $64.0 million for 1997, 1998, and 1999, respectively.

Although the Company has no plans for permanent financing in 1997, up to $150.0 million of bonds and debentures and $100.0 million of common stock sales may be necessary during 1998 and 1999 to finance WPSC's expenditures, maturing bonds, and currently forecasted non-regulated projects.

In the second quarter of 1996, WPSC repurchased $6.9 million of First Mortgage Bonds, 8.80% Series, due in 2021. This repurchase was funded through short-term borrowings.

In early 1996, WPS Leasing, Inc., a subsidiary of WPSC, purchased an additional unit train for approximately $8.9 million. This purchase was partially funded with a long-term note from the Company. As of December 31, 1996, the loan balance was $8.6 million and it carried an interest rate of 7.35%.

Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of," became effective in March 1995. This statement imposes a stricter criterion for regulatory assets by requiring that such assets be probable of future recovery at each balance sheet date. The Company adopted this standard on January 1, 1996. The adoption of this statement did not have a material impact on the financial position or results of operations based on the current regulatory structure. SFAS No. 121 may impact the Company in the future as competitive factors influence wholesale and retail pricing in the electric and gas industries and as regulatory policy regarding recovery of stranded investment is developed.

SFAS No. 123, "Accounting for Stock-Based Compensation," became effective in 1996. This statement permits, but does not require, companies to change their accounting for stock-based compensation. The statement also requires additional disclosures. The Company bas adopted only the disclosure provision of the statement and currently does not provide significant stock-based compensation.

Plans to construct the Rhinelander Energy Center were cancelled in 1995. As a result of this cancellation, WPSC signed a 25-year agreement in November 1995 to purchase power from Polsky Energy Corporation ("Polsky"), an independent power producer proposing to build a plant adjacent to the Nicolet Paper Company mill in De Pere, Wisconsin. Polsky is in the second stage of a two-stage Certificate of Public Convenience and Necessity ("CPCN") permitting process prescribed by the PSCW. Construction of the Polsky project is contingent upon a PSCW determination in stage two of the CPCN process that WPSC will need the electric capacity which would be provided by the proposed plant. A recent WPSC load forecast suggests the capacity may not be needed. A final decision is expected in 1997. If the PSCW approves the Polsky project, it will be accounted for as a capitalized lease. This would result in the recording of a plant asset of approximately $110.0 million, witb an offsetting amount of long-term debt.

In 1996, WPSC entered into a competitively-priced contract with a new wholesale customer to provide fixed price power over a ten-year period. The PSCW did not agree with establishing contract pricing based on anything other than fully allocated costs. Subsequently,

WPSC entered into an arrangement with an outside party to fulfill most of the customer's requirements for this contract and thereby mitigate any regulatory exposure. The PSCW did not recognize the subsequent agreement and, as part of the rate decision which will become effective in 1997, has assumed full cost allocation pricing that ignores the outside party's sales to the customer when determining new Wisconsin retail rates. If the PSCW continues to take this position, the impact over the next 10 years could be a reduction in Wisconsin retail revenues of up to a maximum of $12.0 million. Management does not agree with the PSCW decision and plans to work with the PSCW to demonstrate that the PSCW method of allocating costs for this wholesale customer should be changed so that there is no negative impact on Wisconsin retail revenues.

TRENDS

WPSC follows SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," and its financial statements reflect the effects of the different ratemaking principles followed by the various jurisdictions regulating the utility. These include the PSCW, 91% of revenues; the Michigan Public Service Commission ("MPSC"), 2% of revenues; and the Federal Energy Regulatory Commission ("FERC"), 7% of revenues. In addition, Kewaunee is regulated by the Nuclear Regulatory Commission ("NRC"). Environmental matters are primarily governed by the Environmental Protection Agency and the Wisconsin Department of Natural Resources.

In 1996, the Company received "marketer" status from the FERC which gives WPSC, ESI, and PDI the flexibility to sell electric energy and capacity to wholesale customers at market rates.

The single most important development in the electric utility industry is the continuing trend toward increased competition brought about by a combination of new legislation, changing regulation, new technology, and market forces. Transmission access, mandated by the Energy Policy Act of 1992, and increased competition in the wholesale power segment of the business have put pressure on profit margins. Certain segments of the industry could become deregulated. Low-cost energy producers, such as WPSC, are in a position to benefit from competitive markets.

In April 1996, the FERC issued Order No. 888 which addresses both open access and stranded cost issues. A second rule, Order No. 889, also issued in April 1996, requires utilities to establish electronic systems to share information about available transmission capacity and establishes standards of conduct.

As a result of these orders, WPSC has developed and implemented strategies to deal with transmission access and potential stranded investment. WPSC has developed a separate internal transmission group to fulfill the FERC's requirement for functional unbundling. WPSC has also filed comparable transmission access tariffs which have been accepted for use, subject to refund. Comparable transmission access tariffs, as defined by the FERC, provide transmission access to other parties on the same terms and conditions that WPSC provides transmission service to itself. WPSC is participating in the Midwest Independent System Operator ("ISO") initiative, a group of 23 Midwestern utilities who are designing an ISO concept for transmission service in the region.

In December 1995, the PSCW outlined its plan for restructuring the electric industry in Wisconsin. The plan includes 32 steps in a 5-year process concluding with retail competition by the year 2001. Certain aspects of the plan will require state legislative changes.

The Wisconsin Legislature is expected to consider electric restructuring in 1997. In the meantime, the PSCW, utility companies, various advocacy groups, and utility customers will continue to dialogue in an effort to reach consensus on when and how to comply with the PSCW introduced plan for restructuring the electric industry.

Changes in the regulation of the natural gas business on the federal level prompted the PSCW to examine the future regulation of the natural gas distribution business in Wisconsin. In 1996, the PSCW issued orders (1) defining the level of interruption testing required for interruptible gas customers, (2) modifying the presently required PGAC which allows total recovery of gas supply and capacity costs to allow for other gas supply and capacity cost recovery mechanisms, (3) determining whether utilities and their affiliated marketers should be required to have separate resources for gas purchases and sales, or if allocation of common resources between these two entities is adequate, and (4) defining a generic set of Standards of Conduct for the state's utilities and their affiliates. The PSCW also opened a docket to determine the definition of a competitive market, as well as the steps necessary to mitigate barriers to competition in Wisconsin.

WPSC has historically recovered gas costs through a PGAC. The PSCW is examining the appropriateness of the PGAC and issued an order in November 1996 concluding that the majority of state gas utilities must use either an incentive gas cost recovery mechanism or a modified PGAC mechanism. WPSC is evaluating its options and will adjust its gas cost recovery mechanism accordingly.

The MPSC initiated a similar process to address gas industry restructuring by forming a committee of interested parties to consider changes in the gas cost recovery mechanism, service unbundling, curtailment issues, and storage issues. The MPSC issued a final document indicating consensus on the identification of the issues but not on the resolution of the issues.

As a result of the changes occurring in the electric industry, several mergers have been announced in the region and are in various stages of the regulatory approval process.

WPSC is currently investigating the need for environmental cleanup of eight manufactured gas plant sites which it previously operated. WPSC engaged an environmental consultant to develop cleanup cost estimates for the seven sites at which either a Phase I or Phase II site investigation had been completed. The consultant has yet to perform a detailed investigation of the eighth site, and comparable information on this site is not available.

The range of future investigation and cleanup costs for all eight sites is estimated to be from $34.7 million to $41.7 million. Minimal amounts have been spent to date. Remediation expenditures would be made over the next 32 years. WPSC has recorded a liability with an offsetting regulatory asset (deferred charge) which represents WPSC's current estimate of cleanup costs for all eight sites. Based on discussions with regulators and a rate order in Wisconsin, management believes that these costs (net of any insurance recoveries), but not the carrying costs associated with the expenditures, will be recoverable in future customer rates.

As remedial feasibility studies and initial remedial actions are completed, these estimates may be adjusted and these adjustments could be significant. Other factors that can affect these estimates are changes in remedial technology and regulatory requirements. The estimates presented above do not take into consideration any recovery from insurance carriers or other third parties which WPSC has obtained or is pursuing. Insurance recoveries are deferred as an offset to the regulatory asset. Due to the regulatory treatment, neither adjustments to the estimated liability nor insurance recoveries have an immediate impact on net income. Currently, WPSC has insurance settlement agreements of approximately $12.0 million which it expects to receive in 1997. The PSCW has authorized recovery of $225,000 per year for gas site cleanup effective with the rate order which is expected to become effective in February 1997.

In addition, WPSC has been notified that it is a minor participant in a number of waste disposal site cleanup efforts. However, no significant cost are anticipated to clean up these sites.

Federal Clean Air Act Amendments ("the Act") were enacted in 1990. The Act establishes stringent sulfur dioxide and nitrogen oxide emission limitations. Wisconsin previously had enacted laws to limit sulfur emissions. WPSC currently meets the sulfur dioxide emission standards scheduled to take effect in the year 2000 as a result of switching to lower-sulfur fuels. However, some additional capital expenditures related to nitrogen oxide emissions will be required to upgrade existing equipment and to monitor emission levels. These expenditures are estimated to be in the range from $3.0 million to $5.0 million between 1998 and 1999.

In 1995, WPSC initiated a new demand-side management ("DSM") program which involves loans and shared savings. The new program provides that those who participate and directly benefit from energy-saving programs will pay for the cost of the programs. Prior to 1995, DSM expenditures were recovered from all customers through their electric and gas retail rates. As of December 31, 1996, WPSC had $39.4 million of deferred DSM expenditures which will be recovered in future customer rates.

Kewaunee was taken out of service on September 21, 1996 for scheduled refueling and maintenance. Inspection of previously repaired steam generator tubes disclosed more extensive tube degradation than had been anticipated. Repair of the tubes using laser welding was undertaken. As of December 31, 1996, it was anticipated that repairs would be completed sometime during the first quarter of 1997. Welding was completed late in January 1997. Subsequent testing indicated that repair of a number of the tubes was not effective. The return of Kewaunee to service will be delayed while additional repair efforts are undertaken. NRC approval of the process is needed to restart the plant. It is unknown bow long steam generator repairs and NRC approval of the steam generator repair process will take. It is uncertain when Kewaunee will return to service with repaired steam generators. If for any reason the steam generators cannot be repaired, the ability of the Kewaunee owners to reach consensus on steam generator replacement and to secure the approval of the PSCW for such replacement would become critical factors affecting the duration of the current outage because, in that case, replacement of the steam generators would be essential for the continued operation of Kewaunee. The elapsed time from placing a firm steam generator order to receiving delivery of replacement steam generators is 22 months.

Even if the repairs are successful and the plant restarts, the tube repairs are expected to last only a few years. Therefore, Kewaunee would be retired significantly prior to the expiration of the operating license in 2013 unless the steam generators are replaced.

If Kewaunee returns to service, it would be shut down at mid-cycle (within one year after being returned to service) for tube inspection. If significant further tube degradation would be discovered during the mid-cycle shutdown, the NRC may not permit Kewaunee to continue to operate without replacement of the steam generators. Since the earliest date by which the steam generators could be replaced is sometime in 1999, a mid-cycle shutdown and subsequent requirement that the steam generators be replaced before startup could result in an extended outage.

An extended Kewaunee outage subjects WPSC to the possibility of increased fuel and purchased power costs. WPSC could incur up to $1.8 million in the first quarter of 1997 for its share of Kewaunee steam generator tube repair costs. In addition, the cost to use other generating units or to purchase replacement power is expected to exceed the cost of Kewaunee generated power by approximately $65,000 a day. The effectiveness, timing, and cost of repairs and the cost of replacement power are subject to a number of uncertainties including the duration of the outage. WPSC anticipates receipt of a rate order in the Wisconsin jurisdiction effective in February 1997. The order is expected to provide a $2.0 million per month surcharge on customer bills to cover the additional costs to be incurred by WPSC for acquiring power from other sources while Kewaunee remains out of service. WPSC anticipates that it will have sufficient capacity to meet its customers' energy requirements during the outage.

The joint owners of Kewaunee continue to evaluate the economics of whether or not to invest approximately $89.0 million to replace the steam generators. Replacement must also be approved by the PSCW. WPSC favors replacing the steam generators, while the other two joint owners do not favor replacement. WPSC requested and was granted regulatory approval to accelerate the recovery of the Wisconsin retail portion of the current undepreciated Kewaunee plant balance and the unfunded estimated costs to decommission the plant over a six-year period beginning in 1997.

If Kewaunee is retired early, WPSC believes it would be granted regulatory approval to recover from customers the net carrying amount and the estimated costs to decommission Kewaunee in excess of the trust assets. At December 31, 1996, the net carrying amount was approximately $49.5 million. The current cost of WPSC's share of the estimated costs to decommission Kewaunee, assuming early retirement, exceeds the trust assets at December 31, 1996 by $63.4 million. If Kewaunee is retired early, WPSC believes tbat it will be able to meet its commitments to supply energy to its customers through either (1) possible investments in new generating units, (2) contracting for additional purchased power, or (3) changes in commitments to serve its customers if the generation business is deregnlated. If WPSC increases its investment in Kewaunee and the steam generators are replaced, WPSC believes Kewaunee costs would be recoverable in a competitive generation market.

WPSC anticipates receipt of a rate order in the Wisconsin jurisdiction effective in February 1997. The impact is approximately a $35.5 million decrease in electric revenues and a $5.7 million increase in gas revenues on an annual basis. The new rates will be effective for 1997 and 1998. A brief summary of the more significant rate case decisions and their estimated impacts follows.

WPSC will be granted a $2.0 million per month surcharge on customer bills to cover the additional costs to be incurred by WPSC for acquiring power from other sources while Kewaunee remains out of service.

The PSCW is also expected to reaffirm its decision to allow WPSC to accelerate the funding of decommissioning and the recovery of investment for Kewaunee assuming a year 2002 shutdown. The total dollar impact of this acceleration results in an $11.1 million annual increase in WPSC's customer rates.

WPSC will be granted an 11.8% return on equity for 1997 and 1998. The PSCW has also agreed to allow WPSC to file a 1998 rate case should WPSC experience severe detrimental financial conditions as a result of the constraints placed on it by the 1997 rate order.

IMPACT DF INFLATION

The Company's 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, and quantifiable statement of financial results; but they do not evaluate the impact of inflation. Under rate treatment prescribed by utility regulatory commissions, WPSC's 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, in these forecasts, WPSC is only allowed to recover the historic cost of plant via depreciation.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Year Ended December 31 (Thousands, except share amounts)	*1996*	*1995*	*1994*
Operating revenues			
Electric utility	$490,506	$489,000	$480,816
Gas utility	211,357	174,693	182,058
Non-regulated energy and other	156,391	56,155	10,921
Total operating revenues	858,254	719,848	673,795
Operating expenses			
Electric production fuels	105,418	104,858	111,011
Purchased power	37,737	39,593	38,631
Gas purchased for resale	149,388	116,253	126,351
Non-regulated energy cost of sales	157,612	53,983	10,663
Other operating expenses	168,905	154,445	148,917
Maintenance	48,806	50,761	49,983
Depreciation and decommissioning	65,178	65,627	56,365
Taxes other than income	26,868	25,921	26,063
Total operating expenses	759,912	611,441	567,984
Operating income	98,342	108,407	105,811
Other income			
Allowance for equity funds used during construction	139	170	108
Other, net	1,395	6,080	4,473
Total other income	1,534	6,250	4,581
Income before interest expense	99,876	114,657	110,392
Interest on long-term debt	21,532	22,859	23,407
Other interest	3,596	2,604	1,796
Allowance for borrowed funds used during construction	(128)	(68)	(139)
Total interest expense	25,000	25,395	25,064
Income before income taxes	74,876	89,262	85,328
Income taxes	24,358	30,808	29,526
Minority interest	(348)	-	-
Preferred stock dividends of subsidiary	3,111	3,111	3,111
Net income	47,755	55,343	52,691
Retained earnings at beginning of year	308,965	297,592	287,915
Cash dividend on common stock	(44,926)	(43,970)	(43,014)
Retained earnings at end of year	$311,794	$308,965	$297,592
Average shares of common stock	23,891	23,897	23,897
Earnings per average share of common stock	$2.00	$2.32	$2.21
Dividend per share of common stock	1.88	1.84	1.80

The accompanying notes are an integral part of these statements.

Assets

At December 31 (Thousands)	*1996*	*1995*
Utility plant		
Electric	$1,474,104	$1,441,126
Gas	240,791	228,346
Total	1,714,895	1,669,472
Less - Accumulated depreciation and decommissioning	952,296	905,427
Total	762,599	764,045
Nuclear decommissioning trusts	100,570	82,109
Construction in progress	10,301	8,463
Nuclear fuel, less accumulated amortization	19,381	14,275
Net utility plant	892,851	868,892
Current assets		
Cash and equivalents	5,978	6,533
Customer and other receivables, net of reserves	106,967	79,301
Accrued utility revenues	35,386	37,586
Fossil fuel, at average cost	8,224	8,701
Gas in storage, at average cost	19,987	10,076
Materials and supplies, at average cost	19,944	20,312
Prepayments and other	22,658	23,576
Total current assets	219,144	186,085
Regulatory assets	96,920	111,101
Net non-utility and non-regulated plant	19,738	3,307
Investments and other assets	102,011	97,358
Total	$1,330,664	$1,266,743

Capitalization and Liabilities

At December 31 (Thousands)	*1996*	*1995*
Capitalization		
Common stock equity	$ 467,524	$ 463,441
Preferred stock of subsidiary with no mandatory redemption	51,200	51,200
Long-term debt	305,788	306,590
Total capitalization	824,512	821,231
Current liabilities		
Notes payable	26,600	15,000
Commercial paper	31,350	11,500
Accounts payable	96,531	67,483
Accrued taxes	1,350	1,744
Accrued interest	8,134	8,378
Gas refunds	704	6,879
Other	12,067	14,668
Total current liabilities	176,736	125,652
Long-term liabilities and deferred credits		
Accumulated deferred income taxes	130,208	135,958
Accumulated deferred investment tax credits	28,669	30,447
Regulatory liabilities	48,870	49,924
Environmental remediation liabilities	41,697	41,697
Other long-term liabilities	80,173	61,834
Total long-term liabilities and deferred credits	329,617	319,860
Minority interest	(201)	-
Commitments and contingencies *(See Note 7)*		
Total	$1,330,664	$1,266,743

The accompanying notes are an integral part of these statements.

At December 31 (Thousands, except share amounts)		*1996*	*1995*
Common stock equity			
Common stock, $1 par value, 100,000,000 shares authorized; 23,896,962 shares outstanding		$ 23,897	$ 23,897
Premium on capital stock		145,021	145,021
Retained earnings		311,794	308,965
Shares in deferred compensation trust, 14,223 shares at an average cost of $31.16 per share		(443)	-
ESOP loan guarantees		(12,745)	(16,346)
Other		-	1,904
Total common stock equity		467,524	463,441
Preferred stock – Wisconsin Public Service Corporation			
Cumulative, $100 par value, 1,000,000 shares authorized; with no mandatory redemption			
Series	Shares Outstanding		
5.00%	132,000	13,200	13,200
5.04%	30,000	3,000	3,000
5.08%	50,000	5,000	5,000
6.76%	150,000	15,000	15,000
6.88%	150,000	15,000	15,000
Total preferred stock		51,200	51,200
Long-term debt			
First mortgage bonds – Wisconsin Public Service Corporation			
Series	Year Due		
5¼%	1998	50,000	50,000
7.30%	2002	50,000	50,000
6.80%	2003	50,000	50,000
6⅛%	2005	9,075	9,075
6.90%	2013	22,000	22,000
8.80%	2021	53,100	60,000
7⅛%	2023	50,000	50,000
Total		284,175	291,075
Unamortized discount and premium on bonds, net		(978)	(1,066)
Total first mortgage bonds		283,197	290,009
ESOP loan guarantees		12,745	16,346
Notes payable to bank, secured by non-regulated plant		9,581	-
Other long-term debt		265	235
Total long-term debt		305,788	306,590
Total capitalization		$824,512	$821,231

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 (Thousands)	*1996*	*1995*	*1994*
Cash flows from operating activities			
Net income	$ 47,755	$ 55,343	$ 52,691
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and decommissioning	65,178	65,627	56,365
Amortization of nuclear fuel and other	28,691	33,499	28,811
Deferred income taxes	(7,715)	319	(4,562)
Investment tax credit restored	(1,778)	(1,725)	(2,038)
Allowance for equity funds used during construction	(139)	(170)	(108)
Pension income	(12,413)	(11,678)	(10,808)
Post-retirement funding	7,150	6,917	7,036
Deferred demand-side management expenditures	(6,250)	(8,595)	(9,659)
Other, net	8,146	7,163	(4,735)
Changes in			
Customer and other receivables	(27,666)	(19,272)	6,482
Accrued utility revenues	2,200	(8,766)	8,494
Fossil fuel inventory	477	1,804	(297)
Gas in storage	(9,911)	5,711	(4,098)
Accounts payable	29,048	840	2,530
Accrued taxes	(394)	592	(2,114)
Gas refunds	(6,175)	4,926	138
Net cash from operating activities	116,204	132,535	124,128
Cash flows from (used for) investing activities			
Construction of utility plant and nuclear fuel expenditures	(84,750)	(80,226)	(68,819)
Purchase of other property and equipment	(16,431)	(1,089)	(97)
Decommissioning funding	(8,978)	(8,181)	(7,448)
Purchase of investments and acquisitions	(728)	(10,217)	-
Other	(349)	514	2,526
Net cash from (used for) investing activities	(111,236)	(99,199)	(73,838)
Cash flows from (used for) financing activities			
Redemption and maturities of first mortgage bonds	(6,900)	-	(1,000)
Change in notes payable	11,600	5,000	-
Change in other long-term debt	15,296	-	-
Change in commercial paper	19,850	(1,000)	1,500
Cash dividends on common stock	(44,926)	(43,970)	(43,014)
Purchase of deferred compensation stock	(443)	-	-
Net cash from (used for) financing activities	(5,523)	(39,970)	(42,514)
Net increase (decrease) in cash and equivalents	(555)	(6,634)	7,776
Cash and equivalents at beginning of year	6,533	13,167	5,391
Cash and equivalents at end of year	$ 5,978	$ 6,533	$ 13,167
Cash paid during year for			
Interest, less amount capitalized	$ 21,983	$ 21,255	$ 20,693
Income taxes	31,735	34,300	40,333
Preferred stock dividends of subsidiary	3,111	3,111	3,111
Other information			
Construction and nuclear fuel expenditures, including accruals, allowance for funds used during construction, and customer contributions	81,714	73,251	78,286

The accompanying notes are an integral part of these statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations—WPS Resources Corporation (the "Company") is a holding company. Approximately 82% and 95% of the Company's 1996 revenues and assets, respectively, are derived from Wisconsin Public Service Corporation ("WPSC"), an electric and gas utility. The Company's primary business is the supply and distribution of electric power and natural gas in its franchised service territory. The Company also provides electric and gas marketing and energy-related services in non-regulated markets through WPS Energy Services, Inc. ("ESI"). WPS Power Development, Inc. ("PDI") participates in the development of electric generation projects and provides services to the non-regulated electric power generation industry.

The term "utility" refers to regulated activities of WPSC, while the term "non-utility" refers to activities of WPSC which are not regulated. The term "non-regulated" refers to activities other than those of WPSC.

(b) Use of Estimates—The preparation of the Company's financial statements is in conformity with generally accepted accounting principles. Management may make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Acquisitions and Non-Regulated Investments—In the fourth quarter of 1995, ESI acquired interests in a producing gas reserves operation and in a gas marketing operation. The acquisitions have been accounted for under the purchase method of accounting. The price paid in excess of the fair value of identifiable assets acquired for the gas marketing operation is being amortized over a five-year period. During 1996, PDI purchased a two-thirds interest in a 2-unit, 53-megawatt merchant generating facility, the Stoneman Power Plant ("Stoneman").

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

(e) Price Risk Management Activities—To manage the price risk associated with its gas marketing activities, ESI uses financial instruments to hedge the impact of market fluctuations in the price of gas and transportation. Changes in the market value of these financial instruments are deferred until the gain or loss on the hedged item is recognized. ESI also uses financial instruments for trading purposes. These activities are deemed speculative and, therefore, changes in the market value of these financial instruments are recognized as a gain or a loss in the period of change. The market prices used to value these contracts reflect management's best estimate, including closing exchange quotations. The primary financial instruments ESI utilizes in its price risk management activities are exchange traded futures and option contracts used primarily to lock in or cap the purchase price or sales price of the gas commodity at a specified location and basis swaps that are used to mitigate gas price differentials between the location where gas is purchased and the location where gas is sold to the customer.

The financial instruments outstanding at December 31, 1996 expire at various times through November 1997. At December 31, 1996 ESI had outstanding 1,040,000 notional dekatherms of natural gas under futures and option agreements and 835,000 notional dekatherms of natural gas under basis swap agreements.

(f) Utility Plant—Utility plant is stated at the original cost of construction which includes an allowance for funds used during construction ("AFUDC"). Approximately 50% of retail jurisdictional construction work in progress ("CWIP") expenditures are subject to AFUDC using a rate based on WPSC's overall cost of capital. Major new generating facilities earn AFUDC on total CWIP expenditures. For 1996, the AFUDC retail rate was approximately 10.3%.

AFUDC is recorded on wholesale jurisdictional electric CWIP at debt and equity percentages specified in the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts. For 1996, the AFUDC wholesale rate was approximately 5.5%.

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

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

Non-utility property and non-regulated property follow a similar policy except that gains and losses are recognized in connection with retirements.

(h) Depreciation—Straight-line composite depreciation expense is recorded over the estimated useful life of utility property and includes estimated salvage and cost of removal. Rates approved by the Public Service Commission of Wisconsin ("PSCW") on January 1, 1994 remain in effect.

	1996	*1995*	*1994*
Annual composite depreciation rates			
Electric	**3.33%**	3.43%	3.41%
Gas	**3.35%**	3.46%	3.37%

Non-utility property and non-regulated property are depreciated using straight-line depreciation. Most of the assets have depreciation lives ranging from five to ten years. Stoneman is depreciated over 40 years.

Depreciation and nuclear decommissioning costs are accrued over the estimated service life of the Kewaunee Nuclear Power Plant ("Kewaunee"). On January 3, 1997, the PSCW agreed with WPSC's recommendation to accelerate cost recovery of the remaining unrecovered investment in Kewaunee and accelerate funding of Kewaunee decommissioning costs. The PSCW order directs the owners of Kewaunee to develop depreciation and decommissioning estimates based on an expected end of service life of 2002. Prior to 1997, the service life of Kewaunee was estimated to end in 2013, the year its license expires. This decision will result in a significant acceleration of Kewaunee depreciation and decommissioning collections in customer rates for 1997 and future years. Depreciation expense, exclusive of that depreciation expense related to nuclear decommissioning costs, will increase by approximately $3.3 million on an annualized basis.

(i) Impairment—Effective January 1, 1996, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment losses resulting from application of this statement are reported in income in the period in which the recognition criteria are first applied and met. This statement does not have a material impact on the current carrying amount of the Company's assets.

(j) Nuclear Decommissioning—Nuclear decommissioning costs to date have been accrued over the estimated service life of Kewaunee, recovered currently from customers in rates, and deposited in external trusts. Such costs totaled $9.0 million in both 1996 and 1995 and $4.0 million in 1994. As described in note (1)(h), the PSCW has approved the acceleration of Kewaunee depreciation and decommissioning funding. As a result of this acceleration, the amonnt deposited in external trusts will increase to $17.3 million on an annualized basis once this order becomes effective.

Based on the standard cost escalation assumptions required by a July 1994 PSCW order, the undiscounted amount of WPSC's decommissioning costs estimated to be expended between the years 2014 and 2050 is $785.0 million under the funding plans which were effective for 1994 through 1996. Based on the revised funding plan which will become effective in 1997, decommissioning costs estimated to be expended between the years 2003 and 2039 will total $614.0 million. In developing these funding plans, long-term after-tax earnings of approximately 5.5% are assumed. As of December 31, 1996, the accumulated provision for depreciation and decommissioning included accumulated provisions for decommissioning totaling $100.6 million.

WPSC's share of Kewaunee decommissioning is estimated to be $164.0 million in current dollars under the funding plan in effect for 1996 and $172.0 million in current dollars under the funding plan which will go into effect in 1997. Both plans are based on a site-specific study performed in 1992. The current funding plan assumes the immediate dismantlement method of decommissioning commencing after an assumed shutdown in 2013.

As of December 31, 1996, the market value of the external trusts totaled $100.6 million. Unrealized gains, net of tax, in the external trusts are reflected as an increase to the decommissioning reserve, since decommissioning expense will be recognized as the gains are realized, in accordance with regulatory requirements. Depreciation expense includes future decommissioning costs collected in customer rates and an offsetting charge for earnings from the external trusts. Trust earnings totaled $3.0 million, $4.8 million, and $2.4 million for the years ended December 31, 1996, 1995, and 1994, respectively.

(k) Nuclear Fuel—The cost of nuclear fuel is amortized to electric production fuel expense based on the quantity of heat produced for the generation of electric energy by Kewaunee. The costs amortized to electric fuel expense (which assume no salvage values for uranium and plutonium) include an amount for ultimate disposal and are recovered through current customer rates. As required by the Nuclear Waste Policy Act of 1982, a contract has been signed with the Department of Energy ("DOE") for the ultimate storage of the fuel; and quarterly payments, based on generation, are made to the DOE for fuel storage. Interim storage space for spent nuclear fuel is provided at Kewaunee, and expenses associated with this storage are recognized as current operating costs. Currently, there is on-site storage capacity for spent fuel through the year 2013. As of December 31, 1996 and 1995, the accumulated provisions for nuclear fuel totaled $147.7 million and $142.8 million, respectively.

(l) Cash and Equivalents—The Company considers short-term investments with an original maturity of three months or less to be cash equivalents.

(m) Revenue and Customer Receivables—WPSC accrues revenues related to electric and gas service, including estimated amounts for service rendered but not billed.

Automatic fuel adjustment clauses are used for FERC wholesale-electric and Michigan Public Service Commission ("MPSC") retail-electric portions of WPSC'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 forecast year. If WPSC's actual fuel costs fall outside this range, a hearing may be held and an adjustment to future rates may result. WPSC has a purchased-gas-adjustment clause ("PGAC") which allows it to pass on to all classes of gas customers changes in the cost of gas purchased from its suppliers, subject to PSCW and MPSC review. The continued use of a PGAC for all Wisconsin utilities is currently under review by the PSCW.

WPSC is required to provide service and grant credit to customers within its defined service territory and is precluded from discontinuing service to residential customers during certain periods of the year. WPSC continually reviews its customers' credit-worthiness and obtains deposits or refunds deposits accordingly. WPSC is permitted to recover bad debts in utility rates.

Approximately 11% of WPSC's total revenues are from companies in the paper products industry.

(n) Regulatory Assets and Liabilities—WPSC is subject to the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." Regulatory assets represent probable future revenue associated with certain incurred costs which will be recovered from customers through the ratemaking process. Regulatory liabilities represent costs previously collected that are refundable in future customer rates. The following regulatory assets and liabilities were reflected in the Consolidated Balance Sheets as of December 31:

(Thousands)	*1996*	*1995*
Regulatory assets		
Demand-side management expenditures	**$39,355**	$ 44,105
Environmental remediation costs	**43,062**	42,606
Coal and rail contract buy-out costs	**2,404**	10,208
Debt refinancing costs	**2,919**	3,414
Enrichment facility fee	**5,979**	6,353
Other	**3,201**	4,415
Total	**$96,920**	$111,101
Regulatory liabilities		
Income tax related items	**$30,056**	$ 30,874
Pensions	**4,885**	9,770
Conservation costs	**9,101**	7,033
Other	**4,828**	2,247
Total	**$48,870**	$ 49,924

As of December 31, 1996, the majority of WPSC's regulatory assets are being recovered through rates charged to customers over periods ranging from two to ten years.

Based on prior and current rate treatment of such costs, management believes it is probable that WPSC will continue to recover from ratepayers the regulatory assets described above.

See notes (1)(p) and (1)(q) for specific discussion of pension and deferred tax regulatory liabilities, and note 7 for discussion of environmental remediation deferred costs.

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

(p) Employee Benefit Plans—WPSC has non-contributory retirement plans covering substantially all employees under which annual contributions may be made to an irrevocable trust established to provide retired employees with a monthly payment if conditions relating to age and length of service have been met. The plans are fully funded, and no contributions were made in 1996, 1995, or 1994. WPSC recovers pension costs in customer rates under SFAS No. 87, "Employers' Acconnting for Pensions," and is returning to ratepayers through 1998 the amounts previously recovered from customers in excess of SFAS No. 87 costs.

The following table sets forth the plans' funded status and expense (income).

As of December 31 (Thousands, except for percentages)	*1996*	*1995*	*1994*
Vested benefit obligation	$(189,097)	$(177,490)	$(162,435)
Non-vested benefit obligation	(10,213)	(8,980)	(7,868)
Total actuarial present value of accumulated benefit obligation	$(199,310)	$(186,470)	$(170,303)
Projected benefit obligation for service rendered to date	$(252,268)	$(255,188)	$(231,134)
Plan assets at fair value	429,948	391,070	329,424
Plan assets in excess of projected benefit obligation	177,680	135,882	98,290
Unrecognized net gain	(121,066)	(84,098)	(47,670)
Unrecognized prior service cost	7,254	8,020	6,297
Unrecognized net asset	(19,991)	(23,455)	(26,920)
Prepaid retirement plan cost	$ 43,877	$ 36,349	$ 29,997
The net retirement plan expense (income) includes the following components			
Service cost	$ 6,371	$ 5,888	$ 6,333
Interest cost	19,097	18,211	17,308
Actual return on plan assets	(48,244)	(73,242)	2,555
Net amortization and deferral	15,248	42,791	(31,678)
Regulatory adjustment	(4,885)	(5,326)	(5,326)
Net retirement plan (income)	$ (12,413)	$ (11,678)	$ (10,808)
The assumed rates for calculations used in the above tables were			
Expected long-term return on investments	8.50%	9.00%	9.00%
Average rate for future salary increases	5.50%	6.25%	6.25%
Discount rate to compute projected benefit obligation	7.75%	7.75%	8.00%

WPSC also offers medical, dental, and life insurance benefits to employees, retirees, and their dependents. The expenses for active employees are expensed as incurred.

WPSC accounts for retiree benefits using SFAS No. 106, "Employers' Accounting for Post-Retirement Benefits Other Than Pensions," which requires the cost of post-retirement benefits for employees to be accrued as expense over the period in which the employee renders service and becomes eligible to receive benefits. WPSC elected to recognize the transition obligation for current and future retirees over 20 years beginning in 1993.

WPSC funds amounts to irrevocable trusts as allowed for income tax purposes. These funded amounts have been expensed and recovered through customer rates. The non-administrative plan is a collectively bargained plan and, therefore, is tax exempt. The investments in the trust covering administrative employees are subject to federal unrelated business income taxes at a 39.6% tax rate.

The table below sets forth the plans' accrued post-retirement benefit obligation ("APBO") and the expense provisions.

(Thousands)	*1996*	*1995*	*1994*
APBO attributable to			
Retirees and dependents	$ (43,746)	$ (46,681)	$ (53,060)
Fully eligible active plan participants	(5,273)	(5,983)	(5,559)
Other active plan participants	(52,112)	(58,611)	(68,084)
Total APBO	(101,131)	(111,275)	(126,703)
Fair value of plan assets	103,748	91,038	70,460
APBO in excess of plan assets	2,617	(20,237)	(56,243)
Unrecognized net (gain) loss	(66,045)	(38,371)	63
Unrecognized transition obligation	38,453	40,887	43,321
Unrecognized prior service cost	(1,897)	(2,027)	-
Accrued post-retirement benefit obligation	$ (26,872)	$ (19,748)	$ (12,859)
Service cost	$ 3,613	$ 4,392	$ 4,853
Interest cost	8,488	9,833	8,830
Actual return on plan assets	(18,136)	(20,918)	(946)
Net amortization and deferral	13,726	17,809	(1,774)
Post-retirement benefit cost	$ 7,691	$ 11,116	$ 10,963

The assumed before tax expected long-term return on investments and the discount rate used to measure the APBO under SFAS No. 106 are consistent with rates used to calculate the pension plans' funded status and expense under SFAS No. 87. Only the administrative plan is subject to federal income taxes which are reflected in the expense and funding status. The assumed health care cost trend rates for 1997 are 8.0% for medical and 7.5% for dental, both decreasing to 5.0% by the year 2006. Increasing each of the medical and dental cost trend rates by 1.0% in each year would increase the total APBO as of December 31, 1996 by $17.1 million and the total net periodic post-retirement benefit cost for the year then ended by $2.1 million.

Concurrent with a rate order which was effective January 1, 1994, WPSC adopted SFAS No. 112, "Employers' Accounting for Post-Employment Benefits," which establishes accounting and reporting standards for post-employment benefits other than those covered by SFAS Nos. 87 and 106. In connection therewith, WPSC expensed in 1994 the transition obligation of $1.8 million and recovered this cost through its customer rates.

WPSC has a leveraged Employee Stock Ownership Plan and Trust ("ESOP") that held 2,165,916 shares of Company common stock (market value of approximately $61.7 million) at December 31, 1996. At that date, the ESOP also had one loan guaranteed by WPSC and secured by common stock.

Principal and interest on the loan are to be paid through WPSC contributions and through dividends on Company common stock held by the ESOP. Shares in the ESOP are allocated to participants as the loan is repaid. Tax benefits from dividends paid to the ESOP are recognized as a reduction in WPSC's cost of providing service to customers. The PSCW has allowed WPSC to include in cost of service an additional employer contribution to the plan. The net effect of the tax benefits and of the employee contribution is an approximately equal sharing of benefits of the program between customers and employees.

(q) Income Taxes—The Company accounts for income taxes using the liability method as prescribed by SFAS No. 109, "Accounting for Income Taxes." Under the liability method, deferred income tax liabilities are established for all temporary differences in the book and tax bases of assets and liabilities based upon enacted tax laws and rates applicable to the periods in which the taxes become payable. Excess deferred income taxes resulted from taxes provided in prior years at rates greater than current rates, and are being refunded to customers prospectively. The net regulatory liability totaled $30.0 million as of December 31, 1996.

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

(Thousands, except for percentages)	*1996*		*1995*		*1994*	
	Rate	*Amount*	*Rate*	*Amount*	*Rate*	*Amount*
Statutory federal income tax	35.0%	$26,329	35.0%	$31,242	35.0%	$29,865
State income taxes, net	5.7	4,275	5.4	4,850	6.2	5,232
Investment tax credit restored	(2.4)	(1,778)	(1.9)	(1,725)	(2.4)	(2,038)
Rate difference on reversal of income tax temporary differences	(2.1)	(1,579)	(1.9)	(1,656)	(1.6)	(1,344)
Dividends paid to ESOP	(1.9)	(1,424)	(1.6)	(1,444)	(1.7)	(1,445)
Other differences, net	(2.0)	(1,465)	(0.5)	(459)	(0.9)	(744)
Effective income tax	32.3%	$24,358	34.5%	$30,808	34.6%	$29,526
Current provision						
Federal		$26,122		$25,628		$28,681
State		7,729		6,586		7,445
Total current provision		33,851		32,214		36,126
Deferred provision (benefit)		(7,715)		319		(4,562)
Investment tax credit restored, net		(1,778)		(1,725)		(2,038)
Total income tax expense		$24,358		$30,808		$29,526

As of December 31, 1996 and 1995, the Company had the following significant temporary differences that created deferred tax assets and liabilities:

(Thousands)	*1996*	*1995*
Deferred tax assets		
Plant related	$ 55,040	$ 51,362
Customer advances	8,232	7,216
Post-retirement medical and dental	10,844	7,974
Other	14,752	16,086
Total	88,868	82,638
Deferred tax liabilities		
Plant related	179,573	172,304
Demand-side management expenditures	15,540	17,415
Pension	13,676	11,719
Other	10,287	17,158
Total	219,076	218,596
Net deferred tax liabilities	$130,208	$135,958

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

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

NOTE 2 SHORT-TERM DEBT AND LINES OF CREDIT

To provide short-term borrowing flexibility and security for commercial paper outstanding, the Company and its subsidiaries maintain bank lines of credit. Most of these lines of credit require a fee.

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

(Thousands, except for percentages)	*1996*	*1995*	*1994*
As of end of year			
Commercial paper outstanding	**$31,350**	$11,500	$12,500
Discount rate on outstanding commercial paper	**5.73%**	5.65%	5.95%
Notes payable outstanding	**$26,600**	$15,000	$10,000
Interest rate on notes payable	**5.81%**	5.77%-6.18%	5.97%
Available lines of credit	**$41,300**	$28,050	$22,870
For the year			
Maximum amount of short-term debt	**$70,250**	$32,500	$26,000
Average amount of short-term debt	**$28,424**	$14,305	$10,844
Average interest rate on short-term debt	**4.89%**	5.97%	4.3%

NOTE 3 JOINTLY-OWNED FACILITIES

Information regarding WPSC's share of major jointly-owned electric generating facilities in service at December 31, 1996 is set forth below.

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

(Thousands, except for percentages)	*Columbia Energy Center*	*Edgewater Unit No. 4*	*Kewaunee*
Ownership	31.8%	31.8%	41.2%
Plant capacity *(Megawatts)*	335.2	104.9	221.0
Utility plant in service	$110,886	$22,064	$132,635
Accumulated depreciation	$ 62,497	$12,602	$ 83,131
In-service date	1975 and 1978	1969	1974

NOTE 4 LONG-TERM DEBT

Substantially all utility plant assets are secured by first mortgage bonds.

In June 1996, WPSC repurchased $6.9 million of the First Mortgage Bonds, 8.80% Series, due in 2021. The repurchase was funded through short-term borrowings. The repurchase premium and the unamortized discount from the original issue have been deferred and will be amortized over approximately a two-year period to correspond with ratemaking treatment. In 1998, $50.0 million of 5¼% bonds will mature.

PDI has a revolving credit note of $11.5 million which is secured by Stoneman. As of December 31, 1996, $7.3 million had been drawn against this credit note. PDI also has a note payable of $3.3 million secured by a letter of credit which reduces the availability of the above revolving credit note. Both of these notes are due in the year 2000 when the plant may be converted to a 300-megawatt gas-fired combined cycle facility.

NOTE 5 COMMON EQUITY

Under the Company's Stock Investment Plan ("SIP"), the Company's common stock is purchased in the open market to satisfy shareholder and employee purchase requirements.

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

At December 31, 1996, the Company had $310.8 million of retained earnings available for dividends; however, WPSC is restricted by a PSCW order to paying normal common stock dividends of no more than 109% of the previous year's common stock dividend without PSCW approval. Also, Wisconsin law prohibits WPSC from making loans to the Company and its subsidiaries and from guaranteeing their obligations. In January 1997 and January 1996, WPSC paid special common dividends of $10 million and $11 million, respectively, to the Company. The special dividends allow WPSC's average common equity capitalization ratio to remain at approximately 54%, the level approved by the PSCW for ratemaking.

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The estimated fair values of the Company's financial instruments as of December 31 were:

	1996		*1995*	
(Thousands)	*Carrying Amount*	*Fair Value*	*Carrying Amount*	*Fair Value*
Cash and cash equivalents	$ 5,978	$ 5,978	$ 6,533	$ 6,533
Energy conservation loans	5,388	5,388	3,241	3,241
Nuclear decommissioning trusts	100,570	100,570	82,109	82,109
Notes payable	26,600	26,600	15,000	15,000
Commercial paper	31,350	31,350	11,500	11,500
ESOP loan guarantees	12,745	13,412	16,346	17,700
Long-term debt	293,756	300,906	291,075	314,297
Preferred stock	51,200	45,314	51,200	44,886
Gas commodity instruments	(61)	650	-	2,032

NOTE 2 COMMITMENTS AND CONTINGENCIES

Coal Contracts

To ensure a reliable, low-cost supply of coal, WPSC entered into certain long-term contracts that have take-or-pay obligations totaling $230.6 million from 1997 through 2016. The obligations are subject to force majeure provisions which provide WPSC other options if the specified coal does not meet emission limits which may be mandated in future legislation. In the opinion of management, any amounts paid under the take-or-pay obligations described above would be legitimate costs of service subject to recovery in customer rates.

Purchased Power

WPSC has several take-or-pay contracts related to purchased power, for either capacity or energy. These contracts total $29.2 million through 1998. Management expects to recover these costs in future customer rates.

Long-Term Power Supply

In November 1995, WPSC signed a 25-year agreement to purchase power from Polsky Energy Corporation ("Polsky"), an independent power producer proposing to build a cogeneration facility and sell the electrical power to WPSC. Polsky is in the second stage of a two-stage Certificate of Public Convenience and Necessity ("CPCN") permitting process prescribed by the PSCW. Construction of the Polsky project is contingent upon a PSCW determination in stage two of the CPCN process that WPSC will need the electric capacity which would be provided by the proposed plant. A recent WPSC load forecast suggests the capacity may not be needed. A final decision is expected in 1997. If the PSCW approves the Polsky project, it will be accounted for as a capitalized lease. This would result in the Company recording a plant asset of approximately $110 million, with an offsetting amount of long-term debt.

Gas Costs

WPSC has natural gas supply and transportation contracts that require total demand payments of $309.7 million through October 2003. Management believes that these costs will be recoverable in future customer rates.

The FERC has allowed ANR Pipeline Company ("ANR"), WPSC's primary pipeline supplier, to recover from its customers, including WPSC, a portion of certain take-or-pay costs it incurred from renegotiating its long-term gas contracts. To date, the PSCW has granted WPSC recovery of all ANR take-or-pay costs.

In April 1992, the FERC issued Order No. 636 ("Order") which required natural gas pipelines to restructure their sales and transportation services. As a result of this Order, WPSC was obligated to pay for a portion of ANR's transition costs incurred to comply with the Order. At December 31, 1995, WPSC had paid in full the liability for these transition costs. Though there may be additional costs, which could be significant, the amount and timing of these costs are unknown at this time. Management expects to recover these costs in future customer rates.

In December 1996, FERC approved a settlement agreement which establishes the price for ANR's gas purchases and demand charge from the Dakota Gasification Plant. While the amount has not yet been determined, WPSC estimates that it will be billed approximately half of the current amount, or $.6 million in 1997. Charges through 2003 are estimated to be $4.2 million.

Nuclear Liability

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, WPSC is subject to a proportional assessment which is approximately $32.7 million per incident, not to exceed $4.1 million per incident, per calendar year. These amounts represent WPSC's 41.2% ownership share in Kewaunee.

Nuclear Plant Operation

As a result of more extensive tube degradation discovered in the steam generators at Kewaunee during the fall 1996 scheduled refueling and maintenance outage, WPSC has concluded that Kewaunee will need to be retired from service unless the steam generators are replaced within the next few years. WPSC is currently repairing steam generators, but this repair is only expected to last a few years. WPSC is pursuing replacement of steam generators at a cost of approximately $89.0 million (WPSC's share is approximately $36.7 million). Approval is needed from both the joint owners and the PSCW in order to proceed with replacement.

The net carrying amount of WPSC's share of Kewaunee at December 31, 1996 is $49.5 million. In addition, the current cost of WPSC's share of the estimated costs to decommission Kewaunee, assuming early retirement, exceeds the trust assets at December 31, 1996 by $63.4 million. If retired early, Kewaunee would be placed in a dormant state following the transfer of

spent fuel to temporary storage facilities. Under this plan, Kewaunee remains intact with minimal monitoring and maintenance until physical decommissioning begins. Actual decommissioning would probably not begin until approximately 2015. If the owners of Kewaunee decide not to replace the steam generators, management believes the carrying amount and any unfunded decommissioning costs at the date of Kewaunee's retirement would be recoverable from customers in rates, and that no write-down for impairment would be necessary. On January 3, 1997, the PSCW agreed with WPSC's recommendation to accelerate recovery of the Wisconsin retail portion (currently approximately 88.0%) of both the current undepreciated plant balance and the unfunded decommissioning costs over a six-year period, 1997 through 2002. If the steam generators are replaced, the PSCW may reconsider this decision based on information available at that time.

Clean Air Regulations

In 1990, the Federal Clean Air Act Amendments ("Act") became law. The Act required WPSC to meet new emission limits for sulfur dioxide and nitrogen oxide in 1995 (Phase I) and in the year 2000 (Phase II). Wisconsin had already mandated reduced sulfur dioxide emissions effective in 1993. WPSC has been in compliance with the Wisconsin sulfur dioxide limits and the federal Phase II limits since 1994. Compliance was attained cost effectively through fuel switching.

The final federal regulations regarding nitrogen oxide have been published. WPSC may make additional capital expenditures in the range of $3.0 million to $5.0 million between 1998 and 1999 for Wisconsin and federal air quality compliance. Management believes that all costs incurred to comply with these laws will be recoverable in future customer rates.

Manufactured Gas Plant Remediation

WPSC is investigating the need for environmental cleanup of eight manufactured gas plant sites which it previously operated. WPSC engaged an environmental consultant to develop cleanup cost estimates for the seven sites at which either a Phase I or Phase II site investigation had been completed. The consultant has yet to perform a detailed investigation of the eighth site, and comparable information on this site is not available.

The range of future investigation and cleanup costs for all eight sites is estimated to be from $34.7 million to $41.7 million. Minimal amounts have been spent to date. Remediation expenditures would be made over the next 32 years. WPSC has recorded a liability with an offsetting regulatory asset (deferred charge) of $41.7 million, which represents WPSC's current estimate of cleanup costs for all eight sites. Based on discussions with regulators and a rate order in Wisconsin, management believes that these costs (net of any insurance recoveries), but not the carrying costs associated with the expenditures, will be recoverable in future customer rates.

As remedial feasibility studies and initial remedial actions are completed, these estimates may be adjusted, and these adjustments could be significant. Other factors that can affect these estimates are changes in remedial technology and regulatory requirements. The estimates presented above do not take into consideration any recovery from insurance carriers or other third parties which WPSC has obtained or is pursuing. Insurance recoveries are deferred as an offset to the regulatory asset. Due to regulatory treatment, neither adjustments to the estimated liability nor insurance recoveries have an immediate impact on net income. Currently, WPSC has insurance settlement agreements of approximately $12.0 million which it expects to receive in 1997. The PSCW has authorized recovery of $225,000 per year for gas site cleanup effective with the rate order which is expected to become effective in February 1997.

Future Utility Expenditures

Management estimates 1997 utility plant construction expenditures to be approximately $74.0 million. Demand-side management ("DSM") expenditures are estimated to be $7.3 million. No DSM expenditures will be deferred in 1997, and the outstanding balance at December 31, 1996 of $39.4 million will be amortized over the next five years consistent with rate recovery.

NOTE 4 REGULATORY ENVIRONMENT

WPSC anticipates receipt of a rate order in the Wisconsin jurisdiction effective in February 1997. The impact is approximately a $35.5 million decrease in electric revenues and a $5.7 million increase in gas revenues on an annual basis. The new rates will be effective for 1997 and 1998. A brief summary of the more significant rate case decisions and their estimated impacts follows.

WPSC will be granted a $2.0 million per month surcharge on customer bills to cover the additional costs to be incurred by WPSC for acquiring power from other sources while Kewaunee remains out of service.

The PSCW also reaffirmed its decision to allow WPSC to accelerate the funding of decommissioning and the recovery of investment for Kewaunee assuming a year 2002 shutdown. The total dollar impact of this acceleration results in an $11.1 million annual rate impact on WPSC.

WPSC will be granted an 11.8% return on equity for 1997 and 1998. The PSCW has also agreed to allow WPSC to file a 1998 rate case should WPSC experience severe detrimental financial conditions as a result of the constraints placed on it by the 1997 rate order.

NOTE 9 SEGMENTS OF BUSINESS

The table below presents information for the respective years pertaining to the Company's operations segmented by lines of business.

(Thousands)	*Electric Utility*	*Gas Utility*	*Non-Regulated Operations*	*Total*
		1996		
Operating revenues	$490,506	$211,357	$156,391	$ 858,254
Operating expenses				
Operation and maintenance	309,212	190,331	168,323	667,866
Depreciation	56,708	7,127	1,343	65,178
Other taxes	23,161	3,708	(1)	26,868
Total operating expenses	389,081	201,166	169,665	759,912
Operating income	$101,425	$ 10,191	$(13,274)	$ 98,342
Identifiable assets *(a)*	$905,325	$255,200	$ 71,716	$1,232,241
Assets not allocated *(b)*				98,423
Total assets				$1,330,664
Construction and nuclear fuel expenditures including AFUDC	$ 63,941	$ 17,773	$ -	$ 81,714
		1995		
Operating revenues	$ 489,628	$174,065	$ 56,155	$ 719,848
Operating expenses				
Operation and maintenance	310,293	152,062	57,538	519,893
Depreciation	58,608	6,766	253	65,627
Other taxes	22,171	3,749	1	25,921
Total operating expenses	391,072	162,577	57,792	611,441
Operating income	$ 98,556	$ 11,488	$ (1,637)	$ 108,407
Identifiable assets *(a)*	$906,029	$ 232,983	$ 33,332	$ 1,172,344
Assets not allocated *(b)*				94,399
Total assets				$1,266,743
Construction and nuclear fuel expenditures including AFUDC	$ 56,916	$ 16,335	$ -	$ 73,251
		1994		
Operating revenues	$ 480,816	$182,058	$ 10,921	$ 673,795
Operating expenses				
Operation and maintenance	312,368	162,013	11,175	485,556
Depreciation	50,540	5,825	-	56,365
Other taxes	22,516	3,547	-	26,063
Total operating expenses	385,424	171,385	11,175	567,984
Operating income	$ 95,392	$ 10,673	$ (254)	$ 105,811
Identifiable assets *(a)*	$937,525	$188,971	$ 12,043	$ 1,138,539
Assets not allocated *(b)*				78,736
Total assets				$1,217,275
Construction and nuclear fuel expenditures including AFUDC	$ 58,674	$ 19,612	$ -	$ 78,286

(a) At December 31 and net of the respective accumulated depreciation.
(b) Primarily includes cash, investments, pension assets, non-utility property, and other receivables.

NOTE 10 QUARTERLY FINANCIAL INFORMATION

(Thousands, except for share amounts)	*Three Months Ended*				
			1996		
	March	***June***	***September***	***December***	***Total***
Operating revenues	**$251,337**	**$181,628**	**$178,980**	**$246,309**	**$858,254**
Operating income	**$ 40,999**	**$ 20,606**	**$ 22,516**	**$ 14,221**	**$ 98,342**
Net income	**$ 23,520**	**$ 10,120**	**$ 10,385**	**$ 3,730**	**$ 47,755**
Average number of shares of common stock	**23,896**	**23,893**	**23,893**	**23,885**	**23,891**
Earnings per average share of common stock	**$.98**	**$.42**	**$.43**	**$.17**	**$2.00**
			1995		
	March	*June*	*September*	*December*	*Total*
Operating revenues	$187,711	$162,153	$166,748	$203,236	$719,848
Operating income	$ 34,272	$ 14,158	$ 32,693	$ 27,284	$108,407
Net income	$ 20,238	$ 5,866	$ 15,732	$ 13,507	$ 55,343
Average number of shares of common stock	23,897	23,897	23,897	23,897	23,897
Earnings per average share of common stock	$.85	$.24	$.66	$.57	$2.32

Because of various factors which affect the utility business, the quarterly results of operations are not necessarily comparable. Fourth quarter 1996 results include a loss of $.25 per share at the Company's non-regulated subsidiaries.

WPS Resources Corporation

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

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

Daniel A. Bollom
Chairman and Chief Executive Officer

Daniel P. Bittner
Vice President

Diane L. Ford
Controller

ARTHUR ANDERSEN LLP

To the Board of Directors of
WPS Resources Corporation:

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of WPS Resources Corporation (a Wisconsin corporation) and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of WPS Resources Corporation and subsidiaries as of December 31, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin
January 28, 1997

Consolidated Statements of Income

Year Ended December 31 (Thousands, except share amounts)	*1996*	*1995*	*1994*	*1993*	*1992*
Operating revenues					
Electric utility	$490,506	$489,000	$480,816	$493,256	$477,625
Gas utility	211,357	174,693	182,058	187,376	157,177
Non-regulated energy and other	156,391	56,155	10,921	-	-
Total operating revenues	858,254	719,848	673,795	680,632	634,802
Operating expenses					
Electric production fuels	105,418	104,858	111,011	114,051	123,866
Purchased power	37,737	39,593	38,631	30,703	29,594
Gas purchased for resale	149,388	116,253	126,351	133,347	109,890
Non-regulated energy cost of sales	157,612	53,983	10,663	-	-
Other operating expenses	168,905	154,445	148,917	148,270	135,614
Maintenance	48,806	50,761	49,983	51,597	46,436
Depreciation and decommissioning	65,178	65,627	56,365	60,609	58,592
Taxes other than income	26,868	25,921	26,063	25,204	24,459
Total operating expenses	759,912	611,441	567,984	563,781	528,451
Operating income	98,342	108,407	105,811	116,851	106,351
Other income					
Allowance for equity funds used during construction	139	170	108	287	494
Other, net	1,395	6,080	4,473	3,356	6,076
Total other income	1,534	6,250	4,581	3,643	6,570
Income before interest expense	99,876	114,657	110,392	120,494	112,921
Interest on long-term debt	21,532	22,859	23,407	24,393	25,662
Other interest	3,596	2,604	1,796	1,562	1,477
Allowance for borrowed funds used during construction	(128)	(68)	(139)	(200)	(542)
Total interest expense	25,000	25,395	25,064	25,755	26,597
Income before income taxes	74,876	89,262	85,328	94,739	86,324
Income taxes	24,358	30,808	29,526	32,539	28,322
Minority interest	(348)	-	-	-	-
Preferred stock dividends of subsidiary	3,111	3,111	3,111	3,311	3,237
Net income	$ 47,755	$ 55,343	$ 52,691	$ 58,889	$ 54,765
Shares of common stock					
Outstanding at December 31	23,897	23,897	23,897	23,897	23,846
Average	23,891	23,897	23,897	23,888	23,350
Earnings per average share of common stock	$2.00	$2.32	$2.21	$2.47	$2.35
Dividend per share of common stock	1.88	1.84	1.80	1.76	1.72

Consolidated Balance Sheets

Assets

At December 31 (Thousands)	*1996*	*1995*	*1994*	*1993*	*1992*
Utility plant					
Electric	**$1,483,829**	$1,449,201	$1,423,316	$1,386,007	$1,354,579
Gas	**241,367**	228,734	203,384	184,234	173,012
Total	**1,725,196**	1,677,935	1,626,700	1,570,241	1,527,591
Less - Accumulated depreciation and decommissioning	**952,296**	905,427	846,505	801,056	748,427
Total	**772,900**	772,508	780,195	769,185	779,164
Nuclear decommissioning trusts	**100,570**	82,109	64,147	56,699	51,023
Nuclear fuel, net	**19,381**	14,275	19,417	17,981	16,880
Net utility plant	**892,851**	868,892	863,759	843,865	847,067
Current assets	**219,144**	186,085	170,015	180,140	160,331
Net non-utility and non-regulated plant	**19,738**	3,307	2,218	2,121	2,133
Regulatory and other assets	**198,931**	208,459	181,283	172,715	136,019
Total assets	**$1,330,664**	$1,266,743	$1,217,275	$1,198,841	$1,145,550

Capitalization and Liabilities

Capitalization					
Common stock equity	**$ 467,524**	$ 463,441	$ 446,540	$ 433,724	$ 413,226
Preferred stock of subsidiary with no mandatory redemption	**51,200**	51,200	51,200	51,200	51,200
Long-term debt of subsidiary	**305,788**	306,590	309,945	314,225	321,498
Total capitalization	**824,512**	821,231	807,685	799,149	785,924
Liabilities					
Short-term borrowings	**57,950**	26,500	22,500	21,000	20,000
Bond sinking fund requirements and maturing first mortgage bonds of subsidiary	**-**	-	-	-	8,726
Deferred income taxes	**130,208**	135,958	126,639	138,952	169,012
Other liabilities and credits	**317,994**	283,054	260,451	239,740	161,888
Total liabilities	**506,152**	445,512	409,590	399,692	359,626
Total capitalization and liabilities	**$1,330,664**	$1,266,743	$1,217,275	$1,198,841	$1,145,550

Year Ended December 31	*1996*	*1995*	*1994*	*1993*	*1992*
WPS Resources Corporation					
Stock price	$ 28½	$ 34	$ 26¾	$ 33⅝	$ 31¾
Book value per share	$19.56	$19.39	$18.69	$18.18	$17.33
Return on average equity	9.9%	11.7%	11.4%	13.1%	13.2%
Number of common stock shareholders	23,998	24,341	25,395	25,240	25,983
Number of employees	2,606	2,547	2,578	2,603	2,631
Wisconsin Public Service Corporation					
Coverage					
Times interest earned before income taxes	4.36	4.00	4.19	4.49	3.99
Times interest earned after income taxes	3.21	3.03	3.09	3.29	3.01
Times interest and preferred dividends earned after income taxes	2.88	2.70	2.77	2.93	2.71
Capitalization ratios					
Common equity including ESOP	55.3	55.0	53.9	54.3	52.6
Preferred stock	6.3	6.3	6.4	6.4	6.5
Long-term debt	38.4	38.7	39.7	39.3	40.9
Percent long-term debt to net utility plant	34.8	36.0	36.6	37.2	38.0
Average rate					
Bonds	7.0	7.1	7.1	7.1	7.8
Preferred stock	6.1	6.1	6.1	6.1	6.3
Number of preferred stock shareholders	2,965	3,165	3,372	3,577	4,167
Weather information					
Cooling degree days	352	808	519	432	213
Cooling degree days as a percent of normal	73.6%	170.1%	107.0%	86.2%	43.3%
Heating degree days	8,566	7,813	7,578	7,916	7,670
Heating degree days as a percent of normal	107.5%	98.0%	95.5%	100.2%	96.2%

Electric	1996	1995	1994	1993	1992
Operating revenues *(Thousands)*					
Residential and farm	$169,587	$168,391	$163,381	$165,568	$156,659
Small commercial and industrial	144,055	140,280	137,323	140,678	136,164
Large commercial and industrial	118,997	117,978	118,121	123,920	115,147
Resale and other	58,648	62,351	61,991	63,090	69,655
Total	$491,287	$489,000	$480,816	$493,256	$477,625
Kilowatt-hour sales *(Thousands)*					
Residential and farm	2,570,397	2,548,373	2,406,479	2,349,307	2,268,685
Small commercial and industrial	2,761,278	2,672,359	2,555,488	2,444,548	2,384,098
Large commercial and industrial	3,744,153	3,644,764	3,468,390	3,296,254	3,016,329
Resale and other	1,970,083	2,112,635	2,121,660	2,060,804	2,078,057
Total	11,045,911	10,978,131	10,552,017	10,150,913	9,747,169
Customers served *(End of period)*					
Residential and farm	328,522	322,550	316,442	310,336	304,404
Small commercial and industrial	38,376	37,455	36,491	35,683	34,783
Large commercial and industrial	168	170	164	137	129
Resale and other	826	802	796	794	825
Total	367,892	360,977	353,893	346,950	340,141
Annual average use *(Kilowatt-hours)*					
Residential and farm	7,905	7,982	7,688	7,649	7,538
Small commercial and industrial	72,995	72,326	70,931	69,532	69,394
Large commercial and industrial	22,115,491	21,824,937	22,091,659	24,416,697	23,750,625
Average kilowatt-hour price *(Cents)*					
Residential and farm	6.00	6.61	6.79	7.05	6.91
Small commercial and industrial	5.22	5.25	5.37	5.75	5.71
Large commercial and industrial	3.18	3.24	3.41	3.76	3.82
Production capacity *(Summer - kilowatts)*					
Steam	1,325,400	1,325,400	1,318,300	1,315,300	1,302,200
Nuclear	213,800	216,700	215,100	215,100	213,800
Hydraulic	53,100	52,900	53,400	53,100	52,000
Combustion turbine	208,600	207,480	201,200	177,200	148,900
Other	4,200	4,240	4,240	4,240	4,240
Purchased capacity	27,250	26,400	26,400	27,700	26,900
Total system capacity	1,832,350	1,833,120	1,818,640	1,792,640	1,748,040
Generation and purchases *(Thousands of kilowatt-hours)*					
Steam	7,956,378	7,428,612	7,047,511	7,004,634	6,796,975
Nuclear	1,305,751	1,564,268	1,631,003	1,572,696	1,622,279
Hydraulic	359,750	306,101	292,617	346,386	325,663
Purchases and other	2,050,762	2,310,399	2,243,021	1,849,047	1,628,326
Total	11,672,641	11,609,380	11,214,152	10,772,763	10,373,243

* *Operating statistics are those of Wisconsin Public Service Corporation. However, electric operating revenues and kilowatt-hours sales and gas operating revenues and therms delivered also include statistics of WPS Energy Services, Inc.*

Electric *(continued)*	*1996*	*1995*	*1994*	*1993*	*1992*
Steam fuel costs *(Cents per million Btu)*					
Fossil	**115.132**	118.365	132.360	139.038	160.144
Nuclear	**46.674**	49.539	49.168	44.888	40.528
Total	**105.439**	106.320	116.782	121.949	136.965
System peak – firm *(Kilowatts)*	**1,561,000**	1,670,000	1,543,000	1,569,000	1,494,000
Annual load factor	**79.05%**	73.32%	76.96%	73.29%	74.03%

Gas					
Operating revenues *(Thousands)*					
Residential	**$122,224**	$109,998	$104,020	$110,541	$ 93,234
Small commercial and industrial	**22,392**	19,933	18,586	20,254	15,796
Large commercial and industrial	**55,211**	47,627	45,115	47,091	33,676
Other	**164,673**	52,367	25,258	9,490	14,471
Total	**$364,500**	$229,925	$192,979	$187,376	$157,177
Therms delivered *(Thousands)*					
Residential	**216,963**	202,152	187,355	192,053	182,603
Small commercial and industrial	**46,614**	42,600	38,568	41,385	38,060
Large commercial and industrial	**142,033**	129,494	115,939	108,068	88,516
Other	**527,069**	294,372	56,961	6,337	3,718
Total therm sales	**932,679**	668,618	398,823	347,843	312,897
Transportation	**251,279**	241,531	234,149	220,672	232,578
Total	**1,183,958**	910,149	632,972	568,515	545,475
Customers served *(End of period)*					
Residential	**192,947**	186,267	178,992	172,902	168,349
Small commercial and industrial	**16,133**	15,905	14,689	14,571	14,248
Large commercial and industrial	**2,846**	2,432	2,867	2,508	2,178
Other	**1**	1	1	1	1
Transportation customers	**167**	121	117	127	161
Total	**212,094**	204,726	196,666	190,109	184,937
Average annual use *(Therms)*					
Residential	**1,146.6**	1,112.3	1,068.8	1,128.4	1,099.4
Small commercial and industrial	**2,937.2**	2,770.8	2,673.9	2,888.8	2,737.4
Large commercial and industrial	**37,163.7**	39,707.6	34,651.2	41,354.4	38,680.8
Average therm price *(Cents)*					
Residential	**56.33**	54.41	55.52	57.56	51.06
Small commercial and industrial	**48.04**	46.79	48.19	48.94	41.50
Large commercial and industrial	**42.84**	40.63	41.84	44.97	38.30

* *Operating statistics are those of Wisconsin Public Service Corporation. However, electric operating revenues and kilowatt-hour sales and gas operating revenues and therms delivered also include statistics of WPS Energy Services, Inc.*

Executive Office

[illegible]

Shareholder Inquiries

[illegible]

Transfer Agent and Registrar

[illegible]

Financial Inquiries

[illegible]

Stock Exchange Listings

[illegible]

[illegible]

Shareholder Inquiries

Shareholders who have questions about their stock holdings can contact the Shareholder Services Department in Green Bay between the hours of 7:30 a.m. and 4:30 p.m., central time, Monday through Friday.

Common Stock

Common stock may be purchased and sold through the WPS Resources Corporation Stock Investment Plan ("Plan") described elsewhere in this section, brokerage firms, and many banks.

Common stock certificates issued before September 1, 1994 bear the name of Wisconsin Public Service Corporation ("WPSC") and are still valid certificates.

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

On December 31, 1996, the Company had 23,896,962 shares of common stock outstanding which were owned by 23,998 holders of record.

Dividends

Cash dividends on common stock have been paid quarterly to shareholders since 1953. The Company expects to continue to pay quarterly cash dividends on common stock, although future dividends are dependent on earnings, capital requirements, cash flows, and other financial conditions.

Payment dates for quarterly common stock dividends are the 20th day of March, June, September, and December to shareholders of record on the last business day of the month preceding the payment date.

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

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

Stock Investment Plan

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

The Plan also enables shareholders to reinvest dividends and to make optional cash purchases of common stock directly through the Company without paying brokerage commissions, fees, or service charges. Optional cash payments of not less than $25 per payment may be made subject to a maximum of $100,000 per calendar year. Plan participants are not required to reinvest dividends or make optional cash payments.

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

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

Safekeeping Services

A participant in the Stock Investment Plan may transfer shares of common stock registered in his or her name into a Plan account for safekeeping. Certificates for such shares should be forwarded to the Shareholder Services Department together with a letter instructing the Company to transfer the shares to the participant's Plan account. Certificates should not be endorsed. It is recommended that any certificates mailed to the Company be sent by registered mail and be insured.

Preferred Stock of Subsidiary

The preferred stock of WPSC trades on over-the-counter markets. Dividends on the preferred stock are paid on the 1st day of February, May, August, and November to shareholders of record on the 15th day of the month preceding the payment date.

Stock Transfer Agent and Registrar

Questions about transferring common or preferred stock, lost certificates, or changing the name in which certificates are registered should be directed to the transfer agent, Firstar Trust Company.

Transfers. For most transfers, the following procedure should be used: (1) Sign the back of the stock certificate exactly as your name appears on the front. (2) Have the signature(s) guaranteed by an eligible guarantor institution that is a participant in one of the following signature guarantee programs: Securities Transfer Agent Medallion Program, Stock Exchanges Medallion Program, or New York Stock Exchange Medallion Program. (3) List on the back of the certificate the full name in which the shares are to be registered as well as the address and Social Security number or other taxpayer identification number of the new owner. (4) If you wish to transfer fewer than the number of shares represented by the original certificate, indicate on the back of the certificate the exact number of shares to be transferred. (5) Send the certificate to the transfer agent by registered mail and insure it. A new certificate for the transferred shares will be mailed to the new owner, and a certificate for any balance will be mailed to you. (6) If you want to change the registration of Stock Investment Plan shares for which the trustee is holding the certificate, specifically request that they be transferred. (7) If tbe transfer involves an unusual situation, such as the death of a spouse or other joint tenant, call the transfer agent or the Shareholder Services Department for specific instructions.

Lost Certificates. If a stock certificate is lost, stolen, or destroyed, notify the transfer agent in writing so that a "stop transfer" can be placed on the missing certificate. The letter sbould include as much information as possible about the circumstances surrounding the loss or theft. The transfer agent will send you the necessary forms and instructions for obtaining a replacement certificate. You may be required to pay for an indemnity bond. If you find the missing certificate, notify the transfer agent immediately so that the stop transfer can be removed. To avoid theft or loss, we recommend that you keep stock certificates in a secure place, such as a safe deposit box at your local bank.

Address Changes

If your address changes, call or write the Sbareholder Services Department. A correct address assures the prompt receipt of dividend checks and other shareholder communications.

Availability of Information

It is anticipated that 1997 quarterly earnings information will be released on April 23, July 23, and October 22.

After April 1, 1997, shareholders may obtain, without charge, a copy of the Company's 1996 Form 10-K, without exhibits, as filed with the Securities and Exchange Commission, by contacting Mr. Francis J. Kicsar, Secretary, at the Executive Office mailing address.

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

Annual Shareholders' Meeting

The Annual Shareholders' Meeting will be held on Thursday, May 1, 1997, at 10:30 a.m. at the Regency Conference Center, 333 Main Street, Green Bay, Wisconsin.

Proxies will be requested from common stock shareholders when the notice of the meeting and proxy statement are mailed on or about March 20, 1997.

Annual Report

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

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

Wisconsin Utility Investors, Inc.

Wisconsin Utility Investors, Inc. ("WUI") is an independent, non-profit organization representing the collective voices of utility shareholders. It monitors and evaluates industry issues and trends and is a resource for its members, regulators, and the public. For more information, WUI can be reached as follows:

> Telephone: 414-221-3844

> Facsimile: 414-221-2171

> Street Address:
161 West Wisconsin Avenue
Suite 3065
Milwaukee, WI 53203

Common Stock Comparison

	Dividends Per Share	*High*	*Low*
1996			
1st Quarter	**$ .465**	**34 3/8**	**31 7/8**
2nd Quarter	**.465**	**33 1/2**	**30 1/8**
3rd Quarter	**.475**	**32 1/8**	**30 3/8**
4th Quarter	**.475**	**30 5/8**	**28 1/4**
Total	**$1.88**		
1995			
1st Quarter	$ .455	29 3/4	26 3/4
2nd Quarter	.455	29 7/8	27 7/8
3rd Quarter	.465	30 3/4	28 1/8
4th Quarter	.465	34 1/4	30 1/4
Total	$1.84		

BOARD OF DIRECTORS*

A. Dean Arganbright
Oshkosh, Wisconsin
Retired Chairman, President, and Chief Executive Officer
Wisconsin National Life Insurance Company
Age 66/Director since 1972

Michael S. Ariens
Brillion, Wisconsin
Chairman
Ariens Company
Age 65/Director since 1974

Richard A. Bemis
Sheboygan Falls, Wisconsin
President and Chief Executive Officer
Bemis Manufacturing Company
Age 55/Director since 1983

Daniel A. Bollom
Green Bay, Wisconsin
Chairman and Chief Executive Officer
WPS Resources Corporation
Wisconsin Public Service Corporation
Age 60/Director since 1989

Sister M. Lois Bush, SSM
Milwaukee, Wisconsin
Chief Executive Officer
Ministry Health Care, Inc.
Age 52/Director since 1993

Robert C. Gallagher
Green Bay, Wisconsin
Chairman and Chief Executive Officer
Associated Bank, Green Bay
Vice Chairman
Associated Banc-Corp
Age 58/Director since 1992

Kathryn M. Hasselblad-Pascale
Green Bay, Wisconsin
Partner
Hasselblad Machine Company, LLP
Age 48/Director since 1987

James L. Kemerling
Wausau, Wisconsin
Consultant
Age 57/Director since 1988

Larry L. Weyers
Green Bay, Wisconsin
President and Chief Operating Officer
WPS Resources Corporation
Wisconsin Public Service Corporation
Age 51/Director since 1996

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

OFFICERS

WPS Resources Corporation

Daniel A. Bollom
Chairman and Chief Executive Officer
Age 60/Years of service 38

Larry L. Weyers
President and Chief Operating Officer
Age 51/Years of service 11

Patrick D. Schrickel
Executive Vice President
Age 52/Years of service 30

Daniel P. Bittner
Vice President
Age 53/Years of service 31

Richard E. James
Vice President-Corporate Planning
Age 43/Years of service 21

Richard A. Krueger
Vice President
Age 59/Years of service 35

Phillip M. Mikulsky
Vice President-Development
Age 48/Years of service 25

Glen R. Schwalbach
Assistant Vice President-Corporate Planning
Age 51/Years of service 28

Francis J. Kicsar
Secretary
Age 57/Years of service 30

Ralpb G. Baeten
Treasurer
Age 53/Years of service 26

Diane L. Ford
Controller
Age 43/Years of service 21

George R. Wiesner
Assistant Controller
Age 39/Years of service 12

Wisconsin Public Service Corporation

Daniel A. Bollom
Chairman and Chief Executive Officer
Age 60/Years of service 38

Larry L. Weyers
President and Chief Operating Officer
Age 51/Years of service 11

Patrick D. Schrickel
Executive Vice President
Age 52/Years of service 30

Daniel P. Bittner
Senior Vice President-Finance and Corporate Services
Age 53/Years of service 31

Ricbard A. Krueger
Senior Vice President-Sales and Marketing
Age 59/Years of service 35

Clark R. Steinhardt
Senior Vice President-Nuclear Power
Age 55/Years of service 29

Jelmer G. Swoboda
Senior Vice President-Human and Corporate Development
Age 61/Years of service 37

Ralph G. Baeten
Vice President-Treasurer
Age 53/Years of service 26

Thomas P. Meinz
Vice President-Power Supply and Engineering
Age 50/Years of service 27

Bernard J. Treml
Vice President-Human Resources
Age 47/Years of service 24

Wayne J. Peterson
Assistant Vice President-Customer Service
Age 38/Years of service 14

David W. Scbonke
Assistant Vice President-Electric Distribution Engineering
Age 63/Years of service 34

Francis J. Kicsar
Secretary
Age 57/Years of service 30

Diane L. Ford
Controller
Age 43/Years of service 21

WPS Energy Services, Inc.

Phillip M. Mikulsky
President and Chief Executive Officer
Age 48/Years of service 25

Darrell W. Bragg
Vice President
Age 37/Years of service 1

Mark A. Radtke
Vice President
Age 35/Years of service 13

Larry L. Weyers
Vice President
Age 51/Years of service 11

Francis J. Kicsar
Secretary
Age 57/Years of service 30

Ralph G. Baeten
Treasurer
Age 53/Years of service 26

WPS Power Development, Inc.

Daniel A. Bollom
President and Chief Executive Officer
Age 60/Years of service 38

Phillip M. Mikulsky
Vice President
Age 48/Years of service 25

Gerald L. Mroczkowski
Vice President
Age 51/Years of service 28

Larry L. Weyers
Vice President
Age 51/Years of service 11

Francis J. Kicsar
Secretary
Age 57/Years of service 30

Ralph G. Baeten
Treasurer
Age 53/Years of service 26

Indications of years of service take into consideration service with WPS Resources Corporation or a member company.

LEADERSHIP STAFF

William L. Bourbonnais, Jr.
Manager-Rates and Economic Evaluation
Age 51/Years of service 28

Michael W. Charles
Manager-System Planning and Licensing
Age 47/Years of service 19

Kenneth H. Evers
Manager-Nuclear Plant Support Services
Age 51/Years of service 23

Ronald K. Grosse
Manager-Customer Accounts
Age 53/Years of service 31

David W. Harpole*
Manager-Power Plant Design and Construction
Age 41/Years of service 19

Charles K. Heidemann
Manager-Western Region
Age 56/Years of service 33

Terry P. Jensky
Manager-Pulliam Plant
Age 43/Years of service 19

Bradley A. Johnson*
Corporate Planning Executive
Age 42/Years of service 17

Jerry A. Johnson
Manager-Information Services
Age 47/Years of service 24

Randall G. Johnson
Manager-Quality Implementation
Age 49/Years of service 26

Paul J. Liegeois
Manager-Retail Marketing
Age 46/Years of service 23

Dennis J. Maki
Manager-Weston Plant
Age 48/Years of service 26

Mark L. Marchi
Manager-Nuclear Business Group
Age 49/Years of service 21

Dale N. Miller
Manager-Eastern Region
Age 51/Years of service 26

Edward N. Newman
Director-Environmental Services
Age 54/Years of service 22

Dale M. Quinn
Manager-Substation and Transmission
Age 51/Years of service 25

Jack C. Rasmussen
Manager-Purchasing and Stores
Age 49/Years of service 26

Daniel J. Ropson
Manager-Engineering and Technical Support
Age 47/Years of service 24

Walter G. Sandberg
Manager-Public Affairs
Age 61/Years of service 18

Charles A. Schrock
Manager-Kewaunee Plant
Age 43/Years of service 17

Guy L. Selsmeyer**
Vice President-Business Development
Age 42/Years of service 2

Peter J. Van Beek
Manager-Central Region
Age 51/Years of service 28

Daniel J. Verbanac**
Director-Technology Development and Implementation
Age 33/Years of service 12

**Employee of WPS Resources Corporation.*

***Employee of WPS Energy Services, Inc.*

All other Leadership Staff members are employees of Wisconsin Public Service Corporation.

Indications of years of service take into consideration service with WPS Resources Corporation or a member company.

Equal Employment Opportunity:
WPS Resources Corporation and its subsidiary companies hire, train, promote, compensate, and make all other employment decisions without regard to race, color, sex, age, religion, national origin, or disability.

50-305 Ltr Dtd 4/1/97

- NOTICE -

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