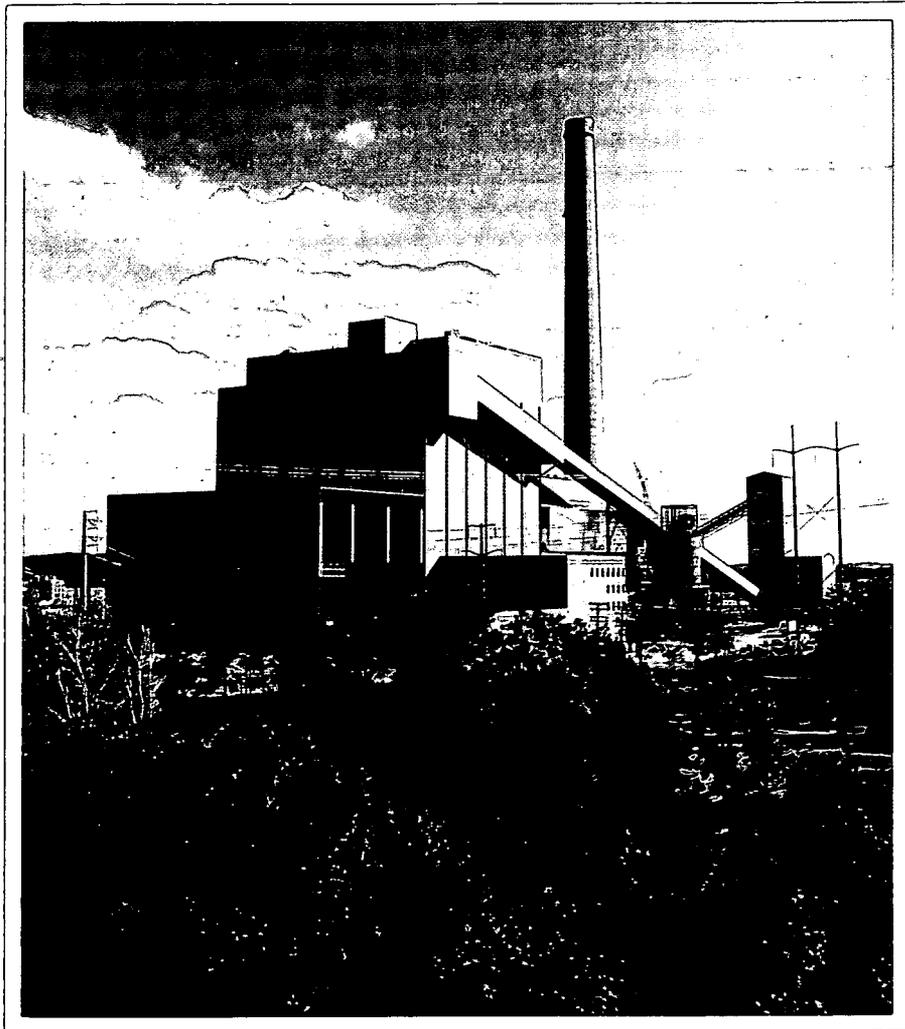
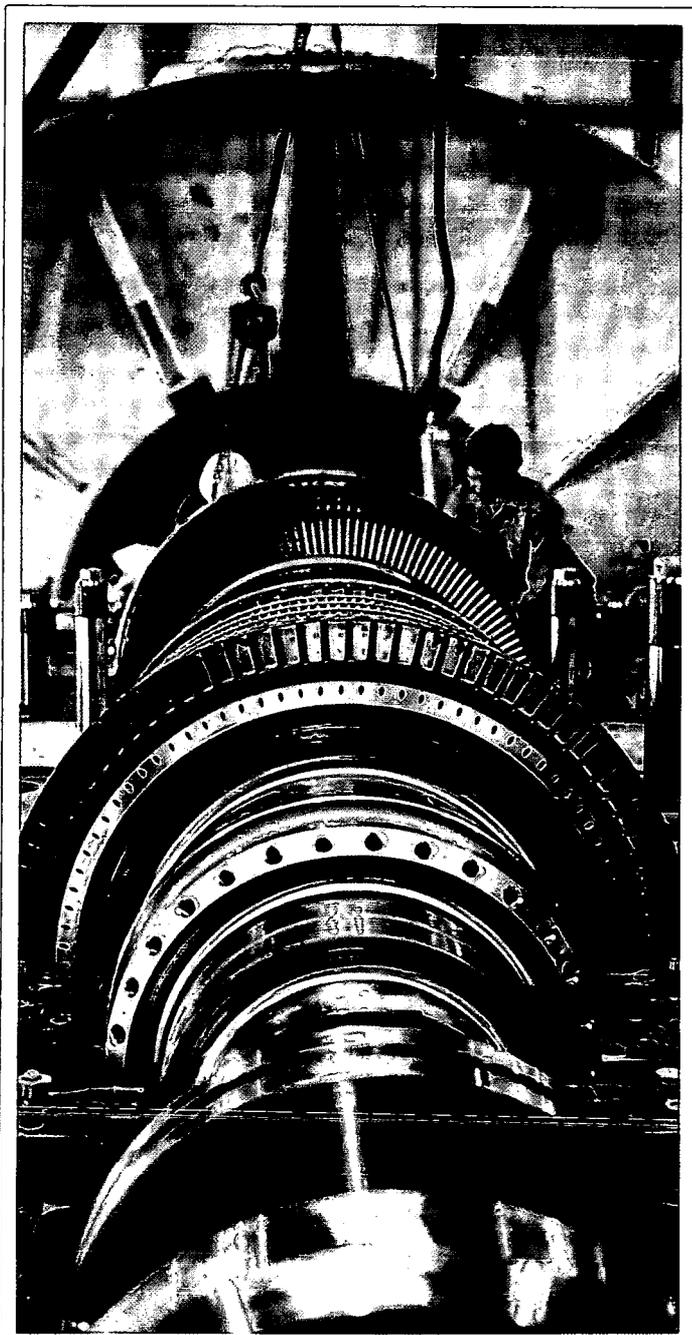


1981 Annual Report



Wisconsin Public Service Corporation

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Workers put finishing touches on glistening turbine.

ON THE COVER: Weston 3, located just south of Wausau, is the company's newest coal-burning power plant. Under construction since 1978, Weston 3 is the last major electric generating station to begin commercial operation for Public Service for at least the next 10 years.

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Business

WISCONSIN PUBLIC SERVICE CORPORATION is engaged in the production, transmission, distribution and sale of electricity and in the purchase, distribution, and sale of gas in northeastern Wisconsin and an adjacent part of upper Michigan. Executive offices are at 700 North Adams Street, P.O. Box 700, Green Bay, Wisconsin 54305. Phone (414) 433-1598 for general information.

Operating Highlights

	1981	1980	% Change
Revenues	\$492,262,000	\$436,435,000	12.8
Net Income	39,082,000	35,452,000	10.2
Earnings Per Average Share of Common Stock	3.00	2.83	6.0
Dividends Paid Per Share	1.89	1.77	6.8
Book Value Per Share	22.38	21.36	4.8
Construction Expenditures ..	114,130,000	128,466,000	-11.2
Capitalization ...	602,811,000	579,510,000	4.0
Electric Customers ...	285,738	280,076	2.0
Electric Sales (Thousands Kwh)	6,794,926	6,681,319	1.7
Gas Customers ..	151,898	149,913	1.3
Gas Sales (Thousands Therms)	484,993	515,738	- 6.0

Weston 3 — On Time and Under Budget

"Construction of Wisconsin Public Service Corporation's new Weston 3 coal-fired generating unit was a total company effort," said Richard Krueger, superintendent-power plant design and construction. That company-wide support is one of the key reasons why the plant is on time and under budget. The plant began operating in December 1981, 41 months after groundbreaking in July 1978. It was estimated to cost a total of \$240 million, but the final figure is expected to be \$11 million less than the estimate.

To what does Public Service owe this financial and scheduling success? "We as a company managed the entire project including licensing, engineering, construction and startup," answers Krueger. "I believe every department was involved in plant work in some way." As Krueger summed it up, "Our people have a vested interest in doing a good job — all the time — whether it's quality of the final product, staying within budget or meeting schedule deadlines."

Contracting technique, that is, firm price contracts with incentive clauses to complete work on time and within budget, combined with good productivity from the 550 trades personnel also played key roles in project success.

The plant has many distinguishing features:

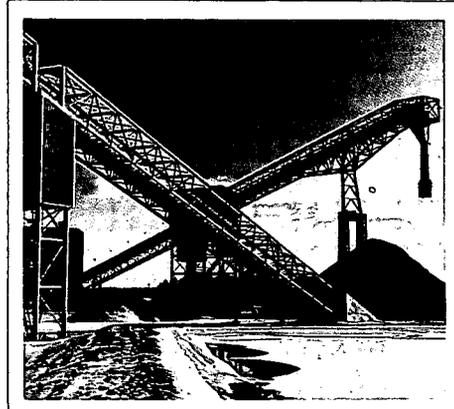
- It is the first fully-owned company plant to burn low-sulfur western coal. Because this type of coal burns cleaner, no sulfur dioxide removal equipment has been required.
- Coal for the plant will be delivered in 105-car unit trains which will arrive twice each week. A total of 242 cars were purchased. Of these, 132 were equipped with high-speed radial trucks. These trucks allow wheel pairs to move from side to side and from front to back independently. This is expected to reduce wear on the wheels and tracks. We are the first utility in the United States to use this type of equipment.
- Condenser cooling will be accomplished by a forced-draft cooling tower of concrete construction.
- The plant control system, including the computer, is considered "state of the art" equipment.

- Wisconsin River water needed for cooling and cleaning purposes is reused many times and when returned, will be as clean, if not cleaner, than the water originally drawn from the river. Coal pile rainwater runoff is prevented from entering the groundwater system, before being collected and treated.
- Equipment has been installed to collect dust created during unit train unloading and conveying of coal.



Control room is the nerve center of the power plant.

Superstructure of coal conveying system.



Richard Krueger, superintendent-power plant design and construction.

To Our Shareholders:

Significant milestones in the continuing progress of the company were reached in 1981. In spite of a slackening economy, inflation and high cost of money, our earnings per share were \$3.00 as compared with \$2.83 in 1980. The return on average equity was 13.9%.

We raised the quarterly dividend effective with the September payment from 45½ cents to 49 cents. This was the 23rd consecutive year in which the dividends paid per share were increased.

Although industries related to housing and automotive experienced a significant slowdown in our service area, firm kilowatt-hour sales increased 4% over 1980.

Conservation, warm weather and use of other fuels had a major impact on gas sales, which were 6% less than the previous year. Customers are conserving gas in response to its increased price due primarily to our purchased cost of gas. Since the Arab Oil Embargo of 1973, use of gas per degree day per residential customer has decreased 26%.

Our new 300-megawatt coal-fired Weston 3 plant went into operation in December. Located near Wausau, Wisconsin, it was completed at an approximate cost of \$229 million, \$11 million less than the amount authorized by the Public Service Commission of Wisconsin (PSCW). It burns low-sulfur coal imported from Gillette, Wyoming. An extraction turbine will provide the opportunity to sell steam to nearby industrial customers.

In the past, we have said that nuclear energy is a safe, reliable source of electric power. Our Kewaunee plant, jointly owned with two other utilities, substantiated that by its performance in 1981.

Most outstanding of the plant's accomplishments is that it recorded the lowest radiation exposure level per employee of all the nation's nuclear generating plants as well as the world's 108 pressurized water reactors in service in 1981. Kewaunee also generated less low-level radioactive waste than any nuclear generating unit in the nation.

Since the plant went into service after refueling in spring 1981, it has produced power 100% of the time. Kewaunee has supplied electricity 83% of the time since it went into commercial operation in 1974. The industry average is 65%. The 1981 operating record placed Kewaunee among the nation's five most consistently reliable nuclear generating units.

We are heartened by President Reagan's favorable stand on nuclear power which he announced to the American public in October 1981.

In particular, we strongly endorse his lifting of the ban on commercial reprocessing of spent nuclear fuel.

Other aspects of the President's program which will bolster the nation's nuclear industry include his call for improvements in nuclear plant regulation and licensing, continued research into breeder reactor technology, and "swift" progress toward the storing and disposing of commercial radioactive waste.

Ground was broken last October for a new three-story office building to be located in Green Bay adjacent to our corporate office. Completion is scheduled for the summer of 1983. Growth of the company, increasing complexities of the business, and regulatory demands contribute to the need for more people and office space.

The wise use of energy, which has as its cornerstones conservation and load management, plays a major part in the operations of the company. Promotion of conservation, energy audits, and exemplary conservation efforts in our service buildings and plants are the major thrusts of our Marketing Department.

Interruptible electric rates and time-of-use rates are helping to reduce the growth of our electric demand. About 58% of our total electric sales and 53% of total demand reflect time-of-use rates.

Our most recent forecast indicates that for the period through 1990 annual sales growth will be 4.7%, accompanied by an average annual increase in electric demand of approximately 3.6%. Our system annual load factor for 1981 was 73%, and we expect it to increase for the next 10 years.

Our Gas Department, which contributed about 11% of our operating income last year, presents a different picture. We forecast that our gas sales will decline about 12% over the next 10 years, which reflects the use of other fuels by our large industrial gas customers and conservation. We have plenty of gas to sell, and we are meeting all new and increased requirements for gas in our service area.

With the reduction in the growth of our electric demand and the recent addition of the Weston 3 unit to our electric supply, we will not need another major generating unit until 1992. However, with the long lead time required for regulatory approvals, we have been studying potential sites for this unit during the past several years. Last October we announced two preferred sites, both near the City of Green Bay.

To meet the future needs of our customers, we expect construction expenditures of about \$290 million for the five-year period ending in 1986. This compares

President's Letter

with \$435 million for the previous five-year period. Much of the latter amount was for our Weston 3 unit.

With the significant reduction in construction expenditures, we will be in the fortunate position of not needing any new permanent financing until 1988. A five-year term loan negotiated in 1979 and the three-year first mortgage bonds issued in 1980 totaling \$60 million will be paid from internal funds.

This past year we sold \$23 million of tax-exempt bonds maturing in 1984 to help pay for pollution-control equipment in our new Weston plant.

In 1979, the PSCW ordered the company and three other Wisconsin utilities to write off, in a manner which resulted in a shareholder expense, certain site selection costs of the abandoned Koshkonong nuclear project even though the PSCW staff found them to be prudent and reasonable. Consequently, we appealed the decision to the Brown County Circuit Court which supported our position and directed the PSCW to offer the company an opportunity to distribute the expenditures to our customers in a manner which would not be burdensome. The PSCW appealed to the Court of Appeals which reversed the lower court's decision.

We feel strongly about the principles involved in this case and, accordingly, are petitioning the Wisconsin Supreme Court for review.

Significant milestones in the history of this company can only occur because of the contributions that our employees make over the years. We have a dedicated group of people who are interested in excellence of service to our customers and the pursuit of financial rewards for our shareholders.

Dedication to service was shown by many of our personnel who used snowshoes, snowmobiles and four-wheel drive vehicles to get to work in order to respond to trouble calls during the arctic weather in Wisconsin the early part of this year.

Innovative training programs, problem-solving employee groups known as Quality Circles and other techniques are all part of our human resources program.

We are fully aware of our tremendous responsibility to our customers, shareholders and employees. We like it and face the future with confidence and optimism.



A handwritten signature in cursive script that reads "Paul D. Ziemer". The signature is written in dark ink on a light background.

Paul D. Ziemer
President and
Chief Executive Officer

February 25, 1982

Financial

In April, the company sold \$15 million of privately placed 10-year preferred stock at a dividend rate of 10.75%. In the same month, tax-exempt 3-year revenue bonds were sold in the amounts of \$22 million at 7.9% for pollution-control and \$1 million at 8.5% for environmental improvement.

Our analysis indicates that for the period 1982-86 inclusive, our federal income taxes will increase \$400,000 because of Accelerated Cost Recovery System Allowance included in the Economic Recovery Tax Act of 1981. For the period 1987-91 our taxes will decrease by approximately \$16.7 million.

Recent Wisconsin legislation resulted in two tax changes adversely affecting our company. The property tax relief credit previously granted public utilities has been repealed, and the deduction for state income taxes was eliminated for purposes of determining the Wisconsin income tax. These changes increased our total tax liability for 1981 by \$710,000.

Rate Proceedings

In response to our July 1980 application, the PSCW granted increases of \$31.2 million (13.1%) for electricity and \$4.2 million (2%) for gas effective last June.

In July 1981, we filed with the PSCW to increase rates by \$27.1 million for electricity (9.4%) and \$2 million for gas (.9%). Subsequent filings have increased these amounts to \$33.9 million (11.9%) and \$2.6 million (1.1%). An order is expected during the second quarter of 1982. The increase is required because our projected 1982 earnings are inadequate.

An application with subsequent amendments was filed with the Federal Energy Regulatory Commission (FERC) seeking an increase of \$11.7 million (37.2%) in rates paid by wholesale electric customers. The last rate increase for these customers was granted in 1976. The rate increases, effective January 3, 1982, and subject to refund upon completion of final review, are aimed at offsetting the impacts of inflation and the start-up of the company's Weston 3 coal-fired power plant.

Electric System

On July 8, 1981, a new firm peak of 1,132,800 kilowatts was reached, surpassing the previous peak of 1,107,000 kilowatts set in December 1980.

Work continues on our Energy Management System which uses the latest computer equipment available to control and record the transmission of power from our generating plants to substations and, eventually, to all customers. During 1981 we installed computer-directed

controls at most of our substations. Once integrated into the new system, these controls will inform us of conditions at the substations and will allow some repairs to be made remotely. This will enhance our ability to provide and maintain reliable service to our customers.

After two years of study, we concluded in 1981 that it was not feasible to sell steam from our Pulliam plant in Green Bay for heating or to sell hot water from the plant to nearby paper companies. The study was funded by the U.S. Department of Energy. It was administered by the PSCW which concurred with our decision.

Fuel Costs

Fuel costs in 1981 again demonstrated that nuclear energy remains our most economical source of power, followed respectively by coal, natural gas and fuel oil. Costs per million Btu were \$.60 for nuclear fuel, \$1.61 for coal, \$3.55 for natural gas and \$6.53 for fuel oil. This compares with 1980 costs of \$.50 for nuclear fuel, \$1.45 for coal, \$2.86 for natural gas and \$5.77 for fuel oil.

In 1981, our generation mix was as follows: 59.7% coal, 21.3% nuclear, 4.1% hydroelectric, 14.5% purchased from other utilities and .4% from natural gas and fuel oil. Very favorable prices accounted for higher than normal purchases from other utilities.

Transportation is a large part of the cost of coal. Just after the 1973 Arab Oil Embargo, 24% of our total coal expense was for transportation. In 1981, that percentage increased to 47%. This trend is expected to continue and is an issue of primary concern to Management. The company plans to commence proceedings before the Interstate Commerce Commission to reduce railroad coal tariffs from Wyoming to Weston 3.

Coal Power

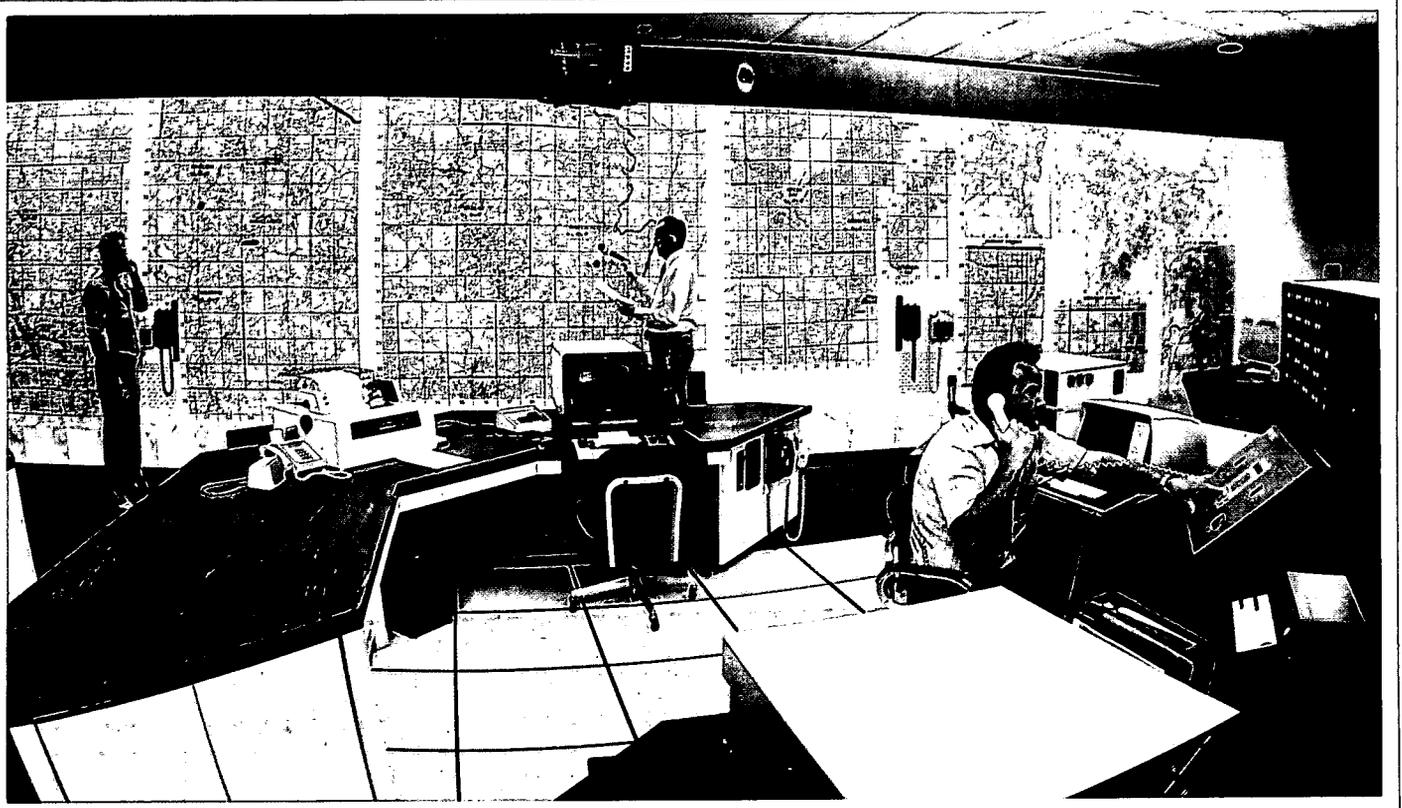
Coal is a plentiful domestic resource which the company has long depended upon for its base-load power plants.

Our new Weston 3 plant burns low-sulfur coal from the ARCO Black Thunder Mine in Wyoming. The use of this coal enables us to meet state and federal emission standards without the expense of installing gas emission scrubbers.

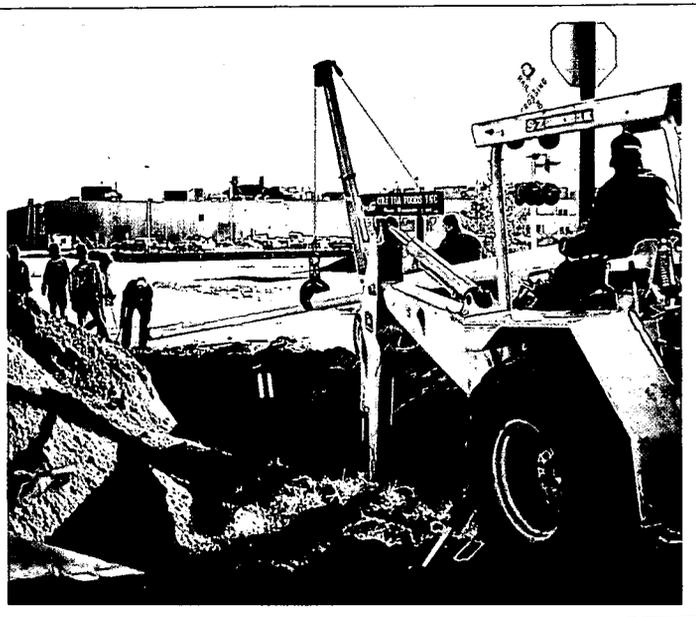
Bringing in that coal are the first unit trains entirely owned by the company. The 242 custom-made cars, which were delivered in 1981, are enough for two unit trains. We expect two trains per week with each unit train carrying about 11,500 tons of coal.

An advanced wheel-suspension device is installed on 132 of the 242 coal cars. Throughout the 2,800 mile trip, the cars will be able to negotiate curves more easily

Review of the Year



Emergencies can't be avoided, but their impact can be reduced. To give our customers the most efficient possible service when they need quick repairs, we've put into service a new after hours emergency call center. This new service hub is now the heart of our emergency response system.



A natural gas service extension to Ore-Ida Foods, Inc. was completed in November. The food processing firm is the largest industrial gas customer to receive service in the last three years.

because the high-speed radial trucks will allow the wheel pairs to move laterally and longitudinally. This, in turn, will help reduce wear and tear on railroad tracks, reduce car maintenance, improve car stability, and is expected to help cut down fuel use by the five locomotives which will pull each unit train. We are the first utility in the United States to use high-speed radial trucks.

Coal will also fuel our next power plant, which we have proposed to be located near Green Bay.

If this plant, currently scheduled for service in 1992, is approved by the PSCW and the state Department of Natural Resources, construction will start in 1987.

Nuclear Power

Nuclear energy is a safe, reliable source of electric power which our Kewaunee nuclear plant proved in 1981.

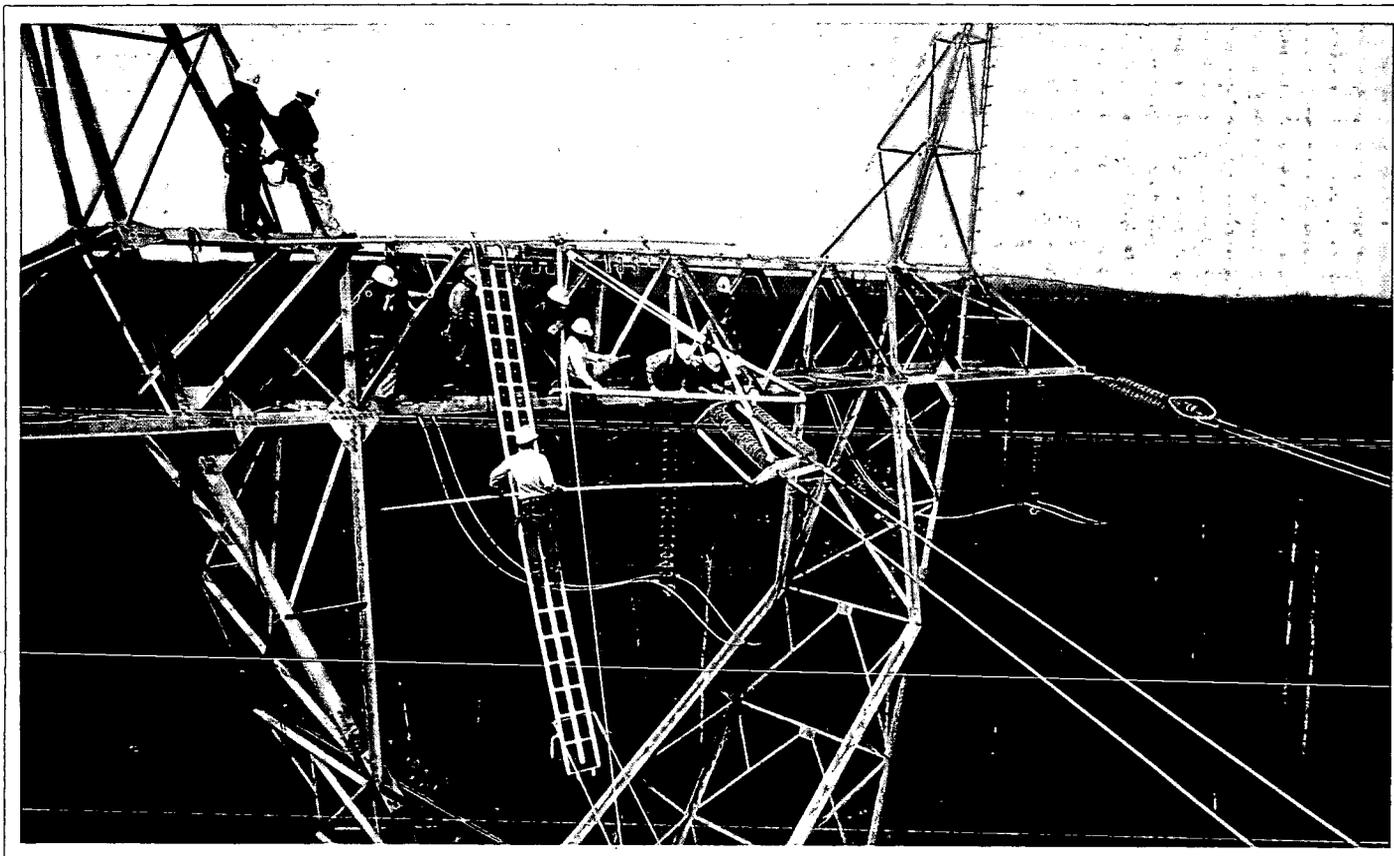
The plant supplied power 100% of the time, since being down for six weeks for refueling, early in the year. This placed it among the nation's five most consistently reliable nuclear generating units. Since it went into commercial operation in 1974, Kewaunee has supplied

electricity 83% of the time as compared to an industry average of 65%.

As a result of the effects of the Three Mile Island (TMI) plant incident in Pennsylvania in 1979, the Nuclear Regulatory Commission (NRC) has recommended massive safety renovations at plants throughout the United States.

In November 1981, we completed work on a \$4.4 million shielded Technical Support Center at the plant from which technical assistance can be provided in the event of an emergency. The company is purchasing a \$6.6 million simulator, which duplicates the actual control room panels. This simulator, due to be installed by 1984, will allow us to provide our operators with excellent and more exact training on site. The company's share of these expenditures would be 41.2%.

Company linemen train 70 feet in the air on an energized 345 kilovolt line. The class, known as "hot stick training," was aimed at showing the use of specially designed insulated tools used on live wires.



Another outgrowth of TMI was the creation of Nuclear Electric Insurance Limited (NEIL). Becoming a member of this group enables us to reduce purchased power costs in the unlikely event of a long-term accident at the Kewaunee plant.

In addition, in 1981 we increased our property insurance coverage at the plant for physical damage and decontamination costs.

Through our mining subsidiary we expect to secure at least a 15-year supply of uranium for use at the plant. A by-product of our uranium processing is vanadium which is used as a hardener in steel. Income from sales of vanadium is used to offset the cost of our uranium processing operation.

Hydroelectric Power

Beginning in 1982, we plan to spend \$2.1 million to rebuild a 120-foot section of the dam at our Grandfather Falls hydroelectric plant. It is expected the project will be completed in 1983.

A 1,475 kilowatt generator will be added at the Merrill plant. The unit, to be installed in 1983, will cost about \$2.6 million.

We are using all economically viable hydroelectric sites available in our operating territory.

Natural Gas System

The natural gas industry is in transition. As government controls on the price of gas discovered since 1975 are relaxed and the industry moves toward total decontrol, the price of gas will keep increasing.

Higher prices provide producers with more capital, which they can invest in exploration and drilling for new supplies. Concurrently, conservation and the switching to other fuels by customers have decreased use of natural gas.

Thus, increased supplies and decreased use brought about a glut of natural gas in 1981, and we expect the surplus to last for the next three or four years, depending upon continued conservation, the status of the decontrol issue and the economy.

We are expecting to see natural gas prices by our supplier increase about 20% per year until decontrol occurs in 1985, but this projection could change if the federal government alters the target year for total decontrol of gas. The cost of gas from the pipe line company represents 80% of an average residential gas bill.

In an effort to minimize the impact of gas price increases on our customers, we worked diligently in 1981 by participating in rate conferences and hearings before the FERC.

Ore-Ida Foods, Inc., a food processing firm, began using natural gas in November 1981, and GAF Corporation, a manufacturer of crushed stone for roofing, is expected to be on-line in the fall of 1982. Annual gas usage at these two plants is expected to be 2% of our total therm sales.



Quality Circles, which use the employee as the resource for ideas on improvements in the workplace, are a new trend in American business. Quality Circles are also a new and growing idea at our company. This group from an accounting department holds its meetings weekly.

Research and Development

The company continues to help plan for the future by contributing to the Electric Power Research Institute (EPRI). This organization began operations in 1973 for the purpose of expanding electric energy research and development under the voluntary sponsorship of the nation's utility industry. Its goal is to develop a broad, coordinated, advanced technology program for improving electric power production, transmission, distribution and utilization in an environmentally acceptable manner.

The Institute is currently managing some 1,200 research projects throughout the nation.

In 1981, our payment to EPRI was \$1.3 million. About 40% of that amount went for research into improving existing fossil-fired and nuclear power generating systems and developing advanced generating equipment and technologies such as solar.

Other research included new types of fuels, understanding environmental and health effects of electric generation and transmission, and improving the performance of transmission and distribution systems.

Environment

The need to keep accurate records of our impact on the environment of our service territory has increased.

Testing of ground water quality and fly ash produced at a power plant has become an essential part of our operation. In the past, we hired consultants and analysts to do much of our environmental monitoring and chemical testing. This has been costly. Consequently, we purchased our own testing equipment and began operating our own environmental lab. Annual savings are expected to be \$250,000.

The new lab is also expected to be used in connection with the process of obtaining licenses for two new disposal sites for fly ash from our coal-fired power plants.

Another of our environmental concerns is acid rain, its cause and effect. With the U.S. Clean Air Act under revision in 1981 and 1982, we foresee the acid rain issue as one of primary importance.

We are participating with other Wisconsin utilities in an acid rain research project in northern Wisconsin. We are monitoring 13 lakes in the northern part of our service area.

Conservation and Load Management

During the year we instituted two new conservation programs in the single-family home and apartment building sectors. Both are voluntary and free. Homeowners, renters or landlords can request an energy analysis and one of our marketing representatives will then personally inspect the building and make recommendations aimed at improving energy efficiency.

In the load management area, our industrial customers and municipal utilities have responded favorably to our interruptible rates. Under this system, the customers sign a contract that allows us to interrupt a prearranged amount of their power in case of a system emergency. In exchange, the customer receives power at a reduced cost.

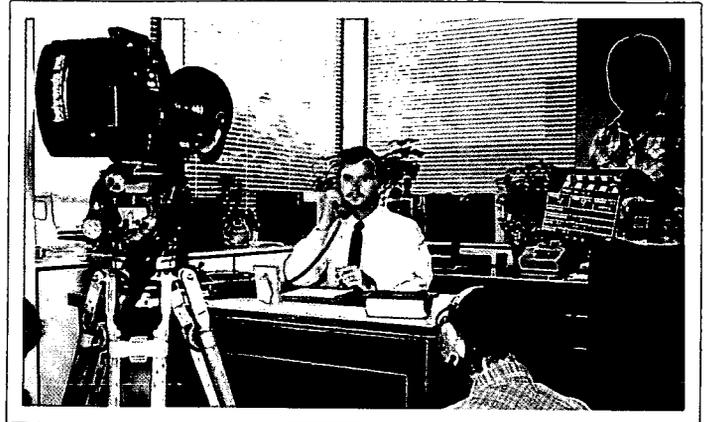
During 1980 and 1981, 12 large customers, representing about 10% of our total electric demand, had signed interruptible contracts.

Another load management technique is time-of-use rates which encourage customers to use electricity during off-peak periods.

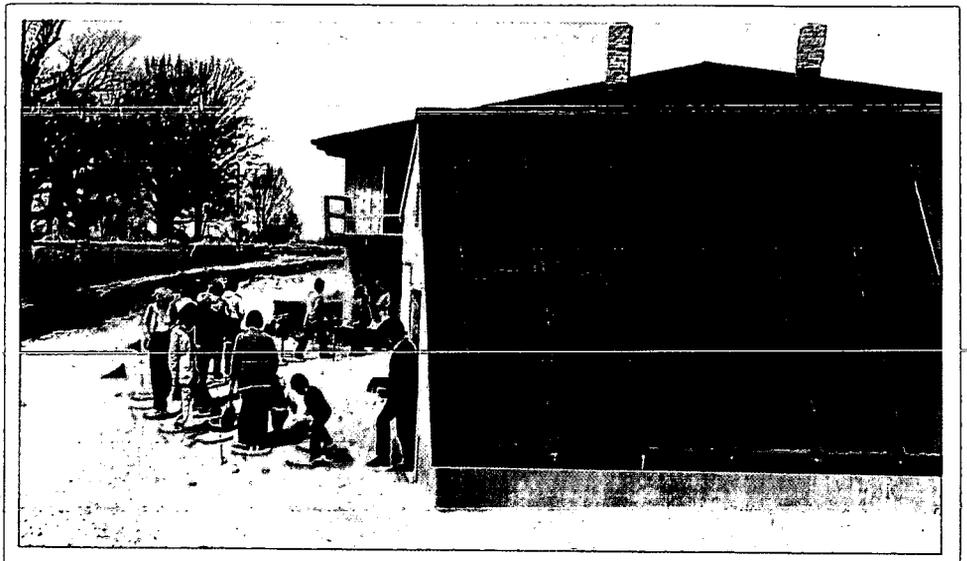
These energy management programs have enabled us to increase our load factor almost 6% in the past six years. Our 1981 load factor was 73% which ranks among the top five in the country.

High load factor enables our system to operate more efficiently and also defers the need for new power plants.

Energy conservation information and news from the company is spread to our customers in a variety of ways. Here, a professional camera crew films a television commercial aimed at promoting our new energy analysis program with homeowners.



Our Origin Home program is helping set the pace in energy-efficient home construction. Throughout the year, the company sponsors open houses at these new homes. While touring, customers and contractors are shown how wise construction techniques can save energy dollars.



We are keeping abreast of new types of energy systems in use in our service territory. Our marketing personnel are monitoring customers who have heat storage, solar heating and new high-efficiency heating and ventilating equipment.

Customer Service

In keeping with our primary interest in maintaining continuous service to our customers, we placed into operation our new After Hours Customer Service Center.

It is equipped with computerized telephone and customer information systems which allow us to centrally dispatch gas or electric trouble crews to any location in our 10,000 square-mile service territory.

We are in the process of developing additional computer systems that will centralize and augment our records on customer accounts and on all the property and equipment owned by the company.

A new Customer Information System will provide expanded data on billing, meter and service location for each electric and gas customer when the system is completed. The system will be integrated with the After Hours Center.

Another project, called the Integrated Facilities Model, will broaden the computerization of our facilities records including such items as power poles, gas mains and other data.

This system will be used for computerized map-making, locating certain types of equipment in the company, and deciding on the purchase of new types of equipment.

In 1982, the company will begin envelope billing and an expanded bill format. The new bill will completely itemize the calculations of monthly charges, as well as show additional information regarding conservation.

Economic Growth

One of the ways the company works to maintain the economic stability of our service territory is to promote our region and its excellent work force through our Partners in Regional Industrial Development program called PRIDE.

In 1981, our PRIDE coordinator helped two major firms locate in our service area.

The Woodward Governor Company opened a branch plant in Stevens Point. The firm manufactures controls for hydraulic, gas and steam turbines, aircraft propellers and diesel engines.

Another new company is American Packaging Machinery, a subsidiary of the Bemis Company, which relocated from its former home office in Clifton, New

Jersey, to its newly built executive offices and plant near Green Bay.

In the past decade, the number of electric and gas customers on our system has increased 30% and 22%, respectively. During the same period, it was necessary to add to our staff because of business complexities and additional regulation at the state and federal levels. However, through efficiency we were able to reduce the number of line and service personnel so that total company employment rose only 6%.

Common Stock and Related Security Holder Matters

The quarterly dividend on our common stock was raised from 45½ cents a share to 49 cents a share effective with the September payment. It is a goal of the company to pay increased annual dividends. Based on the company's earnings levels and capitalization, there currently are no restrictions on the ability of the company to pay dividends.

As of December 31, 1981, there were 35,333 record holders of common stock.

In October, 118,712 shares of common stock were issued to the Employee's Tax Reduction Act Stock Ownership Plan and Trust (TRASOP). The average price per share was \$17.963 resulting in the receipt by the company of about \$2.1 million.

The company has an Automatic Dividend Reinvestment and Stock Purchase Plan for its common stock shareholders which allows the purchase of additional shares of common stock directly from the company. During 1981, about 3,700 shareholders participated purchasing 141,163 shares. The Economic Recovery Tax Act of 1981, under which the company qualifies, will enable shareholders to defer federal income tax on dividends reinvested in common stock beginning January 1, 1982. Under the Act, the company's shareholders may elect to exclude from taxable income \$750 per year (\$1,500 on a joint tax return) of company dividends reinvested in original issue common stock during the years 1982 through 1985.

Under requirements of the sinking fund provision of the issue, the company redeemed 7,500 shares of its 10.50% preferred stock.

A new group called Wisconsin Utility Investors, Inc. (WUI) was formed in September 1980 which now has about 22,000 members. Its representatives have so far appeared before the PSCW on behalf of utilities in six rate cases. However leaders of the group intend to do much more in coming years as they shift from the

organizational stage to their mission which is to ensure that Wisconsin utilities are allowed reasonable rates of return.

Officers of the group serve without pay, and almost all of their 1980-81 funds were spent for postage and printing.

If this group is to continue, it needs regular financial support. We personally urge all our shareholders to give serious thought to helping WUI, an asset to the Wisconsin utility industry. The mailing address is: Wisconsin Utility Investors, Inc., P.O. Box 654, Milwaukee, Wisconsin 53201.

Common Stock

Listed on New York and Midwest Stock Exchanges. Ticker Symbol: WPS. Transfer Agent and Registrar: First Wisconsin Trust Company, Milwaukee.

Share Data	Dividends Per Share	Price Range
1980		
1st Quarter	\$.43	17 ⁵ / ₈ 13 ⁵ / ₈
2nd Quarter	.43	18 ⁵ / ₈ 14 ³ / ₈
3rd Quarter	.45 ¹ / ₂	18 ³ / ₄ 16
4th Quarter	.45 ¹ / ₂	17 ¹ / ₂ 14 ⁵ / ₈
Total	\$1.77	
1981		
1st Quarter	\$.45 ¹ / ₂	16 ³ / ₈ 14 ¹ / ₂
2nd Quarter	.45 ¹ / ₂	18 ³ / ₄ 14 ⁷ / ₈
3rd Quarter	.49	19 ¹ / ₄ 16 ¹ / ₂
4th Quarter	.49	20 ¹ / ₂ 17 ¹ / ₂
Total	\$1.89	

Annual Shareholders' Meeting

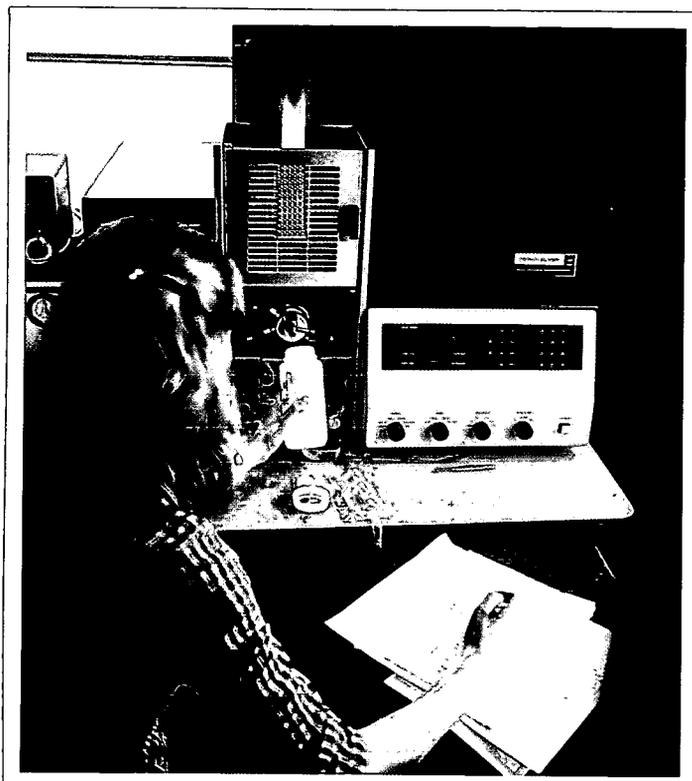
Midway Motor Lodge, 780 Packer Drive, Green Bay, Wisconsin, Monday, May 10, 1982, at 2:00 P. M.

Annual SEC Report Form 10-K

This report (not including exhibits thereto) will be available without charge about April 1, 1982 to shareholders who make requests to Robert H. Knuth, Secretary, 700 North Adams Street, P.O. Box 700, Green Bay, Wisconsin 54305.

Preferred Stock

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



Ash disposal sites currently in use near our coal-fired power plants eventually will be filled. Using an atomic absorption spectrophotometer a water quality analyst tests groundwater to determine which metals it contains. The information will be used in selecting future ash disposal sites.

Conscious of the need to reduce fuel use, the company is in the process of selecting smaller vehicles when possible. Pictured is one of such vehicles that has been added to our meter-reader fleet.



Management's Discussion and Analysis

Trends

After adjusting for weather, residential kilowatt-hour sales in 1981 increased approximately 2% over 1980. In 1980 and 1981, there were 3,500 and 3,900 residential customer additions, respectively, which is far below the 6,000 - 7,000 customer additions experienced annually during the years 1976-79 before high mortgage interest rates became a reality.

After adjusting for weather, sales to small commercial and industrial customers increased approximately 2% over 1980. Kilowatt-hour sales for large commercial and industrial customers increased approximately 4% over 1980. Although there were no significant changes in the number of customers, increased sales to existing customers indicated some improvement in the sluggish economy in the company's service territory.

Sales of natural gas indicated the continuation of conservation efforts by our customers. After adjusting for weather, residential therm sales in 1981 were approximately 2.5% less than in 1980. In 1981, there were 1,700 customer additions which is far below the 3,000 customer additions experienced annually in earlier years. After adjusting for weather, therm sales to commercial and industrial firm customers in 1981 decreased approximately 5% from 1980.

Results of Operations

In accordance with established regulatory procedures, increases in the cost of electric production-fuels and gas purchased for resale resulting from supplier price increases are recovered through the operation of the company's automatic fuel adjustment and purchased gas adjustment clauses (AFAC and PGAC).

1981 Compared to 1980. Electric Operating Revenues increased 12% to \$294.5 million in 1981 primarily as a result of increased AFAC revenues, a 13.1% rate increase effective June 1981 and continued growth in the number of electric customers.

Gas Operating Revenues increased 15% to \$197.8 million in 1981 primarily as a result of increased PGAC revenues. The increase was partially offset by conservation and decreased consumption due to fewer heating degree days in 1981.

Operating Expenses increased \$50.1 million or 13% in 1981. Gas Purchased for Resale increased significantly due to continued price increases passed on by the company's pipe line supplier despite the fact that the company purchased less gas in 1981 than in 1980. Purchased Power Costs increased due to the availability of energy which was cheaper to buy than to generate

from the company's higher cost units. Other Operating Expenses also increased because of higher payroll and general operating costs, especially at the Kewaunee nuclear plant because of changes made as a result of the TMI incident.

Interest Expense increased \$2.2 million or 12% in 1981 as a result of more debt outstanding at higher interest rates. Also, in 1981, the company issued an additional \$23 million of first mortgage bonds. The increase in total interest expense would have been higher without the increased allowance for funds used during construction (AFUDC) applicable to borrowed funds which is recorded as a reduction of total interest expense. The increased AFUDC was totally the result of construction expenditures at the Weston 3 plant in 1981.

1980 Compared to 1979. Electric Operating Revenues increased 6% to \$263.8 million in 1980 primarily as a result of increased AFAC revenues. However, small increases in the average number of electric customers also caused electric kilowatt-hour sales to residential and small commercial and industrial customers to increase slightly in 1980.

Gas Operating Revenues increased 29% to \$172.6 million in 1980 primarily as a result of increased PGAC revenues. This increase was partially offset by a decrease in consumption due to fewer heating degree days in 1980 and increased conservation on the part of the company's customers.

Operating Expenses increased \$53.5 million or 16% in 1980. Gas Purchased for Resale increased significantly due to price increases passed on by the company's pipe line supplier despite the fact that the company purchased less gas in 1980 than it did in 1979. Electric Production Fuel costs increased primarily due to the higher costs of coal and natural gas used to generate electricity. Purchased Power Costs also increased due to the availability of energy which was cheaper to buy than to generate from the company's higher cost units. Part of the increase was offset by lower income taxes due to a lower pretax operating income and a higher investment credit due to the construction of the new Weston 3 plant.

Other Income increased \$936,000 in 1980 primarily as a result of recording AFUDC related to the increased construction expenditures at Weston 3.

Interest Expense increased \$1.6 million or 10% in 1980 as a result of more debt outstanding at considerably higher interest rates. Also, in 1980, the company issued \$40 million of first mortgage bonds. The increase in total interest expense was partially offset by increased AFUDC which is recorded as a credit to total interest expense.

Liquidity and Capital Resources

The company has maintained good liquidity levels in recent years and has experienced good levels of internal funds generation. Commercial paper ratings of A-1 + (Standard & Poor's) and P-1 (Moody's) have resulted in a lower cost for short-term debt. The company has also maintained adequate bank credit lines and has generally maintained a low ratio of short-term debt to total capitalization.

External financing requirements remained high in 1981 as in 1980 due to delayed rate relief in Wisconsin and high construction expenditures. The company spent \$114 million for construction in 1981 primarily for its Weston 3 generating station which became operational in December 1981. As the "Sources of Construction Funds" statement shows, funds generated internally were higher and construction expenditures were lower in 1981 than in 1980. During the years 1982 through 1986, internal funds generation is projected to exceed capital expenditures.

There are currently rate cases pending with the PSCW and FERC which are discussed under "Rate Proceedings" in the "Review of the Year".

During April 1981, the company sold \$22 million of pollution-control revenue bonds at 7.9% and \$1 million of environmental improvement bonds at 8.5% through the Town of Weston, Wisconsin. At year end, \$3 million of these proceeds remained in a special deposit account to be released as pollution-control facilities are completed. The company also sold \$15 million of 10-year preferred stock at 10.75% in a private placement during April. The company had a \$50 million variable rate revolving term loan commitment expiring in 1984. With the company's anticipated cash generation program, it was possible to reduce the commitment to \$20 million, the amount

outstanding on December 31, 1981. The company does not expect to increase this borrowing. Minimal capital offerings in 1982 through 1986 are expected to include the Automatic Dividend Reinvestment and Stock Purchase Plan, the Employees' Tax Reduction Act Stock Ownership Plan and Trust, and bonds to refinance \$23 million of maturing tax-exempt bonds.

The company's bond ratings are AA (Standard & Poor's) and Aa (Moody's). These ratings are due in part to high pretax interest coverages resulting from favorable earnings and good equity ratios. Pretax interest coverage of 3.43 for the year 1981, however, was lower than 1980 because of increased debt at higher interest rates. Such coverage also had decreased during 1980. This recent unfavorable trend is expected to be reversed as the heavy construction requirements subside after 1981 and additional rate relief is received.

Impact of Inflation

Current financial statements are prepared in accordance with generally accepted accounting principles and report operating results in terms of historic cost. They provide a reasonable, objective, quantifiable statement of financial results but do not evaluate the impact of inflation. The Financial Accounting Standards Board (FASB) has established a requirement, on an experimental basis, to disclose supplemental information discussing the impact of inflation. Note 6 of Notes to Financial Statements discusses the effects of inflation on the company's operating results. This supplemental data is not intended as a substitute for earnings reported on a historical cost basis but does offer some perspective of the approximate effects of inflation rather than a precise measurement of these effects.

Statements of Income

	Years Ended December 31		
	1981	1980	1979
	(Thousands)		
Operating Revenues:			
Electric	\$294,509	\$263,806	\$248,663
Gas	<u>197,753</u>	<u>172,629</u>	<u>133,349</u>
	<u>492,262</u>	<u>436,435</u>	<u>382,012</u>
Operating Expenses:			
Operation —			
Electric production fuels	88,400	85,256	78,942
Gas purchased for resale	166,787	142,519	103,680
Purchased power, net	20,333	12,429	5,980
Other	59,005	51,103	43,954
Maintenance	25,571	21,742	19,135
Depreciation —			
Straight-line provision	29,685	27,725	26,992
Additional depreciation	8,269	5,489	7,973
Taxes —			
Current federal income	7,257	10,943	20,897
Investment credit deferral, net	11,616	11,380	6,877
Current state income	2,473	3,492	4,339
Property and other	<u>15,566</u>	<u>12,814</u>	<u>12,591</u>
	<u>434,962</u>	<u>384,892</u>	<u>331,360</u>
Operating Income	<u>57,300</u>	<u>51,543</u>	<u>50,652</u>
Other Income and Deductions:			
AFUDC, other funds	472	777	—
Gains on bonds reacquired	405	383	352
Income taxes	(544)	(154)	40
Other, net	<u>1,002</u>	<u>295</u>	<u>(27)</u>
	<u>1,335</u>	<u>1,301</u>	<u>365</u>
Income Before Interest Expense	<u>58,635</u>	<u>52,844</u>	<u>51,017</u>
Interest Expense:			
Interest on bonds	21,224	16,501	14,189
AFUDC, borrowed funds	(8,941)	(3,798)	(537)
Other interest	<u>7,270</u>	<u>4,689</u>	<u>2,148</u>
	<u>19,553</u>	<u>17,392</u>	<u>15,800</u>
Net Income	39,082	35,452	35,217
Preferred Stock Dividend Requirements	<u>5,644</u>	<u>4,633</u>	<u>4,786</u>
Earnings On Common Stock	<u>\$ 33,438</u>	<u>\$ 30,819</u>	<u>\$ 30,431</u>
Earnings Per Share On Common Stock	\$3.00	\$2.83	\$2.81
Dividends Per Share On Common Stock	\$1.89	\$1.77	\$1.67

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

Balance Sheets

	December 31		
	1981	1980	1979
	(Thousands)		
Assets			
Utility Plant (at original cost):			
In service — Electric	\$877,454	\$635,073	\$610,381
Gas	103,604	100,968	102,840
	<u>981,058</u>	<u>736,041</u>	<u>713,221</u>
Less — Accumulated provision for depreciation	350,253	315,156	287,105
	<u>630,805</u>	<u>420,885</u>	<u>426,116</u>
Construction in progress	8,249	156,523	72,279
Nuclear fuel	58,918	50,609	42,706
Less — Accumulated provision for amortization	42,079	33,734	26,401
	<u>16,839</u>	<u>16,875</u>	<u>16,305</u>
Net utility plant	<u>655,893</u>	<u>594,283</u>	<u>514,700</u>
Investments (at cost or less)	14,475	11,889	12,137
Current Assets:			
Cash and special deposits	5,144	1,297	1,431
Customer and other receivables (less reserves of \$530 in each year)	40,346	37,937	28,092
Accrued utility revenues	26,006	21,807	17,716
Fossil fuel, at average cost	37,134	36,800	31,551
Materials and supplies, at average cost	8,297	7,159	5,910
Prepayments	1,276	970	1,279
Total current assets	<u>118,203</u>	<u>105,970</u>	<u>85,979</u>
Deferred Charges	8,464	7,109	2,955
	<u>\$797,035</u>	<u>\$719,251</u>	<u>\$615,771</u>
Capitalization and Liabilities			
Shareholders' Investment:			
Common stock equity	\$253,078	\$235,997	\$221,581
Preferred stock with no mandatory redemption	51,200	51,200	51,200
Total	<u>304,278</u>	<u>287,197</u>	<u>272,781</u>
Preferred Stock With Mandatory Redemption	26,250	12,000	12,750
Long-Term Debt	<u>272,283</u>	<u>280,313</u>	<u>217,398</u>
Total capitalization	<u>602,811</u>	<u>579,510</u>	<u>502,929</u>
Current Liabilities:			
Note payable	10,000	10,000	10,000
Commercial paper	36,915	5,970	—
Maturing first mortgage bonds	—	—	2,380
Accounts payable	49,910	41,267	30,474
Accrued taxes	4,339	4,849	6,217
Accrued interest	6,665	6,955	4,534
Accrued contributions to retirement plans	4,974	6,482	6,733
Other	2,276	2,527	2,393
Total current liabilities	<u>115,079</u>	<u>78,050</u>	<u>62,731</u>
Other Credits:			
Accumulated deferred investment credit	46,437	36,544	26,833
Other	32,708	25,147	23,278
	<u>79,145</u>	<u>61,691</u>	<u>50,111</u>
	<u>\$797,035</u>	<u>\$719,251</u>	<u>\$615,771</u>

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

Statements of Capitalization

		December 31		
		1981	1980	1979
		(Thousands)		
COMMON STOCK EQUITY:				
Common stock equity —				
Common stock, \$8 par value, 16,000,000 shares authorized; 11,308,740, 11,048,865 and 10,873,773 shares outstanding, respectively				
		\$ 90,470	\$ 88,391	\$ 86,990
	Premium on capital stock	43,982	41,500	39,981
	Retained earnings	118,626	106,106	94,610
	Total common stock equity	253,078	235,997	221,581
PREFERRED STOCK:				
Cumulative, \$100 par value, 1,000,000 shares authorized:				
With no mandatory redemption —				
	Series	Shares outstanding		
	5.00%	132,000	13,200	13,200
	5.04%	30,000	3,000	3,000
	5.08%	50,000	5,000	5,000
	6.76%	150,000	15,000	15,000
	7.72%	150,000	15,000	15,000
			<u>51,200</u>	<u>51,200</u>
With mandatory redemption —				
	10.50% Series, 116,290, 127,480 and 135,000 shares outstanding, respectively		11,629	12,748
	10.75% Series, 150,000 shares outstanding in 1981		15,000	—
	Sinking fund requirements		(379)	(748)
			<u>26,250</u>	<u>12,000</u>
			<u>51,200</u>	<u>51,200</u>
LONG-TERM DEBT:				
First mortgage bonds —				
	Series	Year due		
	2 $\frac{7}{8}$ %	1980	—	2,380
	10.80%	1983	40,000	—
	3 $\frac{1}{4}$ %	1984	9,125	9,125
	7.90%	1984	22,000	—
	8.50%	1984	1,000	—
	4 $\frac{3}{8}$ %	1987	5,062	5,062
	4 $\frac{3}{8}$ %	1993	9,656	9,996
	4 $\frac{1}{2}$ %	1994	13,341	13,836
	6 $\frac{3}{8}$ %	1997	23,482	23,482
	7 $\frac{1}{4}$ %	1999	24,039	24,039
	8 $\frac{1}{4}$ %	2001	25,000	25,000
	8 $\frac{1}{8}$ %	2003	25,000	25,000
	7 $\frac{7}{8}$ %	2005	11,000	11,000
	8.20%	2012	45,000	45,000
			<u>253,705</u>	<u>231,540</u>
			<u>253,705</u>	<u>194,780</u>
			—	(2,380)
			—	—
			(1,422)	(1,272)
			(1,422)	(1,272)
			<u>252,283</u>	<u>230,313</u>
			<u>252,283</u>	<u>191,128</u>
			20,000	20,000
			20,000	—
			—	30,000
			—	26,270
			<u>272,283</u>	<u>280,313</u>
			<u>272,283</u>	<u>217,398</u>
			<u>\$602,811</u>	<u>\$579,510</u>
			<u>\$602,811</u>	<u>\$502,929</u>

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

Sources of Construction Funds

	Years Ended December 31		
	1981	1980	1979
	(Thousands)		
Funds Generated Internally:			
Net income	\$ 39,082	\$ 35,452	\$35,217
Depreciation	37,954	33,214	34,965
Amortization of nuclear fuel	10,313	8,090	7,040
Investment credit deferral, net	11,616	11,380	6,877
AFUDC	(9,413)	(4,575)	(537)
Other	1,283	(135)	352
Funds provided from operations	90,835	83,426	83,914
Less — Cash dividends on common and preferred stock	26,435	23,956	22,897
Net funds generated internally	64,400	59,470	61,017
Funds From Outside Financing:			
Sale of first mortgage bonds and other long-term debt	23,000	80,000	—
Redemption and maturities of first mortgage bonds and other long-term debt	—	(22,380)	(2,366)
Bond sinking fund retirements	(835)	(860)	(976)
Sale of preferred stock	15,000	—	—
Redemption of preferred stock	(1,119)	(752)	(1,500)
Sale of common stock	4,490	2,910	1,097
Change in short-term borrowings	30,945	5,970	1,300
Change in commercial paper to be refinanced	(30,000)	3,730	26,270
Net funds from outside financing	41,481	68,618	23,825
Changes In Other Net Current Assets:			
Fossil fuel	(334)	(5,249)	(8,955)
Customer and other receivables	(2,409)	(9,845)	(2,680)
Accrued utility revenues	(4,199)	(4,091)	(298)
Accounts payable	8,643	10,793	5,449
Accrued taxes	(510)	(1,368)	(2,331)
Other, net	(8,695)	(170)	1,457
Changes In Net Deferred Assets	6,340	5,733	2,274
Total funds used for construction expenditures and nuclear fuel, excluding AFUDC	104,717	123,891	79,758
AFUDC	9,413	4,575	537
Total funds used for construction expenditures and nuclear fuel, including AFUDC	\$114,130	\$128,466	\$80,295

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

Retained Earnings

	Years Ended December 31		
	1981	1980	1979
	(Thousands)		
Balance at Beginning of Year	\$106,106	\$ 94,610	\$ 81,679
Add — Net income	39,082	35,452	35,217
Other	—	—	611
	145,188	130,062	117,507
Deduct —			
Cash dividends declared on preferred stock:			
5.00% Series (\$5.00 per share)	660	660	660
5.04% Series (\$5.04 per share)	151	151	151
5.08% Series (\$5.08 per share)	254	254	254
6.76% Series (\$6.76 per share)	1,014	1,014	1,014
7.72% Series (\$7.72 per share)	1,158	1,158	1,158
10.50% Series (\$10.50 per share)	1,289	1,410	1,575
10.75% Series (\$5.79 per share)	869	—	—
Cash dividends declared on common stock	21,040	19,309	18,085
Other	127	—	—
	26,562	23,956	22,897
Balance at End of Year	\$118,626	\$106,106	\$ 94,610

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: The financial statements reflect the

application of certain accounting policies which are described in this note.

(a) Utility Plant — Utility plant is stated at the original cost of construction which includes AFUDC. Pursuant to an order of the PSCW, AFUDC is recorded (at 7%) only on that portion of construction work in progress in excess of 10% of average annual net investment rate base for the then current calendar year. The amount of

AFUDC recorded is first allocated to borrowed funds based on a FERC formula with the residual being allocated to other funds.

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

(b) Depreciation — Provisions for straight-line depreciation are based on the estimated lives of property and are equivalent to annual composite rates for electric and gas property of 4.02% and 4.32% in 1981, 3.89% and 4.34% in 1980, and 3.89% and 4.37% in 1979, respectively. Provisions for additional depreciation are amounts equivalent to the estimated effect on federal and state income taxes due to the use of various liberalized depreciation allowances with respect to plant in service, nuclear fuel, pollution abatement facilities, removal costs, repair allowances and other timing differences as discussed under "Income Taxes" below. The estimated reduction in

income taxes, shown as additional depreciation, amounted to \$6,009,000, \$4,162,000 and \$6,436,000 for federal taxes and \$2,260,000, \$1,327,000, and \$1,537,000 for state taxes for the years 1981, 1980 and 1979, respectively. Accumulated additional depreciation totaled \$94,396,000, \$84,238,000 and \$77,992,000 at December 31, 1981, 1980 and 1979, respectively.

Estimated decommissioning costs being recovered through current depreciation rates are \$39,100,000 (based on plant in service at December 31, 1981) for the company's 41.2% ownership share of the Kewaunee nuclear plant.

(c) Nuclear Fuel — The cost of nuclear fuel is being amortized to fuel expense based on the quantity of heat produced for the generation of electric energy by the Kewaunee plant. The tax effect of using a liberalized method of depreciating the fuel for income tax purposes is recorded as additional depreciation as discussed in "Depreciation" above. Amortization totaling \$46,072,000, \$35,760,000 and \$27,670,000 and additional depreciation of (\$3,993,000), (\$2,026,000) and (\$1,269,000) as of December 31, 1981, 1980 and 1979, respectively, is included in the accumulated provision for amortization of nuclear fuel. The costs amortized to fuel expense (which assume no salvage values for uranium or plutonium) include an amount for estimated future storage which is being recovered through current

rates. Interim storage space for spent nuclear fuel is provided at the Kewaunee plant, and expenses associated with this storage are recognized as current operating costs.

The company has a wholly-owned subsidiary which engages in various mining operations relating to procuring a reliable supply of uranium for the Kewaunee plant. The investment in this subsidiary (\$8,533,000, \$6,032,000 and \$6,093,000 at December 31, 1981, 1980 and 1979, respectively) is carried on the equity basis of accounting. The uranium obtained through this subsidiary is carried at cost, including the operation costs of the subsidiary.

(d) Income Taxes — (1) Depreciation for federal and state income taxes reflects the use of various liberalized depreciation allowances. The estimated reductions in income taxes due to the use of these practices are provided as additional depreciation as discussed under "Depreciation" and "Nuclear Fuel" above. (2) Investment credits are being deferred and applied as a reduction of federal income tax expense over the estimated service lives of the related property.

The net investment credit deferral amounts reflect the company's utilization of the 10% investment credit and an additional 1½% credit resulting from the establishment of a TRASOP for its employees. (3) The effective income tax rates are computed by dividing total income tax expense, including net investment credit deferral and additional depreciation, as discussed under "Depreciation" and "Nuclear Fuel" above, by the sum of such expense and net income.

Notes to Financial Statements

	1981		1980		1979	
	AMOUNT	RATE	AMOUNT	RATE	AMOUNT	RATE
Effective income tax	\$30,159	43.6%	\$31,452	47.0%	\$40,044	53.2%
AFUDC	4,330	6.2	2,104	3.1	247	.3
State income taxes and state additional depreciation, net	(3,044)	(4.4)	(2,936)	(4.4)	(3,515)	(4.7)
Investment credit restored	1,738	2.5	1,385	2.1	1,271	1.7
Other differences, net	(1,332)	(1.9)	(1,229)	(1.8)	(3,427)	(4.5)
Statutory federal income tax	<u>\$31,851</u>	<u>46.0%</u>	<u>\$30,776</u>	<u>46.0%</u>	<u>\$34,620</u>	<u>46.0%</u>

(e) Retirement and Welfare Plans — The company has noncontributory retirement plans covering substantially all employees under which annual contributions are made to an irrevocable trust established to provide retired employees with a monthly payment if conditions relating to age and length of service have been met. It is the company's policy to fund retirement contributions to meet current costs of the plans and amortize the unfunded prior service costs over approximately 10 years. The total pension expense for 1981, 1980 and 1979 was \$4,972,000, \$6,482,000 and \$6,733,000, respectively.

As of January 1, 1981 (the date of the latest actuarial valuation), the actuarially computed values of accumulated vested and nonvested plan benefits were \$72,148,000 and \$3,802,000, respectively. As of January 1, 1981, the market value of net plan assets available for benefits was \$74,840,000.

As of January 1, 1980, the actuarially computed values of accumulated vested and nonvested plan benefits were \$63,094,000 and \$1,956,000, respectively, and the market value of net plan assets available for benefits was \$60,471,000.

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 5½%.

The company also has a self-insured medical plan which provides health care benefits to employees and their dependents, and to retirees and their dependents. Beginning in mid-1981, the company is funding amounts applicable to post-retirement benefits prospectively through a trust fund. The total expenses related to this funding were \$1,083,000 in 1981. The company anticipates that it will amortize the unfunded past service cost associated with the plan over the period in which recovery through rates is permitted.

(f) Earnings Per Share — Earnings per share on common stock are computed on the basis of the weighted average number of shares outstanding

(11,129,940, 10,905,032 and 10,826,770 shares for 1981, 1980 and 1979, respectively).

(g) Revenue — Pursuant to an order of the PSCW, the company accrues revenues related to electric and gas service as rendered instead of as billed. This order also provided that the estimated amount of unbilled revenues

as of January 1, 1977 was to be recorded as a deferred credit and amortized to income over 10 years beginning in 1977 with appropriate ratemaking recognition.

(h) Research, Development and Environmental Costs — These costs are normally charged to the appropriate operating expense on a current basis. However, such costs which are related to a construction project are capitalized as part of the cost of utility plant. Total costs

were \$1,528,000, \$1,331,000 and \$1,908,000 for the years 1981, 1980 and 1979, respectively, of which approximately \$95,000, \$26,000 and \$402,000, respectively, were charged to construction.

(i) Property Additions, Maintenance and Retirements — The cost of renewals and betterments of units of property (as distinguished from minor items of property) is charged to utility plant accounts. The cost of units of property retired, sold or otherwise disposed of, plus removal costs, less salvage, is charged to accumulated

provision for depreciation. No profit or loss is recognized in connection with ordinary retirements of property units. Maintenance and repair costs and replacement and renewal of items less than units of property are charged to operating expenses.

(2) JOINTLY-OWNED FACILITIES AND CONSTRUCTION COMMITMENTS:

Information with respect to the company's share of jointly-owned electric generating facilities in service at December 31, 1981 is as follows:

	Columbia Energy Center	Edgewater Unit No. 4	Kewaunee
		(Thousands)	
Ownership	31.8%	31.8%	41.2%
Utility plant in service	\$100,226	\$14,637	\$93,694
Accumulated provision for depreciation	\$30,070	\$7,430	\$44,649
Construction in progress	\$465	\$68	\$2,545

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

Information with respect to major construction projects in progress is as follows:

Project	Ownership	Construction in Progress — December 31		
		1981	1980	1979
			(Thousands)	
Haven (nuclear)	18.4%	(a)	(a)	\$5,212
Weston Unit 3 (coal)	100.0%	—	\$146,245	\$60,502

(a) See information below regarding this project's expenditures.

In July 1977, the joint application for a certificate of authority to construct two 900 Mw nuclear power plant units at Lake Koshkonong, Wisconsin, was withdrawn. A joint application for a certificate of authority to construct a similar design nuclear plant with a single 900 Mw unit was then filed for an alternative site near Haven, Wisconsin.

In March 1979, the company received an order from the PSCW requiring the transfer of Koshkonong plant expenditures of approximately \$3,800,000 from deferred charges to construction in progress and nuclear fuel based on Commission findings that such expenditures would be applicable to the proposed Haven project. The order also required the write-off of approximately \$1,200,000 (before income taxes) to operating expense in 1979.

In February 1980, the joint application for a certificate of authority for the Haven plant was withdrawn and plans to construct a nuclear plant at the site were

abandoned. Pursuant to an order of the PSCW, the company transferred its share of precertification expenditures (\$5,736,000 before taxes) to a deferred charge account. Such amounts are being amortized to expense over a three-year period commencing June 1981 with concurrent recovery in rates.

During 1981, the amount of cancellation charges for engineering and licensing expenditures and purchases of uranium were agreed to by the joint owners of the cancelled Haven project. The company's share of these settlements was \$2,985,000 and has been recorded as a deferred charge. The company has received orders from the PSCW directing the company to amortize these charges to operating expense over a three-year period beginning with settlement of the company's next rate order.

Utility plant construction expenditures for 1982 are estimated to be about \$65,813,000.

Notes to Financial Statements

(3) **SHORT-TERM DEBT AND LINES OF CREDIT:** The company borrows funds on a short-term basis to finance its construction program. These funds are borrowed at current commercial paper or bank prime rates. To support outstanding commercial paper, the company has arranged for bank lines of credit and has agreed to maintain deposits to support these lines of credit. There are no legal restrictions as to withdrawal of these funds

which may also serve to reimburse the banks for other services which they provide the company. Substantially all cash balances represent compensating balances for credit lines and bank services. In accordance with banking practice, these lines are normally reviewed annually and may be withdrawn at the discretion of the lenders.

The following information relates to short-term borrowings, including commercial paper subject to refinancing, and lines of credit for the years indicated:

	<u>1981</u>	<u>1980</u>	<u>1979</u>
		(Thousands)	
As of end of year —			
Discount rate on outstanding commercial paper	11.2% to 12.7%	16.6% to 19.6%	12.9% to 13.7%
Interest rate on note payable	11.3%	14.5%	11.5%
Unused lines of credit	\$44,425	\$42,670	\$39,490
Compensating balance requirements	\$2,504	\$2,589	\$2,574
For the year ended —			
Maximum amount of borrowings	\$56,915	\$59,115	\$38,055
Average amount of borrowings	\$43,226	\$34,013	\$11,306
Weighted average interest rate on borrowings	15.8%	12.7%	12.0%

The company has a financing agreement with a commercial bank that permits the company to borrow up to \$50,000,000 (which was reduced to \$20,000,000 effective January 1, 1982) at any time through December 31, 1984 provided compliance with certain financial covenants is maintained. A fee is payable on

the unused portion of the commitment. As of December 31, 1981, \$20,000,000 was outstanding under this agreement. Because of this agreement, \$30,000,000 and \$26,270,000 of the commercial paper outstanding at December 31, 1980 and 1979, respectively, was included in Long-Term Debt.

(4) **PREFERRED STOCK:** The 10.50% Series Preferred Stock has a mandatory 5% annual sinking fund requirement plus an additional 5% sinking fund which is redeemable annually at the company's option at a price of \$100 per share plus accrued dividends. In 1981, 1980 and 1979, 7,500 shares, 7,500 shares and 15,000

shares, respectively, of this Series were retired to meet these sinking fund requirements.

During April 1981, the company issued \$15,000,000 of 10.75% Preferred Stock with a mandatory redemption date of May 1, 1991.

(5) **FIRST MORTGAGE BONDS:** Sinking fund requirements on First Mortgage Bonds may be satisfied by the deposit of cash or reacquired bonds with the

trustee and for certain series by the application of net expenditures for bondable property in an amount equal to 166 $\frac{2}{3}$ % of the annual requirements.

The following information relates to sinking fund and maturity requirements on long-term debt outstanding as of December 31, 1981:

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
			(Thousands)		
Sinking fund requirements	\$1,975	\$ 1,975	\$ 1,850	\$1,850	\$1,850
Maturing first mortgage bonds	—	40,000	32,125	—	—
Total	<u>\$1,975</u>	<u>\$41,975</u>	<u>\$33,975</u>	<u>\$1,850</u>	<u>\$1,850</u>

As of December 31, 1981, the company had satisfied all of its sinking fund requirements due in 1982 and \$608,000 of those due in 1983.

During July 1980, the company issued \$40,000,000 of 10.8% First Mortgage Bonds due July 15, 1983.

During April 1981, the company issued \$22,000,000 of 7.9% and \$1,000,000 of 8.5% First Mortgage Bonds

due April 15, 1984 to secure loans made to the company from the proceeds of revenue bond issues in the same amount and concurrently sold by the Town of Weston, Wisconsin. Under the terms of the sale, a Construction Fund, included in special deposits, which totaled \$3,017,000 as of December 31, 1981, was established for construction of certain pollution-control equipment.

(6) CONSTANT DOLLAR AND CURRENT COST INFORMATION (Unaudited): The following supplementary information is presented in response to the Financial Accounting Standards Board (FASB) Statement No. 33, Financial Reporting and Changing Prices, for the purpose of providing certain information on an experimental basis about the effects of inflation on the company. In issuing Statement No. 33, the FASB stated that the "measurement and use of information on changing prices will require a substantial learning process on the part of all concerned." The company cautions the readers of the inherent imprecision of this data and of the many subjective judgments required in the estimation of inflationary data which could produce substantial variations in the results presented.

Constant dollar amounts below represent historical cost stated in terms of dollars of equal purchasing power, as measured by the Consumers Price Index for all Urban Consumers (CPI-U). Current cost amounts reflect changes in specific prices of plant from the date the plant was acquired to the present. They differ from constant dollar amounts to the extent that specific prices increased more or less rapidly than the general

rate of inflation. The current cost of plant, and thus the increase in specific prices, is based on the most recent specific current prices where possible and the Handy-Whitman Index of Public Utility Construction Costs. Current cost does not necessarily represent the replacement cost of the company's productive capacity because the utility plant is not expected to be replaced precisely in kind.

Fuel inventories, the cost of electric production fuels and gas purchased for resale have not been restated from their historical cost. Since only historical costs are deductible for income tax purposes, the income tax expense in the historical cost financial statements is not adjusted.

Under the ratemaking prescribed by the regulatory commissions to which the company is subject, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the change in the cost of plant stated in terms of constant dollars and current cost from the historical cost of plant is reflected as an adjustment to recoverable costs. The effects of inflation on utility plant are offset by the holding gain resulting from the use of debt to finance utility plant construction.

STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES FOR THE YEAR ENDED DECEMBER 31, 1981
(Thousands of average 1981 dollars)

	Constant Dollar	Current Cost
Earnings on common stock — historical	\$33,438	\$33,438
Effect on common shareholders' equity because of changing prices:		
Cost in excess of the original cost of productive facilities not recoverable in rates:		
Reportable as an increase to the provision for depreciation and nuclear fuel amortization	(34,753)	(53,476)
Reportable as an adjustment to recoverable cost	(25,855)	32,494
Excess of general price level changes (\$119,124) in the current year over specific price changes (\$79,498)	—	(39,626)
Offsetting effect of debt financing	39,795	39,795
Net effect on common shareholders' equity	(20,813)	(20,813)
Earnings on common stock — as adjusted	<u>\$12,625</u>	<u>\$12,625</u>

At December 31, 1981, the net recoverable amount of utility plant was \$655,893,000.

Notes to Financial Statements

FIVE YEAR SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>
	(Adjusted amounts in average 1981 dollars)				
Operating revenues (1)					
Historical cost	\$492,262	\$436,435	\$382,012	\$331,933	\$298,129
As adjusted	492,262	481,705	478,657	462,736	447,440
Earnings on common stock (1)					
Historical cost	\$33,438	\$30,808	\$30,431	—	—
As adjusted	12,625	4,405	4,534	—	—
Earnings per share					
Historical cost	\$3.00	\$2.83	\$2.81	—	—
As adjusted	1.13	.40	.42	—	—
Common stockholders' equity, December 31 (1)					
Historical cost	\$253,078	\$235,997	\$221,581	—	—
As adjusted	244,897	248,782	262,542	—	—
Return on average common stockholders' equity					
Historical cost	13.9%	13.6%	14.3%	—	—
As adjusted	5.2	1.8	1.7	—	—
Excess of general price changes over specific price changes (1)	\$39,626	\$52,582	\$45,460	—	—
Offsetting effect of debt financing (1)	39,795	51,110	54,626	—	—
Cash dividends per share					
Historical cost	\$1.89	\$1.77	\$1.67	\$1.58	\$1.50
As adjusted	1.89	1.95	2.09	2.20	2.25
Market price per share					
Historical cost	\$18.63	\$15.63	\$17.38	\$18.00	\$19.38
As adjusted	18.63	17.25	21.77	25.09	29.08
Average Consumer Price Index	272.4	246.8	217.4	195.4	181.5

(1) Thousands

(7) COMMON STOCK: During 1981, 1980 and 1979 increases in outstanding common stock, \$8 par value were:

	Automatic Dividend Reinvestment and Stock Purchase Plan		Tax Reduction Act Stock Ownership Plan and Trust (TRASOP)	
	Number of Shares	Amount	Number of Shares	Amount
1981	141,163	\$2,357,915	118,712	\$2,132,424
1980	76,527	1,224,774	98,565	1,684,870
1979	—	—	59,777	1,097,267

(8) COMMITMENTS AND CONTINGENT LIABILITIES:

To assure a long-term supply of coal, the company has contracted to purchase 200,000 tons of coal per year through 1986. Under this contract the company is obligated to make minimum annual payments as follows, whether or not the company elects to receive the coal:

1982	\$2,250,000	1985	\$1,800,000
1983	2,100,000	1986	1,650,000
1984	1,950,000		

This contract also allows the company to decrease or increase the annual tonnage by 10% or 20,000 tons. The company's total purchases under this agreement were \$5,643,000 in 1981.

The company is a member of NEIL, established to

provide insurance coverage against the cost of replacement power during certain prolonged accidental outages of its nuclear generating unit. The company would be subject to a maximum assessment of approximately \$1 million in the event of losses of any NEIL member.

In addition, the NRC indemnity for public liability coverage under the Price-Anderson Act is supported by a mandatory industry-wide program under which owners of nuclear generating facilities could be assessed in the event of nuclear incidents. The company would be subject to a maximum assessment of \$5 million in the event of any one incident, limited to a maximum of \$10 million in any calendar year.

(9) SEGMENTS OF BUSINESS:

The following table presents information for the years ended December 31 pertaining to the company's operations segmented by lines of business. The company is a regulated public utility and such information does not fully reflect the ratemaking treatment allowed by regulatory agencies.

	1981			1980			1979		
	Electric	Gas	Total	Electric	Gas	Total	Electric	Gas	Total
Operating revenues	\$294,509	\$197,753	\$492,262	\$263,806	\$172,629	\$436,435	\$248,663	\$133,349	\$382,012
Operating expenses—									
Operation and maintenance	178,448	181,648	360,096	157,332	155,717	313,049	136,822	114,869	251,691
Straight-line depreciation	25,373	4,312	29,685	23,531	4,194	27,725	22,776	4,216	26,992
Property and other taxes	13,015	2,551	15,566	10,470	2,344	12,814	10,322	2,269	12,591
	<u>216,836</u>	<u>188,511</u>	<u>405,347</u>	<u>191,333</u>	<u>162,255</u>	<u>353,588</u>	<u>169,920</u>	<u>121,354</u>	<u>291,274</u>
Operating income before income taxes	77,673	9,242	86,915	72,473	10,374	82,847	78,743	11,995	90,738
Total AFUDC	9,413	—	9,413	4,575	—	4,575	537	—	537
Provisions for income tax (a)	26,488	3,127	29,615	28,097	3,207	31,304	35,166	4,920	40,086
Operating income including AFUDC	<u>\$ 60,598</u>	<u>\$ 6,115</u>	66,713	<u>\$ 48,951</u>	<u>\$ 7,167</u>	56,118	<u>\$ 44,114</u>	<u>\$ 7,075</u>	51,189
Other income, net			863			524			365
Interest expense			28,494			21,190			16,337
Net income			<u>\$ 39,082</u>			<u>\$ 35,452</u>			<u>\$ 35,217</u>
Identifiable assets (b)	<u>\$692,942</u>	<u>\$ 97,035</u>	<u>\$789,977</u>	<u>\$617,724</u>	<u>\$ 95,023</u>	<u>\$712,747</u>	<u>\$522,397</u>	<u>\$ 87,920</u>	<u>\$610,317</u>
Assets not allocated (c)			7,058			6,504			5,454
Total assets			<u>\$797,035</u>			<u>\$719,251</u>			<u>\$615,771</u>
Construction and nuclear fuel expenditures including AFUDC	<u>\$109,558</u>	<u>\$ 4,572</u>	<u>\$114,130</u>	<u>\$122,209</u>	<u>\$ 6,257</u>	<u>\$128,466</u>	<u>\$ 74,215</u>	<u>\$ 6,080</u>	<u>\$ 80,295</u>

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

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

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

Notes to Financial Statements

(10) QUARTERLY FINANCIAL INFORMATION (Unaudited):

	Three Months Ended			
	(Thousands except for per share data)			
	1981			
	Mar.	June	Sept.	Dec.
Operating revenues	\$140,134	\$102,376	\$106,714	\$143,038
Net income	\$11,708	\$5,665	\$9,869	\$11,840
Earnings on common stock	\$10,564	\$4,204	\$8,348	\$10,322
Average number of shares of common stock outstanding	11,051	11,087	11,120	11,260
Earnings per average share of common stock	\$.96	\$.37	\$.75	\$.92
	1980			
	Mar.	June	Sept.	Dec.
Operating revenues	\$129,355	\$90,707	\$93,759	\$122,614
Net income	\$10,411	\$5,455	\$10,147	\$9,439
Earnings on common stock	\$9,248	\$4,294	\$8,987	\$8,279
Average number of shares of common stock outstanding	10,874	10,874	10,876	10,996
Earnings per average share of common stock	\$.85	\$.39	\$.83	\$.76
	1979			
	Mar.	June	Sept.	Dec.
Operating revenues	\$110,571	\$82,295	\$84,343	\$104,803
Net income	\$9,422	\$8,182	\$8,795	\$8,818
Earnings on common stock	\$8,219	\$6,978	\$7,592	\$7,642
Average number of shares of common stock outstanding	10,814	10,814	10,814	10,865
Earnings per average share of common stock	\$.76	\$.65	\$.70	\$.70

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

Auditors' Report

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

We have examined the balance sheets and statements of capitalization of WISCONSIN PUBLIC SERVICE CORPORATION (a Wisconsin corporation) as of December 31, 1981, 1980 and 1979, and the related statements of income, retained earnings and sources of construction funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Wisconsin Public Service Corporation as of December 31, 1981, 1980 and 1979, and the results of its operations and the sources of its construction funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Milwaukee, Wisconsin,
January 29, 1982.

ARTHUR ANDERSEN & CO.

Statements Of Income (Thousands)

	1981	1980	1979	1978	1977	1976	1971
Operating Revenues:							
Electric	\$294,509	\$263,806	\$248,663	\$217,576	\$200,023	\$181,581	\$ 74,101
Gas	197,753	172,629	133,349	114,357	98,106	88,464	38,201
	<u>492,262</u>	<u>436,435</u>	<u>382,012</u>	<u>331,933</u>	<u>298,129</u>	<u>270,045</u>	<u>112,302</u>
Operating Expenses:							
Operation —							
Electric production fuels	88,400	85,256	78,942	63,881	55,402	51,518	18,475
Gas purchased for resale	166,787	142,519	103,680	89,360	73,862	63,224	23,232
Purchased power, net	20,333	12,429	5,980	1,241	2,740	(2,046)	2,461
Other	59,005	51,103	43,954	37,648	33,427	30,079	16,568
Maintenance	25,571	21,742	19,135	17,178	16,728	14,989	7,356
Depreciation —							
Straight-line provision	29,685	27,725	26,992	25,607	23,569	22,681	9,497
Additional depreciation	8,269	5,489	7,973	8,868	6,737	10,914	1,773
Taxes —							
Current federal income	7,257	10,943	20,897	19,169	21,586	16,837	3,523
Net investment credit	11,616	11,380	6,877	5,291	3,231	4,366	123
Current state income	2,473	3,492	4,339	3,898	4,014	2,846	815
Property and other	15,566	12,814	12,591	13,302	13,308	12,103	9,273
	<u>434,962</u>	<u>384,892</u>	<u>331,360</u>	<u>285,443</u>	<u>254,604</u>	<u>227,511</u>	<u>93,096</u>
Operating Income	57,300	51,543	50,652	46,490	43,525	42,534	19,206
Other Income and Deductions:							
AFUDC, other funds*	472	777	—	—	440	—	—
Gains on bonds reacquired	405	383	352	333	438	396	428
Income taxes	(544)	(154)	40	26	(356)	(41)	63
Other, net	1,002	295	(27)	(29)	787	13	232
	<u>1,335</u>	<u>1,301</u>	<u>365</u>	<u>330</u>	<u>1,309</u>	<u>368</u>	<u>723</u>
Income Before Interest Expense	58,635	52,844	51,017	46,820	44,834	42,902	19,929
Interest Expense:							
Interest on bonds	21,224	16,501	14,189	14,290	14,484	14,522	11,132
AFUDC, borrowed funds*	(8,941)	(3,798)	(537)	—	(593)	—	(3,450)
Other interest	7,270	4,689	2,148	406	207	426	530
	<u>19,553</u>	<u>17,392</u>	<u>15,800</u>	<u>14,696</u>	<u>14,098</u>	<u>14,948</u>	<u>8,212</u>
Net Income	39,082	35,452	35,217	32,124	30,736	27,954	11,717
Preferred Stock							
Dividend Requirements	5,644	4,633	4,786	4,812	4,812	4,812	2,079
Earnings On Common Stock	<u>\$ 33,438</u>	<u>\$ 30,819</u>	<u>\$ 30,431</u>	<u>\$ 27,312</u>	<u>\$ 25,924</u>	<u>\$ 23,142</u>	<u>\$ 9,638</u>

INCOME STATISTICS

Common Stock:

Shares outstanding, Dec. 31	11,308,740	11,048,865	10,873,773	10,813,996	10,777,428	10,750,152	6,889,734
Shares outstanding, Avg.	11,129,940	10,905,032	10,826,770	10,785,142	10,760,366	10,355,691	6,224,255
Earnings per share†	\$3.00	\$2.83	\$2.81	\$2.53	\$2.41	\$2.23	\$1.55
Dividends paid per share	\$1.89	\$1.77	\$1.67	\$1.58	\$1.50	\$1.42	\$1.16
Times Interest Earned:							
Before income taxes	3.43	4.15	5.65	5.72	5.51	5.21	2.54
After income taxes	2.37	2.67	3.16	3.19	3.09	2.87	2.00
Times Interest and Preferred							
Dividends Earned	1.98	2.19	2.44	2.40	2.33	2.17	1.70

*AFUDC is split between debt and equity portions beginning in 1977.

†Based on weighted average shares outstanding.

Financial Statistics

Balance Sheets (Thousands)

	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1971</u>
Assets							
Utility Plant:							
Electric	\$885,448	\$791,320	\$682,283	\$617,966	\$578,347	\$543,468	\$342,901
Gas	103,859	101,244	103,217	98,813	94,905	92,367	71,541
Bus	—	—	—	—	—	—	587
	<u>989,307</u>	<u>892,564</u>	<u>785,500</u>	<u>716,779</u>	<u>673,252</u>	<u>635,835</u>	<u>415,029</u>
Less —							
Accumulated depreciation	<u>350,253</u>	<u>315,156</u>	<u>287,105</u>	<u>257,420</u>	<u>226,699</u>	<u>199,519</u>	<u>109,211</u>
	<u>639,054</u>	<u>577,408</u>	<u>498,395</u>	<u>459,359</u>	<u>446,553</u>	<u>436,316</u>	<u>305,818</u>
Nuclear fuel, net	<u>16,839</u>	<u>16,875</u>	<u>16,305</u>	<u>14,918</u>	<u>14,048</u>	<u>13,215</u>	<u>7,672</u>
Net utility plant	<u>655,893</u>	<u>594,283</u>	<u>514,700</u>	<u>474,277</u>	<u>460,601</u>	<u>449,531</u>	<u>313,490</u>
Investments	14,475	11,889	12,137	11,884	10,609	5,559	4,922
Current assets	118,203	105,970	85,979	74,544	67,913	67,891	24,413
Deferred charges	8,464	7,109	2,955	8,431	8,469	1,337	2,374
Total assets	<u>\$797,035</u>	<u>\$719,251</u>	<u>\$615,771</u>	<u>\$569,136</u>	<u>\$547,592</u>	<u>\$524,318</u>	<u>\$345,199</u>
Capitalization and Liabilities							
Common stock and premium	\$134,452	\$129,891	\$126,971	\$125,873	\$125,134	\$124,624	\$ 66,049
Retained earnings	118,626	106,106	94,610	81,679	71,450	61,734	35,743
Preferred stock with no mandatory redemption	51,200	51,200	51,200	51,200	51,200	51,200	36,200
Preferred stock with mandatory redemption	26,250	12,000	12,750	14,250	15,000	15,000	—
Long-term debt	<u>272,283</u>	<u>280,313</u>	<u>217,398</u>	<u>194,440</u>	<u>197,765</u>	<u>201,688</u>	<u>174,579</u>
Total capitalization	<u>602,811</u>	<u>579,510</u>	<u>502,929</u>	<u>467,442</u>	<u>460,549</u>	<u>454,246</u>	<u>312,571</u>
Short-term borrowings	46,915	15,970	10,000	8,700	8,800	—	14,640
Bond sinking fund requirements and maturing first mortgage bonds	—	—	2,380	2,366	2,310	2,858	42
Other liabilities and credits	<u>147,309</u>	<u>123,771</u>	<u>100,462</u>	<u>90,628</u>	<u>75,933</u>	<u>67,214</u>	<u>17,946</u>
Total capitalization and liabilities	<u>\$797,035</u>	<u>\$719,251</u>	<u>\$615,771</u>	<u>\$569,136</u>	<u>\$547,592</u>	<u>\$524,318</u>	<u>\$345,199</u>
Book Value Per Share, Dec. 31	\$22.38	\$21.36	\$20.38	\$19.19	\$18.24	\$17.34	\$14.77
Return On Average Equity	13.9%	13.6%	14.3%	13.7%	13.8%	13.1%	10.7%
Capitalization Ratios							
Common stock and premium	22.3	22.4	25.3	26.9	27.2	27.4	21.1
Retained earnings	19.7	18.3	18.8	17.5	15.5	13.6	11.4
Preferred stock	12.8	10.9	12.7	14.0	14.4	14.6	11.6
Long-term debt	45.2	48.4	43.2	41.6	42.9	44.4	55.9
Percent Long-term Debt to							
Net Utility Plant	41.5	47.2	42.2	41.0	42.9	44.9	55.7
Average Bond Rate	7.7	7.7	7.0	6.9	6.9	7.1	6.7
Average Preferred Stock Rate	7.8	7.2	7.2	7.3	7.3	7.3	5.7
Shareholders — Common stock	35,333	36,704	37,589	38,412	38,949	40,041	28,922
Preferred stock	7,628	8,006	8,434	8,790	9,002	9,207	8,169
Number of Employees, Dec. 31	2,116	1,969	1,875	1,837	1,801	1,785	1,923

Operating Statistics

	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1971</u>
Electric Operations							
Operating Revenues (Thousands):							
Residential	\$103,050	\$ 91,093	\$ 84,217	\$ 76,254	\$ 69,994	\$ 64,621	\$27,786
Commercial and industrial	152,153	132,963	127,461	112,716	102,256	93,067	41,064
All other	39,306	39,750	36,985	28,606	27,773	23,893	5,252
Total electric revenues	\$294,509	\$263,806	\$248,663	\$217,576	\$200,023	\$181,581	\$74,102
Kwh Sales (Thousands)	6,794,926	6,681,319	6,636,006	6,124,585	5,833,370	5,648,695	3,862,866
Number of Customers, Dec. 31:							
Residential	256,882	252,583	248,557	242,904	235,400	227,906	196,469
Commercial and industrial	27,833	26,484	25,917	25,387	24,907	24,656	23,505
All other	1,023	1,009	993	960	936	908	586
Total electric customers	285,738	280,076	275,467	269,251	261,243	253,470	220,560
Annual Average Use (Kwh):							
Residential	7,172	7,167	7,083	6,951	6,864	6,658	5,938
Commercial and industrial	131,398	132,766	139,067	134,490	130,102	125,635	101,293
Average Kwh Price (Cents):							
Residential	5.59	5.03	4.78	4.52	4.33	4.26	2.38
Commercial and industrial	4.16	3.78	3.54	3.30	3.16	3.00	1.72
Production Data:							
System Capacity (Kw):							
Steam	1,269,240	957,640	967,640	967,640	837,440	837,440	632,440
Nuclear	221,000	221,000	221,000	221,000	221,000	221,000	—
Hydraulic	62,156	62,156	62,156	62,156	62,156	62,156	62,516
Combustion turbine	156,200	156,200	156,200	156,200	156,200	156,200	63,350
Diesel	4,000	4,000	4,000	4,000	4,000	4,000	7,000
Total	1,712,596	1,400,996	1,410,996	1,410,996	1,280,796	1,280,796	765,306
Interest in Wisconsin River Power Company							
	11,667	11,667	11,667	11,667	11,667	11,667	11,667
Total system capacity	1,724,263	1,412,663	1,422,663	1,422,663	1,292,463	1,292,463	776,973
Generation and Purchases (Thousands of Kwh):							
Steam	4,387,774	4,783,306	4,862,769	4,348,475	4,164,132	4,203,975	3,595,798
Nuclear	1,553,941	1,496,685	1,417,890	1,606,997	1,462,607	1,392,660	—
Hydraulic	300,794	292,919	338,760	317,830	227,676	252,768	322,079
Purchases — Wisconsin River Power Company							
	71,487	76,957	78,560	79,960	49,661	53,223	73,037
Other	998,606	584,980	432,285	276,137	351,029	221,123	186,637
Total	7,312,602	7,234,847	7,130,264	6,629,399	6,255,105	6,123,749	4,177,551
System Peak — firm (Kw)	1,132,800	1,106,600	1,103,700	1,053,100	1,007,000	935,000	714,000
Annual load factor	72.80%	72.26%	70.50%	69.10%	65.86%	66.93%	66.24%
Gas Operations							
Operating Revenues (Thousands):							
Residential	\$ 74,969	\$ 66,507	\$ 51,820	\$ 45,386	\$ 40,685	\$ 37,232	\$17,912
Commercial and industrial	120,862	103,335	80,130	68,230	56,709	50,968	20,169
All other	1,922	2,787	1,399	741	712	264	120
Total gas revenues	\$197,753	\$172,629	\$133,349	\$114,357	\$ 98,106	\$ 88,464	\$38,201
Therm Sales (Thousands)	484,993	515,738	531,178	522,131	484,963	544,049	517,384
Number of Customers, Dec. 31:							
Space heating	140,576	137,737	132,171	126,750	123,402	123,160	102,680
All other	11,322	12,176	14,074	15,352	15,743	16,300	21,513
Total gas customers	151,898	149,913	146,245	142,102	139,145	139,460	124,193

Directors and Officers

DIRECTORS

Paul D. Ziemer

President and Chief Executive Officer
of the Company

A. Dean Arganbright

President, Wisconsin National Life
Insurance Company, Oshkosh, Wisconsin

Michael S. Ariens

President and Chief Executive Officer,
Ariens Company, Brillion, Wisconsin

William V. Arvold

Retired President, Wausau Paper
Mills Company, Brokaw, Wisconsin

James H. Liethen

Senior Vice President
of the Company

John M. Rose

Chairman of the Board,
Kellogg-Citizens National Bank,
Green Bay, Wisconsin

John S. Stiles

Chairman of the Board,
Morley-Murphy Company,
Green Bay, Wisconsin

Harold J. Van Groll

Senior Vice President
of the Company

Neil J. Webb

President, St. Norbert College,
De Pere, Wisconsin

OFFICERS

Paul D. Ziemer*

President and Chief Executive Officer

James H. Liethen*

Senior Vice President,
Finance

Eugene R. Mathews*

Senior Vice President,
Power Supply and Engineering

Linus M. Stoll*

Senior Vice President,
Administration

Harold J. Van Groll*

Senior Vice President,
Operations

Alfred E. Pearson

Assistant Vice President,
Rates and Budgets

Daniel A. Bollom

Treasurer

Robert H. Knuth

Secretary and Assistant Treasurer

*Management Staff



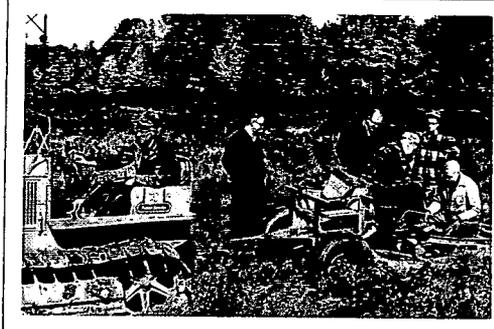
Standing, from left: A. Dean Arganbright, Paul D. Ziemer, John S. Stiles.
Seated: Eugene R. Mathews, Neil J. Webb.

Standing, from left: John M. Rose, William V. Arvold, James H. Liethen.
Seated: Michael S. Ariens, Harold J. Van Groll, Linus M. Stoll.



Additional Benefits of Hydroelectric Projects

Reforestation



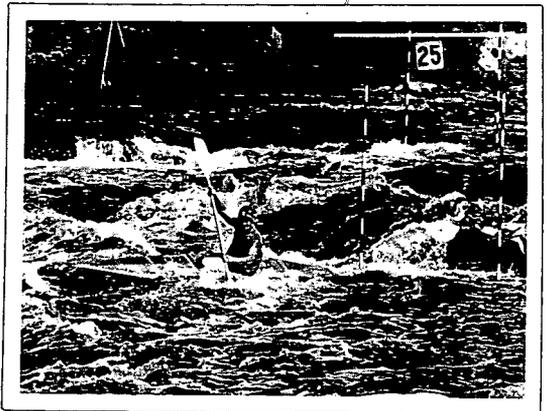
Lands surrounding the company's hydroelectric flowages and dams were reforested with approximately two million trees planted between 1950 and 1966 to improve the watershed capabilities of about 19,000 acres of land on the Wisconsin, Menominee, Peshtigo and Tomahawk rivers.

In April 1981, loggers began the first harvest of trees which had been planted during the 1950s. All trees harvested are either sold for use as lumber or pulpwood.

Shown (above) is the planting of Norway pine in the early 1950s which marked the start of a hydroelectric watershed management program, and (center) after 27 years the pine is ready for thinning; (right) the stacked logs are all the same age, but changes in growing conditions have created logs of varying diameter.



Recreation



The practice of opening locks on the East Channel of the Wisconsin River near the company's Wausau hydro plant for canoe and kayak competitions was begun in 1975.

Although many races have been held in the channel since its semi-annual openings, 1981 was the first year the nation's major canoe and kayak contest, the National Slalom Whitewater Championships, was held there. One of the competitors is shown above.



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