"We will always search for the best ways to serve our customers, shareholders, employees, community neighbors, government and the environment in a caring, cost-conscious and environmentally acceptable way."

PUBLIC SERVICE

For more than a century, Wisconsin Public Service Corporation has been serving customers in Northeastern Wisconsin and part of the Upper Peninsula of Michigan.

During that time, we have developed a deep sense of caring for our customers, shareholders, employees, the communities we serve, the various governments and agencies that regulate our activities and our environment.

The foundation of our corporate activities is based on our goal to provide safe, reliable electric and natural gas service at the lowest reasonable cost.

We recognize, however, our business has some negative impacts on the quality of life in our territory. Thus, we are working constantly to balance the interests of our customers, shareholders and community neighbors in addressing the environmental impact of our products and services.

This company will continue its search for the best ways to operate in a committed, cost-conscious and environmentally concerned way.

Our customers can rely upon our being responsive to their needs and problems so we can provide them with the highest possible levels of satisfaction.

Our shareholders can look to management for careful stewardship of their investment. This includes taking prudent risks to maximize return while maintaining our commitments to our customers and employees.

Our employees can count on our managers to maintain an open door policy, to encourage creativity and cultivate professional development.

Community neighbors can depend upon us to continue our long-standing history of civic participation ranging from corporate sponsorship of major events and projects to the individual involvement of our employees.

Governments and their agencies can be confident that we will comply with not only the letter of the law, but with the spirit of the law because our company is managed according to the highest ethical standards.

The environment is our source of life and beauty, and we pledge to do our best to protect our land, air and water supplies, as well as the creatures they support.

Contents

Business

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

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

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

James H. Liethen
Senior Vice President
of the Company

Eugene R. Mathews
Senior Vice President
of the Company

John M. Rose
Chairman of the Board,
Associated
Kellogg Bank,
Green Bay, Wisconsin

Neil J. Webb
President, Century Drill
& Tool Co., Inc.,
Green Bay, Wisconsin

Officers

Paul D. Ziemer*
President and
Chief Executive Officer

Daniel A. Bollom*
Senior Vice President,
Corporate Services

James H. Liethen*
Senior Vice President,
Finance

Eugene R. Mathews*
Senior Vice President,
Power Supply
and Engineering

Linus M. Stoll*
Senior Vice President,
Operations

Carl W. Giesler
Vice President,
Power Production

John V. Henderson
Vice President,
Division Operations

Patrick D. Schrickel
Vice President,
Gas Engineering
and Supply

Robert D. Valesano
Vice President,
Human Resources

Alfred E. Pearson
Assistant Vice
President,
Rates and Budgets

Daniel P. Bittner
Treasurer

Robert H. Knuth
Secretary and
Assistant Treasurer

*Management Staff

Operating Highlights

	1985	1984	Change
Revenues (Thousands)	$638,504	$644,191	-.9%
Net Income (Thousands)	57,415	56,270	2.0
Earnings Per Average Share of Common Stock	4.45	4.27	4.2
Dividends Paid Per Share	2.71	2.44	11.1
Book Value Per Share	28.82	27.20	6.0
Construction Expenditures (Thousands)	55,709	58,134	-4.2
Capitalization (Thousands)	649,987	604,974	7.4
Electric Customers	302,070	297,638	1.5
Electric Sales (Kwh) (Thousands)	7,445,019	7,469,964	-.3
Gas Customers	159,621	157,022	1.7
Gas Sales (Therms) (Thousands)	451,419	470,912	-4.1

Common Stock — Two Year Comparison

Share Data	Dividends Per Share	Price Range High	Price Range Low
1984			
1st Quarter	$ .58	29	25
2nd Quarter	.58	27⅞	24¼
3rd Quarter	.64	31⅛	27¼
4th Quarter	.64	32⅞	30¼
Total	$2.44		
1985			
1st Quarter	$ .64	33¼	29¾
2nd Quarter	.64	37⅞	32½
3rd Quarter	.715	39¼	35¾
4th Quarter	.715	40¾	35¾
Total	$2.71		

To Our Shareholders:

We recorded another year of progress in 1985 with earnings per share increasing to $4.45 as compared with $4.27 per share in 1984. A surge of Arctic air in the latter part of November and in December helped increase our earnings. This, along with a lower inflation rate, a reduction in the number of common stock shares outstanding and successful cost control efforts, accounted for the increase in earnings.

Our quarterly dividend was increased from 64 cents to 71½ cents per share effective with the September payment. Last year was the 27th consecutive year we increased the dividends paid per share.

Compared with 1984, our sales of electricity decreased .3%.

Sales of natural gas decreased 4.1%. A dramatic change occurred in our gas business when many of our large industrial customers took advantage of a new federal rule which permits them to buy gas directly from producers using existing pipeline systems and our own system to transport the gas to their plants. This lowers our customers' operating costs and does not penalize us because in most cases we recover our normal margin through a transportation charge.

Our Kewaunee nuclear plant, which went into service in 1974, continued its excellent operating performance. For the past four years, it recorded an average availability factor of 84.9%. Our newest generating station, Weston 3, recorded an availability factor of 83.9% last year.

We expect that our annual kilowatt-hour firm sales growth will increase about 2.5% per year through 1995 and our peak load will grow at an average annual rate of 2%. These numbers are slightly lower than the 10-year projections reported last year. Because of the continuing slow growth in demand, we do not see the need for any new generating capacity until the year 1999. Our annual load factor in 1985 was 74%. It continues to be one of the highest in the nation.

During the next decade, we do not anticipate any increase in the sales of natural gas because continuing conservation efforts will offset any new customer and load additions. We believe that some of our large industrial customers will continue to buy gas directly from producers as long as federal regulations permit it and as long as our pipeline supplier offers transportation services. Contrary to the prediction of some politicians, gas rates did not increase with federal deregulation which became effective January 1 last year. We expect that for the next several years our rates will be relatively stable.

Our five-year construction program for the years 1986 through 1990 is estimated to be $324 million assuming an annual inflation rate of 5%. This is about $26 million less than the previous five-year period. This estimate does not include any expenditures for sulfur dioxide controls at our generating stations.

It may become necessary to sell more debt later this year to help finance our portion of anticipated decommissioning expenses of our Kewaunee nuclear plant. This is a result of a Public Service Commission of Wisconsin (PSCW) ruling which requires that previous funds collected for decommissioning be set up in a separate external fund.

Our Wise Use of Energy program and customer satisfaction continue to dominate our overall marketing strategy. In working with customers, our marketing people use their expertise to help develop the most efficient use of gas and electricity in customer equipment applications. Our Energy-Efficient Gas Upgrade and Retention program compensated for some of the gas sales losses due to conservation.

To reinforce our commitment to maintaining customer satisfaction, we contracted with an inspirational speaker to conduct a series of training sessions for about half of our employees. Standards of service for various customer work functions were established and methods to track the results of our expanded customer satisfaction program are being implemented.

We are committed to a strong economic development program which we believe is absolutely essential for the growth of our service area and the state of Wisconsin. Consequently, we are committing more personnel and money to the already significant program carried out last year.

Part of our efforts to encourage development is dedicated to keeping our electric and gas rates competitive. Our rates are below the national average. To our knowledge, our rates have not been a deterrent to business expansion.

Last year, the Wisconsin Legislature passed a law allowing utilities to form holding companies. While we were very supportive of this legislation, we have no present plans to change our corporate structure.

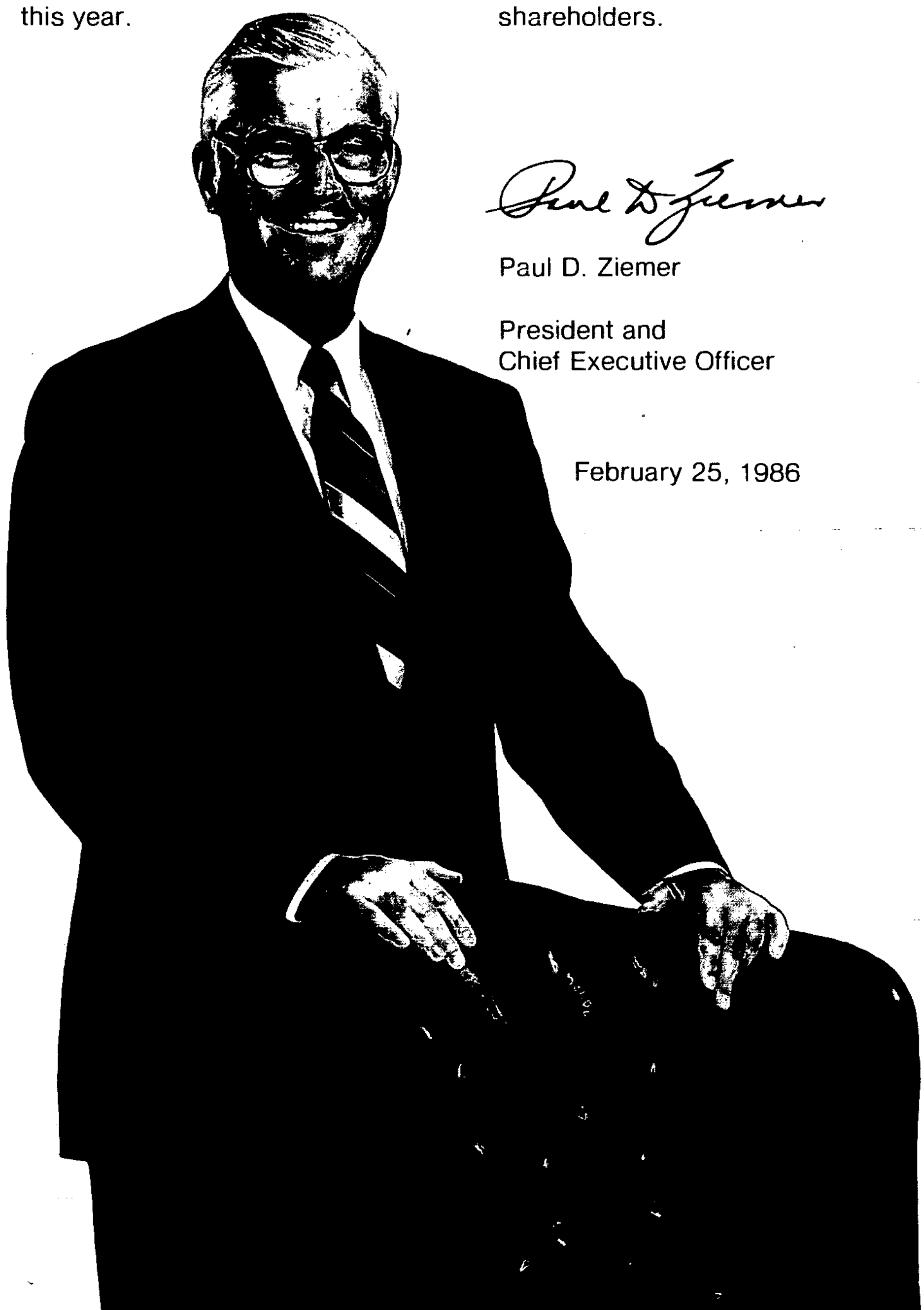
For the past several years we have been brokering coal resulting in sales of $7.7 million for 1985. The net income from this operation has been used as an offset in our electric fuel operating cost. We also realized a small profit from sales of a computer software program that was developed within the company. The benefit from these sales accrued to our ratepayers.

Our subsidiary along with four other utility companies have established a fiber optics company which we believe will be extremely beneficial for the state of Wisconsin as well as for our own companies. Any future diversification efforts which we might undertake will be closely related to our business and to the economic development of our service area.

Our participation in the legislative arena never ceases. Acid rain is being addressed at the state and national levels. We have been extremely active in reducing emissions at our wholly-owned plants in Green Bay and Wausau. Since 1979, emissions have been reduced about 50% despite an increase of 12% in electric sales.

We, three other U.S. utilities and one in Canada, are involved in a $5 million research program to develop a burner that burns coal without producing significant sulfur dioxide and nitrogen oxide emissions. A full-scale demonstration burner is scheduled for completion in 1986. We continue to support sound emission reduction programs when they are based on complete research and when the benefits outweigh the costs to our customers.

We continue to lobby members of Congress to restore equity to the federal hydroelectric relicensing process by excluding the clause from the Federal Power Act of 1920 which gives municipalities preference in the relicensing of hydro plants. We hope that corrective legislation will be passed this year.



An emerging national issue is mandatory electric wheeling and transmission access, which is the forced transmission of bulk power owned by others. This is being closely watched in pending federal bills and regulations that may include provisions which would require such wheeling.

There are dramatic changes occurring in the utility industry; our business is becoming more complex. Nevertheless, we are optimistic and are working hard to provide quality service and a reasonable return to our shareholders.

Paul D. Ziemer

President and
Chief Executive Officer

February 25, 1986

Customers deserve the best service we can provide, and our duty is to supply them with superior energy services, responsive special programs and caring personal service. We will continue to provide services to meet the ever-growing needs of customers.

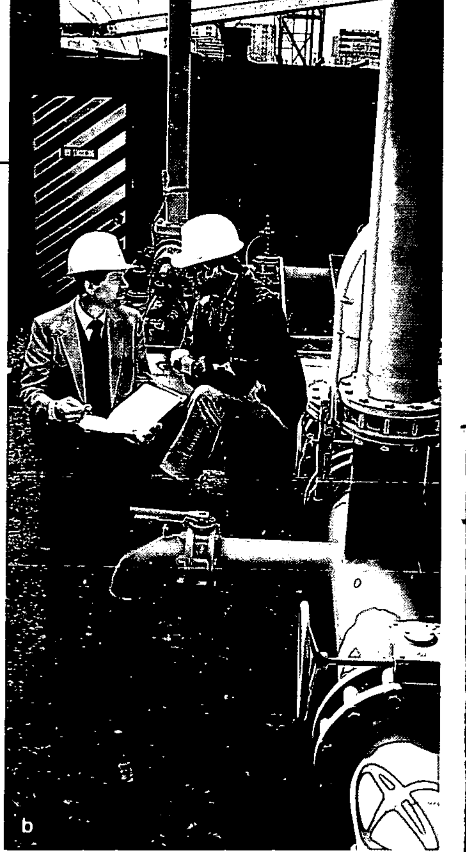
(a) A customer assistance advisor visits a customer at the new job he helped her find. The advisor learned of the woman's need for employment while helping her design a bill payment plan.

(b) An industrial application engineer, left, meets with an engineer of a major Green Bay paper company to check natural gas meter readings.

(c) The safety and efficiency of a natural gas furnace is checked by one of our service technicians.

(d) Hmong customers in Oshkosh learn the fine points of weatherization at a special company workshop.

(e) Visitors at the grand opening of our new Energy Information Center in Green Bay share an amusing moment with an employee dressed as Louie the Lightning Bug, a children's energy conservation and safety character.



b

a

Rate Proceedings

A PSCW rate order, which was issued in February 1985 following legislative action, eliminated the automatic fuel clause adjustment for electric rates. Based on lower than expected electric fuel costs, we received PSCW permission to decrease electric rates $4.8 million (1.4%) effective June 1 and $4.7 million (1.3%) December 1. The lower costs result from the excellent performance of our nuclear and fossil plants, abnormal rainfall which boosted hydroelectric generation, and the ability to buy power at favorable rates. In addition to these rate reductions, a decrease of $11.6 million for electricity occurred in February 1985 in response to an April 1984 rate increase application.

An application was filed with the PSCW in April 1985 to increase rates by $20.1 million (5.8%) for electricity and $1.7 million (.7%) for gas. This request was necessary to recover some of the costs deferred by the PSCW in its last February order and other costs rising faster than sales. Additional hearings will be required.

In December we filed to increase Michigan electric rates by $845,000 (8.7%). The last increase was in May 1984. Hearings have been scheduled in March.

Financial

A sale of $45 million of first mortgage bonds, 11.50% Series Due October 1, 2015 occurred in October. The proceeds were used for construction expenditures and to repay temporary funding.

Under the sinking fund provisions of the issue, the company retired 15,000 shares of its 10.50% preferred stock during 1985. The entire issue of 150,000 shares must be redeemed by November 1, 1998. To date, 83,532 shares have been purchased.

An investment commitment of $2.5 million was made in Utech Venture Capital Corporation during the year. Utech will be financed by eight utilities for investing in projects or services of potential benefit to the utility industry.

Standard & Poor's Corporation has assigned a rating of AA+ to our first mortgage bonds. This rating is just below the highest rating and indicates a very strong capacity to pay principal and interest. Moody's rating is Aaa, which is its highest rating, and indicates that interest payments are protected by a large or by an exceptionally stable margin and principal is secure. A security rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization.

A program was initiated to purchase and retire 500,000 shares of common stock during the 12-month period beginning March 1985 to alleviate an excessive common equity build-up. A total of 221,930 shares, worth $7.6 million, was repurchased. The significant rise in market price per share relative to book value and the need to sell first mortgage bonds in 1985 and possibly in 1986, along with the PSCW policies reducing internal cash generation, change the benefits of and need for repurchasing additional stock in 1986. Also, proposed acid rain legislation could result in more debt financing.

Coal Power

Coal continues to be our primary source of fuel. Our focus has been on assurance of long-term supplies, permitting us to meet environmental guidelines, and maintenance of competitive transportation rates.

During the past year we bought out of one long-term coal contract and replaced it with a new long-term agreement which gives us

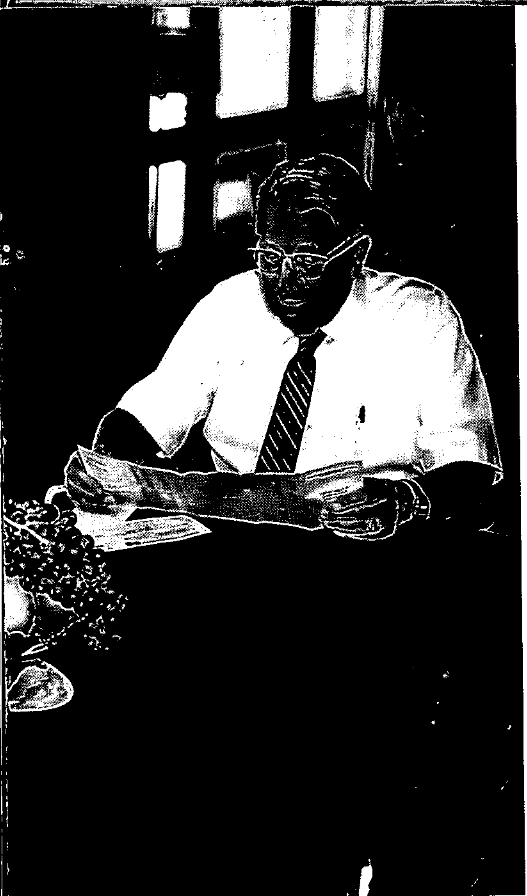
We value our shareholders and commit ourselves to responsible concern for their interests. In addition to carefully managing their investment and striving to continue to maintain a proper return, we will provide the administrative services needed to serve them in a prompt businesslike manner.

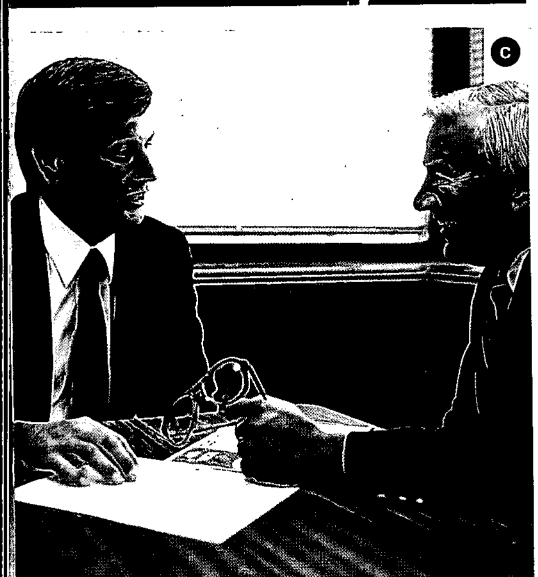
(a) A series of checks on our check printer is examined by a scheduling specialist. Some 153,000 common and preferred stock dividend checks are printed each year.

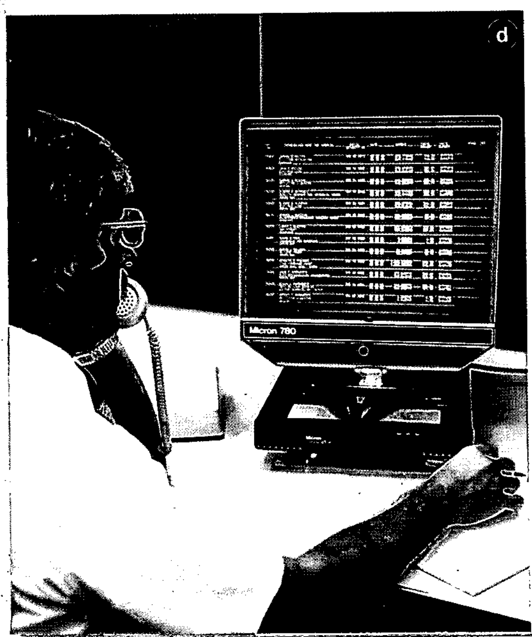
(b) George and Grace Mc Millan of Wausau, Wisconsin receive another common stock dividend check and report of company operations, as they have every three months for over 25 years.

(c) In addition to telephone and written communications, a shareholder services supervisor, left, meets personally with shareholders at our Green Bay office.

(d) Immediate access to detailed shareholder account information allows this shareholder services representative to respond promptly to telephone inquiries.







more flexibility in the event of new acid rain legislation which would dictate the type of coal we can burn.

At our Weston 3 plant near Wausau, we stabilized fuel costs by buying approximately one-fourth of our coal under a renegotiated contract arrangement at prices comparable to the open market. The remaining requirements came from long-term commitments we were required to make in 1977 in order to get an operating permit for the plant.

Weston 3, which began operating in 1981, had its first major overhaul and was found to be in very good condition. Since it started producing power, the plant has been available 81% of the time.

At our Pulliam plant in Green Bay, we began building a coal unloading facility with completion scheduled for September 1986. This $6.5 million project will allow delivery of coal by rail in addition to the present method of lake carrier shipments. This new facility is expected to reduce our transportation costs and our coal inventory level because year-round deliveries will be possible.

Electric System

The highest gross electrical demand in 1985 was 1,268,000 kilowatt-hours on December 17 exceeding the prior peak of 1,256,000 kilowatt-hours set in July 1984. The recent peak resulted from very cold weather while the prior record reflected air conditioning use. This record follows past experience of balanced winter and summer peaks and results in better utilization of generating facilities.

Our Energy Management System, which monitors our electric production, enables us to buy and sell electrical energy at favorable prices. We were able to reduce energy charges to our customers by approximately $2.4 million through such transactions last year, with even better results expected in the future.

Study continues of the possible purchase of large amounts of hydroelectric power from Manitoba Hydro in Canada. However, with continued slow load growth, this is not a high priority item.

We are evaluating possible modifications to our older generating units that would extend their useful lives.

Purchasing energy on the open market, extending the life of our older units and the possibility of buying power from Canada may help delay new power plant construction and make good use of resources now available.

To maintain our electrical service reliability, we are working with manufacturers to develop transformers better resistant to lightning and high voltage problems. We are one of the few utilities performing tests of the quality and service life of underground cable.

Nuclear Power

Our Kewaunee nuclear power plant continued its long record of high availability, attaining 82.4% for 1985, again being among the leaders in the U. S. nuclear industry.

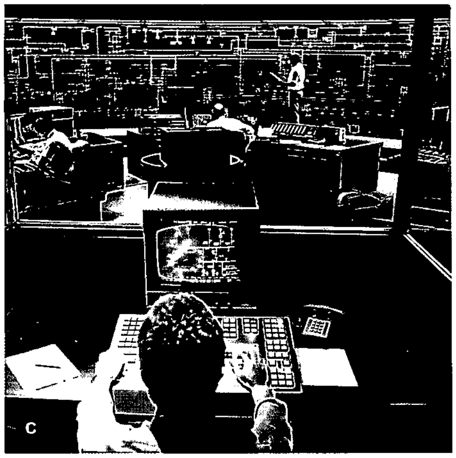
The Institute of Nuclear Power Operations (INPO), of which we are a member, is working to standardize and upgrade nuclear plant training at all U. S. nuclear power facilities. We strongly endorse this program and are having the training programs for most of our technical positions accredited by INPO.

Our success at employee training to date was manifested late in 1985 when we participated in our biennial full-scale nuclear emergency drill. Observers from the Nuclear Regulatory Commission (NRC) gave us a very good rating.

We expect positive results from the new NRC "backfit" rule. It

Employees

The company encourages and supports employees' professional and educational development with a wide range of programs including communications, on-the-job training and college-accredited programs.



(a) Two employees, left, learn how to join a natural gas main.

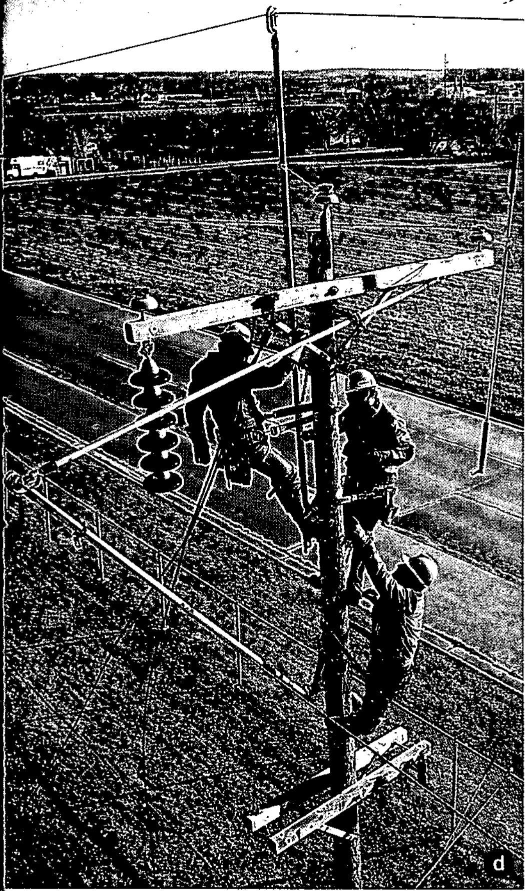
(b) Employees are kept informed about company news events and important issues through a variety of house publications, including "Contact," the magazine being read by this employee.

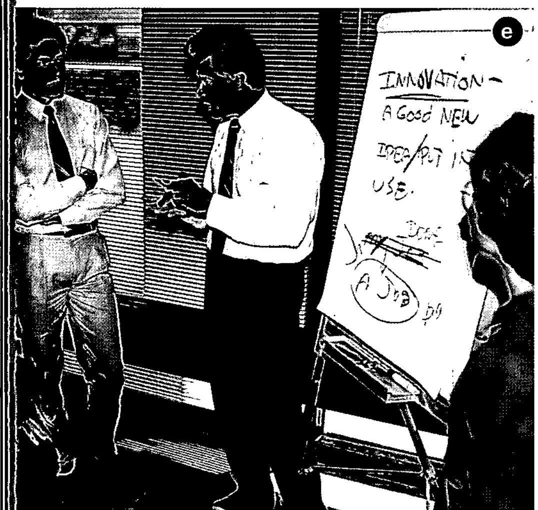
(c) Poised in an observation room, a System Operating employee trains on a computer terminal to monitor the operation of company power plants, electrical transmission systems and natural gas distribution lines.

(d) Two apprentices are taught power pole repair and installation techniques under the direction of an electric line coordinator, lower right.

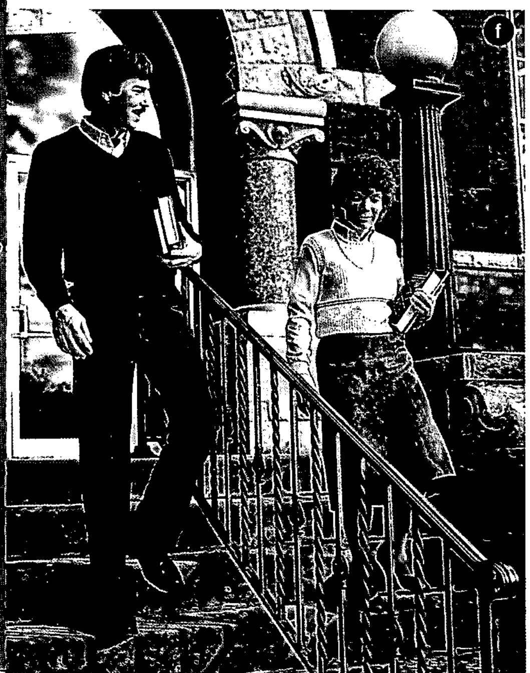
(e) To obtain new perspectives on customer satisfaction, the company sponsored several employee presentations by Jack Jackson, center, an expert in customer psychology.

(f) College-level degree programs for employees are sponsored by the company at on and off-campus locations.


d



e


f

requires all NRC-mandated modifications to nuclear power plants be documented with a cost-benefit study and must substantially increase the protection of the public. Proper enforcement of this rule could bring a major reduction in the numbers and types of future modifications at the plant.

Most of the uranium, enrichment and fabrication of fuel for Kewaunee continues to be purchased in the open market at favorable prices. Mining operations by our subsidiary have been halted and ore in inventory is expected to be milled in 1986 for use in the plant in 1988. Uranium sources beyond 1988 are currently being evaluated.

Hydroelectric Power

To obtain better overall coordination of our system generation we transferred control of our 15 hydroelectric plants to our System Operating Department in Green Bay.

During the last four months of 1985 hydro generation has been high due to record precipitation.

We signed a wildlife management agreement with the Wisconsin Department of Natural Resources (DNR) in 1985 for the 700-acre watershed of our Alexander Dam plant on the Wisconsin River near Merrill. The DNR will manage the forest to provide better habitat.

Fuel Costs And Generation Mix

Fuel costs in 1985 as compared to 1984, expressed as dollars per million Btu, were as follows:

Nuclear, $.59, up from $.52; coal, $1.90, down from $1.95; natural gas, $3.95, up from $3.94; and No. 2 fuel oil, $5.53, down from $5.95.

Generation mix of fuels to operate our power plants in 1985 compared with 1984 was:

Coal, 67.8%, down from 68.1%; nuclear, 19.0%, down from 19.7%; hydro, 5.4%, up from 4.8%; combined natural gas and fuel oil, .3%, for each year; and power purchased from other utilities, 7.5%, up from 7.1%.

Natural Gas

There was a very significant change in the natural gas business in 1985.

The new Federal Energy Regulatory Commission (FERC) order allows private industry to purchase gas directly from suppliers and purchase gas transportation services from pipeline networks. This is known as "contract carriage" or "direct purchase" of natural gas. Contract carriage is a continuation of the gas deregulation trend begun in 1978.

With the glut of natural gas and a lower priced spot market, the ruling permitted many of our large customers to participate in this program. We assisted them in joining the program through direct contacts and a seminar informing them of the advantages. They could save money, while the company retains these gas customers and collects a transportation charge which, in most cases, is equal to the normal margin for gas sales. As a result of these efforts, we had more customers on contract carriage in 1985 than all other 51 distribution companies on the system of our supplier, ANR Pipeline.

The FERC order also made it feasible for us to purchase part of our 1985 supply directly from a broker at a favorable price and provide a savings for our customers.

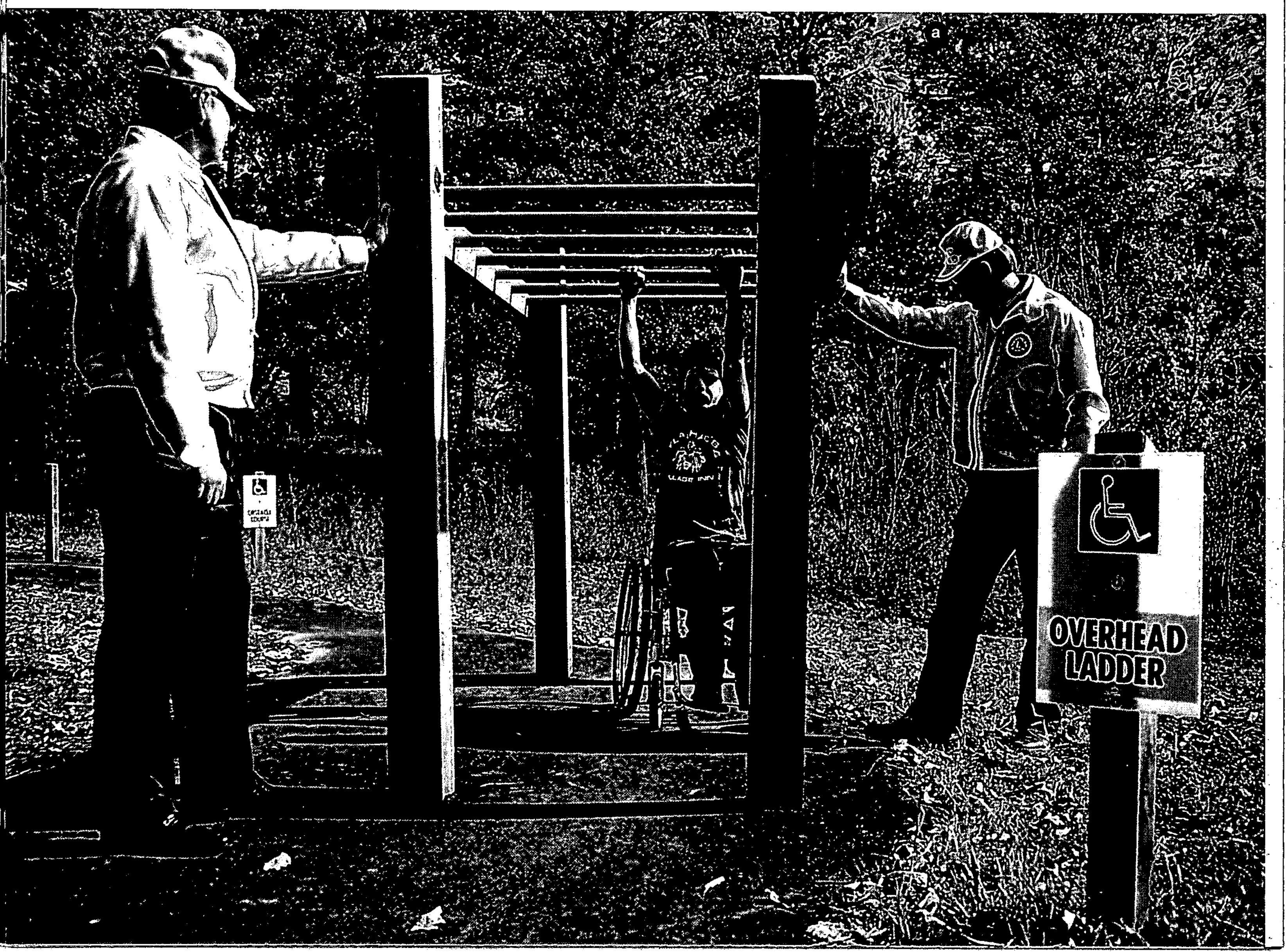
While ANR Pipeline will continue transporting gas for 14 customers who are grandfathered for a period of two years, the future of contract carriage for other customers in our area depends upon whether ANR Pipeline decides to resume additional transportation of gas.

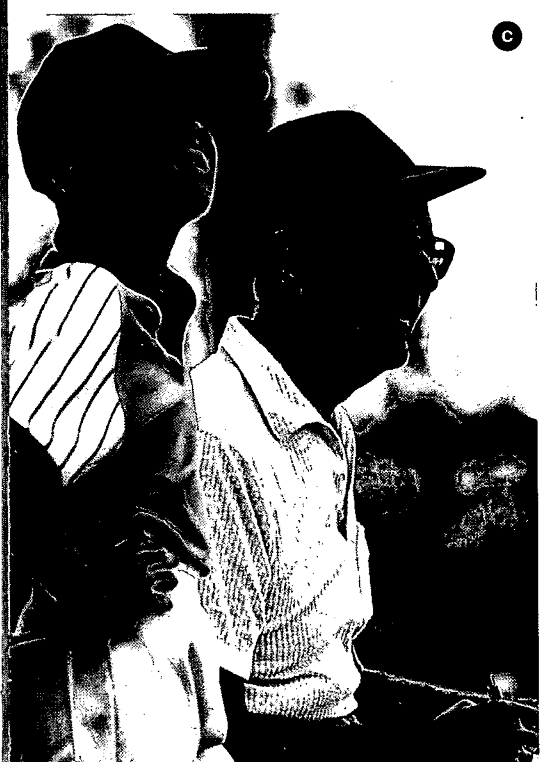
Community neighbors can depend upon company people to participate in their programs and can expect continuing support of their activities from the company. We care about the people we serve and want to respond to their needs.

(a) Two employees flank a visitor to the overhead ladder at the wheelchair exercise course they helped design and build for their local Lions Club.

(b) Alice in Dairyland greets a young guest and his dad at Public Service's 25th anniversary Farm Materials Handling Exposition. The annual event draws thousands of people interested in seeing innovations in farm services and equipment.

(c) After decades as a softball player and Little League coach, a retired employee and one of his players show he's still deeply involved in the sport. Retired Public Service employees have proven to be great community resources.





Environmental Issues

The environmental issue, acid rain, received much attention in 1985.

Most notably, we received excellent public participation in our lake water acidity testing program. We offered the free tests to demonstrate to our customers, who had heard reports that hundreds of Northern Wisconsin lakes were affected by acid rain, that this was not the case.

Some 500 customers brought in samples from 353 lakes. Our results showed that 185 lakes were not sensitive to acid deposition, 56 were moderately sensitive to acidity, 75 were extremely sensitive and 37 were acidic.

This supports our view that the acidity of lakes in our area is due partially to the influence of highly acid bog vegetation, particularly sphagnum moss, and not solely by acid carried by rain or snow.

Our program received wide media attention after we took reporters to one of our testing sites and to a bog-influenced lake. Public response was so positive that the testing program has been adopted by other companies. We will offer it again in 1986.

However, we recognize the importance of curbing power plant emissions.

We have test burned different types of low-sulfur coal and are studying the feasibility of scrubbers and other technologies which remove sulfur dioxide from plant emissions. We are also participating in a research project with Rockwell International testing a new coal-burning process that will reduce sulfur dioxide and nitrogen oxides.

Green Bay has been an area which did not meet air quality standards for sulfur dioxide emissions. As a result, five major industries involved developed a plan in conjunction with the DNR and the Environmental Protection Agency (EPA) to correct this situation. A new 377-foot chimney at our Pulliam plant went into service in 1985 as part of our commitment in the program.

The DNR has approved the Green Bay Plan which still must receive approval from EPA.

Other Business

Our subsidiary, WPS Development, Inc., leased our Integrated Facilities Model (IFM) software package and provided consulting services to 10 companies, exceeding our projections. The program provides facilities and mapping information management for utilities, municipalities and some other industries.

WPS Communications, Inc., another subsidiary, became one of a five-member partnership forming NorLight, an interstate fiber optics network in the Wisconsin-Minnesota-Illinois region. The planned 650-mile long telecommunications system will use existing utility rights-of-way and transmission lines to carry the fiber optics cable. It is anticipated that the first phase of the project will be completed in 1986.

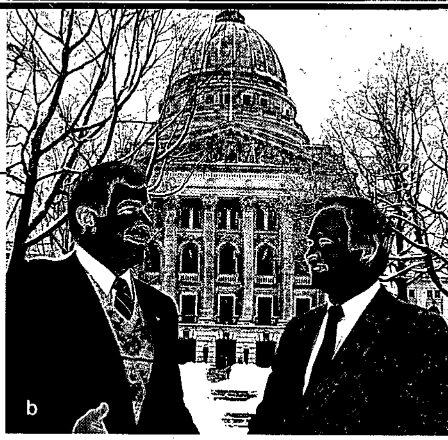
Our coal sales program has expanded resulting in a net gain of \$1.3 million in 1985. This was used to offset our fuel costs thereby reducing bills to our customers.

We are continuing to work with large industrial customers to study the potential for constructing co-generation facilities to serve steam and electrical needs. However, a PSCW ruling has limited our participation in such projects, and we are appealing the decision to the courts.

Economic Development

Most of our economic development work in 1985 involved meeting with business and government leaders and developing programs recommended by a study which was prepared by a consultant in 1984.

Governments and their agencies can rely on us to follow all laws and regulations. We operate our business according to the highest ethical standards, and believe a spirit of cooperation must exist between us and government.



(a) One of our employees, left, meets with representatives of state and local emergency government agencies as they participate in the annual emergency preparedness drill for the Kewaunee nuclear plant.

(b) Communication with our elected officials is critical as politics has an ever-increasing impact on our industry. Before Wisconsin's capitol in Madison, state Representative Richard Matty, left, talks with our governmental affairs director.

(c) Our environmental director, center, testifies at a state Assembly environmental hearing in Madison. Employees regularly testify before a wide range of legislative committees communicating the company's stance on issues.

Efforts are being directed at helping commercial and industrial firms expand or locate in our territory, especially those businesses which are compatible with local resources.

The campaign is through our PRIDE program, Partners in Regional Industrial Development. We also support Forward Wisconsin, the state-backed economic development organization, and other local economic development groups. We are working with employers and communities to retain existing jobs as well as attracting new ones.

Energy Conservation

Energy conservation has evolved from an initial program to conserve natural resources to one which may also help us delay, and possibly reduce, future power plant and transmission line construction.

At one time, the rising prices of gas and electricity encouraged conservation. Now, with prices more stable, and often declining, we are offering incentive programs to augment conservation by homeowners and businesses.

Our home energy checkup program still ranks high with customers. We did 11,000 checkups in 1985, bringing our total to 76,000, about one-quarter of the homes we serve. Since 1977, we have loaned $8.5 million to help customers implement conservation practices.

During the year, we awarded some 550 grants totalling $560,000 for weatherization improvements to low-income customers' homes. Since this program began, we have helped 1,400 households afford energy improvements. Our goal is to help these customers lower their energy use, reduce their bills, and thus reduce their requests for energy assistance funds.

We signed up about 1,600 new gas heating customers whose homes were on our natural gas network but who previously did not have this type of service. So far, this program, which emphasizes the conservation value of high-efficiency natural gas appliances, has brought us some 5,000 new gas heating customers since 1982.

Customer Service

Continued interest in customer satisfaction resulted in many new programs throughout 1985.

We developed a "customer satisfaction improvement index" selecting five areas that received the most consumer inquiries. Then, we designed employee performance standards aimed at improving our responses to these issues. Our progress is being monitored to make sure customer service improves.

In addition, internal training programs were redesigned and a series of special programs were offered to employees to make them more sensitive to customers' needs.

Similarly, an extensive new farm management program was developed to assist our local farm economy and to help farmers identify potential stray voltage problems. We provide free farm energy checkups, financing for certain conservation and safety improvements, and offer help with general farm management as related to energy.

New customer service centers were opened in Antigo, Sturgeon Bay and Wabeno. Not only are they designed to improve operating efficiency but also they provide the opportunity for customers to learn more about energy conservation and new efficient equipment, pay their bills and discuss financial arrangements.

After another year of operation our customer assistance advisor program has continued to be successful. Some 1,400 customers were referred to our seven advisors, who all are trained social workers. These advisors assist customers in establishing better budget practices and refer them to other community agencies for financial assistance or counseling. In the long run, we expect this program will help customers learn to keep up with their bill payments while improving the quality of their lives.

Employees

Our employees distinguished themselves in 1985 with accident rates less than half the national average for electric and gas utilities. Safety has always been a primary concern, and we are proud of our record.

Our employees helped produce a film about the Kewaunee nuclear plant, "Together as Neighbors," and one about canoe and kayak races at our hydro plant in Wausau, "Wausau Whitewater." Both received awards at the distinguished 28th Annual International Film and TV Festival in New York in 1985. The event evaluated some 6,500 film and videotape entries from the U. S. and more than 40 foreign countries.

In November 1985 we reached agreement on a three-year contract with our employee union. In addition to a wage increase, the settlement established a new job site reporting procedure which is aimed at improving productivity.

The environment must be protected for us and for those who will follow us. That is why we closely manage our hydroelectric watershed lands and work to minimize the environmental impact of our power plants and energy transmission systems.

(a) News reporters observe a lake acidity experiment conducted by two of our chemists in Northern Wisconsin. The demonstration showed that natural bog vegetation can have a critical impact on lake acidity.

(b) A crew delivers a new tree to the parkway along a Stevens Point street. To protect our power lines from tree damage, which can cause power outages, we replace overgrown trees with smaller, attractive plantings.

b


a

Shareholder Information

Common Stock

Listed on New York and Midwest Stock Exchanges. Ticker Symbol: WPS. Transfer Agent and Registrar: First Wisconsin Trust Company, Milwaukee. As of December 31, 1985, there were 29,687 common stock shareholders of record.

Executive Office

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

Annual Shareholders' Meeting

Midway Motor Lodge, 780 Packer Drive, Green Bay, Wisconsin, Thursday, May 1, 1986 at 10:30 a.m.

Annual SEC Report Form 10-K

This report (not including exhibits thereto) will be available without charge about April 1, 1986 to shareholders who make requests to Robert H. Knuth, Secretary, 700 North Adams Street, P. O. Box 19001, Green Bay, Wisconsin 54307.

Preferred Stock

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

Wisconsin Utility Investors

WUI is an independent, non-profit organization which represents utility investors. In the coming year, WUI intends to increase the number of regional information meetings and invites the participation of all utility investors. For information write: Wisconsin Utility Investors, Inc., 161 W. Wisconsin Avenue, Suite 6058, Milwaukee, Wisconsin 53203.

Trends

Weather has a significant impact on both kilowatt-hour sales and gas therm sales. Calendar heating degree days for 1985 compared to 1984 increased by approximately 6%. Operating revenues for 1985 and 1984 are reported on a calendar year basis, and each period includes adjustments to reflect the recording of unbilled revenues. All changes in consumption as discussed herein, with the exception of our wholesale electric sales, have been adjusted for weather.

Residential kilowatt-hour sales for 1985 increased approximately 2% over 1984 sales.

Small commercial and industrial customers continued to show encouraging signs of economic recovery within our service area. Kilowatt-hour sales increased by approximately 4% in 1985 over 1984.

Kilowatt-hour sales to our large commercial and industrial customers remained fairly level during 1985 compared to 1984.

Gas therm sales to our residential customers have stabilized, increasing less than 1% over 1984.

Commercial and industrial firm gas therm sales decreased approximately 2% in 1985. The most significant factor contributing to this drop is the effect of contract carriage gas. For more information on the effect of contract carriage gas on the company's financial statements, please refer to Note 1(g), Revenues, in the "Notes to Financial Statements."

Gas sales to large commercial and industrial interruptible customers declined by a substantial 23% during 1985. As in the case of commercial and industrial firm customers, many of our interruptible customers purchased gas directly from suppliers.

Results of Operations

The cost of electric production fuels is recovered through automatic fuel adjustment clauses in all of the company's jurisdictions. Beginning in February 1985, the PSCW has established a range for fuel costs review for Wisconsin retail customers. This change in the fuel clause requires the company to collect fuel costs in revenues evenly throughout the year based on estimated average annual fuel expenses. Cost changes that result in actual costs above or below the range may result in rate increases or decreases, following hearings by the PSCW.

Increases in the cost of gas purchased for resale resulting from supplier price increases continue to be recovered through the operation of the company's purchased gas adjustment clause. The remaining Management's Discussion on results of operations reflects this change in the fuel adjustment clause, as well as the impact of weather.

1985 Compared to 1984

Electric operating revenues decreased slightly in 1985 primarily because of lower sales. Gas operating revenues showed a net decrease of 2% in 1985 because of the offsetting effects of a decrease in sales due to some of the company's larger customers buying gas directly from gas suppliers and an increase in consumption by other customers because of more heating degree days.

Operating expenses showed a net decrease of 1% in 1985, primarily in three major areas. Other taxes reflected the transitional change for Wisconsin from an ad valorem tax to a gross receipts tax. In the first year of gross receipts, the law utilized an unusually low rate (approximately one-half of the expected future year's rates). Lower sales, primarily due to the advent of contract carriage gas, accounted for the decrease in gas purchases. Total income tax provision was lower primarily due to a lower pre-tax operating income.

The most significant items to increase in operating expenses were purchased power as a result of fewer capacity sales in 1985 and higher employee benefit and injuries and damages costs.

See the "Notes to Financial Statements" explaining the changes regarding allowance for funds used during construction (AFUDC).

The impact on earnings per share as a result of the repurchase of common stock was approximately 6 cents per share.

Interest expense decreased primarily due to less short-term debt outstanding and lower short-term interest rates in 1985.

1984 Compared to 1983

Electric operating revenues increased in 1984 primarily as a result of increased sales. Gas operating revenues decreased slightly due to a lower purchased gas cost which is reflected in revenues.

Operating expenses increased only 2% in 1984. The more significant items that increased were total income tax provision due to a higher pre-tax operating income, other operation expense due to higher payroll and employee benefit costs, and straight-line depreciation expense because of higher estimated nuclear decommissioning costs reflected in the depreciation rates in effect all of 1984 and an increased plant base. In addition, maintenance expense increased primarily due to work performed at the company's fossil and peaker plants and purchased power increased as a result of more energy purchases in 1984. The cost of gas purchased for resale decreased due to a lower average price for gas during 1984.

Less long-term debt outstanding during 1984 primarily caused the decrease in total interest expense.

Financial Condition

The company has maintained good liquidity levels and follows conservative accounting practices. The company's financial position is considered to be strong by utility analysts and rating services. No funding difficulties are anticipated in the near or long-term future. Commercial paper ratings of A-1 + (Standard & Poor's) and P-1 (Moody's) have resulted in a low cost for short-term debt. The company has also maintained adequate unused bank credit lines and has maintained an acceptable ratio of short-term debt to total capitalization.

In recent years the company has used short-term debt and internal funds to finance construction and long-term debt maturities as well as to retire preferred and common stocks. Funds generated internally during 1984 and 1983 exceeded construction expenditures. For the year 1985 internal funds were less than construction. Several recent non-recurring developments were responsible, including payment of $11 million for spent nuclear fuel reprocessing by the U.S. Department of Energy, $16 million for restructuring of certain coal contracts and a legislative act which accelerated the timing of $7 million of Wisconsin Gross Receipts Tax payments. For the period 1986-1990, internal funds generation is expected to exceed construction requirements. The next major generating plant is not expected to be operational until the late 1990's and significant expenditures for that plant are not planned to start until the mid-1990's.

During October 1985, the company sold $45 million of 11.50% first mortgage bonds to fund the major cash requirements noted above and to reduce temporary borrowing. The company may sell additional bonds in late 1986 to establish a trust of $22 million for accruals for nuclear plant decommissioning to comply with a recent PSCW order. Although there are no further plans for security sales through 1990, several contingencies could change this, including major acid rain legislation, the possible repurchase of company common stock and inadequate rate relief.

The company's high bond ratings are due in part to strong pre-tax interest coverage of 6.1 times for the year ended December 31, 1985. This favorable ratio resulted from low construction requirements, low AFUDC, periodic rate relief, low embedded cost of debt, favorable earnings and strong equity ratios.

In May 1986, the company may exercise its right to call the remaining $13.5 million of 10.75% preferred stock outstanding.

The company seeks rate increases as necessary to preserve earnings levels and provide a competitive return for shareholders. Events which affect future earnings and cash flows are discussed under "Rate Proceedings" in the "Year in Review" section.

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. Note 10 of "Notes to Financial Statements" discusses the effects of inflation on the company's operating results. These supplemental data are not intended as a substitute for earnings reported on a historical cost basis but do offer some perspective of the approximate effects of inflation rather than a precise measurement of these effects.

	Years Ended December 31		
	1985	1984	1983
	(Thousands)		
Operating Revenues:			
Electric	$403,801	$405,420	$389,197
Gas	234,703	238,771	240,694
	638,504	644,191	629,891
Operating Expenses:			
Operation —			
Electric production fuels	125,179	125,457	127,055
Gas purchased for resale	190,195	198,172	202,770
Purchased power, net	10,070	6,276	4,597
Other	89,399	83,404	78,859
Maintenance	36,166	34,634	32,112
Depreciation —			
Straight-line provision	47,486	45,634	41,873
Additional depreciation	8,843	7,933	17,322
Taxes —			
Current federal income	32,198	34,364	24,851
Investment credit deferral, net	1,325	2,966	501
Current state income	6,696	7,672	6,862
Other	14,908	20,313	18,569
	562,465	566,825	555,371
Operating Income	76,039	77,366	74,520
Other Income and Deductions:			
Gains on bonds reacquired	195	449	221
Income taxes	125	1,212	535
AFUDC, other funds	717	—	—
Other, net	(275)	(2,405)	(665)
	762	(744)	91
Income Before Interest Expense	76,801	76,622	74,611
Interest Expense:			
Interest on long-term debt	16,834	16,205	19,517
AFUDC, borrowed funds	(350)	(154)	(263)
Other interest	2,902	4,301	3,763
	19,386	20,352	23,017
Net Income	57,415	56,270	51,594
Preferred Stock Dividend Requirements	5,519	5,789	5,974
Earnings On Common Stock	$ 51,896	$ 50,481	$ 45,620
Earnings Per Share On Common Stock	$4.45	$4.27	$3.89
Dividends Per Share On Common Stock	$2.71	$2.44	$2.22

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

	December 31		
	1985	1984	1983
	(Thousands)		
Assets			
Utility Plant (at original cost):			
In service — Electric	$1,032,632	$ 988,018	$ 953,706
Gas	126,361	122,352	116,992
	1,158,993	1,110,370	1,070,698
Less — Accumulated provision for depreciation	544,319	494,931	445,823
	614,674	615,439	624,875
Construction in progress	6,590	12,968	10,398
Nuclear fuel	93,689	88,667	78,949
Less — Accumulated provision for amortization	73,832	75,862	68,255
	19,857	12,805	10,694
Net utility plant	641,121	641,212	645,967
Investments (at cost or less)	13,464	10,012	10,290
Current Assets:			
Cash and special deposits	5,604	(4,299)	69
Customer and other receivables (net of uncollectible reserves)	57,505	55,844	52,265
Accrued utility revenues	33,177	29,420	33,534
Fossil fuel, at average cost	43,063	44,416	34,255
Materials and supplies, at average cost	12,444	11,213	10,294
Prepayments	15,218	1,311	1,359
Total current assets	167,011	137,905	131,776
Deferred Charges	13,875	4,167	4,587
	$ 835,471	$ 793,296	$ 792,620
Capitalization and Liabilities			
Capitalization:			
Common stock equity	$ 334,278	$ 321,609	$ 300,093
Preferred stock with no mandatory redemption	51,200	51,200	51,200
Preferred stock with mandatory redemption	20,147	21,684	24,750
Long-term debt	244,362	210,481	222,092
Total capitalization	649,987	604,974	598,135
Current Liabilities:			
Note payable	10,000	10,000	10,000
Commercial paper	18,995	26,470	29,500
Maturing first mortgage bonds, not to be refinanced	—	—	9,125
Preferred stock sinking fund requirements	—	—	743
Accounts payable	52,898	54,498	48,982
Accrued taxes	6,105	4,378	7,372
Accrued interest	5,827	4,549	4,226
Accrued contributions to benefit plans	6,960	6,455	6,742
Other	3,586	2,749	2,465
Total current liabilities	104,371	109,099	119,155
Other Credits:			
Accumulated deferred investment credit	53,188	51,872	49,231
Other	27,925	27,351	26,099
	81,113	79,223	75,330
	$ 835,471	$ 793,296	$ 792,620

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

	December 31 1985	1984	1983
		(Thousands)	
COMMON STOCK EQUITY:			
Common stock, $8 par value, 16,000,000 shares authorized; 11,600,276, 11,822,206 and 11,822,206 shares outstanding, respectively	$ 92,802	$ 94,578	$ 94,578
Premium on capital stock	50,385	51,345	51,331
Retained earnings	191,091	175,686	154,184
Total common stock equity	334,278	321,609	300,093
PREFERRED STOCK:			
Cumulative, $100 par value, 1,000,000 shares authorized:			
With no mandatory redemption —			
Series / Shares outstanding			
5.00% / 132,000	13,200	13,200	13,200
5.04% / 30,000	3,000	3,000	3,000
5.08% / 50,000	5,000	5,000	5,000
6.76% / 150,000	15,000	15,000	15,000
7.72% / 150,000	15,000	15,000	15,000
	51,200	51,200	51,200
With mandatory redemption —			
10.50% Series, 66,468, 81,841 and 104,926 shares outstanding, respectively	6,647	8,184	10,493
10.75% Series, 135,000, 135,000 and 150,000 shares outstanding, respectively	13,500	13,500	15,000
Sinking fund requirements	—	—	(743)
	20,147	21,684	24,750
LONG-TERM DEBT:			
First mortgage bonds — Series / Year due			
3¼% / 1984	—	—	9,125
7.90% / 1984	—	—	22,000
8½% / 1984	—	—	1,000
4⅜% / 1987	5,062	5,062	5,062
4⅜% / 1993	8,726	8,726	9,086
4½% / 1994	10,944	11,744	12,544
6⅜% / 1997	23,482	23,482	23,482
7¼% / 1999	24,039	24,039	24,039
8¼% / 2001	25,000	25,000	25,000
8⅛% / 2003	25,000	25,000	25,000
7⅞% / 2005	11,000	11,000	11,000
8.20% / 2012	45,000	45,000	45,000
9.70% / 2014	22,000	22,000	—
10⅛% / 2014	1,000	1,000	—
11½% / 2015	45,000	—	—
	246,253	202,053	212,338
Maturing first mortgage bonds	—	—	(32,125)
Unamortized discount and premium on bonds, net	(1,891)	(1,572)	(1,121)
Total first mortgage bonds	244,362	200,481	179,092
Other long-term debt	—	10,000	20,000
First mortgage bonds to be refinanced	—	—	23,000
Total long-term debt	244,362	210,481	222,092
Total capitalization	$649,987	$604,974	$598,135

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

Sources of Construction Funds

	Years Ended December 31		
	1985	1984	1983
	(Thousands)		
Funds Generated Internally:			
Net income	$ 57,415	$ 56,270	$ 51,594
Depreciation	56,329	53,567	59,195
Amortization of nuclear fuel	9,679	8,897	11,622
Investment credit deferral, net	1,325	2,966	501
AFUDC	(1,067)	(154)	(263)
Other	9,382	1,021	3,709
Funds provided from operations	133,063	122,567	126,358
Less – Cash dividends on common and preferred stock	37,174	34,703	32,013
Net funds generated internally	95,889	87,864	94,345
External Funds:			
Sale of first mortgage bonds	45,000	23,000	—
Redemption and maturities of first mortgage bonds and other long-term debt	(10,000)	(42,125)	(40,000)
Bond sinking fund retirements	(800)	(1,160)	(535)
Redemption of preferred stock	(1,537)	(3,809)	(315)
Sale of common stock	—	—	4,639
Repurchase of common stock	(7,572)	—	—
Net change in commercial paper	(7,475)	(3,030)	(6,500)
Total external funds	17,616	(27,124)	(42,711)
Changes In Net Current Assets:			
Cash and special deposits	(9,903)	4,368	3,205
Customer and other receivables	(1,661)	(3,579)	(7,281)
Accrued utility revenues	(3,757)	4,114	(5,939)
Fossil fuel	1,353	(10,161)	6,632
Prepayments	(13,907)	48	(177)
Accounts payable	(1,600)	5,516	5,758
Accrued taxes	1,727	(2,994)	(6,134)
Other, net	1,863	(2,163)	(3,728)
Total changes in net current assets	(25,885)	(4,851)	(7,664)
Changes In Other Assets:			
Nuclear fuel disposal payment	(10,961)	—	—
Contract settlement	(16,218)	—	—
Other, net	(5,799)	2,091	1,692
Total changes in other assets	(32,978)	2,091	1,692
Total funds used for construction expenditures and nuclear fuel, excluding AFUDC	54,642	57,980	45,662
AFUDC	1,067	154	263
Total funds used for construction expenditures and nuclear fuel, including AFUDC	$ 55,709	$ 58,134	$ 45,925

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

Retained Earnings

	Years Ended December 31		
	1985	1984	1983
	(Thousands)		
Balance at Beginning of Year	$175,686	$154,184	$134,767
Add — Net income	57,415	56,270	51,594
	233,101	210,454	186,361
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)	858	1,062	1,130
10.75% Series ($10.75 per share)	1,451	1,558	1,613
Cash dividends declared on common stock	31,628	28,846	26,033
Premium paid for repurchase of common stock	4,836	—	—
Other	—	65	164
	42,010	34,768	32,177
Balance at End of Year	$191,091	$175,686	$154,184

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

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, 1985, 1984 and 1983, 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, 1985, 1984 and 1983, 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 31, 1986.

ARTHUR ANDERSEN & CO.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: The financial statements reflect the application of certain accounting policies which are described in this note.

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

The retail portion of the business is regulated by the PSCW and MPSC which make up approximately 90% and 2%, respectively, of the company's revenues. The FERC regulates the electric wholesale portion which is approximately 8% of the revenues.

(b) Utility Plant — Utility plant is stated at the original cost of construction, which includes an allowance for funds used during construction (AFUDC). Effective in 1985, the PSCW determined that all retail jurisdictional construction work in progress (CWIP) should be subject to AFUDC using a rate based on the company's overall cost of capital (approximately 11%). Prior to 1985, retail AFUDC was recorded at 7% only on a portion of electric CWIP. FERC AFUDC is recorded on wholesale jurisdictional electric construction work in progress at debt and equity percentages specified in the FERC Uniform System of Accounts. For 1985, the rate was approximately 8%.

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

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

(d) 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" below. Amortization and additional depreciation are included in the accumulated provision for amortization of nuclear fuel. The costs amortized to fuel expense (which assume no salvage values for uranium or plutonium) include an amount for ultimate disposal which is being recovered through current rates. As required by the Nuclear Waste Policy Act of 1982 (the Act), a contract with the Department of Energy (DOE) has been signed and quarterly payments are being made to the DOE for the fee related to generation after April 6, 1983. For the nuclear generation prior to April 7, 1983, the company paid in 1985, $10,961,000 as required by the Act for ultimate disposal costs of spent nuclear fuel. 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 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.

	December 31		
	1985	1984	1983
		(Thousands)	
Accumulated amortization	$78,123	$81,003	$73,754
Accumulated additional depreciation	(4,291)	(5,141)	(5,499)
Accumulated provision for amortization of nuclear fuel	$73,832	$75,862	$68,255
Investment in subsidiary	$3,011	$2,722	$3,602

(e) Deferred Charges — The company has bought out of a partial requirements coal contract which had an unexpired term of 17 years. A payment of $15,968,000 was made in exchange for releases with all interested parties. In a related transaction, the mines, leases and certain equipment of the terminated contractor were purchased by another contractor with whom the company has contracted for a long-term coal supply. The company also agreed to indemnify the new contractor in certain respects for liabilities or costs that could result from the condition of the assets and a $1,250,000 reserve was established for this indemnification. The after-tax effect of these amounts ($8,693,000) is included as a deferred charge as of December 31, 1985. An accounting order has been received from the PSCW which authorizes an amortization of the net amount over ten years and recovery in rates to the extent that the cost of coal in each year (including this amortization) does not exceed what the cost of coal would have been under the original contract. While the application of the accounting order and the company's coal procurement practices as they relate to the contract buy-out are currently under review by the PSCW in a rate proceeding, under the formula, management believes the company will recover a substantial portion of its costs in rates.

(f) Prepayments — As of December 31, 1985, prepayments include $13,516,000 of gross receipts tax.

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

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

In 1985, some of the company's larger gas customers began purchasing gas directly from the pipeline supplier. This gas continued to be transported over the company's distribution facilities for which the company was paid a transportation fee. Since normal gas revenues include a component to cover the cost of buying gas, this change resulted in a decrease in gas revenues of approximately $10,000,000. However, there was also a corresponding decrease in purchased gas expense which resulted in a minimal change in net income.

(h) Employee Benefit Plans — The company has non-contributory retirement plans covering substantially all employees under which annual contributions are made to an irrevocable trust established to provide retired employees with a monthly payment if conditions relating to age and length of service have been met. It is the company's policy to fund retirement contributions to meet current costs of the plans and to amortize the unfunded prior service costs over approximately 10 years. 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 benefits to employees, retirees and their dependents. The medical expenses for active employees are expensed as incurred. Anticipated post-retirement medical benefits are funded to an irrevocable trust. This funded amount is recognized as expense currently. The unfunded past service costs associated with post-retirement medical benefits are being amortized over approximately 30 years.

The company also has a survivor benefits plan for its employees and retirees. This plan includes a Survivor Income Benefits (SIB) Plan, which provides benefits to survivors of employees and retirees over a period of time, and a Group Life Insurance Plan for those not covered by SIB. The SIB benefits are paid partially through an insurance contract and partially from a trust. All of the Group Life Insurance benefits are paid through the insurance contract. The insurance contract which covers both plans provides that the company will reimburse the insurance company for all claims up to a specific threshold and an administrative fee. Prior to 1984, all benefits for these plans were expensed by the company as benefit claims were paid. In 1984, the company began funding expected SIB benefits to an irrevocable trust. This funded amount is recognized as expense currently. The company is amortizing the unfunded SIB cost for pre-1984 benefits incurred over approximately 10 years. Group Life Insurance costs other than those covered by the SIB plan are expensed as benefit claims are paid.

	1985	1984	1983
Retirement Plans:		(Thousands)	
Retirement plans funding (for the year)	$6,886	$6,458	$6,749
Capitalized retirement plan costs	616	589	686
Retirement plan costs expensed	$6,270	$5,869	$6,063
Actuarially computed value of vested benefits*	$98,667	$87,868	$82,276
Actuarially computed value of non-vested benefits*	$9,687	$10,731	$10,008
Net assets available for benefits*	$129,512	$119,060	$98,222
Medical Plan:			
Post-retirement medical plan funding expense	$4,559	$4,297	$3,722
Survivor Benefits:			
SIB funding and group life insurance expense	$1,272	$1,057	$116
Number of active participants	2,271	2,195	2,204
Number of retired participants	528	495	371

*As of January 1 of each year.

(i) 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 $2,679,000, $2,723,000 and $1,978,000 for the years 1985, 1984 and 1983, respectively, of which insignificant amounts were charged to construction.

(j) Depreciation — The company reports depreciation expense on the income statement as a current cost of doing business to reflect an allocation for the use of property. Straight-line depreciation expense is reported in equal amounts over the estimated useful life of the property as approved by the PSCW. Based on an order of the PSCW, the company also reports the deferred taxes applicable to plant and nuclear fuel as additional depreciation expense. For a more complete explanation of additional depreciation, see "Income Taxes" below.

The PSCW issued an accounting order on December 5, 1985 as a result of a generic hearing regarding nuclear plant decommissioning. The order takes effect in 1986 and specifies the use of an external fund for all prior and future expensed decommissioning costs. Through 1985, nuclear depreciation rates for the retail portion of the company business reflected a negative salvage factor to recover expected decommissioning costs resulting in an accumulated provision of $19,143,000 at December 31, 1985. For the company's wholesale customers, decommissioning costs are continuing to be recovered using an internal sinking fund. The company's 41.2% ownership share of future decommissioning costs of the Kewaunee nuclear plant is estimated to be $171,460,000.

	1985	1984	1983
Composite depreciation rates (for the year)			
Electric	4.38%	4.35%	4.16%
Gas	4.19%	4.12%	4.08%
Additional depreciation expense (for the year)		(Thousands)	
Federal	$9,538	$10,044	$15,375
State	$(695)	$(2,111)	$1,947
Accumulated additional depreciation (end of year)	$134,996	$127,003	$119,380

(k) Income Taxes — Depreciation expense used for federal and state income tax purposes is different from the amounts recorded on the books as straight-line depreciation. There are two major reasons for the differences. First, the period of time over which the taxing authorities allow the cost of assets to be depreciated is shorter than the lives used for straight-line depreciation purposes. Second, the IRS allows some of the depreciation the company would be entitled to in later years to be deducted earlier, a practice known as accelerated depreciation. The estimated reductions in current federal income taxes paid as a result of these differences are recorded as additional depreciation. The deferral of additional depreciation and the related allocation of such tax benefits over plant life is referred to as normalization. Beginning in 1985, as a result of a PSCW order, the estimated reduction in state income taxes resulting from the utilization of accelerated tax depreciation for state income tax purposes is no longer being normalized for retail jurisdictional purposes. These benefits are now being flowed through to the current retail customers. The accumulated additional depreciation related to state income taxes as of December 31, 1984, which amounted to $8,155,000, is being amortized to income over 17 years for the retail jurisdiction.

Certain book-tax depreciation differences have not been normalized; the cumulative tax effect of such differences as of December 31, 1985 is $24,687,000. The ratemaking policies of the jurisdictions which regulate the company provide for recovery of the related future taxes that have not been normalized.

When plant is added, the IRS allows a credit (known as investment tax credit) against income tax due for 10% of the cost of the asset. The company recognizes the tax benefit from this credit over the life of the property involved through a procedure called normalization.

The effective income tax rates are computed by dividing total income tax expense, including net investment credit deferral and additional depreciation, by the sum of such expense and net income.

	1985		1984		1983	
	(Thousands except for percentages)					
	Amount	Rate	Amount	Rate	Amount	Rate
Statutory federal income tax	$48,922	46.0%	$49,677	46.0%	$46,274	46.0%
State income taxes and state additional depreciation, net	3,214	3.0	1,965	1.8	4,576	4.5
Investment credit restored	(3,323)	(3.1)	(3,150)	(2.9)	(2,942)	(2.9)
Other differences, net	124	.1	3,231	3.0	1,094	1.1
Effective income tax	$48,937	46.0%	$51,723	47.9%	$49,002	48.7%

(l) Leases — The company has numerous lease agreements, most of which are for terms of less than 3 years. Unit train leases have various terms of up to 16 years with renewal provisions of up to 6 years when the lease expires. None of these leases are material.

(m) Earnings Per Share — Earnings per share on common stock are computed on the basis of the weighted average number of shares outstanding (11,673,757, 11,822,206 and 11,727,031 shares for 1985, 1984 and 1983, respectively).

(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, 1985 is as follows:

	Columbia Energy Center	Edgewater Unit No. 4	Kewaunee
	(Thousands except for percentages)		
Ownership	31.8%	31.8%	41.2%
Utility plant in service	$104,722	$16,495	$110,759
Accumulated provision for depreciation	$46,097	$9,148	$72,502

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.

The company is not currently engaged in any major construction projects. Utility plant construction expenditures for 1986 are estimated to be about $65,000,000.

(3) OTHER DEBT AND LINES OF CREDIT: To support outstanding commercial paper, the company maintains unused bank lines of credit. Most of these lines of credit require payment of fees. Some lines of credit are supported by compensating balances. Many of these lines may be withdrawn at the discretion of the lenders. Substantially all cash balances represent compensating balances for credit lines and bank services, however, there are no legal restrictions as to withdrawal of these funds.

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

	1985	1984	1983
	(Thousands except for percentages)		
As of end of year —			
Discount rate on outstanding commercial paper	7.9%	8.2% to 8.7%	9.7% to 9.9%
Interest rate on note payable	7.5%	7.6%	9.1%
Unused lines of credit	$49,365	$39,325	$39,105
Compensating balance requirements	$418	$426	$505
For the year —			
Maximum amount of borrowings	$52,000	$58,000	$53,560
Average amount of borrowings	$33,106	$39,541	$39,863
Weighted average interest rate on borrowings	8.1%	10.4%	9.1%

The company has financing agreements with commercial banks that permit the company to borrow up to $24,600,000 at any time provided compliance with certain financial covenants is maintained. These agreements extend for thirteen months or more. Fees are payable on any unused portion of these commitments. As of December 31, 1985, there were no borrowings under these agreements.

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

The following information relates to sinking fund and maturity requirements on long-term debt outstanding as of December 31, 1985:

	1987	1988	1989	1990
	(Thousands)			
Sinking fund requirements not satisfied	$1,570	$2,230	$2,230	$2,230
Maturing first mortgage bonds	5,062	—	—	—
Total	$6,632	$2,230	$2,230	$2,230

As of December 31, 1985, the company had reacquired enough bonds to satisfy all of its sinking fund requirements due in 1986 and $210,000 of those due in 1987.

(5) PREFERRED STOCK: The 10.50% Series Preferred Stock has a mandatory 5% annual sinking fund requirement and an additional 5% is redeemable annually at the company's option at a price of $100 per share plus accrued dividends. In each of the years 1985 and 1984, the company redeemed 15,000 shares to meet the sinking fund requirements, as well as 373 and 8,085 shares, respectively, to meet future sinking fund requirements. In 1983, 7,500 shares of this Series were retired to meet the mandatory sinking fund requirements.

In 1984, the company also repurchased 15,000 shares of its 10.75% Series Preferred Stock, which has a mandatory redemption date of May 1, 1991. The company tentatively plans on repurchasing the remaining 135,000 shares of this Series in May 1986.

(6) COMMON STOCK: In 1983, outstanding common stock and premium on common stock increased $4,639,000 due to the issuance of 186,121 shares under the Automatic Dividend Reinvestment and Stock Purchase Plan which was discontinued January 1, 1984. There were no new issues in 1984.

In 1985, the company repurchased 221,930 shares of common stock for $7,572,000. The stock was retired using the average issuance price method which reduces the common stock balance by the par value ($8 per share) and reduces premium on capital stock by the average premium ($4.33 per share). For the shares repurchased in 1985, this amounted to $1,776,000 and $960,000, respectively. The difference between the purchase price and the average issuance price is charged to retained earnings as premium paid for repurchase of common stock. The company does not plan on repurchasing any additional common stock in 1986.

(7) COMMITMENTS AND CONTINGENT LIABILITIES: To ensure a long-term, reliable, low-cost supply of coal for the jointly-owned Edgewater 4 unit, the company is a party to a coal contract that contains demand charges totaling approximately $35,000,000 for the company's share through 1994. The company is required to pay these demand charges in future years, even if it is unable to fully utilize all contracted quantities of coal under future emission limits and proposed acid rain legislation. In the opinion of management, any such costs incurred to meet mandatory emission limits would be considered a legitimate cost of service expense subject to recovery in rates.

(8) SEGMENTS OF BUSINESS:

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

	1985			1984 (Thousands)			1983		
	Electric	Gas	Total	Electric	Gas	Total	Electric	Gas	Total
Operating revenues	$403,801	$234,703	$638,504	$405,420	$238,771	$644,191	$389,197	$240,694	$629,891
Operating expenses—									
Operation and maintenance	235,774	215,235	451,009	229,383	218,560	447,943	223,373	222,020	445,393
Straight-line depreciation	42,541	4,945	47,486	40,877	4,757	45,634	37,386	4,487	41,873
Other taxes	12,673	2,235	14,908	17,733	2,580	20,313	16,367	2,202	18,569
	290,988	222,415	513,403	287,993	225,897	513,890	277,126	228,709	505,835
Operating income before income taxes	112,813	12,288	125,101	117,427	12,874	130,301	112,071	11,985	124,056
Total AFUDC	1,036	31	1,067	154	—	154	263	—	263
Provisions for income tax (a)	44,208	4,854	49,062	47,738	5,197	52,935	44,897	4,639	49,536
Operating income including AFUDC	$ 69,641	$ 7,465	77,106	$ 69,843	$ 7,677	77,520	$ 67,437	$ 7,346	74,783
Other income, net			45			(744)			91
Interest expense			19,736			20,506			23,280
Net income			$ 57,415			$ 56,270			$ 51,594
Identifiable assets (b)	$701,938	$114,818	$816,756	$685,754	$103,461	$789,215	$678,859	$108,682	$787,541
Assets not allocated (c)			18,715			4,081			5,079
Total assets			$835,471			$793,296			$792,620
Construction and nuclear fuel expenditures including AFUDC	$ 48,689	$ 7,020	$ 55,709	$ 52,432	$ 5,702	$ 58,134	$ 41,173	$ 4,752	$ 45,925

(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(k).

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

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

(9) QUARTERLY FINANCIAL INFORMATION (Unaudited):

Three Months Ended
(Thousands except for per share data)

	1985			
	Mar.	June	Sept.	Dec.
Operating revenues	$198,276	$139,117	$130,920	$170,191
Net income	$19,452	$11,657	$10,685	$15,621
Earnings on common stock	$18,065	$10,271	$9,299	$14,261
Average number of shares of common stock outstanding	11,818	11,680	11,600	11,600
Earnings per average share on common stock	$1.53	$.88	$.81	$1.23
	1984			
	Mar.	June	Sept.	Dec.
Operating revenues	$202,784	$142,136	$131,308	$167,963
Net income	$21,195	$11,194	$11,345	$12,536
Earnings on common stock	$19,707	$9,719	$9,918	$11,137
Average number of shares of common stock outstanding	11,822	11,822	11,822	11,822
Earnings per average share on common stock	$1.67	$.82	$.84	$.94
	1983			
	Mar.	June	Sept.	Dec.
Operating revenues	$177,484	$144,054	$134,386	$173,967
Net income	$13,378	$13,077	$11,939	$13,200
Earnings on common stock	$11,883	$11,582	$10,445	$11,710
Average number of shares of common stock outstanding	11,638	11,702	11,766	11,800
Earnings per average share on common stock	$1.02	$.99	$.89	$.99

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

(10) CONSTANT DOLLAR INFORMATION (Unaudited): The following supplementary information is presented in response to FASB Statement No. 33, Financial Reporting and Changing Prices, which was amended by FASB Statement No. 82 providing certain information on the effects of inflation on the company. In issuing these Statements, 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.

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 was not used to report the effects of inflation since there is no difference in earnings on common stock as adjusted under the two methods because of the affects of the regulatory process.

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

Under the ratemaking prescribed by the commissions regulating the company, 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 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, 1985

	(Thousands of average 1985 dollars) Constant Dollar
Earnings on common stock — historical	$51,896
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	(45,456)
Reportable as an adjustment to recoverable cost	15,667
Offsetting effect of debt financing	17,359
Net effect on common shareholders' equity	(12,430)
Earnings on common stock — as adjusted	$39,466

At December 31, 1985, the net recoverable amount of utility plant was $641,121,000.

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

	1985	1984	1983	1982	1981
	(Adjusted amounts in average 1985 dollars)				
Operating revenues (1)					
Historical cost	$638,504	$644,191	$629,891	$584,447	$492,262
As adjusted	638,504	667,176	680,130	651,362	582,257
Earnings on common stock (1)					
Historical cost	$51,896	$50,481	$45,620	$35,871	$33,438
As adjusted	39,466	39,642	36,351	26,740	14,933
Earnings per share					
Historical cost	$4.45	$4.27	$3.89	$3.14	$3.00
As adjusted	3.38	3.35	3.10	2.34	1.34
Common stock equity, December 31 (1)					
Historical cost	$334,278	$321,609	$300,093	$276,035	$253,078
As adjusted	328,668	328,439	318,583	304,167	289,669
Return on average common shareholders' equity					
Historical cost	15.9%	16.2%	15.9%	13.9%	13.9%
As adjusted	12.1	12.3	11.8	9.3	5.2
Offsetting effect of debt financing (1)	$17,359	$19,030	$21,845	$25,171	$47,070
Cash dividends per share					
Historical cost	$2.71	$2.44	$2.22	$2.04	$1.89
As adjusted	2.71	2.53	2.40	2.27	2.24
Market price per share, December 31					
Historical cost	$39.13	$31.25	$27.75	$23.75	$18.63
As adjusted	38.47	31.91	29.46	26.17	21.32
Average Consumer Price Index	322.2	311.1	298.5	289.3	272.4

(1) Thousands

Statements Of Income (Thousands)

	1985	1984	1983	1982	1981	1980	1975
Operating Revenues:							
Electric	$403,801	$405,420	$389,197	$355,766	$294,509	$263,806	$151,442
Gas	234,703	238,771	240,694	228,681	197,753	172,629	68,504
	638,504	644,191	629,891	584,447	492,262	436,435	219,946
Operating Expenses:							
Operation —							
Electric production fuels	125,179	125,457	127,055	114,688	88,400	85,256	43,198
Gas purchased for resale	190,195	198,172	202,770	195,132	166,787	142,519	45,305
Purchased power, net	10,070	6,276	4,597	13,152	20,333	12,429	167
Other	89,399	83,404	78,859	69,160	59,005	51,103	26,818
Maintenance	36,166	34,634	32,112	30,755	25,571	21,742	12,174
Depreciation —							
Straight-line provision	47,486	45,634	41,873	38,138	29,685	27,725	18,269
Additional depreciation	8,843	7,933	17,322	6,090	8,269	5,489	7,090
Taxes —							
Current federal income	32,198	34,364	24,851	22,167	7,257	10,943	11,391
Net investment credit	1,325	2,966	501	2,947	11,616	11,380	4,258
Current state income	6,696	7,672	6,862	5,470	2,473	3,492	2,070
Other	14,908	20,313	18,569	17,144	15,566	12,814	11,066
	562,465	566,825	555,371	514,843	434,962	384,892	181,806
Operating Income	76,039	77,366	74,520	69,604	57,300	51,543	38,140
Other Income and Deductions:							
Gains on bonds reacquired	195	449	221	421	405	383	500
Income taxes	125	1,212	535	(195)	(544)	(154)	163
AFUDC, other funds*	717	—	—	—	472	777	—
Other, net	(275)	(2,405)	(665)	389	1,002	295	(237)
	762	(744)	91	615	1,335	1,301	426
Income Before Interest Expense	76,801	76,622	74,611	70,219	58,635	52,844	38,566
Interest Expense:							
Interest on long-term debt	16,834	16,205	19,517	22,418	21,224	16,501	13,811
AFUDC, borrowed funds*	(350)	(154)	(263)	(191)	(8,941)	(3,798)	1,302
Other interest	2,902	4,301	3,763	6,085	7,270	4,689	—
	19,386	20,352	23,017	28,312	19,553	17,392	15,113
Net Income	57,415	56,270	51,594	41,907	39,082	35,452	23,453
Preferred Stock Dividend Requirements	5,519	5,789	5,974	6,036	5,644	4,633	4,784
Earnings On Common Stock	$ 51,896	$ 50,481	$ 45,620	$ 35,871	$ 33,438	$ 30,819	$ 18,669
INCOME STATISTICS							
Common Stock:							
Shares outstanding, Dec. 31	11,600,276	11,822,206	11,822,206	11,636,085	11,308,740	11,048,865	9,589,734
Shares outstanding, Avg.	11,673,757	11,822,206	11,727,031	11,419,269	11,129,940	10,905,032	9,589,734
Earnings per share†	$4.45	$4.27	$3.89	$3.14	$3.00	$2.83	$1.95
Dividends paid per share	$2.71	$2.44	$2.22	$2.04	$1.89	$1.77	$1.35
Times Interest Earned:							
Before income taxes	6.12	6.27	5.32	3.76	3.43	4.15	4.19
After income taxes	3.77	3.74	3.22	2.47	2.37	2.67	2.55
Times Interest and Preferred Dividends Earned	2.97	2.92	2.56	2.04	1.98	2.19	1.94

*AFUDC is split between debt and equity portions beginning in 1977.
†Based on weighted average shares outstanding.

Balance Sheets (Thousands)

Assets	1985	1984	1983	1982	1981	1980	1975
Utility Plant:							
Electric	$1,038,867	$1,000,596	$ 963,787	$ 933,052	$885,448	$791,320	$513,304
Gas	126,716	122,742	117,309	113,143	103,859	101,244	89,153
	1,165,583	1,123,338	1,081,096	1,046,195	989,307	892,564	602,457
Less — Accumulated depreciation	544,319	494,931	445,823	395,438	350,253	315,156	170,427
	621,264	628,407	635,273	650,757	639,054	577,408	432,030
Nuclear fuel, net	19,857	12,805	10,694	18,115	16,839	16,875	9,998
Net utility plant	641,121	641,212	645,967	668,872	655,893	594,283	442,028
Investments	13,464	10,012	10,290	13,056	14,475	11,889	5,325
Current assets	167,011	137,905	131,776	126,068	118,203	105,970	53,654
Deferred charges	13,875	4,167	4,587	6,497	8,464	7,109	1,713
Total assets	$ 835,471	$ 793,296	$ 792,620	$ 814,493	$797,035	$719,251	$502,720
Capitalization and Liabilities							
Common stock and premium	$ 143,187	$ 145,923	$ 145,909	$ 141,268	$134,452	$129,891	$105,163
Retained earnings	191,091	175,686	154,184	134,767	118,626	106,106	54,245
Preferred stock with no mandatory redemption	51,200	51,200	51,200	51,200	51,200	51,200	51,200
Preferred stock with mandatory redemption	20,147	21,684	24,750	25,500	26,250	12,000	15,000
Long-term debt	244,362	210,481	222,092	231,601	272,283	280,313	205,746
Total capitalization	649,987	604,974	598,135	584,336	602,811	579,510	431,354
Short-term borrowings	28,995	36,470	39,500	46,000	46,915	15,970	20,900
Bond sinking fund requirements and maturing first mortgage bonds	—	—	9,125	40,000	—	—	—
Other liabilities and credits	156,489	151,852	145,860	144,157	147,309	123,771	50,466
Total capitalization and liabilities	$ 835,471	$ 793,296	$ 792,620	$ 814,493	$797,035	$719,251	$502,720

	1985	1984	1983	1982	1981	1980	1975
Book Value Per Share, Dec. 31	$28.82	$27.20	$25.38	$23.72	$22.38	$21.36	$16.62
Return On Average Equity	15.9%	16.2%	15.9%	13.9%	13.9%	13.6%	12.0%
Capitalization Ratios							
Common stock and premium	22.0	24.1	24.4	24.2	22.3	22.4	24.4
Retained earnings	29.4	29.0	25.8	23.1	19.7	18.3	12.6
Preferred stock	11.0	12.1	12.7	13.1	12.8	10.9	15.3
Long-term debt	37.6	34.8	37.1	39.6	45.2	48.4	47.7
Percent Long-Term Debt to Net Utility Plant	39.3	32.8	34.4	34.6	41.5	47.2	46.5
Average Bond Rate	8.3	7.6	7.2	7.7	7.7	7.7	7.0
Average Preferred Stock Rate	7.5	7.6	7.8	7.8	7.8	7.2	7.3
Shareholders — Common stock	29,687	31,440	33,857	34,803	35,333	36,704	38,574
Preferred stock	6,219	6,553	6,885	7,267	7,628	8,006	9,309
Number of Employees, Dec. 31	2,485	2,390	2,267	2,204	2,116	1,969	1,816

	1985	1984	1983	1982	1981	1980	1975
Electric Operations							
Operating Revenues (Thousands):							
Residential	**$137,503**	$135,833	$132,810	$121,548	$103,050	$ 91,093	$ 56,157
Commercial and industrial	**207,772**	209,468	201,037	179,857	152,153	132,963	80,324
All other	**58,527**	60,119	55,350	54,361	39,306	39,750	14,961
Total electric revenues	**$403,802**	$405,420	$389,197	$355,766	$294,509	$263,806	$151,442
Kwh Sales (Thousands)	**7,445,019**	7,469,964	7,113,304	6,809,880	6,794,926	6,681,319	4,898,487
Number of Customers, Dec. 31:							
Residential	**271,407**	267,461	263,362	259,769	256,882	252,583	221,145
Commercial and industrial	**30,185**	29,702	29,228	28,172	27,833	26,484	24,389
All other	**478**	475	450	1,029	1,023	1,009	884
Total electric customers	**302,070**	297,638	293,040	288,970	285,738	280,076	246,418
Annual Average Use (Kwh):							
Residential	**7,288**	7,269	7,219	7,069	7,235	7,228	6,550
Commercial and industrial	**136,764**	138,244	133,442	129,755	134,713	134,328	116,200
Average Kwh Price (Cents):							
Residential	**7.01**	7.05	7.04	6.66	5.59	5.03	3.94
Commercial and industrial	**5.08**	5.14	5.19	4.95	4.16	3.78	2.84
Production Data:							
System Capacity (Kw):							
Steam	**1,269,240**	1,269,240	1,269,240	1,269,240	1,269,240	957,640	837,440
Nuclear	**221,000**	221,000	221,000	221,000	221,000	221,000	221,000
Hydraulic	**64,236**	64,236	62,156	62,156	62,156	62,156	62,156
Combustion turbine	**156,200**	156,200	156,200	156,200	156,200	156,200	156,200
Diesel	**4,000**	4,000	4,000	4,000	4,000	4,000	4,000
Wind turbine	**40**	40	—	—	—	—	—
Total	**1,714,716**	1,714,716	1,712,596	1,712,596	1,712,596	1,400,996	1,280,796
Interest in Wisconsin River Power Company	**11,667**	11,667	11,667	11,667	11,667	11,667	11,667
Total system capacity	**1,726,383**	1,726,383	1,724,263	1,724,263	1,724,263	1,412,663	1,292,463
Generation and Purchases (Thousands of Kwh):							
Steam	**5,448,302**	5,443,590	5,246,683	4,685,171	4,387,774	4,783,306	3,431,616
Nuclear	**1,523,780**	1,569,519	1,527,660	1,577,139	1,553,941	1,496,685	1,376,927
Hydraulic	**352,000**	307,911	348,813	319,895	300,794	292,919	259,335
Purchases – Wisconsin River Power Company	**82,005**	76,855	85,753	76,563	71,487	76,957	64,864
Other	**608,997**	572,702	448,509	700,240	998,606	584,980	224,661
Total	**8,015,084**	7,970,577	7,657,418	7,359,008	7,312,602	7,234,847	5,357,403
System peak – firm (Kw)	**1,219,700**	1,202,900	1,166,000	1,101,000	1,132,800	1,106,600	866,000
Annual load factor	**74.03%**	73.57%	72.67%	74.90%	72.80%	72.26%	66.54%
Gas Operations							
Operating Revenues (Thousands):							
Residential	**$100,078**	$ 97,114	$ 97,053	$ 89,908	$ 74,969	$ 66,507	$ 27,953
Commercial and industrial	**130,642**	139,662	141,314	136,445	120,862	103,335	40,333
All other	**3,983**	1,995	2,327	2,328	1,922	2,787	218
Total gas revenues	**$234,703**	$238,771	$240,694	$228,681	$197,753	$172,629	$ 68,504
Therm Sales (Thousands)	**451,419**	470,912	460,488	482,490	484,993	515,738	540,051
Number of Customers, Dec. 31:							
Space heating	**150,833**	147,646	144,332	142,440	140,576	137,737	122,250
All other	**8,788**	9,376	10,423	10,701	11,322	12,176	16,684
Total gas customers	**159,621**	157,022	154,755	153,141	151,898	149,913	138,934