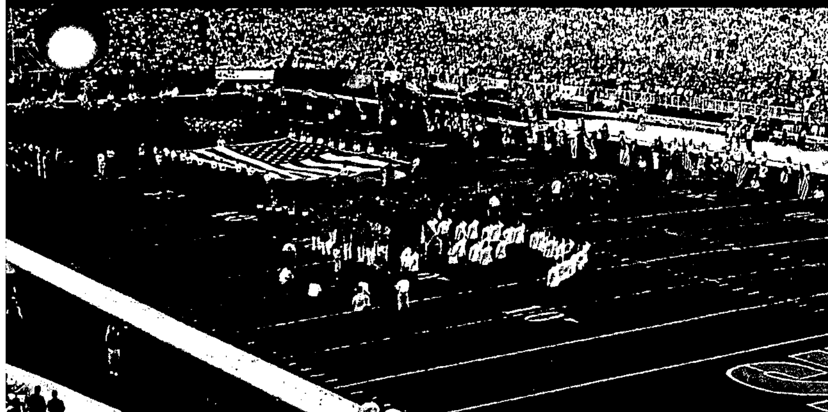


WPS

WPS Resources Corporation

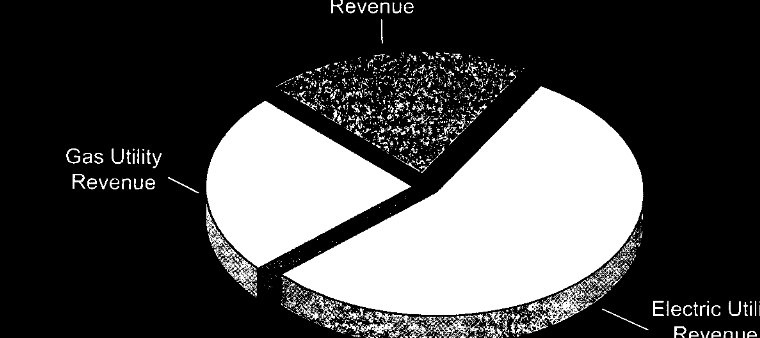
1997 Annual Report

Strategic GROWTH

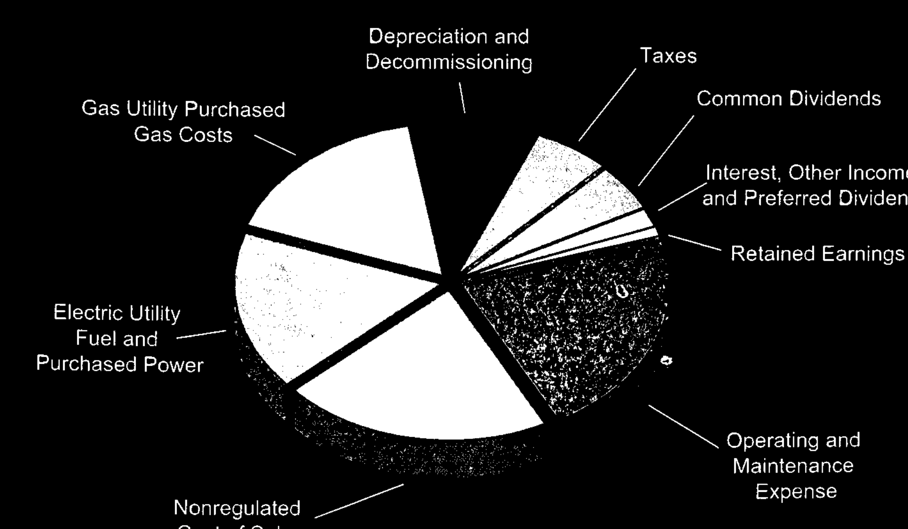
Highlights

Year Ended December 31	1997	1996	Percent Change
Revenues - utility *(Thousands)*	**$690,478**	$701,863	(1.6)
Revenues - nonregulated *(Thousands)*	**187,862**	156,391	20.1
Net income *(Thousands)*	**53,742**	47,755	12.5
Basic and diluted earnings per average share of common stock	**$2.25**	$2.00	12.5
Dividend paid per share	**1.92**	1.88	2.1
Book value per share	**20.00**	19.56	2.2
Common stock price at year end	**$33.8125**	$28.50	18.6
Electric customers	**374,577**	367,898	1.8
Electric sales *(kWh - Thousands)*	**11,512,344**	11,045,911	4.2
Gas customers	**219,037**	212,451	3.1
Gas deliveries - utility *(Therms - Thousands)*	**662,008**	666,598	(0.7)
Gas deliveries - nonregulated *(Therms - Thousands)*	**574,006**	517,360	10.9

SOURCES OF MONEY



USES OF MONEY



WPS Resources Corporation at a Glance

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

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

WPS Resources Corporation

Wisconsin Public Service Corporation

Business: Wisconsin Public Service Corporation ("WPSC") is a regulated electric and gas utility.

Location: WPSC serves an 11,000 square-mile area of northeastern and central Wisconsin and an adjacent portion of Upper Michigan (see utility service territory map at right).

Market: WPSC serves 374,567 electric and 218,299 natural gas customers. Electric and gas service is provided to residential, farm, commercial, and industrial customers. Electric power is also provided to wholesale customers. Electric operations accounted for 69% of 1997 revenues, while gas operations contributed 31%. Electric revenues are comprised of 90% retail sales and 10% wholesale sales. Wisconsin customers accounted for 97% of the utility's 1997 revenues, compared with 3% from Michigan customers.

Products and Services: WPSC provides a full range of products and services customarily offered by regulated electric and gas utilities.

Facilities: Electric generating capacity based on 1997 summer capacity was 1,820 megawatts, including WPSC's share of jointly-owned facilities. WPSC has 1,549 miles of electric transmission and 19,358 miles of electric distribution lines. Gas properties include 4,623 miles of main and 68 gate and city regulator stations.

Employees: WPSC has 2,399 employees, of which 1,209 are represented by Local 310 of the International Union of Operating Engineers.

WPS Energy Services, Inc.

Business: WPS Energy Services, Inc. ("ESI") is a diversified nonregulated energy company.

Location: ESI targets retail energy sales and related services. Principal operations are located in Illinois, Michigan, Ohio, and Wisconsin (see nonregulated retail energy sales map at right). Wholesale sales are provided on a nationwide basis.

Markets: ESI operates in the retail and wholesale nonregulated energy marketplace. Emphasis is on serving commercial, industrial, and wholesale customers.

Products and Services: ESI provides electric, natural gas, and alternate fuel products, risk management consulting services, real-time energy management services, and project management. ESI provides individualized energy supply options and strategies that allow customers to manage risk while capitalizing on opportunities resulting from deregulation. Proprietary DENet™ computer technology allows customers to monitor their energy usage and to access energy supply information. ESI also provides energy utilization consulting, which identifies opportunities for improving purchasing practices, equipment, and systems necessary for the efficient use of energy.

WPS Power Development, Inc.

Business: WPS Power Development, Inc. ("PDI") develops and owns nonregulated electric generation projects and provides services to the electric power generation industry.

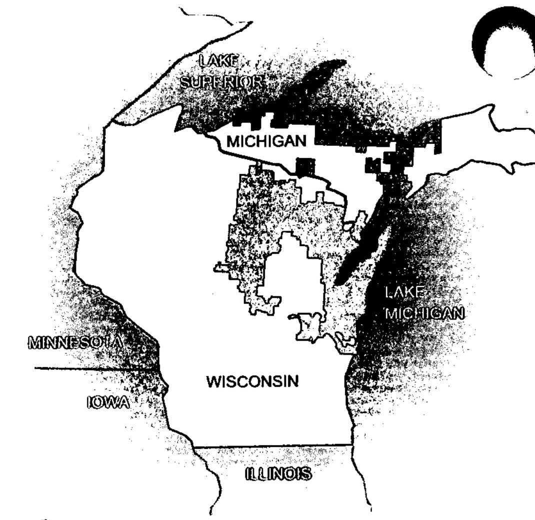
Location: PDI offers services nationwide.

Products and Services: PDI's services include acquisition and investment analysis, project development, engineering and management services, and operations and maintenance services.

Markets: PDI's areas of expertise include cogeneration, distributed generation, generation from renewables, generation plant repowering projects, and conversion of paper mill sludge to lightweight aggregate.

Facilities: PDI owns a two-thirds interest in the Stoneman Power Plant ("Stoneman"), a 53-megawatt coal-fired merchant steam plant located in Cassville, Wisconsin. Stoneman repowering as a gas-fired unit is planned for the 1999 to 2000 time period. PDI also owns landfill gas generating facilities.

Utility Service Territories



● Wisconsin Public Service Corporation Service Territory
● Upper Peninsula Power Company Service Territory

Nonregulated Retail Energy Target Markets

Table of Contents

Strategic Growth Brings Rewards

Our Growth Strategy Is The Basis For Our Confidence In The Future

Developments During 1997 Show That We Are Positioned For Continued Success

These are exciting times. The decisions that are being made today will have a profound impact on the energy industry of tomorrow. Our approach to restructuring is based on deliberate moves to bring about change. The challenge is to obtain fair treatment for customers and a level playing field for industry participants. Only then will everyone win.

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

To Our Shareholders: The past year has been one of strategic growth for WPS Resources Corporation ("WPSR") and its subsidiary companies as we position ourselves to be successful in the emerging competitive energy industry. Never before have we faced so many challenges in all aspects of our business. But with challenges come opportunities. With opportunities comes growth. With growth come rewards. Our growth strategy provides for a bright future and is the subject of this report.

Financial Highlights -

WPSR –

- Earnings per share for 1997 were $2.25 compared with $2.00 in 1996, an increase of 12.5%.
- Net income was $53.7 million in 1997 compared with $47.8 million in 1996.
- Dividends paid per common share increased for the 39th consecutive year.

Wisconsin Public Service Corporation ("WPSC") –

- Earnings on common stock at WPSC, our utility subsidiary, were $61.6 million in 1997 compared with $57.3 million in 1996.
- Electric utility margins were lower than 1996 margins by $21.4 million as a result of an 8.1% electric rate reduction in February 1997. Electric sales volume increased 2.2% compared with 1996.
- Gas margins increased $1.4 million, or 2.2%, due primarily to a gas rate increase in 1997. Gas deliveries decreased 0.7% compared with 1996.
- Non-fuel operating and maintenance expenses were $175.8 million compared with $206.9 million in 1996, a decrease of 15.0%.

Nonregulated Subsidiaries -

- Nonregulated energy and other operating revenues increased $31.5 million, or 20.1%.
- Nonregulated losses at WPS Energy Services, Inc. ("ESI") and WPS Power Development, Inc. ("PDI") totaled $6.9 million compared with $10.3 million in 1996.
- Gas deliveries at ESI, our energy marketing subsidiary, increased 10.9% over 1996.

Although ESI did not show a profit in 1997, significant progress was made in many areas. ESI's natural gas customers increased 107.0% as a result of continuing sales efforts in Michigan, Ohio, and Wisconsin and entry into the Illinois market late in the year. Backroom systems used to track energy trading operations, control risk, and perform numerous administrative operations such as customer billing were substantially improved during the year and will support future growth. ESI is prepared to make a positive contribution to earnings when retail electric access becomes a reality in its targeted electric markets.

PDI, our nonregulated subsidiary engaged in developing and investing in energy projects, moved closer to profitability in 1997. Projects being pursued should result in more immediate positive cash flows, shorter payback periods, and improved earnings in the early years of particular projects.

Goals for a Solid Financial Future - Our financial goals are summarized as follows:

- A return for WPSC equal to the Public Service Commission of Wisconsin ("PSCW") allowed rate of return.
- Annual growth in nonregulated revenues of 20% or greater.
- A dividend policy that calls for modest increases.
- A dividend payout ratio of 70% to be achieved over time through growth in earnings.

WPSC intends to file an application in April 1998 with the PSCW for increases in electric and gas customer rates to be effective in 1999. The increase would cover normal expenses, generate a fair return on equity, and allow WPSC to continue improving its systems for efficient operations in a restructured utility environment. The new rates, if approved, are not expected to have a significant impact on WPSC's relative competitive position in the region.

Upper Peninsula Energy Corporation Merger - This past July, we announced the proposed merger of WPSR and Upper Peninsula Energy Corporation ("UPEN"), a holding company headquartered in Houghton, Michigan. As a result of the merger, Upper Peninsula Power Company ("UPPCO"), UPEN's utility subsidiary, will become a subsidiary of WPSR. The UPPCO service territory is indicated on a map on the inside front cover of this report.

The merger is an important part of our growth strategy. It will allow us to serve an additional 48,000 customers, extend our service territory over a much larger portion of the Upper Peninsula of Michigan, and provide opportunities for future growth. Merger and integration activities are proceeding as planned. UPEN shareholders approved the merger on January 29, 1998. We anticipate completion of the merger upon receipt of regulatory approvals expected during the second half of 1998.

Kewaunee Plant Important for the Future - In June, the Kewaunee Nuclear Power Plant ("Kewaunee") returned to service after being off-line since late September 1996 for refueling, routine maintenance, and repair of its two steam generators. Kewaunee has operated well since its return to service. The next refueling is scheduled for the fourth quarter of 1998.

The repair of the steam generators may make continued operation of the plant possible for years to come; however, replacement of the two steam generators is desirable if Kewaunee is to maintain a record of high reliability and remain in service until its operating license expires in 2013. An application for replacement of the steam generators is pending with the PSCW. Hearings were held earlier this year, and a decision is expected in March.

WPSC is the operator and 41.2% owner of Kewaunee. WPSC continues to discuss ownership of Kewaunee with its co-owners, who currently do not favor steam generator replacement. WPSC believes that nuclear power has a place in its generation mix because nuclear power is safe, environmentally friendly, and cost competitive.

Reliable Energy Supply Essential - The summer of 1997 provided a serious challenge to the reliability of the electric system in the region. More than 5,000 megawatts of generating capacity were unavailable for most of the summer as various utility companies experienced a variety of problems. Thanks to the efforts of WPSC's dedicated employees, Kewaunee was returned to service before the greatest demands were placed on WPSC's system, Pulliam Unit 3 was refurbished and returned to service, and WPSC's system operated at full capacity during the warmest portions of the summer months. Customers who have chosen interruptible service experienced only limited interruptions as a result of the need to provide power to other utilities in Wisconsin who were experiencing more severe energy supply problems.

We are working closely with Governor Thompson, regulators, legislators, and other industry participants to ensure that Wisconsin has an adequate supply of reliable power and an enhanced transmission system for years to come. A reliable energy supply is essential for growth in the region and the growth of WPSR and its system companies.

Securing Additional Energy - WPSC is assured of a reliable supply of electric power to support its continued growth. During 1997, the PSCW authorized Polsky Energy Corporation, an independent power producer, to build the De Pere Energy Center ("Center"), a 179-megawatt peaking, combustion turbine generating facility scheduled to be operational in 1999. The Center will be converted to a 232-megawatt intermediate-load combined cycle operation at WPSC's direction or after the fifth year of operation. WPSC [illegible] a 25-year contract to purchase capacity and energy from the Center. WPSC will furnish the natural gas fuel for the facility.

Investment in the Future - During 1997, WPSC furthered its growth strategy by making capital expenditures of $72.2 million, including $15.5 million for expansion of its natural gas distribution business. As part of the expansion, WPSC acquired new gas franchises and added approximately 460 miles of new main. This brings total miles of new main added during the past 5 years to 1,400, and the number of new customers added during the same period, as a result of these efforts, to 39,500.

Industry Restructuring to Focus on Customers - Customer needs should drive restructuring of the electric and gas utility industries. Federal legislators have introduced several bills proposing changes on the national level. Legislative action could be forthcoming during the next year. The PSCW continues to pursue changes that could lead to retail open access by the year 2001. We play an active role in the federal, Wisconsin, and Michigan restructuring debates. We favor retail open access, the development of merchant power plants, and the development of a regional independent system operator who would coordinate the operation of the electric transmission system. Our approach is to move deliberately in bringing about change, because fair treatment of customers and a level playing field for industry participants are essential if restructuring is to be accomplished successfully.

New Leadership - Patrick D. Schrickel became President and Chief Operating Officer of WPSC on February 12, 1998. He has served WPSR system companies in various capacities for 31 years, most recently as Executive Vice President of WPSR and WPSC. Additional promotions are highlighted on page 43 of this report.

A Legacy to Build Upon - During the past year, three key executives retired — Daniel A. Bollom, Chairman of the Board and Chief Executive Officer for both WPSR and WPSC, Richard A. Krueger, Senior Vice President-Sales and Marketing for WPSC, and J. Gus Swoboda, Senior Vice President-Human and Corporate Development for WPSC.

Mr. Bollom was instrumental in establishing the core values of WPSR and leading its cultural change. He earned the esteem of all who worked with him for being a champion of human dignity, for his respect and trust of people, for his strong support of improvements in education, and for his unfailing optimism.

Collectively, these three gentlemen provided more than 100 years of dedicated service to WPSR system companies. The success of our organization is tied closely to their leadership. We wish them well in retirement.

Thank You - Your support is sincerely appreciated. Rest assured, our employees are working diligently to ensure our continued success in the new energy marketplace and to provide shareholders with a fair return on their investment. On December 31, our common stock closed at $33-13/16, a substantial improvement over the 1997 low of $23-3/8.

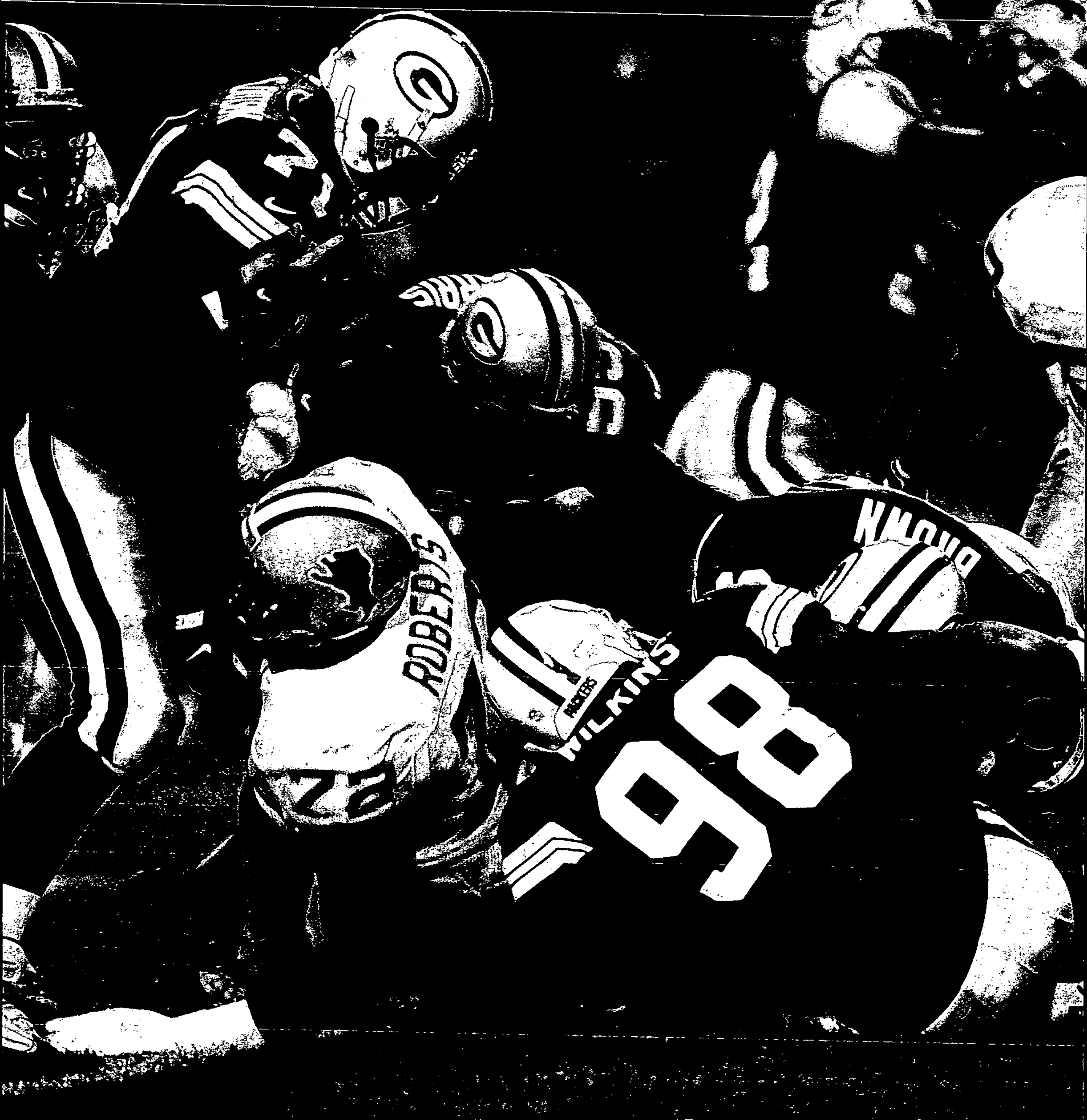
We invite you to read this report, which describes our strategic growth initiatives. These initiatives are the basis for our confidence in the future.

Sincerely,

Larry L. Weyers

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

February 12, 1998



Strategic GROWTH

Helping Our Super Bowl Champions Avoid Another Ice Bowl

Customers with special needs deserve special attention. Working closely with customers to solve their energy problems is at the heart of our growth strategy.

The Green Bay Packers, Super Bowl XXXI Champions, have unique energy needs. The Packers play many late fall and early winter football games at Lambeau Field. When the temperature drops below freezing, field conditions can be nothing short of miserable.

In 1997, Wisconsin Public Service Corporation worked with the Packers as they installed a new heating system that pumps water heated with natural gas through miles of small tubes buried below the playing surface. Now, the natural turf is always in good playing condition and the frozen tundra is a thing of the past. We are winners when customers like the Green Bay Packers are winners.

WPSR System Companies Are Making Strategic Growth A Reality

Competition is bringing sweeping changes to the energy business. Exclusive franchises, traditional regulation, restricted service territories, and limited product and service offerings will no longer be characteristic of our business environment. They are being replaced by competition, modified regulation, geographic expansion, and a broad array of new energy-related products and services. These changes are prompted by customers who embrace a strong free-market philosophy, the development of new products and services, new approaches to energy pricing, and more information on which to base energy choices. At the same time, new technology and systems are being developed to support this more complex marketplace.

Our growth strategy takes advantage of opportunities presented by competition. For our companies, growth means meeting the needs of more customers with a portfolio of innovative energy-related products and services at competitive prices; providing challenging jobs for employees; and rewarding shareholders with returns that fairly compensate them for the new risks brought about by competition. It also means working with customers, other energy suppliers, regulators, and legislators to create an environment characterized by efficient markets and the infrastructure required for reliable energy supplies.

Customer Focused

We are dedicated to providing our present customers with the best value in energy and related products and services. At the same time, we are also working diligently to earn the business of new customers.

Our approach to working with customers is based upon research that helps us understand how customers' needs differ. With this knowledge, we can enhance existing products and develop new products, services, and pricing alternatives to satisfy customers' needs.

We also understand the mutual benefit of establishing close working relationships with customers. Our executives meet regularly with large customers in an effort to become partners in meeting their business and energy needs. These meetings provide an opportunity to discuss industry changes and to explain how new energy products and services can benefit them. This dialogue results in customers who are better informed and who can make wise energy choices.

Our regulated and nonregulated companies serve a wide variety of customers in both the retail and wholesale sectors of the market. We serve homes, farms, large and small businesses, and customers who resell power to their customers. The accompanying pictures highlight a few of our entertainment, education, and agribusiness customers. We serve many other business customers, including paper makers, foundries, insurance and health care providers, food processors, and meat packers.

Our goal is to surpass customer expectations by providing energy offerings characterized by outstanding quality, service, and price. This is what we must do to earn the privilege of being our customers' energy supplier of choice.

Alliances and Acquisitions

We are pursuing alliances that promise business growth. One such alliance began with Wisconsin Public Service Corporation ("WPSC") providing electric dispatching and after-hours call center services to Upper Peninsula Power Company ("UPPCO"). The success of this effort led to the proposed merger of WPS Resources Corporation ("WPSR") and Upper Peninsula Energy Corporation, the parent of UPPCO. When the merger is completed (anticipated in the second half of 1998), UPPCO will become a subsidiary of WPSR. UPPCO serves approximately 48,000 customers in a 4,460-square-mile portion of Upper Michigan. The principal industries in UPPCO's service area include forest products, iron mining and processing, tourism, and small manufacturing. We look forward to providing outstanding service to these new customers.

In 1995, WPS Energy Services, Inc. ("ESI") acquired Fuel Services Group, an Ohio-based company specializing in marketing natural gas to commercial and industrial customers in Ohio and a number of eastern states. As a division of ESI, FSG Energy Services has made a substantial contribution to our efforts in the nonregulated marketplace. More recently, ESI assumed TexPar Energy, Inc.'s retail natural gas customer and supplier contracts, thereby providing new growth opportunities in Illinois.

We will continue to seek alliances, partnerships, and acquisitions that enhance our ability to serve customers. These relationships bring with them new people, new ideas, and new resources which are essential to our growth.

Customer Choices

Today, we provide customers with more choices to meet their energy needs than ever before. While WPSC provides customers in its service territory with natural gas at regulated rates that are among the lowest in the region, ESI offers natural gas customers a variety of nonregulated pricing options. For example, some ESI customers choose

to purchase gas at current market prices. Others prefer fixed rates for a predetermined period of time. Still others choose a managed price option which offers an opportunity to obtain gas at rates below current market prices.

Residential customers also want more choices from their local energy company. WPSC's residential customers are able to participate in programs tailored to meet their specific needs. Customers can choose to receive their monthly bill on a specific date, to pay their bills by electronic funds transfer, to receive a reduced rate for shifting their electric use to less popular times of the day, to equalize their payments using a budget payment plan, and to further renewable energy research by purchasing electricity under a "green-pricing" rate.

Growth Opportunities in Gas Distribution

WPSC continues to aggressively expand its natural gas business by increasing efforts to obtain new customers in existing gas service territories and by acquiring new natural gas distribution franchises. During the past 5 years, 39,500 new natural gas customers have been added.

As we continue to seek growth opportunities in the natural gas distribution business, gas supply is a concern. Today, WPSC's franchise territory is served by only one gas transmission provider–ANR Pipeline Company. During the past year, plans were developed for the Viking Voyageur project, which would transport Canadian gas through Wisconsin to Northern Illinois. If completed, this project will assure our customers of large volumes of competitively priced natural gas.

Technology and Systems

New information systems, which provide for more efficient handling of data, are necessary if we are to compete successfully in today's markets. WPSC plans to acquire new automated meter reading equipment to gather more and different types of data than is possible with present labor-intensive methods. A new customer information system will process this data in a manner that will better serve customers' needs.

At WPSC's generating facilities, steps are being taken to improve the quality of the maintenance process. An initiative is under way to acquire a software system that will facilitate the collection of historic repair information, assist in planning and scheduling maintenance work, identify repair parts when necessary, and track maintenance expenses.

ESI has developed hardware and software that make it possible for customers to understand their energy requirements and the supply alternatives available for satisfying those needs. We are making it possible for our customers to make wise choices and to take advantage of the new energy products that are coming to market. Recently, ESI also installed new systems to support electric and gas trading and the management of risks associated with these operations.

Internal Improvements

Competitive prices are a prerequisite for growth in sales volume. Although the market is a major determinant of price, cost is also an important part of the equation. Electric generating costs at WPSC are among the lowest in the industry due to WPSC's ability to burn large quantities of low-cost, low-sulfur coal at its fossil-fueled plants and to operate the Kewaunee Nuclear Power Plant ("Kewaunee") very efficiently.

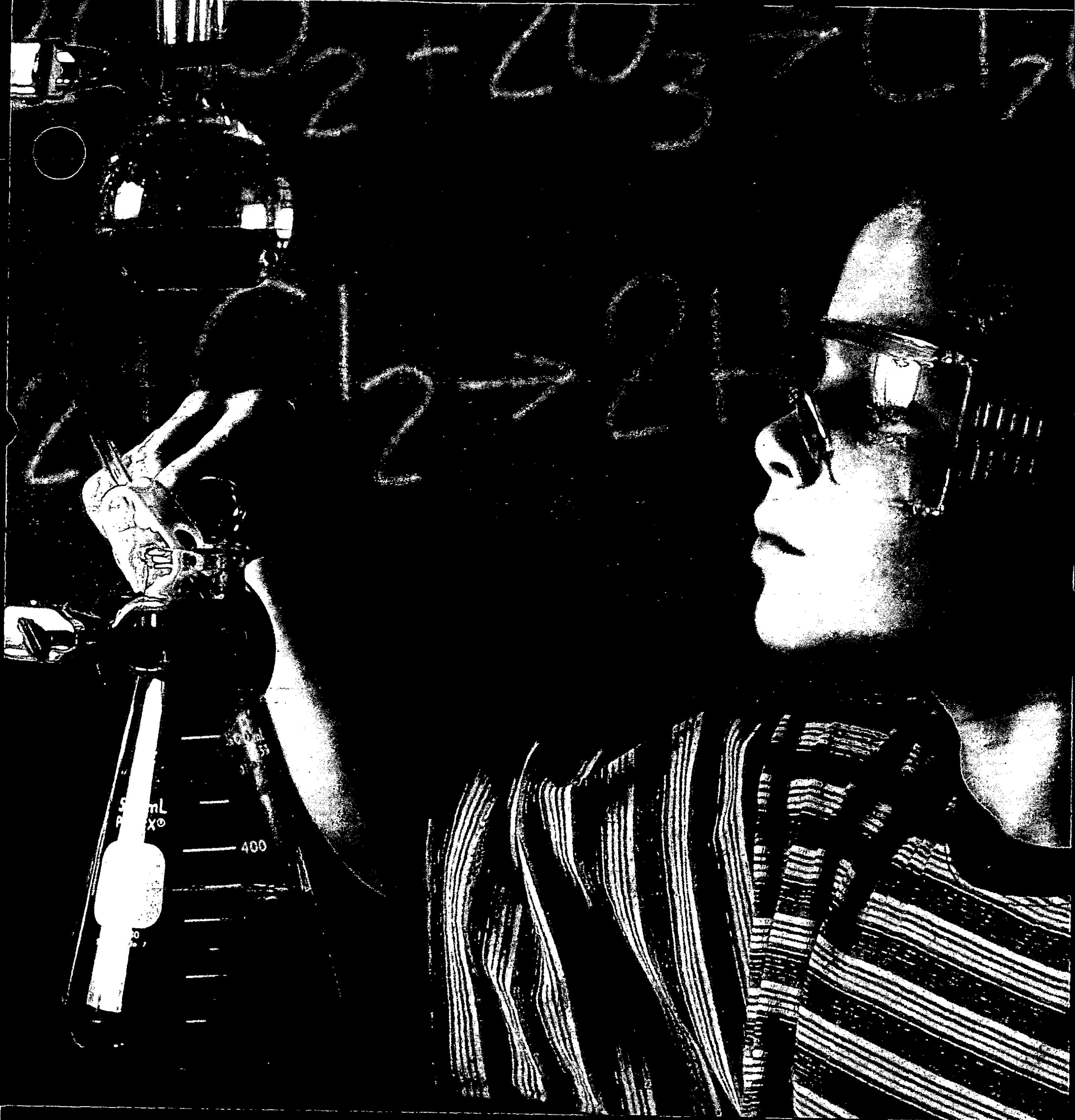
Employees are improving their processes. The efforts of the engineering and technical support clerical group at Kewaunee, a self-directed team, is a good example. Today, 4 employees support an engineering staff of 105. Less than 3 years ago, it took 13 employees to support 140 engineers. While the engineering staff was reduced by 25%, the clerical staff was reduced by 70%, both through reassignment. This is just one example of how teamwork, improved work methods, and hard work have created more efficient operations.

Employee development is required for our continued success. WPSC has established learning centers that provide educational counseling and the learning resources necessary for employees to update old skills and learn new skills. We are committed to providing employees with first-class learning opportunities so they can advance their skills and fill jobs that did not exist just a few years ago.

Our Competitive Advantages

To translate our plans for growth into actual growth, we must capitalize on our competitive advantages.

Wisconsin Public Service Corporation's strengths are the result of a history of wise management and hard work by every employee. Thus, employees have an appreciation for the effort necessary to grow in the new



Providing Energy For A Positive Learning Environment

Wisconsin Public Service Corporation ("WPSC") and WPS Energy Services, Inc. ("ESI") are providing energy services that benefit preschoolers to graduate students and beyond.

We believe the Milwaukee Public School System made a wise choice when it decided to purchase natural gas for 44 of its schools from ESI. ESI is proud to ensure students a comfortable environment in which to learn.

WPSC serves utility customers in northeastern and central Wisconsin and a portion of Upper Michigan. ESI serves customers in nonregulated markets from Massachusetts to Wisconsin. ESI's principal operations are located in Illinois, Michigan, Ohio, and Wisconsin.

Strategic GROWTH

Partnering With Farmers To Help Them Be Successful

Wisconsin Public Service Corporation ("WPSC") has transformed to meet the changing energy needs of its farm customers.

When Wisconsin became known as America's Dairyland, it was not unusual to find a successful dairy operation with a few dozen cows. Today, the most profitable dairy farms have anywhere from a few hundred to well in excess of a thousand cows. With large herds, milking has become a 24-hour-a-day operation that uses large quantities of electricity and natural gas. WPSC assists farmers with the design of systems that will save energy and increase profitability.

Pictured above is the computer-controlled milking parlor on the 500-cow, 400-acre Soaring Eagle Dairy Farm in Newton, Wisconsin.

competitive environment. WPSC's accomplishments and resulting competitive advantages include the following:

- WPSC has the benefit of substantial customer goodwill resulting from years of superior customer service.
- WPSC's financial strength is ranked among the highest of all regulated utilities in the nation.
- WPSC's workforce possesses a strong work ethic.
- WPSC has demonstrated that its electric and gas systems can operate in a highly reliable manner. Even during the tight electric supply period of the past summer, WPSC's electric system performed well.
- WPSC's electric customers enjoy the lowest rates in the region.
- WPSC's electric generating costs are among the lowest in the industry.
- WPSC has low distribution maintenance expenses and proven reliability as a result of having one of the few electric distribution systems in the nation operating at the higher voltage of 24.9 kV.
- WPSC's gas customers benefit from the lowest natural gas rates of any Wisconsin utility in all rate classes.
- WPSC's gas mains are predominantly plastic with a lesser amount of wrapped steel mains still in use. The result is dramatically reduced maintenance expenses compared with the expenses incurred by companies with less modern gas distribution systems.
- WPSC is restructuring to form the business units that will be required for continued success.

WPS Energy Services, Inc. is eager for retail electric access so that it can take advantage of the synergies that result from providing for both the electric and gas needs of customers. ESI's accomplishments and resulting competitive advantages include the following:

- ESI has an aggressive sales force, which has been able to develop annual revenues of $189.4 million since its founding in 1994.
- ESI has expertise in both electric and gas markets.
- ESI designs energy products that meet the needs of specific customers.
- ESI provides energy choices that regulated utilities are unable to furnish.
- ESI is able to take advantage of the strategic alliance between itself and its sister company, WPS Power Development, Inc. ("PDI").
- ESI has special expertise in serving paper manufacturers.
- ESI has developed technology that provides customers with the information they need to understand their energy consumption patterns and supply alternatives. This allows customers to optimize their energy purchase strategies.
- ESI possesses market trading and risk management expertise and offers these services to its customers.

WPS Power Development, Inc. possesses the following competitive advantages:

- PDI's employees have broad experience in construction, operations, and maintenance for the power generation industry. Areas of expertise include cogeneration, distributed generation, generation from renewables, and generating plant repowering projects.

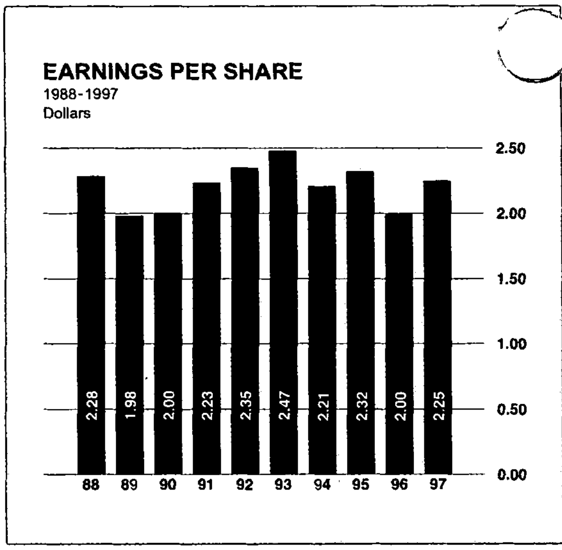
- PDI owns a two-thirds interest in the Stoneman Power Plant ("Stoneman"), a 53-megawatt merchant coal-fired steam generating plant located in Cassville, Wisconsin. Plans exist to redevelop Stoneman as a 300-megawatt to 500-megawatt gas-fueled generating facility.
- PDI is able to take advantage of the strategic alliance between itself and its sister company, ESI. For example, ESI is marketing the capacity and energy from Stoneman.
- PDI is also joint owner of a company that has the technology to convert paper mill sludge to lightweight aggregate.

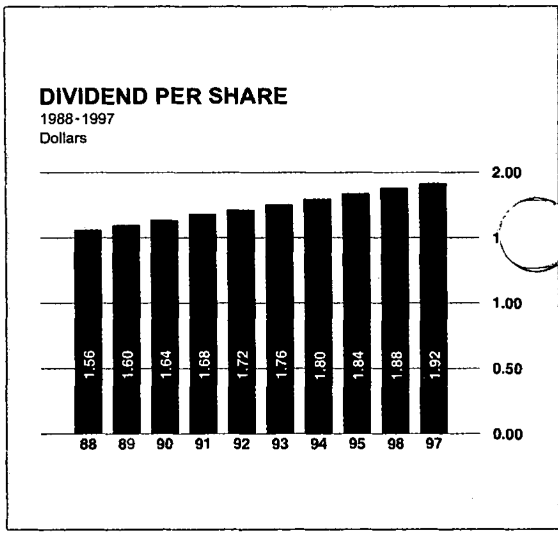
Shareholder Value

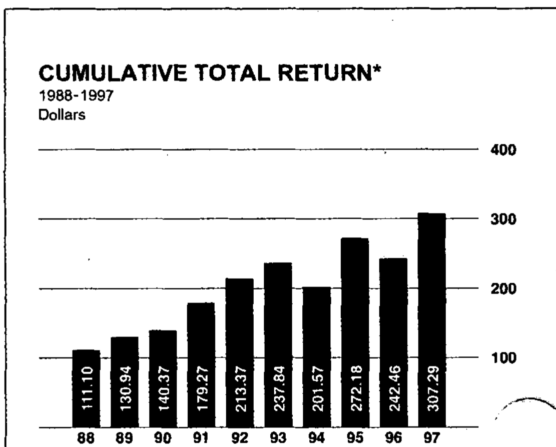
A customer focus; successful alliances; new products, services, and options; new customers; new energy supplies; improved technology and new systems; process improvements that reduce costs; and employee development–brought together, constitute our growth strategy. These powerful forces are at work to enhance our competitive advantages and create greater value for our shareholders.

This report includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Although WPS Resources Corporation ("WPSR") believes that its expectations are based on reasonable assumptions, no assurance can be given that actual results may not differ materially from those in the forward-looking statements included in this report for reasons that include: the speed and degree to which competition enters the electric and natural gas industries; state and federal legislative and regulatory initiatives that increase competition, affect cost and investment recovery, and have an impact on rate structures; the economic climate and industrial, commercial, and residential growth in areas served by Wisconsin Public Service Corporation and WPS Energy Services, Inc. ("ESI"); the weather and other natural phenomena; the timing and extent of changes in commodity prices and interest rates; conditions in the capital markets; and growth in opportunities for ESI and WPS Power Development, Inc.

A forward-looking statement speaks only as of the date on which such statement is made, and WPSR does not undertake to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for WPSR to predict all such factors, nor can it assess the impact of each such factor or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.







*Assumes $100 investment in common stock at year-end 1987 and all dividends reinvested quarterly. Cumulative total return for the ten-year period is equivalent to an average annual return of 11.9%.

RESULTS OF OPERATIONS

WPS Resources Corporation ("WPSR") is a holding company. Approximately 79% and 95% of WPSR's 1997 revenues and assets, respectively, and all of its net income are derived from Wisconsin Public Service Corporation ("WPSC"), an electric and gas utility. WPSR's wholly-owned subsidiaries include WPSC, WPS Energy Services, Inc. ("ESI"), and WPS Power Development, Inc. ("PDI").

1997 Compared with 1996

WPS Resources Corporation Overview

Revenues at WPSR increased from $858.3 million in 1996 to $878.3 million in 1997, or 2.3%. Net income increased 12.3% from $47.8 million in 1996 to $53.7 million in 1997. Basic and diluted earnings per share increased 12.5%, from $2.00 in 1996 to $2.25 in 1997. The primary reasons for the increase in earnings at WPSR were decreased operating and maintenance expenses, increased other income, an increased nonregulated energy margin, and an increased gas utility margin. Partially offsetting these increases in earnings were a decrease in the electric utility margin, an increase in depreciation and decommissioning expense, and an increase in income tax expense.

Earnings on common stock of WPSC were $61.6 million in 1997 and $57.3 million in 1996. Nonregulated losses were $7.9 million in 1997 and $9.5 million in 1996.

Wisconsin Public Service Corporation Overview

Revenues at WPSC were $690.5 million in 1997 compared with $701.9 million in 1996, a decrease of 1.6%. Earnings on common stock increased 7.5%, from $57.3 million in 1996 to $61.6 million in 1997. The primary reasons for the increase in earnings at WPSC were a decrease in operating and maintenance expenses, an increase in other income, and an increase in the gas utility margin. Offsetting these increases in earnings were a decrease in the electric utility margin, an increase in depreciation and decommissioning expense, and an increase in income tax expense.

Electric Utility Operations

Electric margins decreased $21.4 million (see table at top of next column), or 6.2%, due to implementation of a Public Service Commission of Wisconsin ("PSCW") rate order which authorized a $35.5 million, or 8.1%, electric revenue reduction. A second factor contributing to decreased margins was increased replacement power costs as a result of an extended outage at the Kewaunee Nuclear Power Plant ("Kewaunee"). WPSC is the operator and 41.2% owner of Kewaunee. A surcharge authorized by the PSCW partially offset increases in replacement power costs in the latter part of the first quarter and in the second quarter of 1997.

Electric Margins ($000)	*1997*	*1996*	*1995*
Revenues	**$479,388**	$490,506	$489,000
Fuel and purchased power	**153,414**	143,155	144,451
Margins	**$325,974**	$347,351	$344,549
Sales *(kWh 000)*	**11,259,327**	11,011,842	10,978,131

In spite of a 27.6% decrease in cooling degree days, electric kilowatt-hour ("kWh") sales increased by 2.2% due to increased demand by commercial and industrial customers. Commercial and industrial kWh sales increased 4.8%, while wholesale kWh sales decreased 3.4%. Electric operating revenues decreased $11.1 million, or 2.3%, due primarily to the electric rate decrease.

Electric production fuel expense increased $2.1 million, or 2.0%. Nuclear fuel expense was $2.0 million lower than in 1996 due to decreased generation at Kewaunee in the first and second quarters of 1997 as a result of an extended outage. Steam fuel expense was higher by $1.0 million and combustion turbine generation expense was higher by $3.2 million due to increased generation requirements from these sources during the extended outage at Kewaunee.

Purchased power expense increased $8.1 million, or 21.6%, due to increased purchase requirements and higher costs of purchased power during the extended outage at Kewaunee.

The PSCW allows WPSC to pass changes in the cost of fuel and purchased power, within a specified range, on to its customers through a fuel adjustment clause. 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. The additional fuel costs in 1997 did not result in WPSC being outside this 2% window.

Gas Utility Operations

Gas margins increased $1.4 million (see table below), or 2.2%, due primarily to implementation of a PSCW rate order which authorized a $5.7 million, or 2.7%, increase in gas revenues.

Gas Margins ($000)	*1997*	*1996*	*1995*
Revenues	**$211,090**	$211,357	$174,693
Purchase costs	**147,755**	149,388	116,253
Margins	**$ 63,335**	$ 61,969	$ 58,440
Volume *(Therms 000)*	**662,008**	666,598	631,192

Gas operating revenues remained relatively stable reflecting the rate increase offset by a 5.5% reduction in heating degree days. Gas revenues also reflect a one-time reduction of $0.9 million in the first quarter of 1997 as a result of a PSCW directive to change the accounting treatment for previous customer line extensions. This reduction represents a decrease of approximately $.02 per share after income tax effects.

Gas purchase costs showed a net decrease of $1.6 million, or 1.1%, due primarily to reduced purchases because of decreased demand as a result of the reduction in heating degree days. The PSCW allows WPSC to pass changes in the cost of gas on to customers through a purchased gas adjustment clause ("PGAC").

Other Utility Expenses/Income

Other operating expenses at WPSC decreased $24.1 million, or 15.2%. Cost saving initiatives and decreased amortization of deferred demand-side management expenditures resulted in lower customer service and sales expenses of $9.5 million. Administrative expenses decreased $5.8 million due to cost saving measures and reduced postretirement medical, dental, and other benefit expenses. Generation operating expenses were lower by $7.3 million primarily as a result of the completion in 1996 of an amortization of deferred expenses related to a previous coal contract settlement. Gas operating expenses decreased $1.5 million as the result of a PSCW directive requiring gas servicing revenues and expenses to be classified as other income and deductions beginning in 1997.

Maintenance expense decreased $7.1 million, or 14.5%. Electric transmission and distribution expenses decreased $3.4 million as a result of cost saving initiatives and less maintenance of overhead lines in 1997 due to less storm damage. Expenses were $1.9 million lower at Kewaunee in 1997 because Kewaunee was out of service in 1996 for scheduled maintenance. Gas distribution had lower expenses of $0.9 million due to cost saving initiatives and decreased maintenance activities. Steam costs decreased $0.6 million at WPSC's coal-fired plants due to changes in maintenance schedules as a result of the extended outage at Kewaunee.

Depreciation and decommissioning expenses increased $12.0 million, or 18.8%, largely due to the accelerated recovery of investment in Kewaunee and accelerated funding of Kewaunee decommissioning costs.

Other income increased $7.5 million, or 141.7%, due primarily to gains in 1997 on the sale of nonutility property of $4.8 million which represented an increase of approximately $.12 per share after income tax effects. Also included in other income in 1997 was interest of $2.2 million resulting from an income tax audit settlement. Income tax expense increased $1.9 million reflecting higher net income in 1997.

Overview of Nonregulated Operations

Nonregulated operations primarily represent the gas and electric sales of ESI, an energy marketing subsidiary. Nonregulated operations also include PDI which participates in the development of electric generation projects, invests in generating projects, and provides services to the electric power generation industry. Nonregulated operations experienced a loss of $7.9 million in 1997 compared with a loss of $9.5 million in 1996.

On a stand-alone basis, WPSR incurred a net loss in 1997 of $1.0 million, compared with net income of $0.8 million in 1996. The 1997 WPSR stand-alone loss was attributable primarily to costs related to the proposed merger with Upper Peninsula Energy Corporation ("UPEN").

ESI incurred a loss of $4.9 million in 1997 and $6.3 million in 1996, a decrease of 22.2%. PDI incurred a loss of $1.9 million in 1997 and $4.0 million in 1996, a decrease of 52.5%. Operating losses at the nonregulated subsidiaries were anticipated by management as the companies develop infrastructure and finance additional working capital needed to support growth.

Nonregulated Margins

Gas margins at ESI increased $3.2 million from a negative $1.1 million in 1996 to a positive $2.1 million in 1997. In 1996, customer commitments at ESI were not fully hedged during a period of volatile gas commodity markets and certain gas suppliers defaulted which negatively impacted margins. Electric margins increased $0.9 million in 1997.

Nonregulated energy and other operating revenues increased $31.5 million, or 20.1%. The increase in nonregulated energy revenues consisted largely of increased gas sales at ESI of $26.2 million, or 17.1%, as a result of customer growth and increased electric sales of $5.6 million, or 716.0%.

Nonregulated energy cost of sales increased $27.7 million, or 17.9%, due primarily to increased gas purchases and purchased power of $20.5 million and $4.7 million, respectively, at ESI.

Other Nonregulated Expenses/Income

Other nonregulated operating expenses increased $3.7 million, or 34.6%. Other operating expenses increased $2.3 million at WPSR due primarily to expenses associated with the UPEN merger.

Other operating expenses at ESI increased $1.3 million, or 19.4%, due to expansion of the business and the development of infrastructure as ESI positions itself for the future. Although increased margins more than offset other operating expenses, interest costs increased due to the financing of additional working capital needed to support the growth of ESI.

Other operating expenses at PDI increased $0.4 million as a result of expansion of the business and operation of the Stoneman Power Plant ("Stoneman"). Project revenues at PDI partially offset costs related to the investigation of possible energy-related investments and a loss from Stoneman operations.

ESI experienced trading losses of $1.4 million in 1997 and $2.5 million in 1996. PDI experienced a loss of $4.0 million in

1996 related to the write-off of an investment in an industrial processing facility. This write-off represented a decrease in 1996 earnings of $.10 per share after income tax effects.

1996 Compared with 1995

WPS Resources Corporation Overview

Revenues at WPSR increased 19.2% from $719.8 million in 1995 to $858.3 million in 1996. Net income was $55.3 million in 1995 compared with $47.8 million in 1996, a decrease of 13.6%. Basic and diluted earnings per share were $2.32 in 1995 and $2.00 in 1996, a decrease of 13.8%. The most significant reasons for the decrease in earnings at WPSR were increased operating expenses at the nonregulated subsidiaries, decreased gas margins at ESI, a loss on an industrial processing facility investment at PDI, and increased operating expenses at WPSC.

Earnings on common stock of WPSC were $57.3 million in 1996 and $56.1 million in 1995. Nonregulated losses were $9.5 million in 1996 and $0.8 million in 1995.

Wisconsin Public Service Corporation Overview

Revenues at WPSC increased 5.8%, from $663.7 million in 1995 to $701.9 million in 1996. Earnings on common stock increased 2.1%, from $56.1 million in 1995 to $57.3 million in 1996.

Electric Utility Operations

Electric margins increased $2.8 million, or 0.8%, due primarily to increased sales volumes and decreased purchased power expenses. Electric operating revenues remained relatively stable between 1996 and 1995. Electric production fuels and purchased power decreased $1.3 million, or 0.9%, as a result of $1.9 million lower purchased power costs, $1.8 million lower generation costs at Kewaunee due to an extended outage, and $1.5 million lower combustion turbine generation costs. Offsetting these decreases was an increase in generating costs at coal-fired plants of $3.9 million.

Gas Utility Operations

Gas margins increased $3.5 million, or 6.0%, due to customer growth at WPSC and colder weather. Based on degree days, the weather was 9.6% colder in 1996 than in 1995. Gas operating revenues increased $36.7 million, or 21.0%, and gas purchased for resale increased $33.1 million, or 28.5%, both due to increased volumes as a result of customer growth and higher gas costs.

Other Utility Expenses/Income

Other operating expenses at WPSC increased $7.3 million, or 4.8%. Higher operating expenses included 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 postretirement benefit expenses.

Maintenance expense decreased $2.0 million, or 4.0%, 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.

Overview of Nonregulated Operations

Nonregulated energy and other operating revenues increased 178.3%, from $56.2 million in 1995 to $156.4 million in 1996. The loss at the nonregulated subsidiaries was $0.8 million in 1995 and $9.5 million in 1996.

Nonregulated Margins

Gas margins at ESI decreased from a positive $1.2 million in 1995 to a negative $1.1 million in 1996. Gas margins were negatively impacted 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.

Nonregulated energy and other operating revenues increased $100.2 million, or 178.5%. Nonregulated energy revenues primarily represent electric and gas sales made by ESI. The increase in nonregulated energy revenues was due 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%. The 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 were comprised of consulting and construction revenue from ESI and PDI.

Nonregulated energy cost of sales increased $101.2 million, or 187.4%, due primarily to increased gas purchases and increased gas costs at ESI from $54.0 million in 1995 to $154.3 million in 1996, an increase of $100.3 million, or 185.7%.

Other Nonregulated Expenses/Income

Other operating expenses increased $7.1 million reflecting the expansion of ESI's and PDI's business and the development of infrastructure including personnel and systems.

In 1996, PDI experienced a $4.0 million loss on a write-off of an investment in an industrial processing facility which had been made in anticipation of energy sales opportunities. This loss represented a $.10 per share decrease in earnings after income tax effects. ESI experienced trading losses of $2.5 million in 1996.

BALANCE SHEET

1997 Compared with 1996

Nuclear decommissioning trusts increased $33.5 million due to continued funding and favorable investment returns. Customer receivables decreased $19.3 million primarily as a result of decreased sales and increased collection efforts at WPSC. Regulatory assets decreased $18.4 million due primarily to gas plant cleanup insurance recoveries recorded as an offset to regulatory assets in 1997. Investments and other assets increased $16.7 million as a result of increased prepaid pension assets and an increased unrealized gain on the nuclear decommissioning trust.

Short-term notes payable and commercial paper decreased $16.6 million and $10.6 million, respectively, due to decreased operational cash needs at WPSC and decreased notes payable at WPSR. Internally generated funds exceeded cash requirements at both WPSC and WPSR.

FINANCIAL CONDITION

Internally generated funds exceeded WPSR's cash requirements resulting in the reduction of short-term borrowings during 1997. Pretax interest coverage was 4.48 times for the 12 months ended December 31, 1997 for WPSC. WPSC's bond ratings are AA+ (Standard & Poor's and Duff & Phelps) and Aa2 (Moody's).

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 dividends without prior notice to the PSCW. Also, Wisconsin law prohibits WPSC from making loans to WPSR and its nonregulated subsidiaries and from guaranteeing their obligations. A special common stock dividend of $10.0 million was paid by WPSC to WPSR in January 1997. The special dividend allowed WPSC's average equity capitalization ratio to remain at approximately 54%, the level approved by the PSCW for ratemaking.

WPSC makes large investments in capital assets. Construction expenditures for WPSC are expected to continue in the $75.0 million to $90.0 million range annually during the 1998 through 2000 period. This does not include expenditures for the replacement of Kewaunee steam generators. Steam generator replacement, WPSC's share of which would be approximately $36.7 million in year of occurrence dollars, is contingent upon receipt of approval from the PSCW to proceed with replacement and agreement among the owners on a replacement plan. Potential expenditures for gas pipeline laterals which would connect WPSC's distribution system with the proposed Viking Voyageur pipeline from Canada are also not included.

In addition, other capital requirements for WPSC during the three-year period include Kewaunee decommissioning trust fund contributions of approximately $30.0 million and maturing first-mortgage bonds of $50.0 million.

WPSR expects that internally-generated funds and short-term borrowing will satisfy most of its capital requirements. WPSR may periodically issue additional long-term debt and common stock to reduce short-term debt and to maintain desired capitalization ratios. The specific forms of financing, amounts, and timing will depend on the availability of projects, market conditions, and other factors. WPSR may expand its leveraged employee stock ownership plan during the three-year period. Trusted preferred stock may be issued on behalf of WPSR in 1998 to reduce short-term borrowing.

Investment expenditures for nonregulated projects are uncertain since there are no material firm commitments at this time. Debt financing for most nonregulated projects is expected to be on a nonrecourse basis.

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. WPSR adopted this statement 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 WPSR 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. WPSR has adopted only the disclosure provision of the statement and currently does not provide significant stock-based compensation.

In February 1997, the Financial Accounting Standards Bo ("FASB") issued SFAS No. 128, "Earnings Per Share." This statement establishes standards for computing and presenting earnings per share. Adoption of this standard by WPSR at December 31, 1997 had no impact on the presentation of earnings per share as basic and diluted earnings per share are identical to previously reported earnings per share.

In June 1997, the FASB issued SFAS No. 130, "Reporting of Comprehensive Income," which establishes standards for reporting and display of comprehensive income and its components of revenues, expenses, gains, and losses. The statement is effective for fiscal years beginning after December 15, 1997. WPSR will be adopting the requirements for reporting comprehensive income in the first quarter of 1998.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement establishes standards for reporting information about operating segments and is effective for periods beginning after December 15, 1997. WPSR will be adopting the requirements of this statement at year-end 1998 and has not yet determined the segments which will be disclosed.

On July 10, 1997, WPSR announced a merger agreement with UPEN. The S-4 Registration Statement was declared effective by the Securities and Exchange Commission ("SE on December 5, 1997. The shareholders of UPEN approve the merger on January 29, 1998. The merger is subject to (1) approval by the Federal Energy Regulatory Commission ("FERC"); (2) approval by the SEC under the Public Utility Holding Company Act of 1935; (3) the expiration or termination of the waiting period applicable to the merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976; (4) receipt by the parties of an opinion of counsel that the exchange of stock qualifies as a tax-free transaction; (5) receipt by the parties of appropriate assurances that the transaction will be accounted for as a pooling of interests; and (6) the satisfaction of various other conditions. The merger is expected to be completed during the second half of 1998. UPEN will merge with and into WPSR, and Upper Peninsula Power Company, UPEN's utility subsidiary, will become a wholly-owned subsidiary of WPSR. Each of the 2,950,001 outstanding shares of UPEN common stock (no par value) will be converted into 0.90 shares of WPSR common stock ($1.00 par value), subject to adjustment for fractional shares, as provided in the merger agreement.

Effective March 20, 1997, WPSC received authorization from the PSCW to defer all costs associated with the repair of the Kewaunee steam generators. Repairs are complete and Kewaunee returned to service on June 12, 1997 after having been out of service since September 21, 1996. Repair costs of $3.6 million (WPSC's portion) have been deferred. The joint owners of Kewaunee have requested rate recovery of these deferred costs through a customer surcharge which would be effective for April and May 1998.

On July 1, 1997, the PSCW authorized WPSC to defer all advertising costs associated with developing a communication plan to educate customers on the potential energy shortage. WPSC was also authorized to defer all costs related to returning its fossil-fueled plant, Pulliam Unit 3, to service and all subsequent operating costs for Pulliam Unit 3 until the next rate filing. The recovery of these deferred costs will be considered in a future rate proceeding. To date, approximately $0.5 million related to advertising costs and Pulliam Unit 3 operating costs has been deferred.

A PSCW order granting a Certificate of Public Convenience and Necessity for construction of the De Pere Energy Center was issued on October 9, 1997. WPSC has a 25-year commitment with Polsky Energy Corporation to purchase the output of the facility which is scheduled for operation in 1999. The transaction will be accounted for as a capital lease. WPSC will make any necessary adjustments to debt and equity levels, and appropriate rate relief is expected. Should electric retail deregulation occur, this contract may be deemed uneconomical which could require a loss accrual if the regulator would not allow recovery as part of the deregulation transition plan.

WPSR's contract with the International Union of Operating Engineers Local 310 expired on October 28, 1997. Unresolved issues remain and contract negotiations continue. Approximately 1,200 employees are covered under this contract. The employees continue to work without a contract.

WPSR has completed an initial assessment of the impact of the year 2000 compliance on its computer systems. WPSR worked with a consultant beginning in 1996 to analyze the year 2000 problem. Plans have been established to analyze all in-house and third party software products and applications. A preliminary plan indicates that all major in-house developed systems are expected to be compliant by the end of 1998. The plan is intended to enable all systems to be compliant by the year 2000. The most recent estimated future internal labor and third party cost of year 2000 compliance is approximately $13.4 million.

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, 90% of revenues, the Michigan Public Service Commission ("MPSC"), 3% of revenues, and the FERC, 7% of revenues. In addition, Kewaunee is regulated by the Nuclear Regulatory Commission ("NRC"). Environmental matters are primarily governed by the United States Environmental Protection Agency and the Wisconsin Department of Natural Resources.

In late 1995, the PSCW outlined its plan for restructuring the electric industry in Wisconsin. The plan included 32 steps in a 5-year process concluding with retail competition by the year 2001. In 1997, the 32-step process was changed to a 7-step process which has not yet been adopted as the official PSCW restructuring plan.

Should electric deregulation occur such that WPSC would no longer qualify to reflect the effects of ratemaking under SFAS No. 71 in its financial statements, no impairment of significant recorded assets or reduction in reported equity is anticipated. WPSC does not have any significant assets which it foresees as being potentially stranded and no potential disparity between the depreciable lives of WPSC's capital assets and those lives applicable to a competitive environment has been identified. Increased competition is likely to put pressure on margins at WPSC. However, at this time, management cannot predict the ultimate results of deregulation.

Part of electric utility restructuring involves establishing independent system operators ("ISOs"). An ISO is an independent third party which potentially owns the transmission facilities, oversees the operations of transmission facilities, administers open access transmission tariffs, and directs power dispatch. WPSC is working with several groups which are attempting to form ISOs.

During the past summer, Governor Thompson requested reports from the PSCW, electric utilities, and industrial customers assessing the electric capacity problems experienced in eastern Wisconsin during this past spring and summer. The reports provided analyses and recommendations on how to assure the future reliability of the electrical supply and made recommendations on how to improve the effectiveness of the state's utility regulatory process. WPSC participated in the development of the utility report. The Governor is expected to make energy supply and regulatory recommendations based on the reports.

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

WPSC has historically recovered gas costs through a PGAC. The PSCW has recently allowed utilities to select either an incentive gas cost recovery mechanism or a modified one-for-one mechanism for gas cost recovery. WPSC has selected the modified one-for-one gas cost recovery plan and implementation of the new mechanism, which is currently under development and is similar to the recovery received under the existing PGAC, is expected in November 1998.

WPSC is investigating the environmental cleanup of eight manufactured gas plant sites. Cleanup estimates have been determined for seven of the sites. A detailed investigation has not yet been performed for the eighth site. Future investigation and cleanup costs for all eight sites is estimated in the range of $34.1 million to $41.1 million. These estimates may be adjusted in the future contingent upon remedial technology, regulatory requirements, and experience gained through cleanup activities.

An initial liability of $41.7 million for cleanup had been established with an offsetting regulatory asset (deferred charge). Of this amount, approximately $1.5 million has been spent to date. Management believes that cleanup costs net of insurance recoveries, but not the carrying costs associated with the cleanup expenditures, will be recoverable in current and future customer rates. WPSC has received $12.6 million in insurance recoveries which have been recorded as a reduction in the regulatory asset. The PSCW has authorized current annualized recovery for gas site cleanup of $225,000 for 1997 and 1998.

WPSC is in compliance with both the Phase I and II sulfur dioxide and nitrogen oxide emission limits established by the Federal Clean Air Act Amendments of 1990. Additional capital expenditures of $1.0 million to $2.0 million are projected through 1999 for Wisconsin and federal air quality compliance. Management believes that all costs incurred for additional compliance will be recoverable in future customer rates.

On March 15, 1996, WPSC filed an application with the PSCW for permission to replace the Kewaunee steam generators. Public hearings were held in January of 1998. A decision is expected in March of 1998. The total cost of replacing the two steam generators would be approximately $89.0 million. WPSC's share would be $36.7 million in year of occurrence dollars. The other two owners of Kewaunee do not favor steam generator replacement.

WPSC received a rate order in the Wisconsin jurisdiction effective in February 1997. The impact was 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 are effective for 1997 and 1998. WPSC intends to file an application with the PSCW on April 1, 1998 for electric and gas rate increases which would be effective in 1999 and 2000.

ESI incurred a $4.9 million loss in 1997 and a $6.3 million loss in 1996. A primary strategy for ESI is rapid growth to gain market presence which is reflected in a 237.7% growth in revenues during the three-year period 1995 through 1997, from $55.2 million in 1995 to $186.4 million in 1997. To support this growth, significant expenditures were made for personnel additions and system improvements. These expenditures, coupled with extreme gas market volatility, contributed to the losses incurred at ESI. Gas market volatility was reflected in the NYMEX gas futures prices per dekathe[illegible] which, in 1997, ranged from a high of $3.55 to a low of $1.8[illegible] In 1996, gas futures prices ranged from a high of $4.57 to a low of $1.86. Gas market volatility has a direct impact on revenue.

PDI expects to improve the overall performance of its investment in Stoneman due to a multi-year capacity sale agreement. Stoneman was also grandfathered by the PSCW as a merchant plant which increases the probability that the plant will be repowered as a 300-megawatt to 500-megawatt gas-fired combined cycle generating facility.

IMPACT OF INFLATION

WPSR'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

r Ended December 31 (Thousands, except share amounts)	1997	1996	1995
perating revenues			
Electric utility	**$479,388**	$490,506	$489,000
Gas utility	**211,090**	211,357	174,693
Nonregulated energy and other	**187,862**	156,391	56,155
Total operating revenues	**878,340**	858,254	719,848
Operating expenses			
Electric production fuels	**107,538**	105,418	104,858
Purchased power	**45,876**	37,737	39,593
Gas purchased for resale	**147,755**	149,388	116,253
Nonregulated energy cost of sales	**182,863**	155,133	53,983
Other operating expenses	**148,569**	168,905	154,445
Maintenance	**41,661**	48,806	50,761
Depreciation and decommissioning	**77,541**	65,178	65,627
Taxes other than income	**26,448**	26,868	25,921
Total operating expenses	**778,251**	757,433	611,441
Operating income	**100,089**	100,821	108,407
Other income			
Allowance for equity funds used during construction	**129**	139	170
Other, net	**11,511**	(1,084)	6,080
Total other income	**11,640**	(945)	6,250
come before interest expense	**111,729**	99,876	114,657
erest on long-term debt	**22,331**	21,532	22,859
Other interest	**4,172**	3,596	2,604
Allowance for borrowed funds used during construction	**(100)**	(128)	(68)
Total interest expense	**26,403**	25,000	25,395
Income before income taxes	**85,326**	74,876	89,262
Income taxes	**29,270**	24,358	30,808
Minority interest	**(797)**	(348)	—
Preferred stock dividends of subsidiary	**3,111**	3,111	3,111
Net income	**53,742**	47,755	55,343
Retained earnings at beginning of year	**311,794**	308,965	297,592
Cash dividends on common stock	**(45,662)**	(44,926)	(43,970)
Retained earnings at end of year	**$319,654**	$311,794	$308,965
Average shares of common stock	**23,873**	23,891	23,897
Basic and diluted earnings per average share of common stock	**$2.25**	$2.00	$2.32
Dividend per share of common stock	**1.92**	1.88	1.84

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

Assets

At December 31 (Thousands)	1997	1996
Utility plant		
Electric	**$1,506,470**	$1,474,104
Gas	**251,603**	240,791
Total	**1,758,073**	1,714,895
Less – Accumulated depreciation and decommissioning	**1,032,149**	952,296
Total	**725,924**	762,599
Nuclear decommissioning trusts	**134,108**	100,570
Construction in progress	**7,266**	10,301
Nuclear fuel, less accumulated amortization	**19,062**	19,381
Net utility plant	**886,360**	892,851
Current assets		
Cash and equivalents	**6,424**	5,978
Customer and other receivables, net of reserves	**87,709**	106,967
Accrued utility revenues	**30,750**	35,386
Fossil fuel, at average cost	**10,336**	8,224
Gas in storage, at average cost	**22,080**	19,987
Materials and supplies, at average cost	**18,793**	19,944
Prepayments and other	**20,499**	22,658
Total current assets	**196,591**	219,144
Regulatory assets	**78,544**	96,[illegible]
Net nonutility and nonregulated plant	**19,194**	19,[illegible]
Investments and other assets	**118,913**	102,212
Total	**$1,299,602**	$1,330,865

Consolidated Balance Sheets

pitalization and Liabilities

At December 31 (Thousands)	1997	1996
Capitalization		
Common stock equity	**$ 477,823**	$ 467,524
Preferred stock of subsidiary with no mandatory redemption	**51,200**	51,200
Long-term debt	**304,008**	305,788
Total capitalization	**833,031**	824,512
Current liabilities		
Notes payable	**10,000**	26,600
Commercial paper	**20,706**	31,350
Accounts payable	**85,651**	96,531
Accrued taxes	**3,514**	1,350
Accrued interest	**7,801**	8,134
Other	**9,536**	12,771
Total current liabilities	**137,208**	176,736
Long-term liabilities and deferred credits		
Accumulated deferred income taxes	**125,804**	130,208
Accumulated deferred investment tax credits	**26,901**	28,669
Regulatory liabilities	**50,279**	48,870
Environmental remediation liabilities	**40,215**	41,697
Other long-term liabilities	**86,164**	80,173
Total long-term liabilities and deferred credits	**329,363**	329,617
mmitments and contingencies *(See Note 9)*		
Total	**$1,299,602**	$1,330,865

The accompanying notes are an integral part of these statements.

Consolidated Statements of Capitalization

At December 31 (Thousands, except share amounts)			*1997*	*1996*
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			**319,654**	311,794
Shares in deferred compensation trust, 33,430 and 14,223 shares at an average cost of $28.44 and $31.16 per share at December 31, 1997 and 1996, respectively			**(951)**	(443)
ESOP loan guarantees			**(9,798)**	(12,745)
Total common stock equity			**477,823**	467,524
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**	53,100
	7⅛%	2023	**50,000**	50,000
Total			**284,175**	284,175
Unamortized discount and premium on bonds, net			**(890)**	(978)
Total first mortgage bonds			**283,285**	283,197
ESOP loan guarantees			**9,798**	12,745
Notes payable to bank, secured by nonregulated plant			**10,710**	9,581
Other long-term debt			**215**	265
Total long-term debt			**304,008**	305,788
Total capitalization			**$833,031**	$824,512

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Year Ended December 31 (Thousands)	1997	1996	1995
Cash flows from operating activities			
Net income	**$ 53,742**	$ 47,755	$ 55,343
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and decommissioning	**77,541**	65,178	65,627
Amortization of nuclear fuel and other	**14,665**	28,691	33,499
Deferred income taxes	**(5,917)**	(7,715)	319
Investment tax credit restored	**(1,767)**	(1,778)	(1,725)
Allowance for equity funds used during construction	**(129)**	(139)	(170)
Pension income	**(11,432)**	(12,413)	(11,678)
Postretirement liability	**4,952**	7,150	6,917
Deferred demand-side management expenditures	**(5)**	(6,250)	(8,595)
(Gain)/loss on sale of nonutility property	**(4,802)**	(8)	13
Other, net	**(6,936)**	7,954	7,150
Changes in			
Customer and other receivables	**19,258**	(27,666)	(19,272)
Accrued utility revenues	**4,636**	2,200	(8,766)
Fossil fuel inventory	**(2,112)**	477	1,804
Gas in storage	**(2,093)**	(9,911)	5,711
Accounts payable	**(10,880)**	29,048	840
Accrued taxes	**2,164**	(394)	592
Environmental remediation insurance recovery	**12,374**	200	–
Gas refunds	**(318)**	(6,175)	4,926
Net cash from operating activities	**142,941**	116,204	132,535
Cash flows from (used for) investing activities			
Construction of utility plant and nuclear fuel expenditures	**(58,258)**	(84,750)	(80,226)
Purchase of other property and equipment	**(2,030)**	(16,431)	(1,089)
Decommissioning funding	**(16,059)**	(8,978)	(8,181)
Purchase of investments and acquisitions	**–**	(728)	(10,217)
Proceeds from sale of nonutility property	**6,255**	10	29
Other	**(556)**	(359)	485
Net cash used for investing activities	**(70,650)**	(111,236)	(99,199)
Cash flows from (used for) financing activities			
Redemption of first mortgage bonds	**–**	(6,900)	–
Issuance of notes payable	**92,760**	141,225	15,000
Redemption of notes payable	**(109,360)**	(129,625)	(10,000)
Issuance of other long-term debt	**1,789**	15,296	–
Issuance of commercial paper	**700,540**	345,339	51,500
Redemption of commercial paper	**(711,184)**	(325,489)	(52,500)
Cash dividends on common stock	**(45,882)**	(44,926)	(43,970)
Purchase of deferred compensation stock	**(508)**	(443)	–
Net cash used for financing activities	**(71,845)**	(5,523)	(39,970)
Net increase (decrease) in cash and equivalents	**446**	(555)	(6,634)
Cash and equivalents at beginning of year	**5,978**	6,533	13,167
Cash and equivalents at end of year	**$ 6,424**	$ 5,978	$ 6,533
Cash paid during year for			
Interest, less amount capitalized	**$ 22,089**	$ 21,983	$ 21,255
Income taxes	**35,374**	31,735	34,300
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	**$ 65,646**	$ 81,714	$ 73,251

The accompanying notes are an integral part of these statements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations–WPS Resources Corporation ("WPSR") is a holding company. Approximately 79% and 95% of WPSR's 1997 revenues and assets, respectively, and all of its net income are derived from Wisconsin Public Service Corporation ("WPSC"), all of the outstanding common stock of which is owned by WPSR. WPSC is an electric and gas utility engaged in the supply and distribution of electric power and natural gas in its franchised service territory. WPSR also provides gas and electric marketing and energy-related services in nonregulated markets through its wholly-owned subsidiary, WPS Energy Services, Inc. ("ESI"). WPS Power Development, Inc. ("PDI"), another wholly-owned subsidiary of WPSR, participates in the development of electric generation projects, provides service to the electric power generation industry, and owns a two-thirds interest in a merchant generating plant, the Stoneman Power Plant ("Stoneman").

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

(b) Use of Estimates–The preparation of WPSR'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 Nonregulated 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.

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

(e) Price Risk Management Activities–ESI utilizes derivative financial and commodity instruments (derivatives), including futures and forward contracts, to reduce market risk associated with fluctuations in the price of natural gas and electricity sold under firm commitments with certain of its customers. ESI also utilizes derivatives, including price swap agreements, call and put option contracts, and futures and forward contracts, to manage market risk associated with a portion of its anticipated supply requirements. In addition, ESI utilizes derivatives, within specified guidelines, for trading purposes.

Gains or losses on derivatives associated with firm commitments are recognized as adjustments to the cost of sales or to revenues when the related transactions affect earnings. Gains and losses on derivatives associated with forecasted transactions are recognized when such forecasted transactions affect earnings. At December 31, 1997, $0.5 million in losses related to firm commitments and forecasted transactions were deferred. If it is no longer probable that a forecasted transaction will occur, any gain or loss on the derivative instrument as of such date is immediately recognized in earnings. Derivatives for trading purposes are marked to market each accounting period, and gains and losses are recognized as a component of other income at that time. In 1997 and 1996, trading losses of $1.4 million and $2.5 million, respectively, were recognized.

At December 31, 1997, ESI had outstanding 3.9 million notional dekatherms of natural gas under futures and option agreements and 3.2 million notional dekatherms of natural gas under basis swap agreements for purposes of managing market risk. The financial instruments outstanding at December 31, 1997 expire at various times through May 1999. ESI has certain gas sales commitments through May 1999 with a range of sale prices from $2.25 to $3.58 per dekatherm and a range of associated gas purchase costs of $2.18 to $3.51 per dekatherm.

As of December 31, 1997, the fair value of trading instruments included assets of $0.5 million. The average fair value of trading instruments during 1997 included assets of $0.5 million and liabilities of $0.5 million. Except for an insignificant level of electric trading instruments, financial instruments used for trading in 1997 and 1996 were natural gas derivatives. At December 31, 1997, ESI had outstanding 0.9 million notional dekatherms of natural gas under futures and option agreements and 3.9 million notional dekatherms of natural gas under basis swap agreements for trading purposes.

(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 1997, the AFUDC retail rate was approximately 10.4%.

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 1997, the AFUDC wholesale rate was approximately 5.7%.

Substantially all of WPSC's utility plant is subject to a fir 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 cost, 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.

Nonutility property and nonregulated 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. Except for the Kewaunee Nuclear Power Plant ("Kewaunee"), rates approved by the Public Service Commission of Wisconsin ("PSCW") on January 1, 1994 remain in effect.

	1997	1996	1995
Annual composite depreciation rates			
Electric	**3.52%**	3.33%	3.43%
Gas	**3.26%**	3.35%	3.46%

Nonutility property and nonregulated property are depreciated using straight-line depreciation. Most assets have depreciation lives ranging from five to ten years.

Property at Stoneman is depreciated using various lives, certain of which are as long as 40 years.

Depreciation and nuclear decommissioning costs are accrued over the estimated service life of Kewaunee. On January 3, 1997, the PSCW accepted 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 to provide for full recovery by the end of 2002. Prior to 1997, the service life of Kewaunee was estimated to end in 2013, the year its license expires. This decision results in a significant acceleration of the Wisconsin retail jurisdictional portion of Kewaunee depreciation and decommissioning collections in customer rates for 1997 and future years. Depreciation expense, exclusive of depreciation expense related to nuclear decommissioning costs, increased by approximately $3.3 million on an annualized basis from $4.7 million in 1996 to $8.0 million in 1997.

(i) Impairment–WPSR follows 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 WPSR's assets.

(j) 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. 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 United States 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, 1997 and 1996, the accumulated provisions for nuclear fuel totaled $151.2 million and $147.7 million, respectively.

(k) 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 $16.1 million in 1997 and $9.0 million in both 1996 and 1995. The increase in 1997 was the result of the PSCW's approval of the acceleration of Kewaunee depreciation and decommissioning funding as described in note 1 (h). The increase is $8.3 million on an annualized basis, from $9.0 million to $17.3 million.

Based on the standard cost escalation assumptions required by a July 1994 PSCW order, the undiscounted amount of WPSC's decommissioning costs forecasted to be expended between the years 2003 and 2039 is $614.0 million under the revised funding plan which became effective in 1997. In developing the funding plan, a long-term after-tax earnings rate of approximately 5.5% was assumed.

WPSC's share of Kewaunee decommissioning is estimated to be $182.2 million in current dollars based on a site-specific study. The study, which was performed in 1992, uses immediate dismantlement as the method of decommissioning beginning after a dormant period extending from 2002 until 2015. As of December 31, 1997, the market value of the external nuclear decommissioning trusts totaled $134.1 million.

Depreciation expense includes future decommissioning costs collected in customer rates and an offsetting charge for earnings from external trusts. As of December 31, 1997, the accumulated provision for depreciation and decommissioning included accumulated provisions for decommissioning totaling $134.1 million. Realized trust earnings totaled $3.7 million, $3.0 million, and $4.0 million, and unrealized trust earnings totaled $13.8 million, $6.5 million, and $5.0 million for the years ended December 31, 1997, 1996, and 1995, respectively. Unrealized gains, net of tax, in external trusts are reflected as an increase to the decommissioning reserve, since decommissioning expense will be recognized as the gains are realized, in accordance with regulatory requirements.

Investments in the nuclear decommissioning trusts are recorded at market value. The investments classified as utility plant are presented net of related income tax effects on unrealized gains and represent the amount of assets available to accomplish decommissioning. The nonqualified trust investments designated to pay income taxes when unrealized gains become realized are classified as other assets. An offsetting regulatory liability reflects the expected reduction in future rates as unrealized gains in the nonqualified trust are realized.

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

(m) Revenue and Customer Receivables–WPSR 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 changes in the cost of gas purchased from its suppliers on to system gas customers, subject to PSCW and MPSC review. The continued use of a PGAC for all Wisconsin utilities has been reexamined by the PSCW and utilities were given the choice between continuing under a modified one-for-one gas cost recovery plan or switching to an incentive gas cost recovery mechanism. WPSC has applied for a modified one-for-one gas cost recovery plan which is similar to cost recovery under the existing PGAC. Implementation of the modified one-for-one gas cost recovery plan is expected in November 1998.

WPSC is required to provide service and grant credit to customers within its 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 utili rates.

Approximately 12% of WPSC's total revenues are from companies in the paper products industry.

In October 1997, WPSC lost a major wholesale customer representing annual sales of approximately 380,000 megawatt-hours. An effort is being made to replace these lost sales with additional opportunity sales.

(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)	*1997*	*1996*
Regulatory assets		
Demand-side management expenditures	**$31,360**	$39,355
Environmental remediation costs (net of insurance recoveries)	**29,249**	43,062
Coal and rail contract buy-out costs	**2,293**	2,40
Debt refinancing costs	**1,859**	2,91
Enrichment facility fee	**5,544**	5,979
Kewaunee steam generator resleeving costs	**3,577**	–
Other	**4,662**	3,201
Total	**$78,544**	$96,920
Regulatory liabilities		
Income tax related items	**$26,119**	$30,056
Pensions	**2,443**	4,885
Conservation costs	**6,491**	9,101
Unrealized gain on decommissioning trust	**11,348**	3,587
Other	**3,878**	1,241
Total	**$50,279**	$48,870

As of December 31, 1997, the majority of WPSC's regulatory assets are being recovered through rates charged to customers over periods ranging from two to ten years. Carrying costs for all regulatory assets are being recovered except for those associated with environmental costs. 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 7 and 8 for specific information on pension an deferred tax regulatory liabilities. See note 9 for informatio 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, the long-term portion of energy conservation loans to customers, and the decommissioning trust investments designated for payment of income taxes.

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

(q) 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.

(r) Comprehensive Income–In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting of Comprehensive Income," which establishes standards for reporting and displaying comprehensive income and its components of revenues, expenses, gains, and losses. The statement is effective for fiscal years beginning after December 15, 1997. WPSR will be adopting the requirements for reporting comprehensive income in the first quarter of 1998. WPSR currently has no components of comprehensive income other than net income.

(s) Segment Disclosures–In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement establishes standards for reporting information about operating segments and is effective for periods beginning after December 15, 1997. WPSR will be adopting the requirements of this statement at year-end 1998 and has not yet determined the segments which will be disclosed.

Note 2: JOINTLY-OWNED FACILITIES

Information regarding WPSC's share of major jointly-owned electric generating facilities in service at December 31, 1997 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)	*West Marinette Unit No. 33*	*Columbia Energy Center*	*Edgewater Unit No. 4*	*Kewaunee*
Ownership	68.0%	31.8%	31.8%	41.2%
Plant capacity *(Megawatts)*	83.5	335.2	104.9	221.0
Utility plant in service	$15,914	$110,045	$22,209	$132,898
Accumulated depreciation	$ 2,774	$ 63,432	$13,204	$ 89,858
In-service date	1993	1975 and 1978	1969	1974

Note 3: SHORT-TERM DEBT AND LINES OF CREDIT

To provide short-term borrowing flexibility and security for commercial paper outstanding, WPSR 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)	*1997*	*1996*	*1995*
As of end of year			
Commercial paper outstanding	**$20,706**	$31,350	$11,500
Discount rate on outstanding commercial paper	**6.55%**	5.73%	5.65%
Notes payable outstanding	**$10,000**	$26,600	$15,000
Interest rate on notes payable	**5.92%**	5.81%	5.77%-6.18%
Available lines of credit	**$23,500**	$40,400	$28,050
For the year			
Maximum amount of short-term debt	**$75,017**	$70,250	$32,500
Average amount of short-term debt	**$30,092**	$28,424	$14,305
Average interest rate on short-term debt	**5.50%**	4.89%	5.97%

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 are being amortized over approximately a two-year period to correspond with ratemaking treatment. In 1998, $50.0 million of 5-1/4% bonds will mature.

As of December 31, 1997, $8.2 million has been drawn against PDI's revolving credit note of $11.5 million which is secured by the assets of Stoneman. An additional $3.3 million, which is to be paid in the year 2000, has been committed against this note. The note, which is guaranteed by WPSR, is due in the year 2000 when the plant may be converted to a 300-megawatt to 500-megawatt gas-fired combined cycle facility.

Note 5: COMMON EQUITY

Under WPSR's Stock Investment Plan, WPSR's common stock is purchased in the open market to satisfy shareholder and employee purchase requirements.

In December 1996, WPSR adopted a Shareholder Rights Plan designed to enhance the ability of the Board of Directors to protect shareholders and WPSR if efforts are made to gain control of WPSR in a manner that is not in the best interests of WPSR 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, 1997, WPSR had $318.6 million of retained earnings available for dividends. WPSC is restricted by a PSCW order to paying normal common stock dividends of no more than 109.0% of the previous year's common stock dividend without PSCW approval. Also, Wisconsin law prohibits WPSC from making loans to WPSR and its subsidiaries and from guaranteeing their obligations. In January 1997, WPSC paid to WPSR a special common dividend of $10.0 million. The special dividend allowed WPSC's average common equity capitalization ratio to remain at approximately 54.0%, the level approved by the PSCW for ratemaking.

Note 6: 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 WPSR's financial instruments as of December 31 were:

(Thousands)	*1997*		*1996*	
	Carrying Amount	***Fair Value***	*Carrying Amount*	*Fair Value*
Cash and cash equivalents	**$ 6,424**	**$ 6,424**	$ 5,978	$ 5,978
Energy conservation loans	**7,195**	**7,195**	5,388	5,388
Nuclear decommissioning trusts – utility plant	**134,108**	**134,108**	100,570	100,570
Nuclear decommissioning trusts – other assets	**11,348**	**11,348**	5,991	5,991
Notes payable	**10,000**	**10,000**	26,600	26,600
Commercial paper	**20,706**	**20,706**	31,350	31,350
ESOP loan guarantees	**9,798**	**10,243**	12,745	13,412
Long-term debt	**294,210**	**309,206**	293,043	300,906
Preferred stock	**51,200**	**48,595**	51,200	45,314
Gas commodity instruments	**504**	**436**	(61)	650

Note 7: 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 1997, 1996, or 1995. WPSC recovers pension costs in customer rates under SFAS No. 87, "Employers' Accounting for Pensions," and is returning to ratepayers through 1998 the amounts previously recovered from customers in excess of SFAS No. 87 costs.

The retirement plans hold assets with a fair market value of $488.6 million as of December 31, 1997. These assets consist of domestic and international equity and fixed income investments, and domestic real estate investments.

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

As of December 31 (Thousands, except for percentages)	*1997*	*1996*	*1995*
Vested benefit obligation	**$ (218,541)**	$ (189,097)	$ (177,490)
Non-vested benefit obligation	**(13,112)**	(10,213)	(8,980)
Total actuarial present value of accumulated benefit obligation	**$ (231,653)**	$ (199,310)	$ (186,470)
Projected benefit obligation for service rendered to date	**$ (296,711)**	$ (252,268)	$ (255,188)
Plan assets at fair value	**488,555**	429,948	391,070
Plan assets in excess of projected benefit obligation	**191,844**	177,680	135,882
Unrecognized net gain	**(136,264)**	(121,066)	(84,098)
Unrecognized prior service cost	**13,813**	7,254	8,020
Unrecognized net transition asset	**(16,526)**	(19,991)	(23,455)
Prepaid retirement plan asset	**$ 52,867**	$ 43,877	$ 36,349
The net retirement plan expense (income) includes the following components			
Service cost	**$ 5,854**	$ 6,371	$ 5,888
Interest cost	**19,363**	19,097	18,211
Actual return on plan assets	**(71,729)**	(48,244)	(73,242)
Net amortization and deferral	**37,522**	15,248	42,791
Regulatory adjustment	**(2,442)**	(4,885)	(5,326)
Net retirement plan (income)	**$ (11,432)**	$ (12,413)	$ (11,678)
The assumed rates for calculations used in the above tables were			
Expected long-term return on investments	**8.75%**	8.50%	9.00%
Average rate for future salary increases	**5.50%**	5.50%	6.25%
Discount rate to compute projected benefit obligation	**7.25%**	7.75%	7.75%

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 Postretirement Benefits Other Than Pensions," which requires the cost of postretirement 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 postretirement plans hold assets with a fair market value of $121.0 million as of December 31, 1997. These assets consist of domestic and international equity securities and domestic fixed income investments.

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

(Thousands)	***1997***	*1996*	*1995*
APBO attributable to			
Retirees and dependents	**$ (44,414)**	$ (43,746)	$ (46,681)
Fully eligible active plan participants	**(11,637)**	(5,273)	(5,983)
Other active plan participants	**(57,594)**	(52,112)	(58,611)
Total APBO	**(113,645)**	(101,131)	(111,275)
Fair value of plan assets	**120,960**	103,748	91,038
APBO in excess of plan assets	**7,315**	2,617	(20,237)
Unrecognized net (gain)/loss	**(80,090)**	(66,045)	(38,371)
Unrecognized transition obligation	**36,018**	38,453	40,887
Unrecognized prior service cost	**4,583**	(1,897)	(2,027)
Accrued postretirement benefit obligation	**$ (32,174)**	$ (26,872)	$ (19,7[illegible]
Service cost	**$ 3,192**	$ 3,613	$ 4,392
Interest cost	**8,220**	8,488	9,833
Actual return on plan assets	**(20,176)**	(18,136)	(20,918)
Net amortization and deferral	**14,241**	13,726	17,809
Postretirement benefit cost	**$ 5,477**	$ 7,691	$ 11,116

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 1998 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, 1997 by $20.0 million and the total net periodic postretirement benefit cost for the year then ended by $2.3 million.

WPSC has a leveraged Employee Stock Ownership Plan and Trust ("ESOP") that held 2,070,144 shares of WPSR common stock (market value of approximately $70.0 million) at December 31, 1997. 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 using contributions from WPSC and dividends on WPSR 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 employer contribution is an approximately equal sharing of the tax benefits of the program between customers and employees.

Note 8: INCOME TAXES

WPSR 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. Taxes provided in prior years at rates greater than current rates are being refunded to customers prospectively as the temporary differences reverse. The net regulatory liability totaled $26.1 million as of December 31, 1997.

As of December 31, 1997 and 1996, WPSR had significant temporary differences that created deferred tax assets and liabilities (see table at right).

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

(Thousands)	*1997*	*1996*
Deferred tax assets		
Plant related	**$ 68,175**	$ 55,040
Customer advances	**8,187**	8,232
Postretirement medical and dental	**12,831**	10,844
Other	**16,522**	14,752
Total	**$105,715**	$ 88,868
Deferred tax liabilities		
Plant related	**$192,347**	$179,573
Demand-side management expenditures	**12,383**	15,540
Pension	**20,054**	13,676
Other	**6,735**	10,287
Total	**$231,519**	$219,076
Net deferred tax liabilities	**$125,804**	$130,208

(Thousands, except for percentages)	*1997*		*1996*		*1995*	
	Rate	*Amount*	*Rate*	*Amount*	*Rate*	*Amount*
Statutory federal income tax	**35.0%**	**$30,143**	35.0%	$26,329	35.0%	$31,242
State income taxes, net	**5.7**	**4,862**	5.7	4,275	5.4	4,850
Investment tax credit restored	**(2.1)**	**(1,768)**	(2.4)	(1,778)	(1.9)	(1,725)
Rate difference on reversal of income tax temporary differences	**(2.2)**	**(1,888)**	(2.1)	(1,579)	(1.9)	(1,656)
Dividends paid to ESOP	**(1.6)**	**(1,381)**	(1.9)	(1,424)	(1.6)	(1,444)
Other differences, net	**(0.8)**	**(698)**	(2.0)	(1,465)	(0.5)	(459)
Effective income tax	**34.0%**	**$29,270**	32.3%	$24,358	34.5%	$30,808
Current provision						
Federal		**$29,427**		$26,122		$25,628
State		**7,527**		7,729		6,586
Total current provision		**36,954**		33,851		32,214
Deferred (benefit) provision		**(5,917)**		(7,715)		319
Investment tax credit restored, net		**(1,767)**		(1,778)		(1,725)
Total income tax expense		**$29,270**		$24,358		$30,808

Note 9: COMMITMENTS AND CONTINGENCIES

Coal Contracts

To ensure a reliable, low-cost supply of coal, WPSC entered into a long-term contract that has take-or-pay obligations totaling $198.4 million from 1998 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 considered costs of service subject to recovery in customer rates.

Purchased Power

WPSC has several take-or-pay contracts for either capacity or energy related to purchased power. These contracts total $38.5 million through 1999. 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 electrical power to WPSC. In October 1997, the PSCW issued a Certificate of Public Convenience and Necessity authorizing construction of the project. Phase I of the project, which is expected to be operational during 1999, will be accounted for as a capitalized lease with the capitalized amount being approximately $77.0 million. If Phase II becomes operational (Phase II is currently projected to be operational within five years of the start of Phase I), an additional plant asset of approximately $77.0 million will be recorded.

Gas Costs

WPSC has natural gas supply and transportation contracts that will require total estimated demand payments of $238.9 million through October 2008.

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 supply contracts. To date, the PSCW and MPSC have granted WPSC recovery of all ANR take-or-pay costs. WPSC has satisfied all current direct billed take-or-pay costs from ANR. Remaining take-or-pay volumetric surcharges are estimated to be $0.5 million during 1998.

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, WPSC was obligated to pay for a portion of ANR's transition costs incurred to comply with the Order. ANR recovers these transition costs through a Gas Supply Realignment ("GSR") surcharge and a Pricing Differential ("PD") surcharge, with most charges recovered through the PD mechanism. On December 31, 1997, ANR made its seventh PD cost recovery filing. WPSC believes this may be ANR's final PD filing as most PD eligible contracts have now expired, and ANR's PD mechanism ends effective January 31, 1999. WPSC's estimated remaining PD costs are $0.7 million. Though there may be additional PD and GSR transition 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 since the PSCW and MPSC have allowed such recovery to date.

In December 1996, FERC approved a settlement agreement which establishes the price for ANR's gas purchases and demand charges from the Dakota Gasification Plant. Demand charges for WPSC through 2003 are estimated to be $1.5 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

On March 15, 1996, WPSC filed an application with the PSCW for permission to replace the Kewaunee steam generators. Public hearings were held in January 1998. A decision is expected in March 1998. The total cost of replacing the two steam generators is approximately $89.0 million. WPSC's share is $36.7 million in year of occurrence dollars. The other two owners of Kewaunee do not favor steam generator replacement.

The net book value of WPSC's share of Kewaunee at December 31, 1997 is $43.0 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, 1997 by $48.1 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 would remain 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 or if the PSCW does not authorize replacement, 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 accepted WPSC's recommendation to accelerate recovery of the Wisconsin retail portion of both the current undepreciated plant balance and the unfunded decommissioning costs over a six-year period, 1997 through 2002.

Clean Air Regulations

WPSC is in compliance with both the Phase I and Phase II sulfur dioxide and nitrogen oxide emission limits established by the Federal Clean Air Act Amendments of 1990. Additional capital expenditures of $1.0 million to $2.0 million are projected through 1999 for Wisconsin and federal air quality compliance. Management believes that all costs incurred for additional compliance will be recoverable in future customer rates.

Manufactured Gas Plant Remediation

WPSC is investigating the environmental cleanup of eight manufactured gas plant sites. A detailed investigation has not yet been performed for the eighth site. Future investigation and cleanup costs for all eight sites is estimated to be in the range of $34.1 million to $41.1 million. These estimates may, be adjusted in the future contingent upon remedial technology, regulatory requirements, and experience gained through cleanup activities.

A liability for cleanup of $41.7 million had been established with an offsetting regulatory asset (deferred charge). Of this amount, approximately $1.5 million has been spent to date. Management believes that cleanup costs net of insurance recoveries, but not the carrying costs associated with the cleanup expenditures, will be recoverable in current and future customer rates. WPSC has received $12.6 million in insurance recoveries which have been recorded as a reduction in the regulatory asset. The PSCW has authorized current annualized recovery for gas site cleanup of $225,000 for each of the years 1997 and 1998.

Future Utility Expenditures

Management estimates 1998 utility plant construction expenditures to be approximately $88.3 million. Demand-side management ("DSM") expenditures are estimated to be $8.0 million. No DSM expenditures will be deferred in 1998, and the outstanding deferred asset balance at December 31, 1997 of $31.4 million will be amortized over the next four years consistent with rate recovery.

Note 10: REGULATORY ENVIRONMENT

WPSC received a rate order in the Wisconsin jurisdiction in February 1997. The impact was approximately a $35.5 million increase in electric revenues and a $5.7 million increase in gas revenues on an annualized basis. The new rates were effective for 1997 and will be effective for 1998. WPSC intends to file an application with the PSCW on April 1, 1998, for electric and gas rate increases which would be effective in 1999 and 2000.

Note 11: AGREEMENT TO MERGE WITH UPPER PENINSULA ENERGY CORPORATION

On July 10, 1997, WPSR announced an agreement to merge with Upper Peninsula Energy Corporation ("UPEN"). The S-4 Registration Statement was declared effective by the Securities and Exchange Commission ("SEC") on December 5, 1997. The shareholders of UPEN approved the merger on January 29, 1998. The merger is subject to (1) approval by the FERC; (2) approval by the SEC under the Public Utility Holding Company Act of 1935; (3) the expiration or termination of the waiting period applicable to the merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976; (4) receipt by the parties of an opinion of counsel that the exchange of stock qualifies as a tax-free transaction; (5) receipt by the parties of appropriate assurances that the transaction will be accounted for as a pooling of interests; and (6) the satisfaction of various other conditions. The merger is expected to be completed in the second half of 1998. UPEN will merge with and into WPSR, and Upper Peninsula Power Company ("UPPCO"), UPEN's utility subsidiary, will become a wholly-owned subsidiary of WPSR.

The summary below contains selected unaudited pro forma financial data for the year ended December 31, 1997. The financial data should be read in conjunction with the historical WPSR and UPEN consolidated financial statements and related notes. The pro forma combined earnings per share reflect the issuance of shares associated with the merger agreement.

Under the terms of the merger agreement, each of the 2,950,001 outstanding shares of UPEN common stock (no par value) will be converted into 0.90 shares of WPSR common stock ($1.00 par value), subject to adjustment for fractional shares.

(In thousands, except per share data)	*WPSR (as reported)*	*UPEN (as reported)*	*Pro Forma Combined (unaudited)*
Operating revenues	$ 878,340	$ 60,104	$ 938,444
Net income	$ 53,742	$ 2,067	$ 55,809
Basic and diluted earnings per share	$2.25	$0.70	$2.10
Assets at December 31, 1997	$1,299,602	$136,844	$1,435,804
Long-term obligations at December 31, 1997	$ 304,008	$ 43,007	$ 347,015

UPEN is a holding company incorporated under the laws of the State of Michigan. UPEN's principal subsidiary, UPPCO, is an electric utility engaged in the generation, purchase, transmission, distribution, and sale of electric energy in the Upper Peninsula of Michigan. UPPCO serves approximately 48,000 customers in two-thirds of Michigan's Upper Peninsula. UPPCO's service territory covers approximately 4,460 square miles of primarily rural areas. UPPCO furnishes energy to 99 communities and adjacent areas and provides energy for resale to 2 other investor-owned electric utilities, 2 cooperatives, and 4 municipalities. The main industries in UPPCO's service territory are forest products, iron mining and processing, tourism, and small manufacturing.

Note 12: SEGMENTS OF BUSINESS

The table below presents information for the respective years pertaining to WPSR's operations segmented by lines of busine[illegible]

(Thousands)	Electric Utility	Gas Utility	Nonregulated Operations	Total
1997				
Operating revenues	**$479,388**	**$211,090**	**$187,862**	**$ 878,340**
Operating expenses				
Operation and maintenance	**294,897**	**181,784**	**197,581**	**674,262**
Depreciation	**68,469**	**7,350**	**1,722**	**77,541**
Other taxes	**23,024**	**3,372**	**52**	**26,448**
Total operating expenses	**386,390**	**192,506**	**199,355**	**778,251**
Operating income	**$ 92,998**	**$ 18,584**	**$ (11,493)**	**$ 100,089**
Identifiable assets *(a)*	**$906,198**	**$235,490**	**$ 65,648**	**$1,207,336**
Assets not allocated *(b)*				**92,266**
Total assets				**$1,299,602**
Construction and nuclear fuel expenditures including AFUDC	**$ 48,696**	**$ 16,950**	**$ –**	**$ 65,646**
1996				
Operating revenues	$490,506	$ 211,357	$156,391	$ 858,254
Operating expenses				
Operation and maintenance	309,212	190,331	165,844	665,387
Depreciation	56,708	7,127	1,343	65,178
Other taxes	23,161	3,708	(1)	26,[illegible]
Total operating expenses	389,081	201,166	167,186	757,4[illegible]
Operating income	$ 101,425	$ 10,191	$ (10,795)	$ 100,821
Identifiable assets *(a)*	$905,325	$255,200	$ 71,917	$1,232,442
Assets not allocated *(b)*				98,423
Total assets				$1,330,865
Construction and nuclear fuel expenditures including AFUDC	$ 63,941	$ 17,773	$ –	$ 81,714
1995				
Operating revenues	$489,000	$174,693	$ 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	$ 97,928	$ 12,116	$ (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

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

Note 13: QUARTERLY FINANCIAL INFORMATION

(Thousands, except for share amounts)	Three Months Ended				
	1997				
	March	June	September	December	Total
Operating revenues	**$263,013**	**$191,360**	**$185,225**	**$238,742**	**$878,340**
Operating income	**$ 33,270**	**$ 15,620**	**$ 26,390**	**$ 24,809**	**$100,089**
Net income	**$ 18,235**	**$ 9,571**	**$ 12,903**	**$ 13,033**	**$ 53,742**
Average number of shares of common stock	**23,880**	**23,875**	**23,870**	**23,866**	**23,873**
Basic and diluted earnings per share	**$.76**	**$.40**	**$.54**	**$.55**	**$2.25**
	1996				
	March	June	September	December	Total
Operating revenues	$251,337	$181,628	$178,980	$246,309	$858,254
Operating income	$ 40,999	$ 20,606	$ 23,695	$ 15,521	$100,821
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
Basic and diluted earnings per share	$.98	$.42	$.43	$.17	$2.00

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 WPSR's nonregulated subsidiaries due to trading losses and a loss on the write-off of an investment.

WPS

WPS Resources Corporation

The management of WPS Resources Corporation ("WPSR") 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.

WPSR maintains a system of internal accounting control designed to provide reasonable assurance that WPSR'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.

WPSR 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 WPSR'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.

Larry L. Weyers

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

Dan P. Bittner

Daniel P. Bittner
Vice President and Chief Financial Officer

Diane L. Ford

Diane L. Ford
Controller and Chief Accounting Officer

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, 1997 and 1996, 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, 1997. 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, eviden[ce] supporting the amounts and disclosures in the financ[ial] 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, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin
January 29, 1998

Financial Statistics

onsolidated Statements of Income

Year Ended December 31 (Thousands, except share amounts)	*1997*	*1996*	*1995*	*1994*	*1993*
Operating revenues					
Electric utility	**$479,388**	$490,506	$489,000	$480,816	$493,256
Gas utility	**211,090**	211,357	174,693	182,058	187,376
Nonregulated energy and other	**187,862**	156,391	56,155	10,921	–
Total operating revenues	**878,340**	858,254	719,848	673,795	680,632
Operating expenses					
Electric production fuels	**107,538**	105,418	104,858	111,011	114,051
Purchased power	**45,876**	37,737	39,593	38,631	30,703
Gas purchased for resale	**147,755**	149,388	116,253	126,351	133,347
Nonregulated energy cost of sales	**182,863**	155,133	53,983	10,663	–
Other operating expenses	**148,569**	168,905	154,445	148,917	148,270
Maintenance	**41,661**	48,806	50,761	49,983	51,597
Depreciation and decommissioning	**77,541**	65,178	65,627	56,365	60,609
Taxes other than income	**26,448**	26,868	25,921	26,063	25,204
Total operating expenses	**778,251**	757,433	611,441	567,984	563,781
Operating income	**100,089**	100,821	108,407	105,811	116,851
Other income					
Allowance for equity funds used during construction	**129**	139	170	108	287
Other, net	**11,511**	(1,084)	6,080	4,473	3,356
otal other income	**11,640**	(945)	6,250	4,581	3,643
Income before interest expense	**111,729**	99,876	114,657	110,392	120,494
Interest on long-term debt	**22,331**	21,532	22,859	23,407	24,393
Other interest	**4,172**	3,596	2,604	1,796	1,562
Allowance for borrowed funds used during construction	**(100)**	(128)	(68)	(139)	(200)
Total interest expense	**26,403**	25,000	25,395	25,064	25,755
Income before income taxes	**85,326**	74,876	89,262	85,328	94,739
Income taxes	**29,270**	24,358	30,808	29,526	32,539
Minority interest	**(797)**	(348)	–	–	–
Preferred stock dividends of subsidiary	**3,111**	3,111	3,111	3,111	3,311
Net income	**$ 53,742**	$ 47,755	$ 55,343	$ 52,691	$ 58,889
Shares of common stock					
Outstanding at December 31	**23,897**	23,897	23,897	23,897	23,897
Average	**23,873**	23,891	23,897	23,897	23,888
Basic and diluted earnings per average share of common stock	**$2.25**	$2.00	$2.32	$2.21	$2.47
Dividend per share of common stock	**1.92**	1.88	1.84	1.80	1.76

Financial Statistics

Consolidated Balance Sheets

Assets

At December 31 (Thousands)	*1997*	*1996*	*1995*	*1994*	*1993*
Utility plant					
Electric	**$1,513,310**	$1,483,829	$1,449,201	$1,423,316	$1,386,007
Gas	**252,029**	241,367	228,734	203,384	184,234
Total	**1,765,339**	1,725,196	1,677,935	1,626,700	1,570,241
Less – Accumulated depreciation and decommissioning	**1,032,149**	952,296	905,427	846,505	801,056
Total	**733,190**	772,900	772,508	780,195	769,185
Nuclear decommissioning trusts	**134,108**	100,570	82,109	64,147	56,699
Nuclear fuel, net	**19,062**	19,381	14,275	19,417	17,981
Net utility plant	**886,360**	892,851	868,892	863,759	843,865
Current assets	**196,591**	219,144	186,085	170,015	180,140
Net nonutility and nonregulated plant	**19,194**	19,738	3,307	2,218	2,121
Regulatory and other assets	**197,457**	199,132	208,459	181,283	172,715
Total assets	**$1,299,602**	$1,330,865	$1,266,743	$1,217,275	$1,198,841

Capitalization and Liabilities

Capitalization					
Common stock equity	**$ 477,823**	$ 467,524	$ 463,441	$ 446,540	$ 433,7[illegible]
Preferred stock of subsidiary with no mandatory redemption	**51,200**	51,200	51,200	51,200	51,200
Long-term debt of subsidiary	**304,008**	305,788	306,590	309,945	314,225
Total capitalization	**833,031**	824,512	821,231	807,685	799,149
Liabilities					
Short-term borrowings	**30,706**	57,950	26,500	22,500	21,000
Deferred income taxes	**125,804**	130,208	135,958	126,639	138,952
Other liabilities and credits	**310,061**	318,195	283,054	260,451	239,740
Total liabilities	**466,571**	506,353	445,512	409,590	399,692
Total capitalization and liabilities	**$1,299,602**	$1,330,865	$1,266,743	$1,217,275	$1,198,841

Financial Statistics

Ended December 31	1997	1996	1995	1994	1993
WPS RESOURCES CORPORATION					
Stock price	**$ 33 13/16**	$ 28 1/2	$ 34	$ 26 3/4	$ 33 5/8
Book value per share	**$20.00**	$19.56	$19.39	$18.69	$18.18
Return on average equity	**11.3%**	10.2%	12.2%	12.0%	13.9%
Number of common stock shareholders	**23,704**	23,998	24,341	25,395	25,240
Number of employees	**2,486**	2,606	2,547	2,578	2,603
WISCONSIN PUBLIC SERVICE CORPORATION					
Coverage					
Times interest earned before income taxes	**4.48**	4.36	4.00	4.19	4.49
Times interest earned after income taxes	**3.30**	3.21	3.03	3.09	3.29
Times interest and preferred dividends earned after income taxes	**2.97**	2.88	2.70	2.77	2.93
Capitalization ratios					
Common equity including ESOP	**56.0**	55.3	55.0	53.9	54.3
Preferred stock	**6.3**	6.3	6.3	6.4	6.4
Long-term debt	**37.7**	38.4	38.7	39.7	39.3
Percent long-term debt to net utility plant	**34.7**	34.8	36.0	36.6	37.2
Average rate					
Bonds	**7.0**	7.0	7.1	7.1	7.1
Preferred stock	**6.1**	6.1	6.1	6.1	6.1
Number of preferred stock shareholders	**2,734**	2,965	3,165	3,372	3,577
ather information					
Cooling degree days	**255**	352	808	519	432
Cooling degree days as a percent of normal	**53.3%**	73.6%	170.1%	107.0%	86.2%
Heating degree days	**8,099**	8,566	7,813	7,578	7,916
Heating degree days as a percent of normal	**101.6%**	107.5%	98.0%	95.5%	100.2%

Electric Operating Statistics

	1997	1996	1995	1994	19[illegible]
WISCONSIN PUBLIC SERVICE CORPORATION					
Operating revenues *(Thousands)*					
Residential and farm	**$163,766**	$169,587	$168,391	$163,381	$165,568
Small commercial and industrial	**138,949**	144,055	140,280	137,323	140,678
Large commercial and industrial	**120,312**	118,997	117,978	118,121	123,920
Resale and other	**56,361**	57,867	62,351	61,991	63,090
Total	**$479,388**	$490,506	$489,000	$480,816	$493,256
Kilowatt-hour sales *(Thousands)*					
Residential and farm	**2,565,432**	2,570,397	2,548,373	2,406,479	2,349,307
Small commercial and industrial	**2,876,832**	2,761,278	2,672,359	2,555,488	2,444,548
Large commercial and industrial	**3,943,275**	3,744,153	3,644,764	3,468,390	3,296,254
Resale and other	**1,873,788**	1,936,014	2,112,635	2,121,660	2,060,804
Total	**11,259,327**	11,011,842	10,978,131	10,552,017	10,150,913
Customers served *(End of period)*					
Residential and farm	**334,134**	328,522	322,550	316,442	310,336
Small commercial and industrial	**39,400**	38,376	37,455	36,491	35,683
Large commercial and industrial	**197**	168	170	164	137
Resale and other	**836**	826	802	796	794
Total	**374,567**	367,892	360,977	353,893	346,950
Annual average use *(Kilowatt-hours)*					
Residential and farm	**7,751**	7,905	7,982	7,688	7,649
Small commercial and industrial	**74,082**	72,995	72,326	70,931	69,532
Large commercial and industrial	**21,606,984**	22,115,491	21,824,937	22,091,659	24,416,6[illegible]
Average kilowatt-hour price *(Cents)*					
Residential and farm	**6.38**	6.60	6.61	6.79	7.05
Small commercial and industrial	**4.83**	5.22	5.25	5.37	5.75
Large commercial and industrial	**3.05**	3.18	3.24	3.41	3.76
Production capacity *(Summer – kilowatts)*					
Steam	**1,326,000**	1,325,400	1,325,400	1,318,300	1,315,300
Nuclear	**212,200**	213,800	216,700	215,100	215,100
Hydraulic	**53,000**	53,100	52,900	53,400	53,100
Combustion turbine	**205,930**	208,600	207,480	201,200	177,200
Other	**7,800**	4,200	4,240	4,240	4,240
Purchased capacity	**14,750**	27,250	26,400	26,400	27,700
Total system capacity	**1,819,680**	1,832,350	1,833,120	1,818,640	1,792,640
Generation and purchases *(Thousands of kilowatt-hours)*					
Steam	**8,213,518**	7,956,378	7,428,612	7,047,511	7,004,634
Nuclear	**973,485**	1,305,751	1,564,268	1,631,003	1,572,696
Hydraulic	**351,034**	359,750	306,101	292,617	346,386
Purchases and other	**2,327,334**	2,050,762	2,310,399	2,243,021	1,849,047
Total	**11,865,371**	11,672,641	11,609,380	11,214,152	10,772,763
Steam fuel costs *(Cents per million Btu)*					
Fossil	**110.124**	115.132	118.365	132.360	139.038
Nuclear	**43.174**	46.674	49.539	49.168	44.888
Total	**103.093**	105.439	106.320	116.782	121.949
System peak – firm *(Kilowatts)*	**1,607,000**	1,591,000	1,670,000	1,543,000	1,56[illegible]
Annual load factor	**79.42%**	77.56%	73.32%	76.96%	73.29%

Gas Operating Statistics

	1997	1996	1995	1994	1993
WPS RESOURCES CORPORATION					
Operating revenues *(Thousands)*					
Residential	**$122,782**	$122,224	$109,998	$104,020	
Small commercial and industrial	**23,790**	22,392	19,933	18,586	
Large commercial and industrial	**53,517**	55,211	47,627	45,115	
Other	**190,310**	164,673	52,367	25,258	
Total	**$390,399**	$364,500	$229,925	$192,979	
Therms delivered *(Thousands)*					
Residential	**202,558**	216,963	202,152	187,355	
Small commercial and industrial	**43,056**	46,614	42,600	38,568	
Large commercial and industrial	**127,132**	142,033	129,494	115,939	
Other	**595,154**	527,069	294,372	56,961	
Total therm sales	**967,900**	932,679	668,618	398,823	
Transportation	**268,114**	251,279	241,531	234,149	
Total	**1,236,014**	1,183,958	910,149	632,972	
WISCONSIN PUBLIC SERVICE CORPORATION					
Operating revenues *(Thousands)*					
Residential	**$122,782**	$122,224	$109,998	$104,020	$110,541
Small commercial and industrial	**23,790**	22,392	19,933	18,586	20,254
Large commercial and industrial	**53,517**	55,211	47,627	45,115	47,091
Other	**11,001**	11,530	(2,865)	14,337	9,490
Total	**$211,090**	$211,357	$174,693	$182,058	$187,376
Therms delivered *(Thousands)*					
Residential	**202,558**	216,963	202,152	187,355	192,053
Small commercial and industrial	**43,056**	46,614	42,600	38,568	41,385
Large commercial and industrial	**127,132**	142,033	129,494	115,939	108,068
Other	**21,148**	9,709	15,415	9,810	6,337
Total therm sales	**393,894**	415,319	389,661	351,672	347,843
Transportation	**268,114**	251,279	241,531	234,149	220,672
Total	**662,008**	666,598	631,192	585,821	568,515
Customers served *(End of period)*					
Residential	**198,524**	192,947	186,267	178,992	172,902
Small commercial and industrial	**16,770**	16,133	15,905	14,689	14,571
Large commercial and industrial	**2,780**	2,846	2,432	2,867	2,508
Other	**1**	1	1	1	1
Transportation customers	**224**	167	121	117	127
Total	**218,299**	212,094	204,726	196,666	190,109
Average annual use *(Therms)*					
Residential	**1,037.3**	1,146.6	1,112.3	1,068.8	1,128.4
Small commercial and industrial	**2,619.4**	2,937.2	2,770.8	2,673.9	2,888.8
Large commercial and industrial	**32,423.5**	37,163.7	39,707.6	34,651.2	41,354.4
Average therm price *(Cents)*					
Residential	**60.62**	56.33	54.41	55.52	57.56
Small commercial and industrial	**55.25**	48.04	46.79	48.19	48.94
Large commercial and industrial	**45.92**	42.84	40.63	41.84	44.97

Executive Office

Telephone:
920-433-4901

Street Address:
700 North Adams Street
Green Bay, WI 54301

Mailing Address:
WPS Resources Corporation
P. O. Box 19001
Green Bay, WI 54307-9001

Facsimile:
920-433-1526

Internet Address:
http://www.wpsr.com

Shareholder Inquiries

Telephone:
920-433-1050 or
800-236-1551

Mailing Address:
Shareholder Services Department
at the Executive Office
mailing address

Electronic Mail Address:
investor@wpsr.com

Transfer Agent and Registrar

Telephone:
414-276-3737 or
800-637-7549

Mailing Address:
Investor Services
Firstar Trust Company
P. O. Box 2077
Milwaukee, WI 53201

Financial Inquiries

Mr. Ralph G. Baeten, Treasurer
at the Executive Office
mailing address or by calling
920-433-1449

Stock Exchange Listings

New York Stock Exchange
Chicago Stock Exchange

Ticker Symbol: WPS
Listing Abbreviation: WPS Res

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 and, alternatively, through brokerage firms and many banks.

Common stock certificates issued before September 1, 1994 bear the name of Wisconsin Public Service Corporation ("WPSC") and remain 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 ("WPSR") common stock or (2) announces a tender offer to acquire at least 15% of WPSR's common stock.

On December 31, 1997, WPSR had 23,896,962 shares of common stock outstanding which were owned by 23,704 holders of record.

Dividends

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

Anticipated payment and record dates for common stock dividends paid in 1998 are:

Record Date	Payment Date
February 27	March 20
May 29	June 20
August 31	September 19
November 30	December 19

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

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

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

Cash for investment must be received by the 18th of the month in all months except January and October when the last date for receipt of cash is the 19th. Cash investment dates for 1998 are:

January 20	July 20
February 20	August 20
March 20	September 21
April 20	October 20
May 20	November 20
June 22	December 21

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 WPSR to transfer the shares to the participant's Plan account. Certificates should not be endorsed. It is recommended that any certificates mailed to WPSR be sent by registered mail and be insured.

Preferred Stock of Subsidiary

The preferred stock of WPSC trades on over-the-counter markets. Payment and record dates for preferred stock dividends paid in 1998 are:

Record Date	Payment Date
January 15	February 1
April 15	May 1
July 15	August 1
October 15	November 1

Stock Transfer Agent and Registrar

Questions about transferring common or preferred stock, lost certificates, or changing the name in which certificates are registered should be directed to 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 the 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 should 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 Shareholder Services Department. A correct address assures the prompt receipt of dividend checks and other shareholder communications.

Availability of Information

It is anticipated that 1998 quarterly earnings information will be released on April 22, July 22, and October 21.

After April 1, 1998, shareholders may obtain, without charge, a copy of the Company's 1997 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 7, 1998, at 10:00 a.m. at the Weidner Center, University of Wisconsin - Green Bay, 2420 Nicolet Drive, 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 23, 1998.

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 WPSR and is not given in connection with the sale of any security or offer to sell or buy 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: 414-221-3849

Facsimile: 414-221-2171

Street Address:
161 W. Wisconsin Ave., Suite 3065
Milwaukee, WI 53203

Common Stock Comparison (by quarter)

	Dividends Per Share	High	Low
1997			
1st	**$ .475**	**28¾**	**26⅛**
2nd	**.475**	**27⅞**	**23⅜**
3rd	**.485**	**29¼**	**26¾**
4th	**.485**	**34¼**	**28 1/16**
	$1.92		
1996			
1st	$ .465	34⅜	31⅞
2nd	.465	33½	30⅛
3rd	.475	32⅛	30⅜
4th	.475	30⅝	28¼
	$1.88		

Board of Directors*

A. Dean Arganbright
(Age 67)
Oshkosh, Wisconsin
Retired Chairman, President, and Chief Executive Officer
Wisconsin National Life Insurance Company
(Director since 1972)

Michael S. Ariens
(Age 66)
Brillion, Wisconsin
Chairman
Ariens Company
(Director since 1974)

Richard A. Bemis
(Age 56)
Sheboygan, Wisconsin
President and Chief Executive Officer
Bemis Manufacturing Company
(Director since 1983)

Daniel A. Bollom
(Age 61)
Green Bay, Wisconsin
Retired Chairman and Chief Executive Officer
WPS Resources Corporation
Wisconsin Public Service Corporation
(Director since 1989)

Sister M. Lois Bush, SSM
(Age 53)
Milwaukee, Wisconsin
Chief Executive Officer
Ministry Health Care, Inc.
(Director since 1993)

Robert C. Gallagher
(Age 59)
Green Bay, Wisconsin
Chairman and Chief Executive Officer
Associated Bank, Green Bay
Vice Chairman
Associated Banc-Corp
(Director since 1992)

Kathryn M. Hasselblad-Pascale
(Age 49)
Green Bay, Wisconsin
Managing Partner
Hasselblad Machine Company, LLP
(Director since 1987)

James L. Kemerling
(Age 58)
Wausau, Wisconsin
Consultant
JLK II
(Director since 1988)

Larry L. Weyers
(Age 52)
Green Bay, Wisconsin
Chairman, President, and Chief Executive Officer
WPS Resources Corporation
Chairman and Chief Executive Officer
Wisconsin Public Service Corporation
(Director since 1996)

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

Officers and Leadership Staff

WPS Resources Corporation

Larry L. Weyers
Chairman, President, and Chief Executive Officer ***
Age 52/Years of service 12

Patrick D. Schrickel
Executive Vice President
Age 53/Years of service 31

Phillip M. Mikulsky
Senior Vice President-Development ***
Age 49/Years of service 26

Daniel P. Bittner
Vice President and Chief Financial Officer
Age 54/Years of service 32

Richard E. James
Vice President-Corporate Planning
Age 44/Years of service 22

Thomas P. Meinz
Vice President-Public Affairs ***
Age 51/Years of service 28

Bernard J. Treml
Vice President-Human Resources ***
Age 48/Years of service 25

Glen R. Schwalbach
Assistant Vice President-Corporate Planning
Age 52/Years of service 29

Francis J. Kicsar
Secretary
Age 58/Years of service 31

Ralph G. Baeten
Treasurer
Age 54/Years of service 27

Diane L. Ford
Controller and Chief Accounting Officer
Age 44/Years of service 22

George R. Wiesner
Assistant Controller
Age 40/Years of Service 13

Wisconsin Public Service Corporation

Larry L. Weyers
Chairman and Chief Executive Officer ***
Age 52/Years of service 12

Patrick D. Schrickel
President and Chief Operating Officer ***
Age 53/Years of service 31

Daniel P. Bittner
Senior Vice President-Finance and Corporate Services
Age 54/Years of service 32

Clark R. Steinhardt
Senior Vice President-Nuclear Power
Age 56/Years of service 30

Ralph G. Baeten
Vice President-Treasurer
Age 54/Years of service 27

Thomas P. Meinz
Vice President-Public Affairs ***
Age 51/Years of service 28

Wayne J. Peterson
Vice President-Distribution and Customer Service ***
Age 39/Years of service 15

Bernard J. Treml
Vice President-Human Resources
Age 48/Years of service 25

David W. Schonke
Assistant Vice President-Electric Distribution Engineering
Age 64/Years of service 35

Francis J. Kicsar
Secretary
Age 58/Years of service 31

Diane L. Ford
Controller
Age 44/Years of service 22

WPS Energy Services Inc

Phillip M. Mikulsky
President and Chief Executive Officer
Age 49/Years of service 26

Darrell W. Bragg
Vice President
Age 38/Years of service 2

Mark A. Radtke
Vice President
Age 36/Years of service 14

Larry L. Weyers
Vice President
Age 52/Years of service 12

Francis J. Kicsar
Secretary
Age 58/Years of service 31

Ralph G. Baeten
Treasurer
Age 54/Years of service 27

WPS Power Development Inc

Larry L. Weyers
President and Chief Executive Officer
Age 52/Years of service 12

Phillip M. Mikulsky
Vice President
Age 49/Years of service 26

Gerald L. Mroczkowski
Vice President
Age 52/Years of service 29

Patrick D. Schrickel
Vice President
Age 53/Years of service 31

Francis J. Kicsar
Secretary
Age 58/Years of service 31

Ralph G. Baeten
Treasurer
Age 54/Years of service 27

Leadership Staff

William L. Bourbonnais, Jr.
Manager-Rates and Economic Evaluation
Age 52/Years of service 29

Donald R. Carlson
Manager-Energy Supply and Control
Age 47/Years of service 22

Michael W. Charles
Manager-System Planning and Licensing
Age 48/Years of service 20

Kenneth H. Evers
Manager-Nuclear Plant Support Services
Age 52/Years of service 24

Ronald K. Grosse
Manager-Customer Accounts
Age 54/Years of service 32

David W. Harpole *
Manager-Power Plant Design and Construction
Age 42/Years of service 20

Charles K. Heidemann
Manager-Western Region
Age 57/Years of service 34

Terry P. Jensky
Manager-Pulliam Plant
Age 44/Years of service 20

Bradley A. Johnson *
Corporate Planning Executive
Age 43/Years of service 18

Jerry A. Johnson
Manager-Information Services
Age 48/Years of service 25

Randall G. Johnson
Manager-Corporate Transformation
Age 50/Years of service 27

Paul J. Liegeois
General Manager-Marketing and Business Development
Age 47/Years of service 24

Dennis J. Maki
Manager-Weston Plant
Age 49/Years of service 27

Mark L. Marchi
Manager-Nuclear Business Group
Age 50/Years of service 22

Betty J. Merlina **
Director-Ohio Operations, FSG Energy Services
Age 37/Years of service 2

Dale N. Miller
Manager-Eastern Region
Age 52/Years of service 27

Edward N. Newman
Director-Environmental Services
Age 55/Years of service 23

Dale M. Quinn
Manager-Substation and Transmission
Age 52/Years of service 26

Jack C. Rasmussen
Manager-Purchasing and Stores
Age 50/Years of service 27

Daniel J. Ropson
Manager-Engineering and Technical Support
Age 48/Years of service 25

Walter G. Sandberg
Manager-Public Affairs
Age 62/Years of service 19

Charles A. Schrock
Manager-Kewaunee Plant
Age 44/Years of service 18

Jacqueline S. Seghi **
Director-Michigan Operations
Age 33/Years of service 1

Peter J. Van Beek
Manager-Central Region
Age 52/Years of service 29

Daniel J. Verbanac **
Director-Technology Development and Implementation
Age 34/Years of service 13

* Employee of WPS Resources Corporation.
** Employee of WPS Energy Services, Inc.
*** Title change effective February 12, 1998.

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

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

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

Corporate Office
700 North Adams Street
Green Bay, WI 54301

Mailing Address
P.O. Box 19001
Green Bay, WI 54307-9001

Internet Address
http://www.wpsr.com

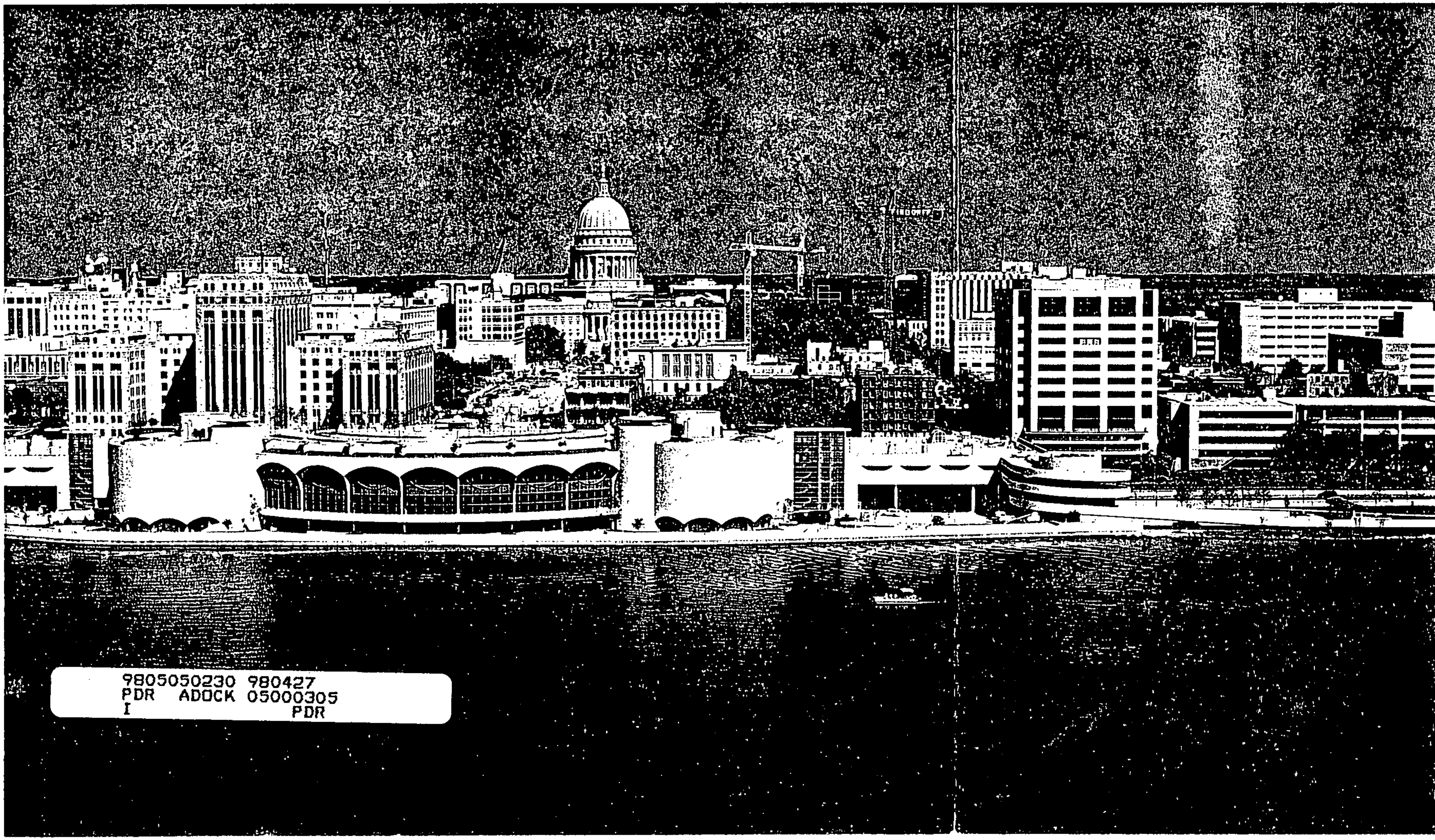
The front cover includes a photograph of the cow barn at the Siemers Holstein Farm, Inc. near Cleveland, Wisconsin. Pages 8 and 9 include photographs taken at the Soaring Eagle Dairy, LLP in Newton, Wisconsin. Both farms are customers of Wisconsin Public Service Corporation. We appreciate their business and their cooperation in allowing us to photograph their facilities.

The cover photograph of Lambeau Field and the Green Bay Packer photography on page 4 are the work of Mr. Vernon Biever of Port Washington, Wisconsin.

WPS Resources Corporation is proud of its commitment to the environment. This report is printed on recycled paper with soy-based ink.

Customers and Community

Construction cranes dominated the downtown Madison skyline in 1997, signs of a robust local economy.



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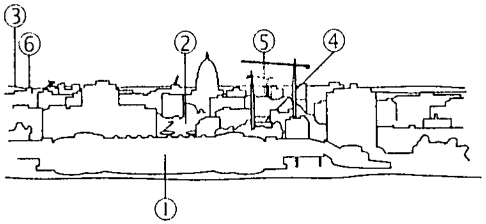
The Cover



The six major building projects that appear in this view of downtown Madison from Lake Monona total more than $225 million. Several other significant construction projects totalling nearly $74 million got under way in Dane County during the year. Businesses invested more than $2 billion in new commercial and industrial construction in Dane County between 1990 and 1997. MGE actively supports growth in the communities it serves.

1. Monona Terrace Community and Convention Center
2. Capitol-Monona Terrace Promenade
3. University of Wisconsin Kohl Center sports arena
4. Block 89 retail-office-parking complex
5. 22 E. Mifflin Building
6. 201 West Washington Avenue Office Building

Madison Gas and Electric Company

MGE's core strengths:

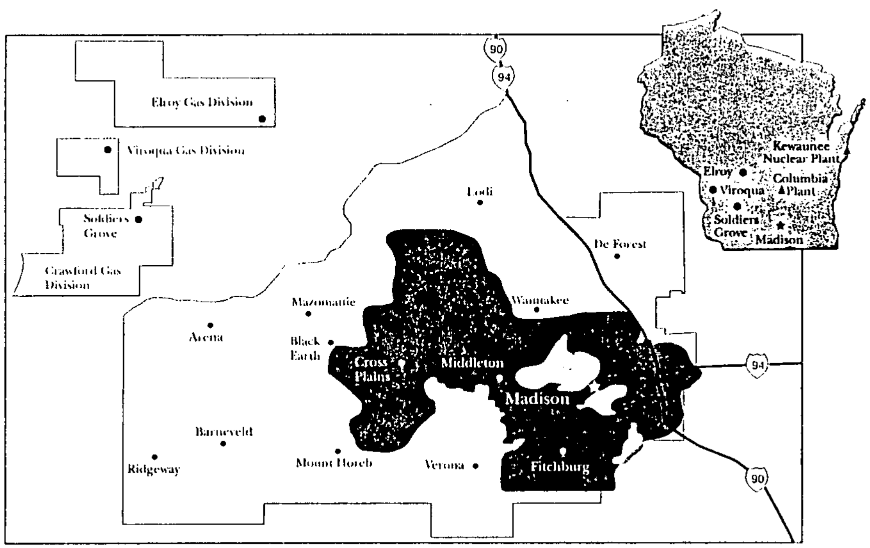
- Close relationship with customers and communities
- Excellent competitive position
- Thriving service territory
- Foresight to shape our future
- Ability to seize new opportunities
- Commitment to the environment

MGE is an investor-owned public utility headquartered in Madison, Wisconsin. The company generates, transmits and distributes electricity to nearly 123,000 customers in a 250-square-mile area of Dane County.

MGE also transports and distributes natural gas to more than 107,000 customers in 1,325 square miles of service territory in seven counties. MGE has served the Madison area since 1896.

National Energy Management, a joint venture between MGE's gas marketing subsidiaries and National Gas and Electric of Houston, serves 1,000 industrial and commercial customers in a multistate area. National Energy Management is based in Chicago.

Internet: http://www.mge.com



Gas-Electric Service ■
Gas Service □

Contents

The Area We Serve

Electric Service
MGE provides electric service in Madison, Monona, Fitchburg, Middleton, Cross Plains and other Dane County communities. The population totals 260,000. Generating facilities include the Blount Generating Station and several combustion turbines at Madison, the Columbia Energy Center at Portage and the Kewaunee Nuclear Power Plant at Kewaunee.

Natural Gas Service
MGE provides natural gas service in Columbia, Crawford, Dane, Iowa, Juneau, Monroe and Vernon counties. The population is 345,000. Gas is transported via ANR Pipeline Co., Northern Natural Gas Co. and others.

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