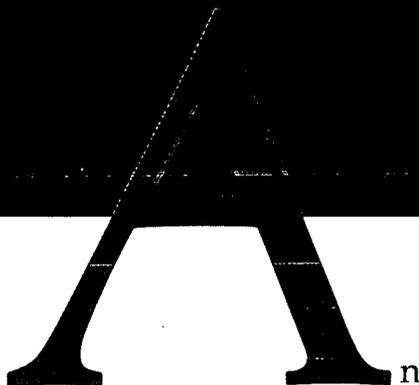


Direction for Growth

B603250234 B60321
PDR ADOCK 05000305
I PDR



energy corporation with assets of nearly \$1 billion, Wisconsin Power and Light Company's regulated core-utility business provides electric power, natural gas and water to 330,000 customers. Founded 62 years ago, the utility supplies reliable and safe energy at prices that are competitive and that produce a fair return for its shareowners. The Company's non-utility subsidiaries engage in complementary business activities, primarily in the areas of energy services, telecommunications and environmental services.

	2
1985 Financial Highlights	4
Direction for Change: The Chairman's Comments	6
Direction for the Future	9
Direction for Growth	19
Financial Section	20
1985 Financial Review	38
Company Profile and Personnel	40
Board of Directors	42
Information for Shareowners	44
Year in Review	

D irection for Growth

Change. Direction. Progress. These words describe Wisconsin Power and Light Company today and in the future.

Change is a constant in any business, but at Wisconsin Power and Light, we do not passively accept it — we try to anticipate it and to initiate constructive change.

But change is not our objective. With numerous forces continuously pulling, pushing and persuading us to move in many directions at once, our strategy is to carefully plan our course, and our objective is to choose the right **direction**.

And, when we are confident that we have chosen the correct direction, we move firmly forward to implement our plan. That's why we're known as a **progressive** company.

Wisconsin Power and Light in 1985 is a company with a strong sense of direction for its own future growth, enabling us to encourage the renewed entrepreneurial spirit we are seeing today in our service area and to effectively serve Wisconsin's entrepreneurs.



1985 Financial Highlights

	1985	1984
Operating revenues	\$588,931,000	\$575,476,000
Operating expenses	\$508,523,000	\$499,509,000
Net income	\$ 60,728,000	\$ 58,332,000
Earnings on common stock	\$ 56,368,000	\$ 53,552,000
Earnings per share of common stock	\$4.26	\$4.12
Dividends per share of common stock	\$2.70	\$2.52
Total capitalization	\$758,527,000	\$711,439,000
Electric sales (thousand kilowatthours)	8,791,896	8,589,490
Gas sales (thousand therms)	269,031	261,917

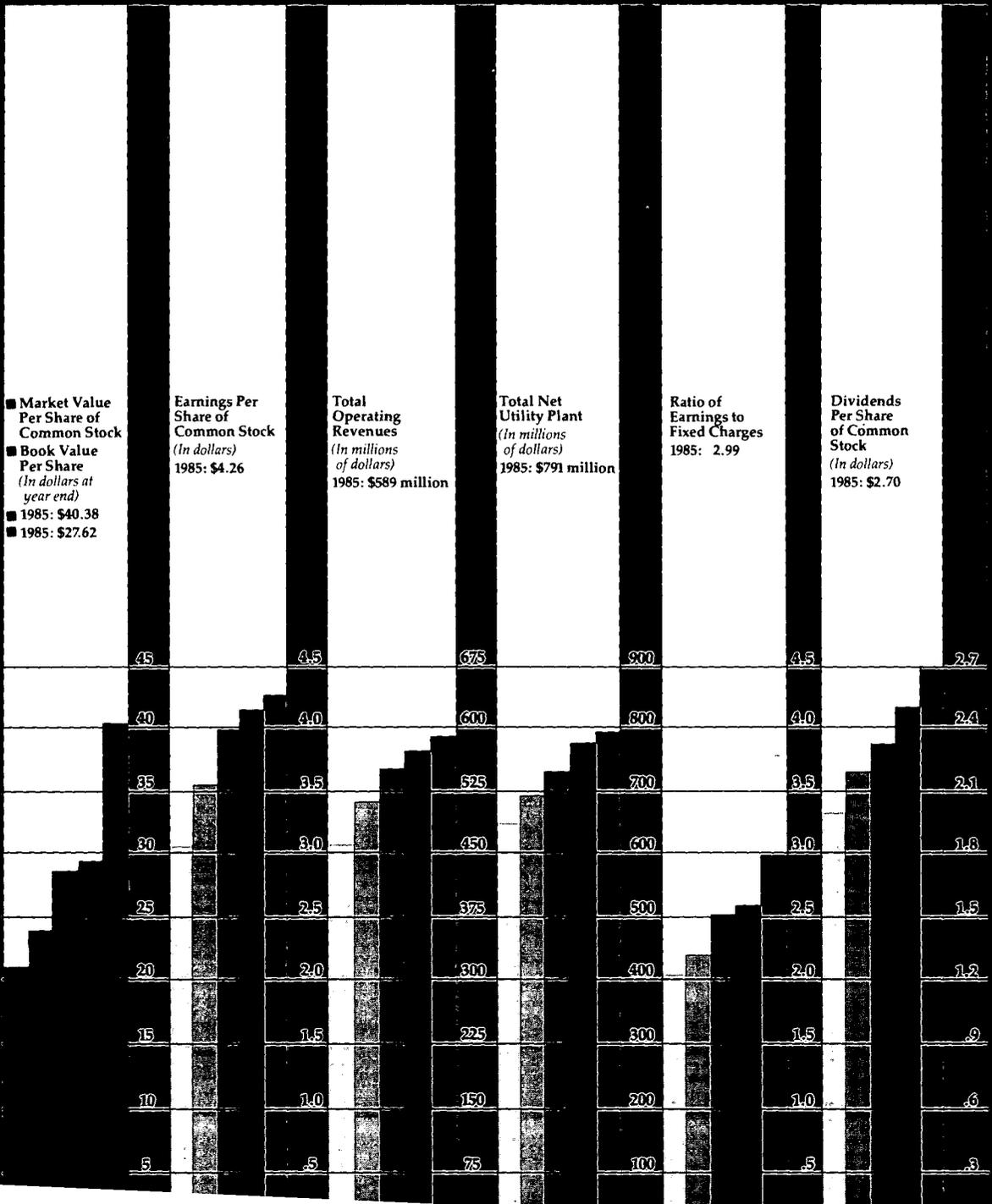
■
 Market value per share of common stock reached a record high of \$40½ in 1985 and exceeded book value at year end by 46 percent.

■
 Dividends per share have increased for 10 consecutive years, and earnings per share have increased for the last seven years.

■
 Return on shareowner investment in 1985 was 15.9 percent and has averaged 15.9 percent over the last five years.

■
 81 percent of total construction capital requirements for the last five years was generated internally.

■
 More than 4,000 new homes were constructed in our service area in 1985.



W

Direction for Change

Wisconsin Power and Light continued to perform well financially and operationally in 1985 — a year of transition for the Company.

We completed our major power-plant construction program when the Edgewater 5-George Richardson Generating Unit started commercial operation in March 1985. We do not plan to be involved in the construction of any new generation facilities until at least the late 1990s. Changes in the telecommunications industry presented new opportunities for the Company, and in late 1985 we began another project — a fiber-optics communication network. A new subsidiary was established to enable the Company to participate in this venture.

1985 also marked the success of our four-year effort to have legislation passed that permits the formation of a holding company to direct our diversification strategy. In addition, progress was made in marketing our gas and electric products to customers. All of this was accomplished in a challenging and changing business environment.

Our business is substantially different today than it was 10 years ago. Ten years from now, when we look back to 1985, the changes will be even more dramatic. The level of success that we are able to achieve in the future will depend on how effectively we are able to anticipate and manage change.

One major change that WP&L will experience in the next few years will be in utility regulation. Whether utilities support it or not, far-reaching, basic regulatory change is inevitable, both at the state and federal levels. Rate increases will be smaller and less frequent, both because of our own efforts to control costs and because of new challenges in utility regulation.

Investors are concerned about the quality, fairness and foresightedness of utility regulation. It took a long time — 10 to 15 years — for WP&L to achieve recognition for its financial excellence from the nation's financial community. However, it would not take long for us to lose that reputation because investment decisions are based not only on past performance, but also on expectations of future achievement and regulatory climate.

We recognize, therefore, that we must work hard to maintain our strong financial position. That position was maintained in 1985 when the nation's two major rating agencies — Moody's Investors Service and Standard & Poor's Corp. — reaffirmed their top rating of WP&L's first-mortgage bonds.

The progressive attitude of the Public Service Commission of Wisconsin has been mutually beneficial to customers and to shareowners. It is imperative that that continue to be the case.

Wisconsin Power and Light over the years has had to meet — and overcome — major challenges: the rapid growth of the '50s, the social turbulence of the '60s, the activism of the '70s, and the transition of the '80s. During my 17 years as WP&L's Chief Executive Officer, there has been no lessening of the pressures on management — only changes in the issues we face and in the increasing efforts of our opponents to control those issues. Those who challenge us are becoming more skillful in communications and public affairs, and WP&L must, also.

We do not believe in a passive approach to regulatory and legislative issues. Our objective is to effectively anticipate those issues and then to aggressively manage them. Our ability to do so will have a significant impact on our business.

During this transitional period of the mid-'80s, the Company must continue its excellent operational and financial performance. Low-cost, safe and reliable energy service will remain our top priority. However, our marketing strategies must recognize that we do not sell just electricity and natural gas. The "products" we really sell are such things as comfort, recreation, safety, food and good health — the end uses of electricity and natural gas.

As a company in transition, WP&L in 1985 made a number of changes in its organizational structure to further focus on market responsiveness in all areas of the Company. We believe WP&L must continue to move toward becoming a market-driven company, with market-responsive pricing systems.

We have set in place these directions for change in order to build and strengthen the core-utility business, which is, and will continue to be, our primary business. The Company's future profitability is dependent on how well we manage that business.

Change always will be with us, and the key to Wisconsin Power and Light's success is our ability to anticipate and manage that change. What will *not* change at Wisconsin Power and Light is a continuing emphasis on financial and operating performance to support our commitment to customer satisfaction.

Our strength and most valuable asset at WP&L continues to be our employees. They deserve credit for their skill in adjusting to change and delivering outstanding results. With the continued support and confidence of WP&L people — investors and employees alike — we will maintain our record of excellence.



James R. Underkofler
Chairman, President and Chief Executive Officer



February 6, 1986

I

n 1985 Wisconsin Power and Light Company continued to make strategic changes integral to our plan to establish a strong foundation for future growth. The changes focused on meeting challenges in three key areas:

- diversification
- emerging technologies
- marketing.

These areas are among the major challenges, discussed in last year's Annual Report, that WP&L management will direct its energies toward during the next several years. Other significant areas, which we will discuss later, are economic development, the environment, transmission management and public affairs.

Diversification

Diversification is a natural evolutionary strategy for Wisconsin Power and Light. For many years we have recognized that your opportunities to invest in the utility business are not as numerous as in the past. In order to fulfill our obligation to you to earn a reasonable return on your investment in WP&L, we believe it is logical to look beyond the utility business for additional investment opportunities.

We want to stress, however, that while we are enthusiastic about the potential that diversification offers, the utility will remain our primary business. We expect that the majority of our profitability, our management attention and our employment will remain with the utility business. Our plans for the utility in 1986 are to strengthen the balance sheet, increase our effective cost-control efforts and develop new responses to our customers' changing needs. We will, however, continue our diversification planning and development.

The Wisconsin Legislature passed a bill in October 1985 that authorized the formation of holding companies by utilities. Negotiations among the utilities, the small-business community, legislators and regulators were the key to the ultimate success of this legislation, which we have been advocating for more than four years.

We now are moving forward with our holding-company planning. In late 1985 we began the process of defining and securing the numerous regulatory approvals required before we can submit the plans to shareowners for their endorsement. That process continues in 1986, and we will keep you informed of the holding-company status.

Emerging technologies

Before the recent enactment of the utility-holding-company law, we pursued our diversification efforts through a process already in place at WP&L — the development of subsidiaries. Our current investments in diversification ventures are small and will not have a significant impact on earnings in the immediate future. However, the ventures relating to emerging technologies, in particular, have exciting potential.

WP&L, for example, moved to the forefront of telecommunications technology in 1985 when it joined with four other utilities to develop one of the first interstate fiber-optics networks in the Wisconsin-Minnesota-Illinois region. Fiber-optics is a technology by which laser light pulses are carried over hair-thin glass fibers to transmit the human voice — as would a telephone line — or coded data — as would a computer network. WP&L established its newest subsidiary, WP&L Communications, Inc., to manage this communications venture.



Another new technology WP&L is investigating through its ENSERV, Inc. subsidiary is the "K-Fuel" process. WP&L has the option to purchase up to 10 percent of the patent rights of this process, which converts low-sulfur coal from the western United States into high-energy pellets. Pound for pound, K-Fuel contains 60 percent more energy and 14 percent less sulfur than unprocessed coal.

The K-Fuel process now is in the final research-and-development stages. If the testing is successful, K-Fuel would offer three major advantages for the world's coal-fired generating plants: reduced sulfur-dioxide emissions, which would allow utilities to avoid costly retrofits to meet emission requirements; lower fuel-storage and transporta-

tion costs; and a longer operating lifetime for older boilers. If K-Fuel successfully makes the transition from laboratory to commercial development, the market potential for the process could be worldwide in scope.

Marketing

WP&L restructured several key corporate functions and introduced new electric and gas marketing programs in 1985 to further our objective of becoming a market-driven company. We see such a marketing orientation as vital in an increasingly competitive world.

Our marketing strategy makes an important distinction between energy conservation (in the sense of simply using less of a product) and the efficient use of energy. We are committed to cost-effective conservation. However, we also are in business to earn a return for our shareowners and we will continue to develop innovative ways to anticipate and satisfy our customers' needs in order to meet this objective. And, we will continue to communicate to our customers that our products can enhance the quality of their lives. We believe that our products should be used in the most efficient manner possible. We also believe, however, that high-quality and economically efficient uses for our products exist. We will promote such usage.

1985 saw the re-emergence of a strong gas-utility industry, made possible by the increased competition and supply created by the federal government's partial deregulation of natural gas. The impact of those changes on the Company has been substantial: More than 2,100 new residential natural-gas customers were added to WP&L's system in 1985 — the largest number in recent memory.

Natural-gas deregulation has confirmed our confidence in the benefits of the free market, and our belief that a corporation can be creative, well-run and profitable in a deregulated environment.

The electric utility business also is undergoing changes. While still having regulated rates of return, the utility industry is increasingly subject to competitive pressures. We believe that market forces will have a greater impact on the electric business in the future. We are prepared to deal with the changes ahead and to direct them to our advantage.

Wisconsin Power and Light management also directed its strengths and capabilities to four other challenging areas in 1985:

- economic development
- environment
- transmission management
- public affairs.

Economic development

WP&L's financial health is dependent on the economic health of its service area. In 1985 we continued to take the lead, as we have for more than 50 years, in attracting businesses and jobs to our service area, in retaining existing business in Wisconsin and in helping those businesses expand. We refocused our industry-attraction efforts to concentrate on bringing small businesses to our service area. Our joint efforts with state development groups and local community leaders once again helped produce impressive results: 2,182 new jobs, 37 new industries locating here and 53 existing businesses expanding their operations.

WP&L also is making long-term investments through our diversification program to ensure that the service area grows and prospers. For example, our fiber-optics venture will boost our economic-development program by providing businesses and industries with a low-cost, high-speed communication system that is vital to their growth.

Environment

The major environmental challenge WP&L faces today is acid rain. A series of new and modified bills was again introduced in the U.S. Congress proposing a variety of programs to control acid rain.

At the state level, a committee appointed by Gov. Anthony Earl reached agreement in January 1986 on an acid-rain control program for Wisconsin. WP&L Executive Vice President Bill Keepers represented industry on the committee, which also included two top-level state govern-



Earl B. Davis, Jr.

Eugene O. Gehl



ment officials. Legislation has been drafted to reflect the agreement and currently is being considered.

Our corporate policy is to support the new agreement, and we will do whatever we have to in order to meet its terms. The ultimate solution to the acid-rain issue, however, must be a national one — both to provide the greatest environmental benefit and to deal with the difficult issues of cost/benefit and regional equity.

Transmission management

The concept of a monopoly utility operating within well-defined boundaries increasingly is being challenged. We believe the trend of increased competition for wholesale business (electric cooperatives and municipal utilities) will continue and accelerate as those customers shop among utilities throughout the nation to obtain the best-available prices.

Electric power wheeling and purchased gas contract carriage are two separate issues that have the greatest potential to increase the competition for customers in both the electric and gas segments of our business. Wheeling is electric transmission service provided by a utility on a prearranged basis to deliver either power generated outside its own system to the system of another utility or end user, or power generated within its service area by a non-utility to another utility. Contract carriage is a gas-supply method by which one or several pipeline companies and utilities transport gas for customers who make direct purchases from producers.

WP&L is now actively involved in negotiations with current customers and with customers of other utilities within and outside of Wisconsin for provision of services. Our strategy has been to (1) strengthen our relationship with our current customers; (2) provide service alternatives and allow customers to select the option that best meets their needs; (3) internally, fine-tune our bidding capabilities to allow for competitive but profitable contract proposals; and (4) keep our rates at competitive levels.

Public affairs

Many of the challenges we face today relate to public affairs and how effectively WP&L manages its role in society.

We are vitally concerned about how we are perceived by and relate to our various publics — shareowners, customers, legislators, regulators and citizen groups. We continuously seek out the opinions of our publics and communicate our positions, plans and aspirations to them in a straightforward manner. Through WP&L's strategic-planning process, we anticipate and manage the almost-constant changes in the public-affairs arena.

A look ahead

We do not expect the challenges in any of these areas to diminish in 1986, but Wisconsin Power and Light is well-equipped to deal with the changes that lie ahead. We have a talented and productive work force that is committed to meeting the needs of our customers in a cost-effective manner. We are putting new management teams in place to face new challenges. Our management group is an excellent blend of younger managers schooled in modern management techniques and seasoned managers tested by time and imbued with the values necessary for success in the future.

Our Company is a strong corporation. We are flexible, innovative and aggressive. We will continue to grow, prosper and lead by building on the values of the past using the techniques of the future.

Erroll B. Davis, Jr.
Executive Vice President

Eugene O. Gehl
Executive Vice President
and General Counsel

William L. Keepers
Executive Vice President

February 6, 1986

D irection for Growth

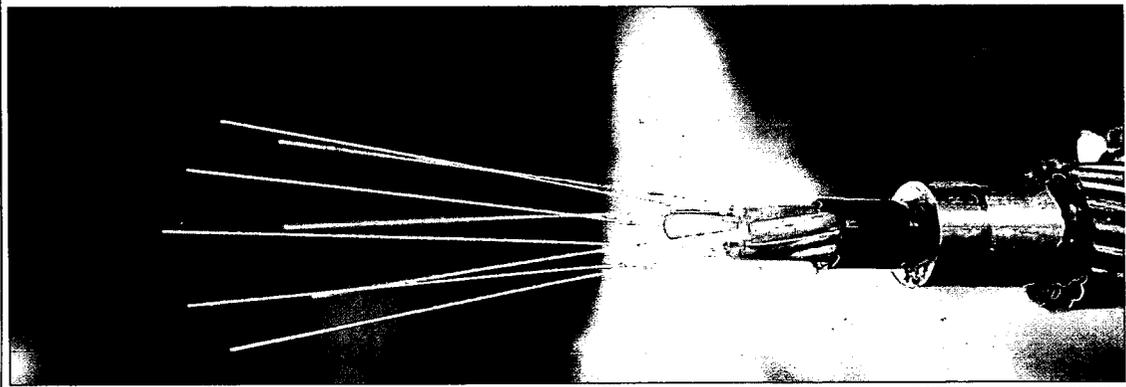
Wisconsin Power and Light Company took steps in 1985 to strengthen its ability to provide direction for its own future growth and for that of its subsidiaries and customers.

A bill allowing utilities to diversify through the formation of holding companies passed both houses of the Wisconsin Legislature by a substantial majority in October and was signed into law in November. WP&L had worked for such legislation, which we view as an important step in achieving the diversification we believe is necessary for the growth of our Company.

Since WP&L began its diversification efforts in 1981, we have believed that the holding-company structure is the best way for WP&L to move into the future. That structure will protect utility ratepayers and isolate the utility from any risks associated with new ventures. It allows utilities more flexibility to pursue non-utility diversification opportunities, while it also may stimulate Wisconsin's economy. And, the holding-company structure will provide new investment opportunities for our shareowners.

WP&L's newest venture is an example of the potential benefits of diver-

One of WP&L's diversification initiatives is an interstate fiber-optics communication network. Hair-thin glass fibers embedded in the static wires of utilities' electrical transmission systems will carry laser light waves that pulse half a billion times per second while carrying voice, data and other communications. The fiber-optics technology is capable of transmitting every word in the 30-volume *Encyclopaedia Britannica* from Minneapolis to Chicago in one-tenth of a second.





Gov. Anthony Earl, right, signed legislation Nov. 19 that allows Wisconsin utilities to form holding companies, calling the new law a "crucial step" in improving the state's economic climate.

sification. The Company's entry into telecommunications involves a technology that uses rapid pulses of laser light and threads of pure glass. Known as fiber optics, the technology is revolutionizing business, medicine and communications.

In October WP&L and four other Wisconsin and Minnesota utilities signed an agreement to build and manage one of the first interstate fiber-optics communication networks in the Wisconsin-Minnesota-Illinois region. WP&L established a new subsidiary — WP&L Communications, Inc. — for the purpose of participating in the partnership.

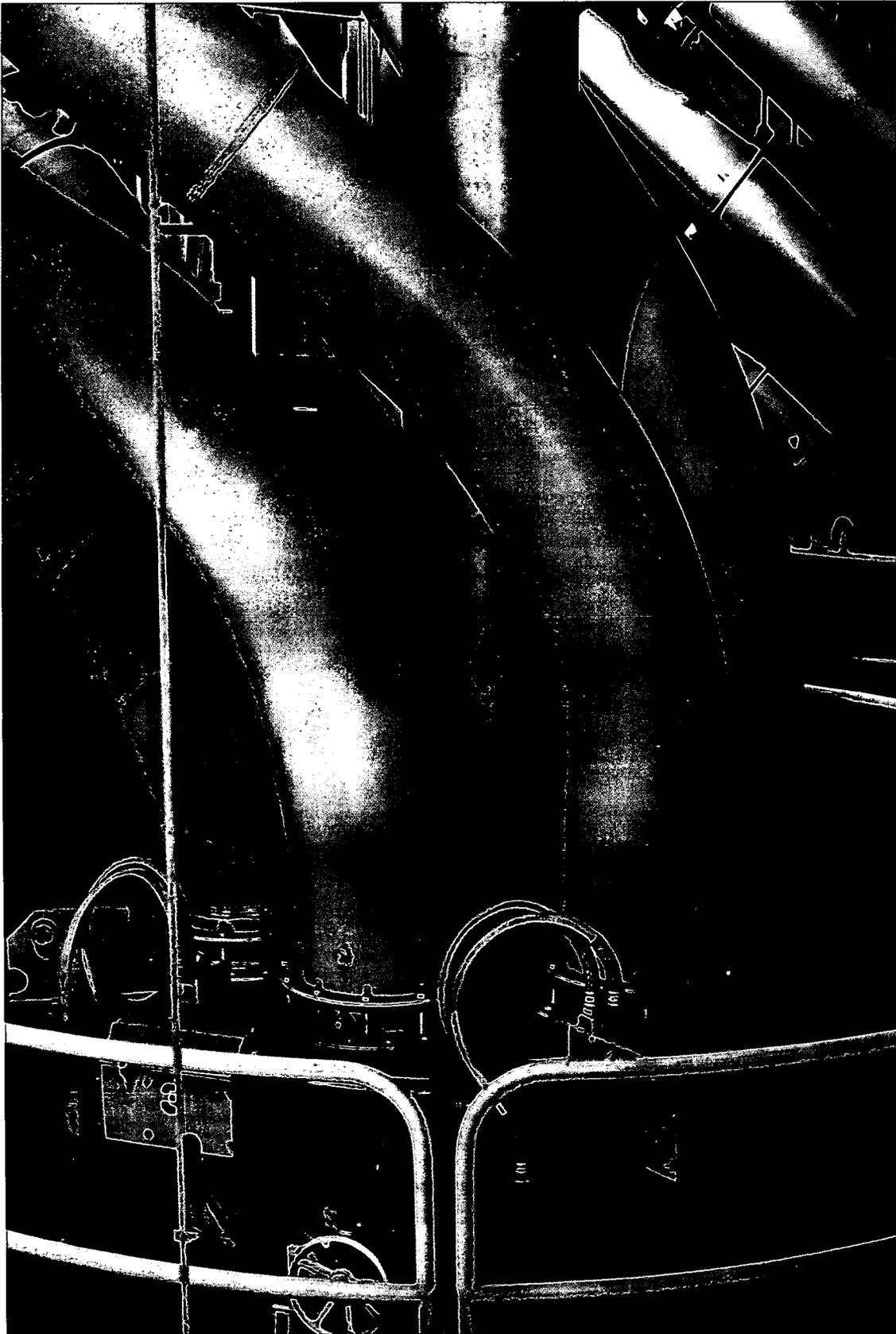
The new venture, called NorLight, will provide the region with a state-of-the-art network that meets the need of a growing number of businesses for a low-cost, high-speed communication system, will provide for improvements in WP&L's own internal communication system and will create an attractive investment opportunity for our shareowners.

Construction of the \$35-million, 650-mile fiber-optics network began in late 1985 and is scheduled to be completed in late 1986. The initial construction phase requires a total investment of \$6.5 million equally shared by WP&L and each of its partners — Wisconsin Public Service Corp., Madison Gas & Electric Co., Minnesota Power and Light Co. and Dairyland Power Cooperative.

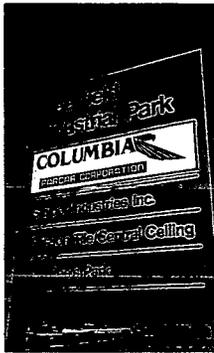
Just as WP&L provides opportunities for the growth of businesses in our

RMT, Inc. (Residuals Management Technology), a wholly owned WP&L subsidiary, designs underground tank storage facilities to protect groundwater quality. A Madison, Wis.-based firm with a nationwide market and offices in several regions of the United States, RMT offers its clients full-service environmental and facility-design engineering consulting and laboratory services.





WP&L's Edgewater 5-George Richardson Generating Unit, located in Sheboygan, Wis., began commercial operation in March. Each of the 380-megawatt unit's five pulverizers, left, grinds low-sulfur coal into fine powder at a rate of up to 60 tons per hour. Each of the five motors that drive the pulverizers is rated at 700 horsepower.



The Company purchased the Deerfield, Wis., electric utility in April, adding a maximum demand of 2,500 kilowatts to WP&L's system.

service area through ventures such as fiber optics, the Company also gives direction for the growth of its subsidiaries.

RMT, Inc. (Residuals Management Technology), which WP&L acquired in 1983, offers its clients full-service environmental and facility-design engineering consulting services. Operating under a long-range business plan developed jointly with WP&L, RMT has grown from a company with \$1 million in annual revenue in 1983 to an expanding business with \$1 million in monthly revenue at year-end 1985. In addition, its staff has grown 400 percent during that period.

Diversification offers promising investment potential, and the Company has begun the process of acquiring regulatory and shareowner approval to form a holding company to take full advantage of such opportunities. We anticipate that our diversified businesses will generate revenue of approximately \$15 million in 1986 and \$20 million in 1987. However, our top priority remains the business of providing electricity, natural gas and water to meet our customers' energy needs. Our efforts remain clearly focused on strengthening and building the core-utility business, and it is there that we will face the major challenges in the future.

Wisconsin Power and Light's achievements in 1985 will prepare the Company to meet the challenges of the future.

In March the Edgewater 5-George Richardson Generating Unit began commercial operation, marking WP&L's first power-plant addition since 1978 and the last scheduled to be constructed in this century. The 380-megawatt unit, which is jointly owned with Wisconsin Electric Power Co. of Milwaukee, Wis. (25 percent), incorporates the latest in engineering technology.

During the first year of commercial operation, Edgewater 5's many complex systems have performed at peak efficiency, just as planned. Employing virtually every effective pollution-control device available, the new generating unit is environmentally sound and cost effective.

And, by ensuring that Wisconsin will have a reliable and adequate supply of electrical energy for a growing economy, Edgewater 5 is key to our ability to provide direction for that growth.

The Company's utility business grew in 1985 with the purchase of the Deerfield, Wis., electric utility in April. The acquisition added 615 electric customers and a maximum demand of approximately 2,500 kilowatts to WP&L's system. Deerfield has promising potential for growth and an active economic-development team that is working hard to achieve that potential.

In 1985 WP&L continued to build on the success of its own economic-development program that is designed to retain existing businesses in Wisconsin, to help those businesses expand and to attract new industry to the state. The Company's economic-development activities in 1985 included co-sponsoring with the Wisconsin Bankers Association a venture-capital seminar and conducting workshops to assist businesses in obtaining government contracts. WP&L also promoted Wisconsin's economic growth in a



Apache Stainless Equipment Corporation

In an industrial park in Wisconsin's heartland, a growing young company transforms stainless steel, aluminum and exotic metals into a variety of products used nationwide in the meat-processing, cereal, pharmaceutical, brewing, alcohol-corn processing, and pulp-and-paper industries. Duane Foulkes, an engineer by trade, started Apache Stainless Equipment Corp. "from scratch" in 1976 in an old building in downtown Beaver Dam, Wis. Today, Apache's 90 employees work in modern, spacious facilities and use state-of-the-art equipment to manufacture products such as conveying systems, dumpers, storage tanks and vats that reflect the firm's dedication to quality. Marketing primarily to Fortune 500 companies, Apache's specialty and 90 percent of its business is in custom-designed products. Foulkes' emphasis on quality and service is producing results: Sales have increased from \$600,000 during Apache's first year of operation to \$5.5 million in 1985.



David Mulder, Consumer Services Representative II, Dane County District, inspects a load analyzer that WP&L has installed beneath a customer's existing electric meter. The analyzer collects data on the customer's electricity usage for the Company's new load research project.

national advertising program directed toward targeted industries that are compatible with the needs and strengths of our service area.

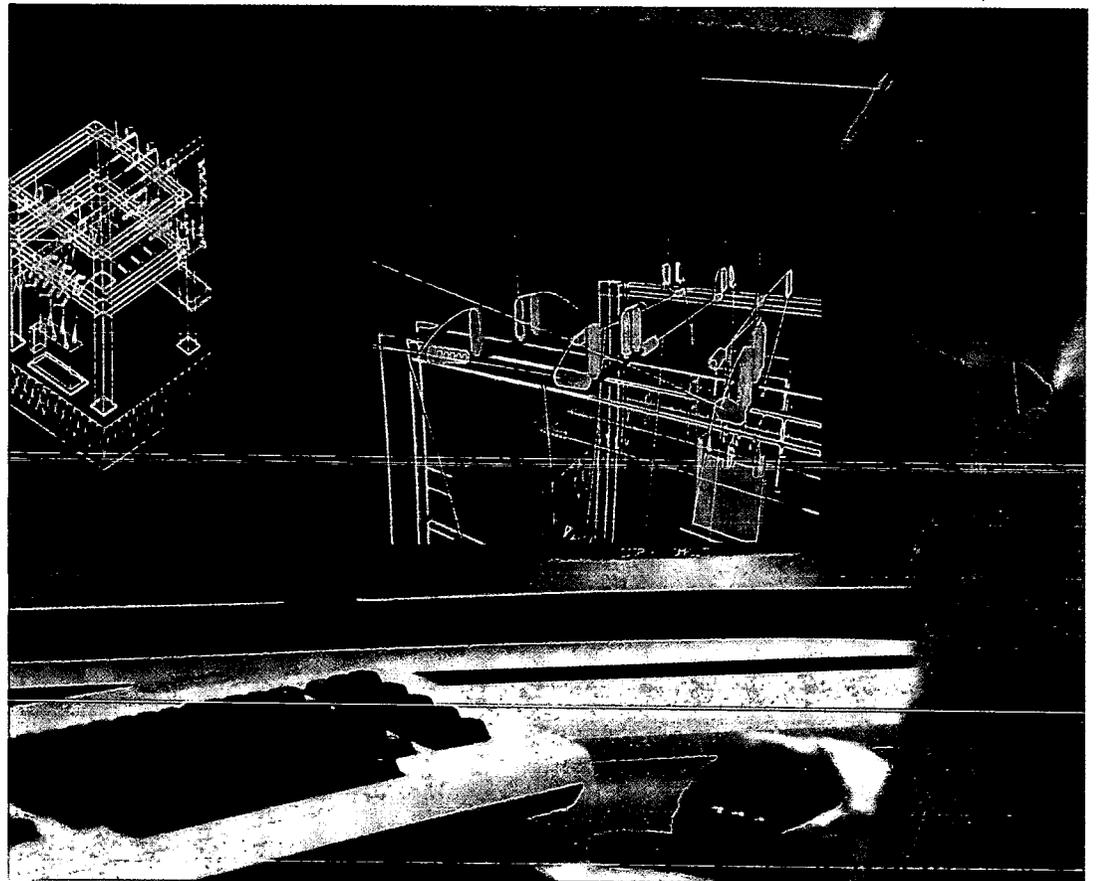
Two advanced new engineering systems are helping WP&L plan today to meet our customers' energy needs tomorrow.

Computer Aided Drafting and Design is an electronic drafting system that eliminates the need for much of the manual drafting of substation and transmission-line projects. The system allows WP&L drafters to create drawings on a terminal screen using the computer — in as little as one-sixth of the time it would take to create a manual drawing. Computer Aided Distribution Planning and Design, a complex computer system added in late 1985, allows WP&L engineers to better analyze the Company's present distribution system and to create new system designs.

New engineering technology such as electronic drafting and distribution planning is proving to be an effective way to optimize the entire WP&L system as we prepare for the economic growth of the service area.

One of the directions the Company has been actively pursuing in recent years is a strong energy-efficiency program for all of our customers — residential, commercial and industrial alike. This program could play a significant

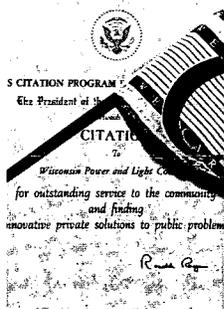
Paul Wieland, Drafter I, Electrical Engineering, creates a three-dimensional model of a 69-kilovolt substation using WP&L's sophisticated new electronic drafting system.





Sokol Crystal Products, Inc.

Modern communication has made the world smaller, and the universe larger. From paging systems to cellular telephones to guidance systems in missiles, communication draws us closer, while extending our sphere of influence to the stars. More than any other single factor, quartz crystals and crystal filters make that communication possible. And Sokol Crystal Products, Inc., based in downtown Mineral Point, Wis., makes the crystals. Founded in 1975 by Tom Sokol, the company employs several Sokol family members, including sons Steve, left, Sales Manager, and Chris, Plant Manager. Ten years, a second plant and 160 employees later, Sokol is booming. In two years, sales have increased by 260 percent to \$5 million, the staff has grown by 370 percent, a location has been added in Phoenix, Ariz., and \$1 million has been spent on remodeling the facility in Mineral Point. In the high-tech world of Sokol Crystal Products, "the impossible becomes the ordinary."



In June WP&L received a Presidential Citation Award for Private Sector Initiatives for the energy program the Company developed to help Barneveld, Wis., recover from a destructive tornado.

role in minimizing future energy costs by replacing costly new power plants with customer efficiency.

The Company continued its efficiency programs for the commercial and industrial sector and began several new residential load research and efficiency programs in 1985.

WP&L has installed load analyzers at 400 homes and farms throughout the service area to measure how and when residential and rural customers use electricity. The results of the two-year load-research project will help us better meet customers' electricity needs now and in the future.

WP&L's free Draft Detector Analysis helps residential customers find the source of costly drafts in their homes and shows them how to stop the air leaks. The analysis supplements the free Home Energy Analysis that WP&L has provided to nearly 47,000 customers since 1977.

The Company also began two electric-efficiency test programs in several districts in 1985.

The Good Cents Home Program is available free of charge to customers building new homes. WP&L's energy experts will help customers and builders design energy-efficient homes. Customers who build a Good Cents Home can expect their energy costs to be about 30 percent less than those for a comparable home built to state-specified new-home standards.

WP&L's new electric appliance rebate test programs offer customers cash rebates when they purchase high-efficiency refrigerators and water heaters. In 1985 the Company provided rebates to approximately 1,800 customers who purchased refrigerators and to about 150 customers who bought water heaters. The purpose of the program is to encourage customers to buy high-efficiency appliances, decreasing their electricity usage and their monthly utility bills. At the same time, the program allows us to use the electricity those customers no longer require to meet future energy needs so we can avoid the financial and environmental problems involved in building new generating facilities.

The goal of all of these programs is to minimize customer energy costs by encouraging and marketing the efficient use of energy.

Finally, WP&L's role in the rebirth and future growth of the tornado-devastated town of Barneveld, Wis., was recognized by three major national and state awards programs in 1985.

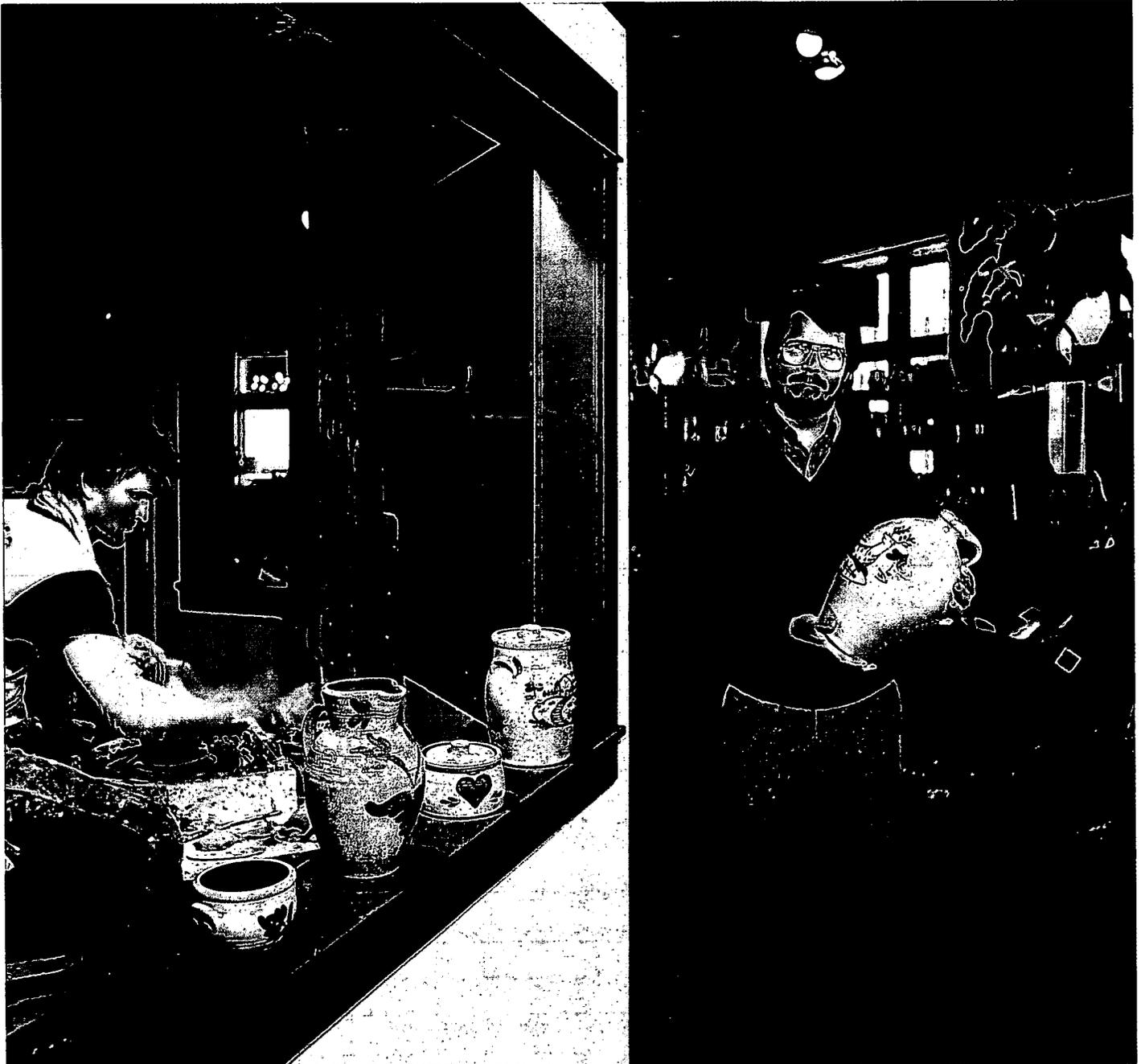
The Company was cited for the comprehensive energy program we developed for Barneveld after a June 1984 tornado destroyed the community. The heart of the program was a \$200,000 energy-efficiency incentive plan for residents whose homes were damaged by the tornado. WP&L developed a similar program for the small commercial businesses in the area.

At a White House ceremony in June, the Company received a Presidential Citation Award for Private Sector Initiatives for its work on the Barneveld energy project. WP&L was the only Wisconsin corporation to be recognized by the national award program. The Barneveld Energy Assistance Program

R

owe Pottery Works, Inc.

Jim Rowe began creating pots in an old blacksmith's shop in Cambridge, Wis., in 1975. For the next several years he was a one-man shop, producing contemporary, functional stoneware. The turning point of his career came in 1981, when Rowe began marketing a product line he had been experimenting with — reproductions of functional, salt-glazed stoneware produced in the United States during the 1800s. Today, Rowe Pottery Works, Inc. produces the most authentic reproductions of 19th-century, early-American, salt-glazed stoneware available. The nationwide demand for this ware has resulted in impressive growth for the thriving company in Cambridge. Over the past three years, Rowe Pottery's profits have increased 84 percent while sales have grown by 350 percent. Entrepreneur Rowe credits his company's success to the skill and dedication of his 50 employees and to the uniqueness and quality of their handmade and hand-decorated products.



also received a National Award for Energy Innovation presented by the U.S. Department of Energy in November. And, WP&L's Barneveld program was one of 10 state recipients of the 1985 Governor's Award for Energy Innovation.

The awards recognize the Company-wide effort of WP&L employees who helped rebuild Barneveld. But the awards also are a tribute to the initiative and spirit of the citizens of Barneveld, who have regrouped and revived, coping with change, planning the future direction of their community and making remarkable progress.

Change. Direction. Progress. Words that also describe Wisconsin Power and Light Company today and in the future.

As we have changed our corporate focus from that of a traditional utility, to an uncommon utility providing non-traditional utility services, to an uncommon utility with diversified interests, so we are prepared to grow with our customers and to encourage their entrepreneurial spirit. Wisconsin Power and Light has the talent, technology and vision to guide the Company to exciting new directions.

Thirty-five WP&L Good Cents Homes were built or under construction by year-end 1985. The Company's new Good Cents Home Program helps customers and their builders design energy-efficient homes whose energy bills are 30 percent less than those of comparable new homes.



F inancial Section

20	1985 financial review
22	Consolidated statements of income
23	Consolidated balance sheets
24	Consolidated statements of net changes in cash and special deposits
25	Consolidated statements of capitalization
26	Consolidated statements of common share-owners' investment
26	Notes to consolidated financial statements
35	Supplementary information to disclose the effects of changing prices (unaudited)
37	Five-year comparative data

SELECTED FINANCIAL DATA

	1985	1984	1983	1982	1981
	(In Millions Except for Per Share Data)				
Operating revenues	\$ 589	\$ 575	\$ 556	\$ 512	\$ 455
Net income	\$ 61	\$ 58	\$ 55	\$ 47	\$ 41
Earnings per share of common stock	\$4.26	\$4.12	\$3.97	\$3.51	\$3.05
Total assets (at Dec. 31)	\$ 977	\$ 925	\$ 881	\$ 834	\$ 786
Long-term obligations and preferred stock with mandatory redemption (at Dec. 31)	\$ 333	\$ 306	\$ 295	\$ 304	\$ 303
Cash dividends declared per share of common stock	\$2.70	\$2.52	\$2.36	\$2.20	\$2.04

1985 FINANCIAL REVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations

FINANCIAL CONDITION

Financial position and changes in financial position of the Company are reflected in the consolidated balance sheets and consolidated statements of net changes in cash and special deposits. These financial statements portray the Company's capital resources and liquidity. As we use the term, liquidity means the ability of the Company to generate adequate amounts of cash to meet its needs. This concept is very important to the Company since our needs for cash include expenditures for construction, taxes, research and development, environmental programs, dividends and other operating expenses. Since the Company is capital intensive and requires large investments in long-lived assets, long-term liquidity is more important than short-term liquidity. Many of the measures of short-term liquidity that are important in other industries, such as the amount of working capital or the ratio of current assets to current liabilities, are less important

in evaluating the financial condition of a public utility and the Company.

The Company has achieved a high degree of long-term liquidity by maintaining strong bond ratings, minimizing cost increases, aggressively pursuing rate increases to keep pace with rising expenses and obtaining adequate depreciation rates.

The Company has maintained excellent bond ratings by Standard & Poor's Corp. and by Moody's Investors Service over the last five years, enabling it to take advantage of lower interest rates when issuing high-quality debt.

The Company's solid financial condition has enabled it to pay interest charges, preferred stock dividends and common stock dividends out of current earnings, as illustrated by the following table:

	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>
Ratio of earnings to fixed charges and preferred dividend requirements after taxes	2.99X	2.59X	2.51X	2.18X	2.02X
Common stock dividend coverage ratio	3.45X	3.33X	3.76X	3.77X	3.87X

With the high cost of construction and uncertainties in the capital markets, an important measure of financial strength is the percentage of the Company's construction expenditures financed by internal sources. In addition to paying interest and dividends, the Company has been able to finance a large percentage of its construction expenditures from internally generated funds.

	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>
Construction expenditures financed with internal funds	100%	77%	86%	73%	71%

The Company expects to be able to continue financing substantially all construction expenditures internally over the next five years.

The Edgewater 5 generating station, the Company's only recent major construction project, was completed in 1985. The Company does not anticipate the need for any new major construction for the rest of the century.

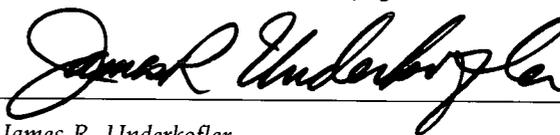
Report on the Financial Information

Wisconsin Power and Light Company management is responsible for all the information appearing in this annual report and for the accuracy and internal consistency of that information. The consolidated financial statements that follow have been prepared in accordance with generally accepted accounting principles. In addition to selecting appropriate accounting principles, management is responsible for the manner of presentation and for the reliability of the financial information. In fulfilling that responsibility, it is necessary for management to make estimates based on currently available information and judgments of current conditions and circumstances.

Through a well-developed system of internal controls, management seeks to assure the integrity and objectivity of the financial information presented in this report. This system of internal control provides reasonable assurance that the assets of the Company are safeguarded and that the transactions are executed

according to management's authorizations and are recorded in accordance with the appropriate accounting principles.

The Board of Directors participates in the financial information reporting process through its Audit Committee, whose composition and duties are described on page 41 of this annual report.



James R. Underkofler
Chairman of the Board, President and Chief Executive Officer



Edward M. Gleason
Controller and Treasurer

February 6, 1986

RESULTS OF OPERATIONS

The results of operations of the Company are reflected in the Consolidated Statements of Income.

The Company has been able to achieve earnings growth and increase its dividends over the past five years.

	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>
Earnings per share of common stock	\$4.26	\$4.12	\$3.97	\$3.51	\$3.05
Cash dividends per share of common stock	\$2.70	\$2.52	\$2.36	\$2.20	\$2.04

Electric revenues increased in 1985 due primarily to recovery in rates of increased operation and maintenance expenses. Retail base rate changes during the five-year period include a \$17.4 million annual increase in September 1985, a \$14.4 million annual decrease in October 1984, a \$5.7 million annual increase in September of 1983, and a \$3.7 million increase in June 1981. Settlements were reached in September 1985, April 1984, March 1982, and in February 1981 with the Company's wholesale customers providing for annual increases of \$1,500,000, \$348,000, \$4,600,000, and \$650,000 in rates, respectively.

Strong sales to other electric utilities and industrial customers, seen in 1984, increased modestly in 1985. This growth was a result of the improving state economy and an increase in the number of customers served.

Over the past five years, gas revenues continued to increase, primarily as a result of an increased number of customers served and modest increases in base rates. Base rate increases during the period included an annual increase of about \$0.6 million in September 1985, \$1.8 million in October 1984, \$2.1 million in September 1983, and \$4.3 million in June 1981. In 1985, cold weather contributed significantly to the increase in gas revenues over 1984 levels. This was somewhat offset, however, by a decrease in average usage per customer compared to 1984.

Unlike prior years, total fuel costs, including fossil fuels and purchased power, stabilized from the year before. Although fossil fuel costs increased in 1985, this increase was offset by a decrease in purchased power, resulting in slightly lower total com-

bined fuel costs. The increase in fossil fuel costs was due to the Edgewater 5 generating station coming on line. The Edgewater 5 on-line addition, which resulted in reduced purchased power requirements, and the drop in the average cost of purchased power accounted for the decrease in purchased power expense.

Other operation and maintenance expenses increased due to higher labor costs, employee benefits, material costs, and increased environmental and safety requirements of power plants, including the new Edgewater 5 plant.

Straight-line depreciation expense increased due to plant additions, shorter economic lives for certain categories of plant-in-service and increased estimates for decommissioning the Kewaunee Nuclear Plant at the end of its operating license.

Allowance for funds used during construction (AFUDC) decreased significantly in 1985, reflecting the completion of Edgewater 5. See "Notes to Consolidated Financial Statements," note 1d, for additional information on AFUDC.

Other interest expense decreased in 1985 as explained in the "Notes to Consolidated Financial Statements," note 5.

The rate of inflation has a significant impact upon costs such as electric production fuels and purchased gas (along with the related electric and gas revenue increases), labor, employee benefits and materials. For a more detailed discussion of the effects of inflation on the Company, see the "Supplementary Information to Disclose the Effects of Changing Prices," page 35.

Auditors' Report

To the Shareowners and Board of Directors
of Wisconsin Power and Light Company:

We have examined the consolidated balance sheets and statements of capitalization of WISCONSIN POWER AND LIGHT COMPANY (a Wisconsin corporation) and subsidiaries as of December 31, 1985 and 1984, and the related consolidated statements of income, common shareowners' investment and net changes in cash and special deposits for each of the five years in the period ended December 31, 1985. 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 Power and Light Company and subsidiaries as of December 31, 1985 and 1984, and the results of their operations and their net changes in cash and special deposits for each of the five years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Milwaukee, Wisconsin,
February 6, 1986.

ARTHUR ANDERSEN & CO.

Consolidated Statements of Income

	Year Ended December 31,				
	1985	1984	1983	1982	1981
	<i>(In Thousands Except For Per Share Data)</i>				
Operating revenues (Note 1h):					
Electric	\$432,314	\$425,004	\$406,466	\$370,863	\$336,260
Gas	152,588	146,809	145,663	138,388	115,222
Water	4,029	3,663	3,373	3,226	3,034
	<u>588,931</u>	<u>575,476</u>	<u>555,502</u>	<u>512,477</u>	<u>454,516</u>
Operating expenses:					
Electric production fuels	126,957	119,817	122,908	107,283	91,397
Purchased power	22,764	34,230	19,225	13,934	15,864
Purchased gas	112,364	111,694	112,574	104,046	89,674
Other operation	96,191	91,776	87,545	81,420	72,963
Maintenance	33,673	30,827	29,855	28,005	25,205
Depreciation (Notes 1i and 1j) —					
Straight-line	50,945	42,147	37,144	36,145	31,368
Deferred income taxes	12,589	11,926	10,849	983	6,520
Taxes (Note 1j) —					
Current Federal income	30,232	21,055	26,447	32,331	22,100
Investment tax credit —					
Deferred	6,436	10,437	8,809	9,711	10,951
Restored	(3,539)	(2,751)	(2,555)	(2,500)	(1,938)
Current state income	4,936	6,100	8,001	8,875	6,082
Other	14,975	22,251	19,887	17,573	16,187
	<u>508,523</u>	<u>499,509</u>	<u>480,689</u>	<u>437,806</u>	<u>386,373</u>
Net operating income	<u>80,408</u>	<u>75,967</u>	<u>74,813</u>	<u>74,671</u>	<u>68,143</u>
Other income and (deductions):					
Allowance for equity funds used during construction (Note 1d)	2,646	8,421	2,766	1,601	515
Other	(3,155)	(2,699)	(1,120)	(203)	2,920
Income tax benefit (expense)	1,650	126	1,459	(477)	(1,891)
	<u>1,141</u>	<u>5,848</u>	<u>3,105</u>	<u>921</u>	<u>1,544</u>
Income before interest expense	<u>81,549</u>	<u>81,815</u>	<u>77,918</u>	<u>75,592</u>	<u>69,687</u>
Interest expense:					
Interest on bonds	26,938	27,023	26,926	26,967	26,580
Allowance for borrowed funds used during construction (Note 1d)	(3,181)	(5,384)	(4,512)	(2,401)	(683)
Other (Note 5)	(2,936)	1,844	917	3,671	3,063
	<u>20,821</u>	<u>23,483</u>	<u>23,331</u>	<u>28,237</u>	<u>28,960</u>
Net income	<u>60,728</u>	<u>58,332</u>	<u>54,587</u>	<u>47,355</u>	<u>40,727</u>
Cash dividends on preferred stock	<u>4,360</u>	<u>4,780</u>	<u>4,963</u>	<u>5,099</u>	<u>5,189</u>
Earnings on common stock	<u>\$ 56,368</u>	<u>\$ 53,552</u>	<u>\$ 49,624</u>	<u>\$ 42,256</u>	<u>\$ 35,538</u>
Earnings per share of common stock (Note 1e)	<u>\$4.26</u>	<u>\$4.12</u>	<u>\$3.97</u>	<u>\$3.51</u>	<u>\$3.05</u>
Cash dividends paid per share of common stock ...	<u>\$2.70</u>	<u>\$2.52</u>	<u>\$2.36</u>	<u>\$2.20</u>	<u>\$2.04</u>

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

	December 31,	
	1985	1984
Assets	<i>(In Thousands)</i>	
Utility plant (Notes 1c, 1d and 2):		
Plant in service —		
Electric	\$1,119,065	\$ 862,420
Gas	115,709	109,319
Water	14,763	13,724
Common	54,354	46,967
	1,303,891	1,032,430
Less — Accumulated provision for depreciation (Note 1i)	545,221	493,039
	758,670	539,391
Construction work in progress —		
Jointly owned electric power production facilities	851	216,343
Other	9,662	9,524
	10,513	225,867
Nuclear fuel, net (Note 1f)	22,057	10,855
Total utility plant	791,240	776,113
Investments (Note 1b)	16,024	11,593
Current assets:		
Cash and special deposits (Note 4)	1,424	861
Accounts receivable, less allowance for doubtful accounts of \$2,284,000 and \$1,803,000, respectively	53,889	47,736
Unbilled revenue (Note 1h)	48,046	39,508
Fossil fuel, at average cost (Note 6)	26,366	27,198
Materials and supplies, at average cost	18,208	16,330
Prepayments	14,583	1,075
	162,516	132,708
Deferred charges	6,940	4,688
TOTAL ASSETS	\$ 976,720	\$ 925,102
Capitalization and Liabilities		
Capitalization (See statement on page 25):		
Common shareowners' investment	\$ 365,650	\$ 345,316
Preferred stock without mandatory redemption	60,000	60,000
Preferred stock with mandatory redemption	—	6,672
First mortgage bonds, net	302,877	299,451
Short-term debt expected to be refinanced (Note 3c)	30,000	—
Total capitalization	758,527	711,439
Current liabilities:		
Sinking fund requirements on preferred stock (Note 3b)	—	742
Short-term debt (Notes 3c and 4)	20,100	31,100
Accounts payable (Note 4)	57,867	49,143
Accrued payroll and vacations	7,787	7,555
Accrued taxes	20,965	16,481
Accrued interest	9,671	9,115
Other	16,559	16,720
	132,949	130,856
Other credits:		
Accumulated deferred investment tax credits (Note 1j)	63,358	61,135
Other	21,886	21,672
	85,244	82,807
Construction commitments (Note 2)		
TOTAL CAPITALIZATION AND LIABILITIES	\$ 976,720	\$ 925,102

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Net Changes in Cash and Special Deposits

	Year Ended December 31,				
	1985	1984	1983	1982	1981
	(In Thousands)				
Operating activities:					
Net income	\$ 60,728	\$ 58,332	\$ 54,587	\$ 47,355	\$ 40,727
Items not affecting working capital:					
Depreciation	63,534	54,073	47,993	37,128	37,888
Investment tax credit deferred, net	2,433	7,089	5,998	5,948	7,639
Amortization of nuclear fuel	6,230	7,086	12,748	16,786	10,173
Amortization of unbilled revenue	(1,291)	(1,291)	(1,290)	(1,291)	(1,291)
Equity component of allowance for funds used during construction (AFUDC)	(2,646)	(8,421)	(2,766)	(1,601)	(515)
Other	1,956	1,889	2,906	2,826	2,873
Working capital provided by operations	130,944	118,757	120,176	107,151	97,494
Cash dividends on stock	(40,099)	(37,417)	(34,389)	(31,518)	(28,891)
Working capital generated internally	90,845	81,340	85,787	75,633	68,603
Changes in working capital other than cash:					
Accounts receivable	(6,153)	3,433	(8,065)	(5,805)	(2,445)
Unbilled revenue	(8,538)	5,301	(10,340)	816	(6,383)
Fossil fuel	832	(5,671)	5,468	4,495	(666)
Materials and supplies	(1,878)	(3,244)	(1,331)	(41)	609
Prepayments	(13,508)	(371)	32	(212)	210
Accounts payable	8,724	(17,815)	8,818	18,310	289
Accrued taxes	4,484	(1,444)	(12,521)	3,034	16,198
Accrued interest	556	(1,735)	1,147	(126)	4,265
Other	71	5,183	1,607	(5,785)	8,500
Cash generated internally	75,435	64,977	70,602	90,319	89,180
Financing activities:					
Sale of first mortgage bonds	—	8,500	—	—	45,000
Sale of common stock	—	12,614	11,989	9,780	6,078
Net change in total short-term debt	19,000	20,100	6,000	5,000	(39,150)
Bond maturities and sinking fund retirements	(742)	(13,276)	(5)	(5,030)	(2,898)
Preferred stock redemptions	(6,672)	(1,531)	(1,511)	(636)	(896)
Net change in pollution control construction fund	3,326	4,621	5,133	1,592	(188)
	14,912	31,028	21,606	10,706	7,946
Construction and nuclear fuel expenditures:					
Additions to utility plant, excluding AFUDC	(62,010)	(81,921)	(85,706)	(87,388)	(86,165)
Additions to nuclear fuel	(4,878)	(9,791)	(6,833)	(12,645)	(8,704)
Payments for nuclear fuel disposal (Note 1f)	(15,369)	—	—	—	—
AFUDC	(5,827)	(13,805)	(7,278)	(4,002)	(1,198)
	(88,084)	(105,517)	(99,817)	(104,035)	(96,067)
Other activities	(1,700)	9,642	5,826	4,807	(1,778)
Net changes in cash and special deposits	\$ 563	\$ 130	\$ (1,783)	\$ 1,797	\$ (719)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Capitalization

	December 31,	
	1985	1984
	(In Thousands)	
Common shareowners' investment (Note 3a):		
Common stock, \$5 par value, authorized — 18,000,000 shares; issued and outstanding — 13,236,601 shares	\$ 66,183	\$ 66,183
Premium on capital stock	111,052	111,018
Capital surplus	1,747	1,747
Reinvested earnings	186,668	166,368
Total common shareowners' investment	<u>365,650</u>	<u>345,316</u>
Preferred stock (Note 3b):		
Cumulative, without par value, authorized 3,750,000 shares, maximum aggregate stated value \$150,000,000; issued and outstanding 600,000 and 674,147 shares, respectively, \$100 stated value:		
Preferred stock without mandatory redemption —		
4.50% series, 100,000 shares outstanding	10,000	10,000
4.80% series, 75,000 shares outstanding	7,500	7,500
4.96% series, 65,000 shares outstanding	6,500	6,500
4.40% series, 30,000 shares outstanding	3,000	3,000
4.76% series, 30,000 shares outstanding	3,000	3,000
8.48% series, 150,000 shares outstanding	15,000	15,000
7.56% series, 150,000 shares outstanding	15,000	15,000
	<u>60,000</u>	<u>60,000</u>
Preferred stock with mandatory redemption —		
12% series, no shares and 74,147 shares outstanding, respectively	—	7,414
Sinking fund requirement	—	(742)
	—	<u>6,672</u>
Total preferred stock	<u>60,000</u>	<u>66,672</u>
First mortgage bonds, net (Note 3c):		
Series J, 4½%, due 1989	7,803	7,803
Series K, 4¼%, due 1992	4,437	4,437
Series L, 6¼%, due 1998	20,229	20,229
Series M, 8%, due 1999	24,509	24,509
Series N, 8¾%, due 2000	24,900	24,900
Series O, 8%, due 2001	29,995	29,995
Series P, 8¾%, due 2004	35,000	35,000
1975 Series A, 7¾%, due 1991-2005	16,000	16,000
1975 Series B, 7¾%, due 2000	875	875
1975 Series C, 7¾%, due 2000	1,000	1,000
Series Q, 8¾%, due 2006	35,000	35,000
Series R, 9½%, due 2008	35,000	35,000
1980 Series A, 8%, due 2000	9,000	9,000
1980 Series A, 8¼%, due 2007-2010	7,000	7,000
Series S, 13¾%, due 1991	45,000	45,000
1984 Series A, floating rate, due 2014	8,500	8,500
	<u>304,248</u>	<u>304,248</u>
Unamortized discount and premium, net	(1,371)	(1,471)
Pollution control construction fund held by trustee	—	(3,326)
Total first mortgage bonds, net	<u>302,877</u>	<u>299,451</u>
Short-term debt expected to be refinanced (Note 3c)	30,000	—
TOTAL CAPITALIZATION	<u>\$758,527</u>	<u>\$711,439</u>

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Common Shareowners' Investment

	Year Ended December 31,				
	1985	1984	1983	1982	1981
	(In Thousands)				
Reinvested earnings:					
Balance at beginning of year	\$166,368	\$145,501	\$125,310	\$109,505	\$ 95,873
Add—Net income	60,728	58,332	54,587	47,355	40,727
	<u>227,096</u>	<u>203,833</u>	<u>179,897</u>	<u>156,860</u>	<u>136,600</u>
Deduct—					
Cash dividends on preferred stock	4,360	4,780	4,963	5,099	5,189
Cash dividends on common stock	35,739	32,637	29,426	26,419	23,702
Expense of issuing common stock and other	329	48	7	32	19
Transfer from premium on capital stock	—	—	—	—	(1,815)
	<u>40,428</u>	<u>37,465</u>	<u>34,396</u>	<u>31,550</u>	<u>27,095</u>
Balance at end of year	<u>186,668</u>	<u>166,368</u>	<u>145,501</u>	<u>125,310</u>	<u>109,505</u>
Common stock:					
Balance at beginning of year	66,183	63,787	61,418	59,177	57,428
Par value of common stock issued	—	2,396	2,369	2,241	1,749
Balance at end of year	<u>66,183</u>	<u>66,183</u>	<u>63,787</u>	<u>61,418</u>	<u>59,177</u>
Premium on capital stock:					
Balance at beginning of year	111,018	100,834	91,222	83,678	81,161
Excess of amount received over par value of common stock issued and other	34	10,184	9,612	7,544	4,332
Transfer to retained earnings	—	—	—	—	(1,815)
Balance at end of year	<u>111,052</u>	<u>111,018</u>	<u>100,834</u>	<u>91,222</u>	<u>83,678</u>
Capital surplus:					
Balance at beginning and end of year	<u>1,747</u>	<u>1,747</u>	<u>1,747</u>	<u>1,747</u>	<u>1,747</u>
TOTAL COMMON SHAREOWNERS' INVESTMENT	<u>\$365,650</u>	<u>\$345,316</u>	<u>\$311,869</u>	<u>\$279,697</u>	<u>\$254,107</u>

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES:

a. Accounting Policies:

Our books and records are maintained in accordance with the uniform systems of accounts prescribed by our regulators. The Wisconsin Public Service Commission (PSC) and the Illinois Commerce Commission have jurisdiction over our retail rates, and the Federal Energy Regulatory Commission (FERC) has jurisdiction over our wholesale rates.

subsidiaries are accounted for on the equity method — NUFUS Resources, Inc. (wholly owned); Residuals Management Technology, Inc. (RMT) (wholly owned); Wisconsin Mobile Telephone, Inc. (WMT) (wholly owned); ENSERV, Inc. (wholly owned); REAC, Inc. (wholly owned); WP&L Communications, Inc. (wholly owned); WP&L Holdings, Inc. (wholly owned); and Omnion Power Engineering Corp. (formerly known as Windworks, Inc., 84 percent owned). The Company sold its investment in Omnion on April 30, 1985. All significant inter-company transactions and accounts have been eliminated in these statements.

b. Consolidation and Investment in Subsidiaries:

The consolidated financial statements include the Company and its wholly owned consolidated subsidiaries — South Beloit Water, Gas and Electric Co. and Wisconsin Power and Light Nuclear Fuel, Inc. The remaining

c. Utility Plant:

Utility plant is recorded at original cost. Such cost includes material, labor, overhead and an allowance for funds used during construction (see below). Normal repairs and replacements of minor items are charged to maintenance expense. The costs of depreciable property retired, including removal costs less salvage value, are charged to accumulated depreciation upon removal from utility plant accounts. Thus, no gain or loss is recognized in connection with the ordinary retirement of depreciable utility property. Substantially all of the Company's utility plant is pledged as security for its first mortgage bonds.

d. Allowance for Funds Used During Construction (AFUDC):

AFUDC represents the interest cost of borrowed funds and the imputed cost of equity funds used for construction and does not contribute to the current cash flow of the Company.

Prior to the October 1984 retail rate order, the Company was limited to a 7.00% AFUDC rate on retail construction work in progress (CWIP) not included in rate base, representing approximately 30% of CWIP. Effective with the October 1984 order, the Company capitalized AFUDC at 11.05% on qualifying CWIP not included in rate base, representing approximately 90% of CWIP. In accordance with the Company's latest retail rate order, effective September 1985, the Company is capitalizing AFUDC at 11.45% on all qualifying CWIP.

For its wholesale jurisdiction, the Company capitalized AFUDC on qualifying CWIP at a 7.00% rate prior to 1984. In 1984, the Company capitalized AFUDC at 11.29%. Effective in 1985, the Company capitalizes AFUDC at the maximum allowable rate, 10.13%.

e. Earnings Per Share:

Earnings per share of common stock are computed by dividing earnings on common stock by the weighted average number of common shares outstanding, which were:

	(In Thousands)
1985	13,237
1984	12,998
1983	12,507
1982	12,043
1981	11,643

f. Nuclear Fuel:

Nuclear fuel is recorded as an asset at its original cost and is charged to expense based upon the quantity of heat produced for the generation of electricity. Estimated future disposal costs of such fuel are expensed based on kilowatt-hours (kWhs) generated. Under the Nuclear Waste Policy Act of 1982, the U.S. Department of Energy (DOE) is responsible for the ultimate storage and disposal of spent nuclear fuel removed from nuclear reactors. A contract with the DOE for disposal of spent nuclear fuel requires the Company to pay a quarterly fee to DOE of 1 mill per kWh on gross nuclear generation after April 6, 1983, and a one-time fee applicable to nuclear generation through April 6, 1983, of \$10.9 million, which was paid in June 1985. The Company had previously recovered amounts for spent nuclear fuel disposal costs sufficient to cover this fee. Disposal costs are recovered in rates charged for electric utility service.

The PSC order dated August 29, 1985, required the Company to refund to customers, over three years, \$8.3 million (\$4.5 million net of deferred taxes), representing spent nuclear fuel disposal costs previously expensed in excess of the Company's liability to the DOE for such costs. The Company filed a petition for rehearing with the PSC with respect to provisions of the order relating to nuclear fuel disposal cost refunds and other adjustments. As a result of the petition, in October 1985 the PSC revised the refund downward to \$6.8 million (\$3.7 million net of deferred taxes).

Net nuclear fuel consists of:

	<u>December 31,</u>	
	<u>1985</u>	<u>1984</u>
	(In Thousands)	
Original cost of nuclear fuel . . .	\$91,772	\$86,755
Accumulated amortization	69,715	75,900
Net nuclear fuel	<u>\$22,057</u>	<u>\$10,855</u>

Accumulated amortization includes the income tax effects of using liberalized depreciation methods and assumes that plutonium and uranium in the spent nuclear fuel will have no residual value.

Nuclear fuel obtained from NUFUS Resources, Inc. is recorded at cost, which includes the cost of operations of the subsidiary.

g. Retirement Plans:

The Company has retirement plans for substantially all of its employees. Some employees participate in plans completely paid for by the Company, while other employees participate in plans in which they share the cost with the Company.

The Company's policy is to fund the retirement plans and to amortize the unfunded prior-service costs over a period of approximately 30 years.

Information related to the plans is presented below:

	As of January 1,				
	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(In Thousands)				
Actuarial value of accumulated plan benefits:					
Vested	<u>\$45,657</u>	\$45,072	\$39,749	\$34,444	\$30,066
Nonvested	<u>1,181</u>	<u>2,016</u>	<u>1,791</u>	<u>1,308</u>	<u>1,218</u>
Total	<u>\$46,838</u>	<u>\$47,088</u>	<u>\$41,540</u>	<u>\$35,752</u>	<u>\$31,284</u>
Net assets available for benefits	<u>\$92,555</u>	<u>\$86,119</u>	<u>\$71,680</u>	<u>\$55,464</u>	<u>\$51,351</u>
Total plan provisions for the year	<u>\$.869</u>	<u>\$ 2,756</u>	<u>\$ 3,600</u>	<u>\$ 4,248</u>	<u>\$ 4,333</u>

The average retirement age assumption is 63 for 1985 and 63.5 prior to 1985. In addition, the assumed investment rate is 8.75 percent for 1985 and 7.5 percent prior to 1985.

In addition to providing pension benefits, the Company provides certain health-care and life-insurance benefits for substantially all employees who reach early or normal retirement age while working for the Company. The estimated cost for such benefits, \$660,000 in 1985 and \$715,000 in 1984, is accrued and charged to expense as a level percentage of their payroll costs over the working lives of those employees expected to qualify for such benefits. The Company's policy is to fund the unfunded actuarial accrued liability over 20 years.

h. Revenue Recognition:

The Company accrues estimated revenues for services rendered but not yet billed at each month end.

i. Depreciation:

Straight-line — The Company allocates the cost of utility plant over the useful life of such plant through depreciation expense. Straight-line depreciation is computed on the average balance of depreciable property at individual straight-line rates, approved by the PSC, applied to various classes of property. The annual composite rates were:

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Common</u>
1985	4.2%	4.2%	2.3%	6.3%
1984	4.3%	4.2%	2.2%	6.1%
1983	4.0%	4.2%	2.2%	5.9%
1982	3.8%	4.2%	1.9%	5.8%
1981	3.8%	4.2%	1.9%	6.3%

Depreciation expense related to the Kewaunee nuclear plant includes a provision for decommission-

ing the plant. The PSC in December 1985 ordered Wisconsin utilities to place funds previously collected and to be collected for future decommissioning of nuclear plants into dedicated investment trusts. The PSC has directed the Company to place previously collected funds into the trust fund by the end of its current retail rate case test year, July 31, 1987. The order also requires the Company to file within 90 days of the order, new depreciation rates reflecting external funding, proposed fund investments, the trustee, and the timing of payments to the external funds. Currently, the Company may retain such funds internally. As of December 31, 1985, the Company had collected approximately \$21 million of such decommissioning costs.

j. Income Taxes:

Depreciation expenses computed for tax purposes reflect the use of various available liberalized depreciation methods, including the Accelerated Cost Recovery System. Under PSC rules, the estimated reduction of federal income taxes due to the use of these practices is recorded as additional depreciation, described as deferred income taxes in the income statement.

Effective with the Company's October 1984 retail rate order, the state income tax effect of such timing differences must be accounted for on a flowthrough basis instead of the deferred method noted above. Additionally, such amounts previously deferred are required to be flowed back monthly over a 15 year period beginning October 1984.

The amounts recorded as deferred income tax were:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
		(In Thousands)	
1985	\$13,068	\$(479)	\$12,589
1984	\$11,579	\$ 347	\$11,926
1983	\$10,133	\$ 716	\$10,849
1982	\$ 843	\$ 140	\$ 983
1981	\$ 5,880	\$ 640	\$ 6,520

Deferred income taxes increased in 1985 and in 1984 primarily due to depreciable plant additions for tax purposes. In 1983, deferred income taxes increased

significantly due to the deduction of the DOE nuclear fuel disposal costs and increased federal repair allowance costs. In 1982, the reduction of income taxes was due to increased straight-line depreciation expense and increased amortization of nuclear fuel.

As of December 31, 1985, \$17.8 million of deferred income taxes have not been provided on cumulative income tax timing differences of \$38.7 million; these amounts are recoverable in rates under current regulatory policies.

The Company receives tax credits from the federal government for investing in certain types of property. The benefits of these investment tax credits are spread over the useful lives of the property.

Certain costs have been capitalized for financial-reporting purposes, but deducted for income-tax purposes. The tax benefit of these items is used to reduce the income-tax provision in the period the costs are incurred.

The Company's effective income-tax rate can be computed by dividing total income-tax expense, invest-

ment tax credits deferred and restored, and deferred income taxes by the sum of such expense and net income. The following table reconciles the effective income-tax rate to the statutory federal income-tax rate:

	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>
Effective income-tax rate	44.7%	44.4%	47.9%	51.3%	52.8%
Allowance for funds used during construction, which does not constitute current taxable income	2.5	5.5	3.2	1.9	0.6
State income taxes and state additional depreciation, net	(1.9)	(3.5)	(4.7)	(5.1)	(4.7)
Reversals of various plant-related timing differences for which deferred taxes had not been provided	(2.5)	(2.0)	(2.0)	(2.0)	(2.3)
Investment tax credits restored	3.2	2.6	2.4	2.6	2.3
Other differences, net	<u>—</u>	<u>(1.0)</u>	<u>(0.8)</u>	<u>(2.7)</u>	<u>(2.7)</u>
Statutory federal income-tax rate	<u>46.0%</u>	<u>46.0%</u>	<u>46.0%</u>	<u>46.0%</u>	<u>46.0%</u>

NOTE 2. JOINTLY OWNED UTILITY PLANTS AND CONSTRUCTION COMMITMENTS:

The Company participates with other Wisconsin utilities in the construction and operation of several jointly owned electric plants. The chart below represents the Company's proportionate share of such plants as of December 31, 1985:

	<u>Ownership Interest</u>	<u>Plant in Service</u>	<u>Accumulated Provision For Depreciation</u>
		(In Thousands)	
Coal:			
Columbia Energy Center	46.2%	\$152,703	\$ 67,933
Edgewater Unit 4	68.2%	40,516	20,984
Edgewater Unit 5	75.0%	231,335	19,733
Nuclear:			
Kewaunee Nuclear Plant	41.0%	<u>111,352</u>	<u>74,764</u>
TOTAL		<u>\$535,906</u>	<u>\$183,414</u>

The Company provides its own financing during the construction period for its share of the jointly owned plants. The Company's share of operations and maintenance expenses is included in the appropriate expense categories in the income statements.

Utility plant construction expenditures for 1986 are estimated to be \$70.8 million, and substantial commitments have been incurred in connection with such expenditures.

NOTE 3. CAPITALIZATION:

a. **Common Stock:**

Shares of common stock were issued by the Company through its Dividend Reinvestment and Stock Purchase Plan (DR Plan) and Employee Stock Ownership Plan (ESOP) for 1981 thru 1985 as follows:

	<u>Number of Shares</u>	<u>Proceeds</u>
	(In Thousands)	
1985	0	\$ 0
1984	479	\$12,614
1983	474	\$11,989
1982	448	\$ 9,780
1981	350	\$ 6,078

A retail rate order issued by the PSC in October 1984 required that no new shares of stock be issued under the Company's DR Plan after January 1, 1985. Accordingly, the Company changed the DR Plan to an open-market-purchase plan effective that date.

b. **Preferred Stock:**

There were no issues of preferred stock during the five years ended December 31, 1985. Pursuant to a 1985 PSC order, the Company called and retired all of the remaining 12% preferred stock on September 30, 1985.

c. **Bonds:**

On August 15, 1984, the Company issued \$8,500,000 of variable rate First Mortgage Bonds, 1984 Series A, to evidence its repayment obligation in connection with the issuance of a like amount of Pollution Control Revenue Bonds by the City of Sheboygan, Wisconsin. The average interest rate for 1985 was 5.24 percent and the December 31, 1985, rate was 7.75 percent.

The sinking fund requirements and maturities on first-mortgage bond issues outstanding as of December 31, 1985, are:

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
	(In Thousands)				
Bond sinking fund requirements not satisfied . . .	\$ —	\$9,000	\$9,000	\$9,000	\$9,000
Bonds maturing	\$ —	\$ —	\$ —	\$7,803	\$ —

On February 4, 1986, the Company signed an agreement to issue \$50 million of first mortgage bonds on February 11, 1986, at 10%. The proceeds from the sale will be used for the repayment of short-term borrowing, the financing of construction expenditures and the funding of future nuclear power plant decommissioning expenses. The PSC order approving the issuance of the bonds requires that \$20 million be segregated in a dedicated fund until permanent external funds are established for decommissioning costs. Accordingly, \$30 million of short-term debt (representing the balance of this bond issue) as of December 31, 1985, has been classified as long-term.

NOTE 4. SHORT-TERM DEBT AND LINES OF CREDIT:

The Company maintains bank lines of credit to obtain short-term borrowing flexibility. The Company either pays commitment fees, maintains compensating balances, or a combination of both. Compensating balances are average bank deposits that earn no interest. There are no legal restrictions on withdrawal of these funds. In accordance with normal banking practice, such unused lines of credit may generally be withdrawn at the discretion of the lenders. Information regarding short-term borrowings and lines of credit is as follows:

	<u>1985</u>	<u>1984</u>
	(In Thousands)	
As of end of year —		
Average interest rate on outstanding short-term borrowings	7.96%	10.19%
Unused lines of credit	\$65,200	\$65,200
Commercial paper outstanding	\$36,100	\$27,600
Notes payable to financial institutions	\$14,000	\$ 3,500
For the year ended —		
Maximum month-end amount of short-term borrowings	\$50,100	\$32,100
Average amount of short-term borrowings (based on daily outstanding balances)	\$30,244	\$16,350
Average interest rate on short-term borrowings ..	8.11%	10.71%

The above amounts include \$30 million classified as long-term debt as of December 31, 1985. See Note 3c.

The average interest rate was computed by dividing total short-term interest expense for the period by the average amount of such borrowings outstanding.

Payables include the amount of checks issued to

discharge liabilities of the Company but not yet cleared through our general fund bank account, less the deposit balance in this account. As of December 31, 1985 and 1984, such net amounts were \$3.7 million and \$5.4 million, respectively.

NOTE 5. OTHER INTEREST EXPENSE:

On August 29, 1985, the PSC issued a final retail rate order that contained a provision for recovery over five years of interest charges paid on income tax deficiencies. As a result, the Company discontinued expensing

such items and reversed all previous interest accruals, increasing earnings per share by approximately 23 cents in 1985.

NOTE 6: COAL CONTRACTS:

To ensure long-term, reliable, low-cost supplies of coal, the Company has entered into coal contracts that contain varying demand charges. Demand charges for a coal contract for the Edgewater 4 plant total approximately \$95 million through 1994. The Company is required to pay these demand charges in future years even if it is unable to fully utilize all contracted quan-

ties of coal under future emission limits and proposed acid rain legislation. In the opinion of management, it exercised reasonable and prudent management judgment in entering into such contracts and, therefore, any such costs incurred to meet mandatory emission limits would be considered a legitimate cost-of-service item subject to recovery in rates.

NOTE 7. SEGMENT INFORMATION:

The following table sets forth certain information relating to the Company's consolidated operations.

	Year Ended December 31,				
	1985	1984	1983	1982	1981
	(In Thousands)				
OPERATION INFORMATION:					
Customer sales —					
Electric	\$431,333	\$424,212	\$405,637	\$370,074	\$335,593
Gas	152,106	146,134	144,627	137,508	114,240
Water	4,004	3,655	3,368	3,223	3,030
Interdepartmental sales —					
Electric	981	792	829	789	667
Gas	482	675	1,036	880	982
Water	25	8	5	3	4
Total operating revenues	<u>\$588,931</u>	<u>\$575,476</u>	<u>\$555,502</u>	<u>\$512,477</u>	<u>\$454,516</u>
Operating profit —					
Electric	\$117,224	\$112,131	\$116,264	\$113,068	\$106,225
Gas	12,306	9,373	8,984	9,942	4,679
Water	1,532	1,230	1,116	1,061	954
Income taxes, current and deferred (i)	(50,654)	(46,767)	(51,551)	(49,400)	(43,715)
Other income and deductions, net	1,141	5,848	3,105	921	1,544
Interest expense, net	(20,821)	(23,483)	(23,331)	(28,237)	(28,960)
Net income per consolidated statements of income	<u>\$ 60,728</u>	<u>\$ 58,332</u>	<u>\$ 54,587</u>	<u>\$ 47,355</u>	<u>\$ 40,727</u>
INVESTMENT INFORMATION:					
Identifiable assets at Dec. 31 (ii) —					
Electric	\$827,309	\$802,074	\$757,608	\$720,180	\$682,679
Gas	107,084	99,273	100,372	90,777	86,922
Water	11,720	11,013	10,617	10,208	9,764
Assets not allocated (iii)	30,607	12,742	12,570	12,781	6,257
Total assets	<u>\$976,720</u>	<u>\$925,102</u>	<u>\$881,167</u>	<u>\$833,946</u>	<u>\$785,622</u>
OTHER INFORMATION:					
Construction and nuclear fuel expenditures —					
Electric	\$ 77,276	\$ 96,759	\$ 92,402	\$ 95,141	\$ 87,060
Gas	9,698	8,024	6,604	8,069	8,248
Water	1,110	734	811	825	759
Total construction and nuclear fuel expenditures	<u>\$ 88,084</u>	<u>\$105,517</u>	<u>\$ 99,817</u>	<u>\$104,035</u>	<u>\$ 96,067</u>
Provision for straight-line depreciation —					
Electric	\$ 45,575	\$ 37,141	\$ 32,433	\$ 31,718	\$ 27,313
Gas	5,023	4,687	4,419	4,160	3,836
Water	347	319	292	267	219
Total provision for straight-line depreciation ..	<u>\$ 50,945</u>	<u>\$ 42,147</u>	<u>\$ 37,144</u>	<u>\$ 36,145</u>	<u>\$ 31,368</u>

(i) See Note 1j for information with respect to deferred income tax amounts recorded as additional depreciation.

(ii) Includes allocated common plant and is net of the respective accumulated provisions for depreciation.

(iii) Includes cash and special deposits, prepayments, other deferred charges and other investments.

NOTE 8. CONSOLIDATED QUARTERLY FINANCIAL DATA: (Unaudited)

Seasonal factors significantly affect utilities and therefore the data presented below should not be expected to be comparable between quarters. Quarterly data is not necessarily indicative of the results to be expected for an annual period.

<u>Quarter Ended</u>	<u>Operating Revenues</u>	<u>Net Operating Income</u>	<u>Net Income</u>	<u>Earnings on Com. Stk.</u>	<u>Earnings/ Share of Com. Stk.</u>
(In Thousands except for Per Share Data)					
1985:					
March 31	\$169,990	\$22,348	\$19,644	\$18,469	\$1.40
June 30	\$125,619	\$15,288	\$ 8,018	\$ 6,857	\$0.52
September 30	\$127,434	\$18,045	\$16,974	\$15,902	\$1.20
December 31	\$165,889	\$24,726	\$16,093	\$15,140	\$1.14
1984:					
March 31	\$173,308	\$23,232	\$18,449	\$17,227	\$1.34
June 30	\$131,670	\$14,820	\$ 9,569	\$ 8,363	\$0.65
September 30	\$124,890	\$19,425	\$13,892	\$12,716	\$0.97
December 31	\$145,608	\$18,489	\$16,422	\$15,246	\$1.16

The above amounts were not examined by independent public accountants, but reflect all adjustments necessary, in the opinion of the Company, for a fair presentation of the data.

Supplementary Information to Disclose the Effects of Changing Prices (Unaudited)

The following supplementary information is presented in accordance with the requirements of the Financial Accounting Standards Board's Statement No. 33, "Financial Reporting and Changing Prices," and Statement No. 82 for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present.

The current cost of plant represents the estimated cost of replacing existing plant assets and was determined by indexing the surviving plant by the Handy-Whitman Index of Public Utility Construction Costs.

The current year's provision for depreciation, amortization of nuclear fuel and additional depreciation on the current cost amounts of property, plant and equipment was determined by applying the Company's depreciation or amortization rates to the indexed plant and nuclear fuel amounts.

As prescribed in Statement 33 and amended by Statement 82, income taxes were not adjusted.

Fuel inventories, the cost of fuel used in generation (exception nuclear fuel amortization) and gas purchased for resale have not been restated from their historical cost in nominal dollars. Regulations limit the recovery of fuel and purchased gas costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason fuel inven-

ories (excluding nuclear fuel) are effectively monetary assets.

Under the ratemaking prescribed by the PSC, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the difference between the cost of plant stated in terms of current costs and the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as an adjustment to net recoverable cost. While the PSC gives no recognition to the indexed values of property, plant and equipment, based on past practices, the Company is of the opinion that it will be allowed to earn on the increased cost of its net investment in plant when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the "Statement of Income from Continuing Operations," the adjustment of net property, plant and equipment should be offset by the gain from the decline in purchasing power of net amounts owed.

During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt that has been used to finance property, plant and equipment. Since the depreciation on this plant is limited to the recovery of historical cost, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

Supplementary Financial Data Adjusted for the Effects of Changing Prices for the Year Ended December 31, 1985

(In Thousands of Average 1985 Dollars)

	1985 Current Cost
Net income as reported in the primary consolidated statement of income	\$60,728
Less increase in provision for depreciation	<u>(76,583)</u>
Net income (loss) (excluding adjustment to net recoverable cost)	(15,855)
Adjustment to net recoverable cost	32,579
Reduction of purchasing power loss through debt financing	13,049
Increases in specific prices of utility plant held during the year	64,266
Less effect on net plant of increase in the general price level	<u>(49,832)</u>
Net income adjusted for the effects of changing prices	<u>\$44,207</u>

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

(In Thousands of Average 1967 Dollars)

	Year Ended December 31,				
	1985	1984	1983	1982	1981
Operating revenues	\$182,784	\$184,922	\$186,098	\$177,266	\$166,856
Net assets at year-end at net recoverable cost	\$130,009	\$130,211	\$124,984	\$119,495	\$115,257
General information					
Cash dividends declared per common share	\$.84	\$.81	\$.79	\$.76	\$.75
Market price per common share at year-end	\$12.33	\$9.40	\$9.37	\$8.21	\$6.84
Average consumer price index	322.2	311.2	298.5	289.1	272.4
Current cost information					
Net income (loss) (excluding adjustment to net recoverable cost)	\$ (4,921)	\$ (2,401)	\$ (1,196)	\$ 1,584	\$ (1,320)
Loss per common share (after dividends on preferred stock and excluding adjustment to net recoverable cost)	\$ (.47)	\$ (.30)	\$ (.23)	\$ (.01)	\$ (.28)
General price level increases in excess of (less than) specific price increases	\$ 4,480	\$ 12,193	\$ 3,815	\$ 5,314	\$ (11,047)

Five-Year Comparative Data

	Year Ended December 31,					Four-Year Change	
	1985	1984	1983	1982	1981	Amount	Percent
CONSOLIDATED ELECTRIC STATISTICS							
Customers served (end of period):							
Residential and rural	281,056	277,521	274,253	270,924	269,218	11,838	4.4
Industrial	560	534	511	495	494	66	13.4
Commercial	36,830	35,905	35,019	34,450	33,765	3,065	9.1
Wholesale	37	37	42	41	41	(4)	(9.8)
Class A	6	6	6	6	6	—	—
Other	908	892	893	915	912	(4)	(0.4)
Total	<u>319,397</u>	<u>314,895</u>	<u>310,724</u>	<u>306,831</u>	<u>304,436</u>	<u>14,961</u>	<u>4.9</u>
Sales—kilowatt-hours (in thousands):							
Residential and rural	2,276,424	2,222,626	2,232,331	2,153,905	2,089,738	186,686	8.9
Industrial	2,430,487	2,337,477	2,134,768	1,932,986	2,037,912	392,575	19.3
Commercial	1,319,511	1,273,430	1,232,932	1,171,030	1,146,005	173,506	15.1
Wholesale	1,468,945	1,465,144	1,379,151	1,288,842	1,258,888	210,057	16.7
Class A	1,235,951	1,235,939	691,796	365,871	530,415	705,536	133.0
Other	60,578	54,874	58,759	57,241	58,500	2,078	3.6
Total	<u>8,791,896</u>	<u>8,589,490</u>	<u>7,729,737</u>	<u>6,969,875</u>	<u>7,121,458</u>	<u>1,670,438</u>	<u>23.5</u>
Electric operating revenues (in thousands):							
Residential and rural	\$154,416	\$149,734	\$152,075	\$143,236	\$124,750	\$ 29,666	23.8
Industrial	105,518	99,996	94,587	86,122	80,989	24,529	30.3
Commercial	82,341	80,588	80,566	75,856	66,223	16,118	24.3
Wholesale	55,393	54,831	51,893	47,061	40,053	15,340	38.3
Class A	27,526	33,299	19,398	11,543	17,799	9,727	54.6
Other	7,120	6,556	7,947	7,045	6,446	674	10.5
Total	<u>\$432,314</u>	<u>\$425,004</u>	<u>\$406,466</u>	<u>\$370,863</u>	<u>\$336,260</u>	<u>\$ 96,054</u>	<u>28.6</u>
System capacity—at time of system peak (Kw's):							
Company plants (including jointly owned)	1,889,100	1,621,100	1,637,200	1,631,000	1,622,900	266,200	16.4
Firm purchased power	41,700	162,700	184,700	157,700	25,700	16,000	62.3
Total	<u>1,930,800</u>	<u>1,783,800</u>	<u>1,821,900</u>	<u>1,788,700</u>	<u>1,648,600</u>	<u>282,200</u>	<u>17.1</u>
System peak demand	<u>1,371,000</u>	<u>1,427,000</u>	<u>1,403,000</u>	<u>1,252,000</u>	<u>1,262,000</u>	<u>109,000</u>	<u>8.6</u>
Reserve margin at time of peak	<u>559,800</u>	<u>356,800</u>	<u>418,900</u>	<u>536,700</u>	<u>386,600</u>	<u>173,200</u>	<u>44.8</u>
CONSOLIDATED GAS STATISTICS:							
Customers served (end of period):							
Residential	97,436	95,159	93,498	92,289	91,337	6,099	6.7
Commercial firm	11,472	11,167	10,812	10,655	10,430	1,042	10.0
Industrial firm	383	372	384	382	383	—	—
Interruptible	139	139	144	143	140	(1)	(0.7)
Total	<u>109,430</u>	<u>106,837</u>	<u>104,838</u>	<u>103,469</u>	<u>102,290</u>	<u>7,140</u>	<u>7.0</u>
Sales—therms (in thousands):							
Residential	106,424	101,846	101,427	106,587	100,556	5,868	5.8
Commercial firm	63,786	59,783	58,284	63,025	57,158	6,628	11.6
Industrial firm	25,764	26,510	25,757	23,641	24,794	970	3.9
Interruptible	72,024	72,449	64,425	65,293	73,253	(1,229)	(1.7)
Interdepartmental sales	1,033	1,329	2,252	1,378	1,913	(880)	(46.0)
Total	<u>269,031</u>	<u>261,917</u>	<u>252,145</u>	<u>259,924</u>	<u>257,674</u>	<u>11,357</u>	<u>4.4</u>
Gas operating revenues (in thousands):							
Residential	\$ 70,758	\$ 66,763	\$ 66,359	\$ 61,660	\$ 48,545	\$ 22,213	45.8
Commercial firm	34,832	34,566	34,072	32,576	26,115	8,717	33.4
Industrial firm	14,999	13,969	14,577	12,278	10,798	4,201	38.9
Interruptible	31,025	30,463	28,998	28,174	27,043	3,982	14.7
Interdepartmental sales and other	974	1,048	1,657	3,700	2,721	(1,747)	(64.2)
Total	<u>\$152,588</u>	<u>\$146,809</u>	<u>\$145,663</u>	<u>\$138,388</u>	<u>\$115,222</u>	<u>\$ 37,366</u>	<u>32.4</u>
Maximum daily sendout—therms (in thousands)							
	<u>2,070</u>	<u>2,043</u>	<u>2,077</u>	<u>2,031</u>	<u>2,030</u>	<u>40</u>	<u>2.0</u>

Company Profile

Wisconsin Power and Light Company serves 39 counties; 605 cities, villages and towns; and more than 330,000 electric, gas and water customers in a

16,000-square-mile area in south-central Wisconsin. The Company employs more than 2,500 people in field locations, generating stations and in the Company's corporate offices in Madison.

The service territory is organized into three regions, creating a network of 14 district offices. Engineering and warehousing facilities are located in Fond du Lac and near Beloit to serve the northern and southern sections of the territory.

The generating mix of WP&L's major power plants includes coal, nuclear and hydroelectric power.

The five coal-fired generating stations account for more than 72 percent of the Company's capacity. The Columbia Energy Center, located near Portage, is the Company's largest coal plant. Owned jointly with several utilities, the plant's two units have a combined capacity of nearly 1,000 megawatts. Edgewater is a multi-unit coal plant located on the shores of Lake Michigan in Sheboygan with a capacity of 775 megawatts. Two units at Edgewater are owned jointly with other utilities. Smaller coal-fired generating stations in the WP&L system are Rock River and Blackhawk, located on the Rock River near Janesville and in Beloit, respectively, and Nelson Dewey, located on the Mississippi River in Cassville.

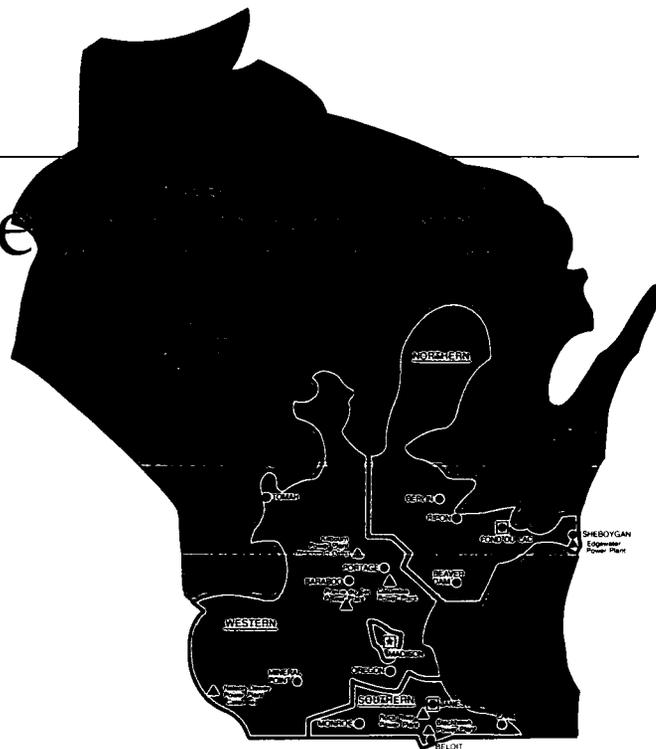
Nuclear energy contributes more than 16 percent to WP&L's system capacity through the Kewaunee Nuclear Plant that WP&L owns jointly with several utilities. Located on the shores of Lake Michigan in eastern Wisconsin, the unit has been in service since 1974 and has a capacity of about 535 megawatts.

Hydroelectric generating stations on the Wisconsin River at Prairie du Sac and Wisconsin Dells produce approximately 40 megawatts — 2.4 percent of WP&L's system capacity. Additional peaking units and small hydro facilities bring the Company's system capacity to more than 1,900 megawatts.

An equally important component of WP&L's business is natural-gas distribution. A network of nearly 2,100 miles of gas distribution lines serves more than 109,000 customers in 186 cities, villages and towns. The Company also provides water service to more than 17,000 customers in Beloit and Ripon, Wis., and in South Beloit, Ill.

Seven active subsidiaries also are part of Wisconsin Power and Light Company. Through the acquisition of subsidiaries, WP&L is implementing its diversification strategy in three major areas — environmental services, telecommunications and energy services.

The Company acquired its first subsidiary in 1926 — South Beloit Water, Gas & Electric Company,



a public utility principally serving Winnebago County, Ill. In 1976 WP&L added NUFUS Resources, Inc., a limited partner in Colorado and Utah mining operations, to provide uranium fuel supplies for the Kewaunee Nuclear Plant, and Wisconsin Power and Light Nuclear Fuel, Inc., which holds title to the Company's share of the initial fuel core for the Kewaunee plant.

The Company acquired RMT, Inc. in 1983. Based in Madison, Wis., RMT is a consulting firm specializing in solid- and hazardous-waste management, groundwater monitoring, plant and process engineering, industrial hygiene and environmental laboratory services.

Also in 1983, WP&L formed a subsidiary called Wisconsin Mobile Telephone, Inc. to serve metropolitan areas with cellular telephone, a new, advanced mobile telephone service that is based on cellular radio technology.

Another WP&L subsidiary is ENSERV, Inc., formed in 1984 as an "umbrella" under which the Company plans to expand its energy-services business.

In 1985 WP&L Communications, Inc. was formed for the purpose of participating in a fiber-optics-network partnership with four other utilities. The partnership, called NorLight, is building one of the first interstate fiber-optics networks in the Wisconsin-Minnesota-Illinois region.

More than 45,000 shareowners own the Company. People from every state in the nation and several foreign countries have invested in WP&L. Most WP&L shareowners, however, live in Wisconsin. Approximately 55 percent of the common and 80 percent of the preferred shareowners are Wisconsin residents.

The average common-stock holding is 335 shares, a figure that includes both individual and institutional shareowners. Holdings by individual investors represent about 56 percent of the total.

OFFICERS

(As of December 31, 1985)

- James R. Underkofler**
Chairman of the Board,
President and
Chief Executive Officer
- Erroll B. Davis, Jr.**
Executive Vice President
- Eugene O. Gehl**
Executive Vice President
and General Counsel
- William L. Keepers**
Executive Vice President
- Robert A. Carlsen**
Vice President - Customer
Service and Corporate
Communications
- Edward F. Killeen**
Vice President -
Administration
- William C. Register**
Vice President - Power
Production and System
Planning
- Thomas L. Consigny**
Assistant Vice President -
Public Affairs
- Edward M. Gleason**
Controller and Treasurer
- Thomas A. Landgraf**
Corporate Secretary and
Director of Risk Management
and Shareowner Services
- Thomas M. Regner**
Assistant Treasurer
- Mary Fujimoto**
Assistant Secretary

SUBSIDIARIES

RMT, Inc.

1406 E. Washington Ave.
Suite 124
Madison, WI 53703
608-255-2134

E. Brooks Becker

President

Thomas P. Kunes

Executive Vice President

John J. Reinhardt

Senior Vice President -
Operations

WP&L COMMUNICATIONS, INC.

P.O. Box 192
222 W. Washington Ave.
Madison, WI 53701
608-252-3259

James R. Underkofler

President

David E. Ellestad

Vice President

Daniel A. Gomez-Ibanez

Secretary-Treasurer

MANAGEMENT

GENERAL OFFICE DEPARTMENT HEADS

- Daniel L. Bartel**
Director of Electrical
Operations
- James W. Bindl**
Director of Human Resource
Planning and Development
- Donald L. Brown**
Director of Generation
and System Planning
- David E. Ellestad**
Director of Electrical
Engineering and
Procurement
- James E. Emerick**
Director of Budgets and
Financial Planning
- John G. Fabie**
Director of Electrical
Engineering
- George E. Gibert**
Director of Gas Supply
and Engineering
- Daniel A. Gomez-Ibanez**
Director of Strategic
Business Planning
- Richard M. Gregory**
Director of Purchases
and Stores
- William J. Holewinski**
Director of Generating
Station Engineering
- Merlin E. Horn**
Director of Environmental
Affairs
- Henry R. Hosterman**
Director of Generating
Station Performance
- Theodore J. Iltis**
Director of Advanced
Technology and Nuclear
Affairs
- James E. Johnson**
Director of Natural Gas
- Glen R. Kielley**
Director of Personnel
- LuAnn G. Killeen**
Director of Gas Marketing
and Customer Service
- Paul F. Koeppel**
Director of Electric
Marketing and Customer
Service
- John W. Laub**
Director of Information and
Administrative Services
- Robert G. Lindenau**
Director of Safety and
Real Estate
- Dale G. Moody**
Director of Gas Operations

Donald R. Piepenburg
Director of Corporate
Communications

David W. Thompson
Director of Generating
Station Operations

Charlotte O. Woods
Director of Internal Audits

REGIONAL MANAGERS

Duaine L. Mossman
Western Region (Madison)

Suzette M. Mulooly
Southern Region (Janesville)

George E. Wennerlyn
Northern Region
(Fond du Lac)

DISTRICT MANAGERS

Roger L. Baumann
Fond du Lac

Ronald L. Cowan
Baraboo

Philip E. Crawford
Mineral Point

John D. Grawe
Janesville

Felix J. Matarrese
Portage

Thaddeus A. Miller
Lake Geneva

Jules A. Nicolet
Sheboygan

W. Keith Penniston
Berlin

Eliot G. Protsch
Dane County (Oregon)

Larry L. Studenville
Beloit

Michael J. Wish
Tomah

Kim K. Zuhlke
Beaver Dam

GENERATING STATION MANAGERS

Norman E. Boys
Edgewater (Sheboygan)

Carl R. Diehls
Columbia (Portage)

William A. Frederick
Nelson Dewey (Cassville)

Thomas M. Schroeder
Rock River and Blackhawk
(Beloit)

1985 MANAGEMENT CHANGES

In early 1985 WP&L made several organizational changes in preparation for the May retirement of **Charles G. Kerndt**, Vice President - Electric Operations and Engineering.

William C. Register was elected Vice President - Power Production and System Planning. He had been Director of System Planning and Procurement.

David E. Ellestad was named Director of Electrical Engineering and Procurement. He previously served as Director of Electrical Engineering. **John G. Fabie** was named to succeed Ellestad. Fabie had been Director of Safety and Real Estate.

Henry R. Hosterman was named Director of Generating Station Performance in April. He previously served as Manager, Edgewater 5 Startup.

Robert G. Lindenau was named Director of Safety and Real Estate in April. He had been District Manager at Dane County. In May **Eliot G. Protsch** was named to succeed Lindenau. Protsch had been Assistant Treasurer. **Thomas M. Regner** was elected Assistant Treasurer in July. He previously served as Corporate Development Manager in the Strategic Business Planning Department.

Eugene O. Gehl was elected Executive Vice President and General Counsel, effective Sept. 1. Gehl had been a partner in the law firm of Brynelson, Herrick, Gehl and Bucaida, Madison, Wis. He had served as corporate counsel for the Company for 16 years and has been a member of the WP&L Board of Directors since 1977.

George A. Goff, Controller, resigned in September to accept an executive position with another company.

In September WP&L announced a reorganization to further focus on market responsiveness in all areas of the Company. The following are the major organizational changes.

Edward M. Gleason was elected Controller and Treasurer. He had been Treasurer and Secretary.

James E. Emerick was named Director of Budgets and Financial Planning. He previously served as Assistant Controller.

Thomas A. Landgraf was elected Corporate Secretary and Director of Risk Management and Shareowner Services. He had been Assistant Secretary.

Dale G. Moody was named Director of Gas Operations. He previously served as Western Regional Manager. **Duaine L. Mossman** was named to succeed Moody. Mossman had been Assistant Vice President - Wholesale/Large Industrial Relations and Economic Development.

Mary Fujimoto was elected Assistant Secretary in October. She also continues to serve as Administrative Assistant to the Chief Executive Officer.



Top row: **James R. Underkofler**
Chairman of the Board, President
and Chief Executive Officer,
Wisconsin Power and Light
Company
A WP&L director since 1965

Erroll B. Davis, Jr.
Executive Vice President,
Wisconsin Power and Light
Company
A WP&L director since 1984

Eugene O. Gehl
Executive Vice President and
General Counsel, Wisconsin
Power and Light Company
A WP&L director since 1977

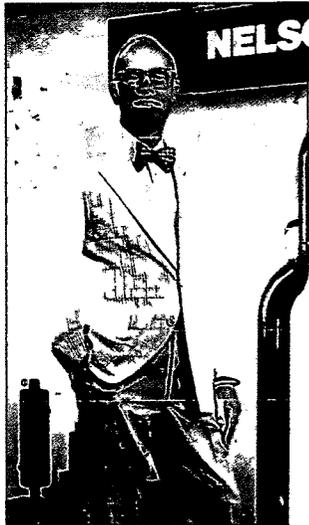
Bottom row: **L. David Carley**
Partner, Carley Capital Group
(a venture-capital group),
Washington, D.C.
A WP&L director since 1983;
also was a WP&L director from
1975 to 1977

Rockne G. Flowers
President, Nelson Industries, Inc.
(a muffler, filter and industrial-
silencer manufacturing firm),
Stoughton, Wisconsin
A WP&L director since 1979

Donald R. Haldeman
President, Wisconsin Farm
Bureau Federation
(the state's largest general
farm organization),
Madison, Wisconsin;
and farm owner and operator,
Norwalk, Wisconsin
Elected to the board in 1985

B oard of Directors

(As of December 31, 1985)



William L. Keepers
Executive Vice President,
Wisconsin Power and Light
Company
A WP&L director since 1984

Henry C. Prange
Chairman of the Board, President
and Chief Executive Officer,
H. C. Prange Company
(retail department stores),
Sheboygan, Wisconsin
A WP&L director since 1965

Carol T. Toussaint
Assistant Director, Wisconsin
Strategic Development Commis-
sion (January-September);
and consultant, public-policy
issues, Madison, Wisconsin
A WP&L director since 1976

Milton E. Neshek
President and Chief Executive
Officer of the law firm of
Godfrey, Pfeil & Neshek, S.C.,
Elkhorn, Wisconsin;
and General Counsel and
Assistant Secretary,
Kikkoman Foods, Inc.
(a food-products manufacturer),
Walworth, Wisconsin
A WP&L director since 1984

Henry F. Scheig
Chairman of the Board and
Chief Executive Officer,
Aid Association for Lutherans
(a fraternal benefit society),
Appleton, Wisconsin
A WP&L director since 1980

Gerard E. Veneman
Retired Executive Vice
President, Great Northern
Nekoosa Corporation
(a paper and pulp manufacturer
and distributor), Stamford,
Connecticut; and retired
President and Chief Executive
Officer, Nekoosa Papers, Inc.
(a subsidiary of Great Northern
Nekoosa Corporation),
Port Edwards, Wisconsin
A WP&L director since 1980

Committees of the Board

The Audit Committee recommends the independent auditors to be selected by the shareholders at the annual meeting. The committee reviews with the independent auditors the scope and results of the audit and matters regarding the Company's financial-reporting and internal-accounting controls. It meets with the management and the independent auditors to discuss and review accounting and reporting principles, policies and practices to be used. Both the internal and the independent auditors periodically meet alone with the committee and have authority to contact it on any matters requiring its attention. The committee consists of all board members who are not employees or officers of the Company.

The Corporate Planning and Performance Committee examines corporate planning and performance, including the review of such items as sales and load forecasts, operating and construction plans and budgets, financing programs and

rate-case matters. The committee consists of all members of the Board of Directors.

The Personnel Committee functions as an executive review group, evaluating overall management performance and efficiency. The committee also reviews human-resource-development and affirmative-action programs, benefit plans and changes and major provisions of negotiated employment contracts. It approves the salaries of officers and managers. The committee consists of all board members who are not employees or officers of the Company and the chief executive officer as a non-voting member.

The Nominating Committee recommends to the board nominees for election to the board and reviews the appropriateness of present board members' continued membership on the board. The committee consists of the chief executive officer and two members of the board who are not employees or officers of the Company.

1985 Board Changes

Donald R. Haldeman was elected to the Board of Directors in July. He is President of the 40,000-member Wisconsin Farm Bureau Federation, the state's largest general farm organization, and is a farm owner and operator.

Dr. Bernard S. Adams resigned in July after serving on the WP&L board for 15 years. Adams, former President of Ripon College, Ripon, Wis., is President of Fort Lewis College, Durango, Colo.

Shirley B. Thompson resigned in April after six years as a WP&L director. Thompson is Executive Assistant for the Wisconsin Advisory Council on Vocational Education, Madison, Wis., and also is a farm owner and manager.

I nformation for Shareowners

MARKET INFORMATION

Wisconsin Power and Light Company common stock is listed on the New York Stock Exchange and has unlisted trading privileges on the Midwest Stock Exchange. The trading symbol is **WPL**. The 4½ percent preferred stock is traded on the American Stock Exchange. All other preferred series are traded in the over-the-counter market.

The following table represents the high and low sale prices for common stock as reported by the New York Stock Exchange-Composite Transactions.

WPL Common Stock Prices					
<u>1985</u>	<u>High</u>	<u>Low</u>	<u>1984</u>	<u>High</u>	<u>Low</u>
1st quarter	32 ³ / ₈	29 ¹ / ₈	1st quarter	29 ¹ / ₂	25 ⁷ / ₈
2nd quarter	36 ¹ / ₂	32 ¹ / ₂	2nd quarter	28	25 ⁵ / ₈
3rd quarter	40 ³ / ₈	34 ³ / ₈	3rd quarter	29 ¹ / ₈	25 ³ / ₄
4th quarter	40 ¹ / ₂	34 ³ / ₄	4th quarter	30 ⁷ / ₈	28 ¹ / ₈

DIVIDENDS

Dividends on Wisconsin Power and Light Company stock have been paid quarterly since January 1946. Common-stock dividends are normally payable as authorized by the Board of Directors on the 15th day of February, May, August and November to shareowners of record the last business day of the preceding month. Preferred-stock dividends are payable on the 15th of March, June, September and December. Preferred record dates fall on the last business day of the month preceding the payment dates.

Cash dividends per share paid during 1985 were 66 cents for the first two quarters and 69 cents for the last two quarters, for a total of \$2.70 per share for the year.

Preferred stock dividends paid per share for each quarter during 1985 were as follows: 4.5%, \$1.125; 4.8%, \$1.20; 4.96%, \$1.24; 4.4%, \$1.10; 4.76%, \$1.19; 8.48%, \$2.12; and 7.56%, \$1.89. The 12% preferred stock dividend paid per share for each of the first three quarters during 1985 was \$3.00. The remaining outstanding shares of the 12% preferred stock were called for redemption on Sept. 30, 1985.

STOCK TRANSFER AGENTS AND REGISTRARS

Transfer Agents

For Common and Preferred Stock:

Illinois Stock Transfer Company
223 W. Jackson Blvd.
Chicago, IL 60606

For Common Stock Only:

Morgan Guaranty Trust Company
30 W. Broadway
New York, NY 10015

Registrars

Continental Illinois National Bank
& Trust Company of Chicago
231 S. LaSalle St.
Chicago, IL 60693

Morgan Guaranty Trust Company
30 W. Broadway
New York, NY 10015

FORM 10-K INFORMATION

A copy of Form 10-K as filed with the Securities and Exchange Commission will be provided without charge upon request. Requests may be directed to Shareowner Services.

ANNUAL MEETING

Shareowners are cordially invited to attend the corporate Annual Meeting at 10 a.m. local time, Wednesday, April 16, 1986, at the Dane County Memorial Coliseum, 1881 Expo Mall, Madison, Wis. Proxy materials will be mailed to shareowners in early March.

SHAREOWNER INFORMATION

WP&L's shareowner and stock-plan records are maintained in the corporate general offices. Shareowner inquiries and requests from the general public for any financial publications may be directed to:

Wisconsin Power and Light Company
Attn: Shareowner Services
P.O. Box 192
Madison, WI 53701

Toll-free shareowner-information numbers are:
Local calls (Madison area) **252-3110**
Other Wisconsin calls **1-800-362-5490**
Outside Wisconsin calls **1-800-356-5343**

DIVIDEND REINVESTMENT PLAN

WP&L offers to its shareowners and employees the opportunity to purchase shares of its common stock through the investment of common and preferred dividends and optional cash payments. Investment dates normally occur on the 15th of each month. Optional cash payments of up to \$3,000 per month may be made to purchase common stock under the Plan. The price per share of shares purchased under the Plan is the weighted average price (including brokerage commissions) at which the shares are acquired for participants.

In response to an order issued by the Public Service Commission of Wisconsin, WP&L's original issue Plan was amended effective Jan. 1, 1985, to an open market plan. Because of the change, dividends reinvested under the Plan after Jan. 1, 1985, are not eligible to be treated as "qualified reinvested dividends" under the provisions of the Economic Recovery Tax Act of 1981.

Plan descriptions are available upon request from Shareowner Services.

DUPLICATE ACCOUNTS AND MAILINGS

If you are receiving more than one Annual Report or other duplicate mailings from Shareowner Services, it is probably because of some slight variation in your name on our records. WP&L establishes shareowner accounts on the basis of names and addresses provided by you or your broker when stock is transferred or issued.

If you do not need two or more mailings, we would prefer, when possible, to send you just one. Please send a written request to Shareowner Services to eliminate any unnecessary duplicate mailings.

STOCK HELD IN "STREET NAME"

The Company maintains a direct mailing list to ensure that shareowners whose stock is held in broker accounts receive information on a timely basis. If you would like your name added to this list, please send your request to Shareowner Services.

SUMMARY OF 1986 DATES OF INTEREST TO SHAREOWNERS

Common Dividend Payment Dates 15th of February, May, August and November
Common Dividend Record Dates January 31, April 30, July 31 and October 31
Preferred Dividend Payment Dates March 15, June 14, September 15 and December 15
Preferred Dividend Record Dates February 28, May 30, August 29 and November 28
Annual Meeting Date April 16
Dividend Reinvestment and Stock Purchase
Plan Investment Dates Normally on the 15th of each month

R Year in review



Rate cases — In August the Public Service Commission of Wisconsin approved a final rate order in the Company's retail rate case, which was filed in December 1984. The commission approved an \$18.1-million increase in WP&L's retail electric, gas and water rates effective Sept. 1. The Company filed a new rate case in December 1985 for a \$15.5-million increase proposed to take effect Aug. 1, 1986.

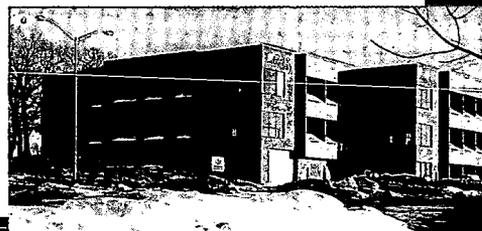
Load forecast — WP&L released a new load forecast in November that shows a 1.3 percent per year increase in both energy use and peak demand. The projections for the end of the 20-year forecast period are 5 to 6 percent higher than projections made a year earlier.

Service area growth — Working together with state development groups and local community leaders, the Company continued its service-area business development efforts in 1985. Thirty-seven new industries located in WP&L's service territory and 53 expanded their operations here, resulting in 2,182 new jobs for Wisconsin.

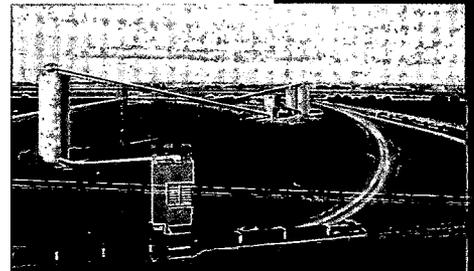
Gas marketing — 1985 was a big year for customer conversions to natural gas. More than 2,100 residential customers — equivalent to the current customer load of Ripon, Wis. — were added to WP&L's gas system. Commercial and industrial customer conversions to natural gas also set a modern record. The total natural-gas conversions represent a potential annual revenue of nearly \$2.5 million.

Record winter peak — Prolonged cold and windy weather in December resulted in record electricity use by WP&L customers. Demand on the WP&L system peaked at 1,368 megawatts (or 1,368,000 kilowatts) Dec. 17, setting a record winter peak. The previous record winter peak was 1,324 megawatts set on Dec. 19, 1983. The new winter peak demand is less than the Company's record summer peak of 1,427 megawatts, set on Aug. 29, 1984.

High Point Plaza — Wisconsin Power and Light High Point Plaza (right) — a new office building on Madison's far west side — opened for business in December. The Company is leasing a major portion of the building for its Natural Gas Division and West Madison Local Office.



New coal-loading facility — The Company participated in the June dedication of one of the most advanced railcar coal loading and blending facilities in the United States. The computerized Owl Prairie unit train loadout facility (below), located in Indiana, is a cooperative effort of WP&L and Black Beauty Resources. An Evansville, Ind., independent coal producer, Black Beauty supplies 600,000 to 1 million tons of coal annually to WP&L's Edgewater 3 and 4 generating stations in Sheboygan.



Open houses — People of all ages took the opportunity to explore a generating station in June and July when the Edgewater 3-George Richardson Generating Unit and the Columbia Energy Center opened their doors to the public. More than 5,700 employees and Sheboygan-area residents attended an open house at Edgewater 3 July 20 and 21, following the dedication of the Company's new 330-megawatt unit July 19. Nearly 600 Portage-area residents were on hand at Columbia (above) June 29, when the plant held an open house to celebrate its 10th anniversary of commercial operation.

Printed by Messrs. J. & J. Spence, Printers and Light Company,
Photographers, Douglas House, Westport, Port of Light Company,
Douglas, and Messrs. J. & J. Spence, Printers and Light Company, Ltd.



Wisconsin Power
& Light Company

Wisconsin's heartbeat ... on the gray

1985 ANNUAL REPORT
WISCONSIN POWER AND LIGHT COMPANY

P.O. Box 192
Madison, Wisconsin 53701-0192