"Serving our customers is our First Priority"

WISCONSIN PUBLIC SERVICE CORPORATION 1991 ANNUAL REPORT

"Our job is to ensure a diversified energy supply for our customers at the best possible value for their energy dollar."

Richard A. Kruger

"We're gearing up to meet the many new challenges associated with our future energy supply. We are already positioning ourselves to turn those challenges into opportunities for both our customers and the company."

Glen P. Schwalbach

"It makes me feel proud to work for a company that demonstrates true public service. I... help someone who ne... That's more than jus... customer service, th... decency and respec...

...putting ...ronment ...lity thinking ...r employees."

"With over 35 establi... conservation progra... to do even more to h... use energy efficient...

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...bottom ...ong ...customers ..."

"We provide the best po... and equipment, and our ... doing the job right. That'... are served best."

Docket # 50-305
Accession # 9204140315
Date 4/10/92
Regulatory Docket File

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(about the cover)

Providing quality customer service is the basic building block for growth. Customers, employees and shareholders all benefit. The economic health and vitality of the communities and businesses we serve progress and our employees feel good about their involvement in the process. It starts by simply providing customers with responsive, reliable service. That commitment is where Wisconsin Public Service Corporation has excelled in the past and will continue to remain focused in the future.

To continue the successful high-quality service to our customers, however, is an ongoing challenge. The company has developed a philosophy of best performance requirement by all employees to serve all Wisconsin Public Service customers. Standards for this caliber of output are continually being improved.

A discussion of identifying and implementing various major areas of activity is presented in this report by some of those managers involved in the team effort of carrying out the company's philosophy of performance excellence. These areas include assured energy supply, energy efficiency, reliability of service, customer assistance, service improvements, focus on quality and providing for new energy needs.

We hope the following insight to our operations will help you understand the commitment we have to meeting those various challenges of continuing to improve our high standards of public service.

balance conservation, load management, new generating capacity, and the use of alternative energy sources to meet projected customer needs.

One of the challenges we face in generation is the increased competition from utility and nonutility independent power producers (IPPs). Several IPPs have announced intentions to develop plants in our service territory. We are meeting the competition head on. One way we are meeting that competition, which we are very enthusiastic about, is cogeneration. Many of our industrial customers are large users of process steam and therefore excellent candidates for this very cost effective, highly efficient method of producing energy. Based on our close working relationship with potential cogeneration customers, we expect to contract for several of these units during 1992.

Our long-term success depends on our customers' and employees' success. Part of that success formula includes a good education. As a company, we have always supported our schools, and we will continue to do so in the future. Education is everyone's responsibility.

So the future looks good for Wisconsin Public Service. The Wisconsin educational system is recognized as being strong, our state's business and regulatory climate continues to remain stable. Wisconsin unemployment is lower than the national average, and the state has improved its ability to attract and maintain business. The PSCW continues its progressive tradition of balancing the interests of customers, utility, and shareholders; and we have a shared corporate vision for an exciting and challenging future. We will continue striving to provide energy services reliably, competitively, and in an environmentally and socially responsible manner, recognizing our obligations to our customers, to our employees, and to you, our shareholders.

Sincerely,

Daniel A. Bollom

Daniel A. Bollom
President and
Chief Executive Officer

February 26, 1992

Finance

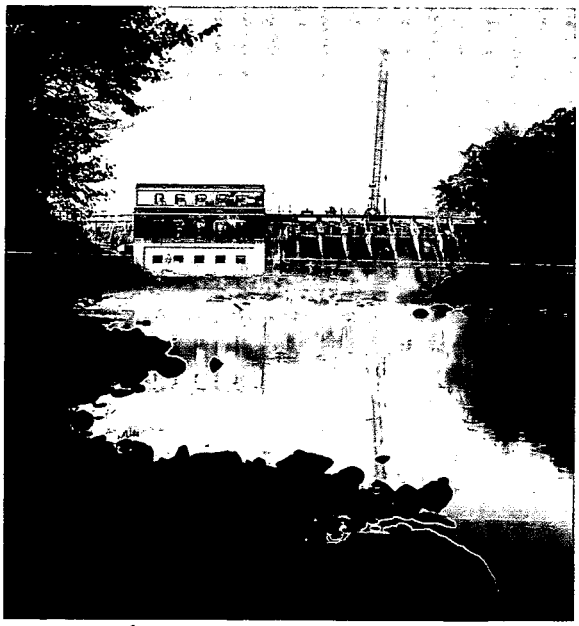
Dividend Reinvestment and Stock Purchase and Direct Dividend Deposit programs were initiated beginning in September. The Dividend Reinvestment and Stock Purchase Plan allows shareholders to reinvest dividends and invest additional cash, if they desire to do so, without a brokerage charge. With direct dividend deposit, quarterly dividend payments can automatically be transferred to a bank or savings and loan account of a shareholder. At the present time approximately 20% of our shareholders are participating in the Dividend Reinvestment and Stock Purchase Plan and 57% of total common stock dividends are being deposited automatically.

A negotiated sale of $60 million of First Mortgage Bonds 8.80% Series Due September 1, 2021, was completed on September 25. The proceeds were used to reduce short-term borrowings and for construction. In addition to this financing the company anticipates selling about $70 million of common stock and $150 million of bonds in the period 1992-1996 to cover forecasted construction and investment expenditures.

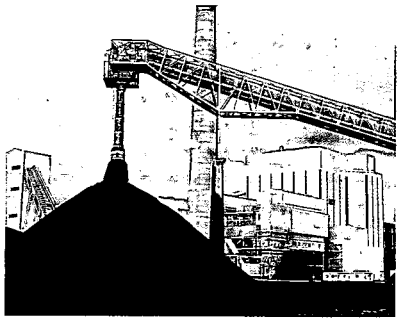
Rates

In January 1991, electric rates increased $10.9 million, or 2.8% and natural gas rates increased $1.9 million, or 1.3% for Wisconsin customers. The increase was due to cost increases in fuel, cost of capital and operating expenses.

In March 1991, a rate filing for 1992 was made with the PSCW to increase electric and gas rates. An order was issued late in the year effective January 1, 1992, increasing electric rates by 1.4% as compared to the 2.5% requested, and with no increase in gas rates as compared to the 1.6% requested. Higher operating costs were the primary reason for the requested increase. A 12.8% rate of return on equity was allowed. This order set demand-side goals for the company stating that a penalty may be implemented in the next rate case if these goals are not met. Management expects to meet these goals. According to a national comparison, the average residential customer of the company (using 500 kilowatt-hours) paid about $10 less per month than the national average in 1991.



To ensure our future energy supply, applications were filed to renew licenses for eight of the company's existing hydroelectric facilities.



The company held a series of informational exchange meetings with customers who had questions about a proposed 20-year energy plan.

Termination of a major coal contract was successfully completed which will enable customers to save millions of dollars while the company is able to burn a cleaner low sulfur coal.

As part of its 20-year future energy plan, the company announced the need for a major electric base load plant sometime after the year 2000.

Contents

Business

WISCONSIN PUBLIC SERVICE CORPORATION is an investor-owned electric and gas utility providing service to Northeastern Wisconsin and an adjacent part of Upper Michigan.

Operating Highlights

	1991	*1990*	*% Change*
Revenues (Thousands)	$623,499	$588,973	5.9
Net Income (Thousands)	54,172	49,023	10.5
Earnings Per Average Share of Common Stock	2.23	2.00	11.5
Dividends Paid Per Share	1.68	1.64	2.4
Book Value Per Share	16.14	16.26	– .7
Common Stock Year-End Price	28¼	23⅝	19.6
Construction Expenditures (Thousands)	64,536	66,031	– 2.3
Capitalization (Thousands)	753,405	696,681	8.1
Electric Customers	333,208	328,159	1.5
Electric Sales (Kwh – Thousands)	9,568,203	9,287,914	3.0
Gas Customers	180,388	176,429	2.2
Gas Deliveries (Therms – Thousands)	542,696	506,353	7.2

Common Steck *Two-Year Comparison*

Share Data	*Dividends Per Share*	*Price Range*	
1991		*High*	*Low*
1st Quarter	$ .415	25⅛	22¼
2nd Quarter	.415	26⅜	23½
3rd Quarter	.425	26¾	23⅝
4th Quarter	.425	28¼	25½
Total	$1.68		
1990			
1st Quarter	$ .405	24½	21
2nd Quarter	.405	22⅝	20⅝
3rd Quarter	.415	21⅞	19¾
4th Quarter	.415	24⅝	20¾
Total	$1.64		

Letter Te Shareholders:

To Our Shareholders:

I am pleased to report that we had a good operating year. Some of the highlights are:

- Electric kilowatt-hour sales were 3% greater than in 1990.
- Gas therm sales and transportation volumes increased 7%.
- Earnings per average common share were $2.23 compared with $2.00 in 1990.
- Return on average common equity was 13.1% as compared with 12.1% for 1990.
- 1991 marked the 33rd consecutive year of increases in dividends, going from $1.64 to $1.68 per share.
- Rates remain among the lowest one-fourth in the nation. If adjusted for inflation, our gas and electric rates are lower today than in 1979.
- The economy of our service territory remained stable as business growth tapered off a bit in 1991.

It was also a good year for me personally. My transition to Chief Executive Officer was smooth. I want to thank our former Chairman and Chief Executive Officer Linus Stoll, who retired in February 1991, and the senior staff for making the move easy.

As Chief Executive Officer, I see many factors that can affect a company's future, but only one factor can determine its success. That critical factor is the company's employees. Without dedicated, knowledgeable, and enthusiastic employees, a company cannot reap the good fortune that lies within the challenges it faces. At Wisconsin Public Service Corporation, we have made a commitment to our employees. Our unified drive to achieve total quality for the benefit of our customers is what will ensure success and good results for everyone, including our shareholders.

I have stressed the links between employees, customers, and shareholders during my first year as Chief Executive Officer. I will continue that emphasis.

I, and the rest of our management team, will also continue to emphasize the need for genuine two-way communications and singularity of vision. We took a dramatic step toward these goals this past year when we shared our strategic plan with all of our employees and invited them to numerous open forums with top managers to discuss the implications of the plan. The discussions during and after those meetings clearly showed me we have the caliber of employees we need to achieve greater success.

In this annual report you will find information which will permit you to judge how Wisconsin Public Service is performing today. I would ask you to keep all of this in perspective because we are focusing our efforts on continuing to achieve sustainable, long-term success. The keys for long-term success are not just found in the statistics. They are found in our employees' drive to work in a truly quality focused way for the complete satisfaction of our customers. Throughout this report we have emphasized how we are living up to the statement on the cover – "Serving our customers is our First Priority." We are determined to be the energy supplier our customers value and the corporate citizen the public respects.

Part of that respect comes from helping customers meet their energy needs in the most efficient and effective manner. That's why our conservation efforts make so much sense. They help our customers and they also help us. We have a two-year goal, ending December 1992, to help customers save 155,000 megawatt hours of electricity, 30 megawatts of peak demand and 9.4 million therms of natural gas. We will exceed these goals. Our conservation efforts delay the need to build a large generating plant but will still allow us to maintain our record of steady load growth. Our load growth is expected to increase 1.5% per year for electric and 1% per year for gas.

Customers need to know that we'll be there, now and in the future, to meet their energy needs. Our 20-year forecast, Advance Plan 6, is currently under the consideration of the Public Service Commission of Wisconsin (PSCW). The plan outlines how we will.

In Michigan, electric rates were reduced $100,000 in 1991; however, those rates were increased by $300,000 in 1992. Gas rates in 1991 were approximately $120,000 above 1990.

In December, Cheryl L. Parrino was named Chairperson of the PSCW after having been a Commissioner since February. Scott Neitzel was named a Commissioner in December replacing former Chairman Charles H. Thompson. Parrino and Neitzel were each executive assistants to Chairman Thompson before becoming Commissioners. John T. Coughlin is the third Commissioner of this state utility regulatory agency.

Management Changes

On March 1, 1991, President Daniel A. Bollom, 55, became President and Chief Executive Officer replacing Linus M. Stoll, who retired as Chairman of the Board and Chief Executive Officer. Stoll continues to serve on the company's Board of Directors. Bollom is the company's 9th president and has been with the company for 33 years.

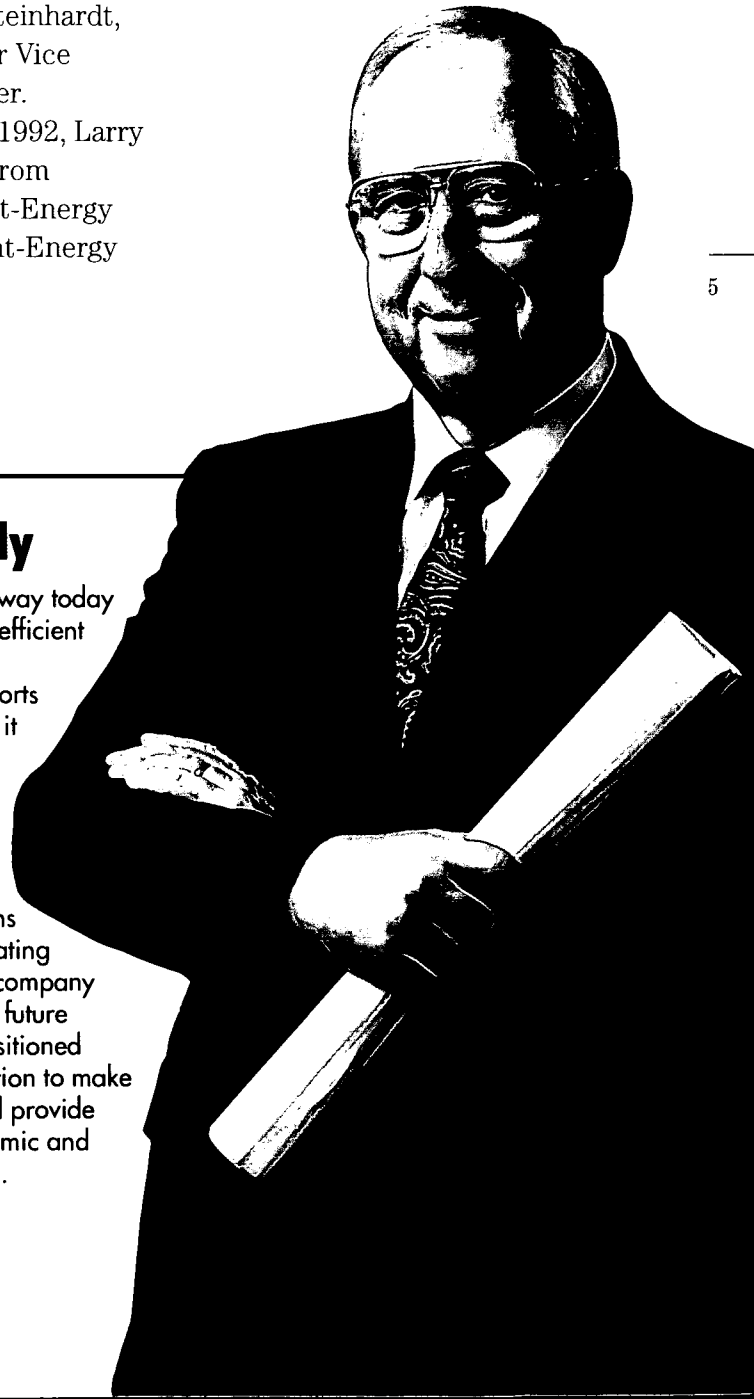
On June 1, 1991, Vice President-Nuclear Power, Clark Steinhardt, was appointed to Senior Vice President-Nuclear Power.

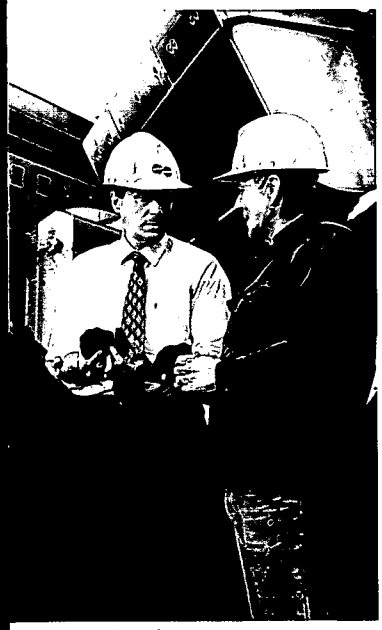
Effective January 1, 1992, Larry Weyers was promoted from Assistant Vice President-Energy Supply to Vice President-Energy Supply.

"When our customers flick thot light switch or turn on that furauce, we've gat to he there with a reliahle supply of energy. Our joh is ta ensure a diversified energy supply far our customers at the hest possihle value for their eaergy dollar."

Richard A Krueger

Richard A. Krueger
Senior Vice President,
Power Supply and Engineering





A $6 million facility wos constructed at the Pulliam power plant in Green Bay to blend low sulfur coal needed to meet air quality stondards which toke effect in 1993.

Assured Energy Supply

Extensive planning efforts are under way today to ensure an ample, safe, reliable and efficient energy supply for generations to come.

The company's strategic planning efforts have initiated activities that will enable it to develop and meet the new and diverse needs of our customers.

The customers' use af energy is the driving force behind expected energy supply. The company wants to remain flexible and diverse in its energy options including conservation and new generating plants. By planning for this today, the company will be ready to meet the challenges of future energy demands. If the company is positioned correctly, it will result in an easy transition to make those challenges into opportunities and provide customers with a well-balanced, economic and plentiful supply of power when needed.

"With over 35 established energy conservation programs, we're looking to do even more to help customers use energy efficiently. Couservation is cost beneficial and the right thing to do for our customers, shareholders and our environment."

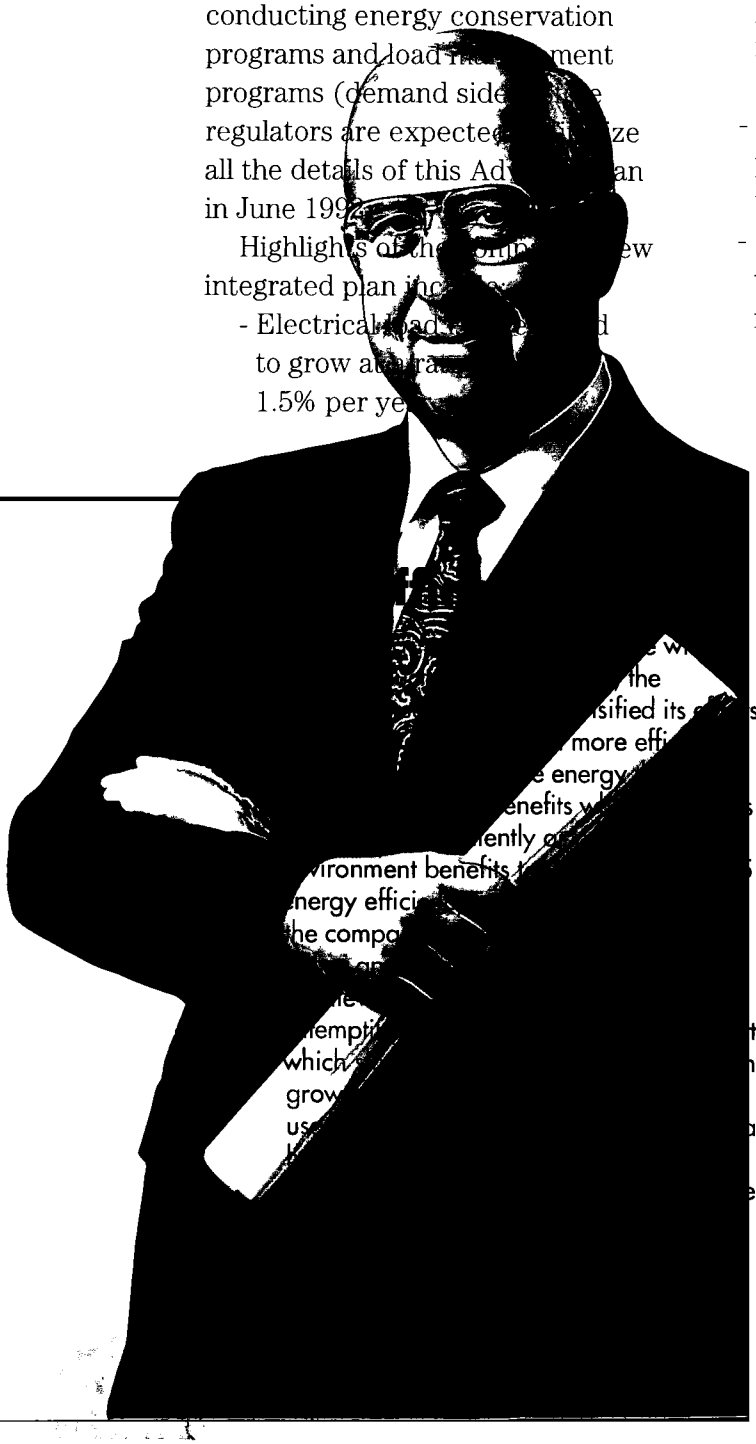
J. Gus Swoboda
Senior Vice President,
Marketing and Corporate Services

Electrical System/ Cogeneration

All of the company's future electrical plans and proposals are part of Advance Plan 6 (AP6), a 20-year energy plan being reviewed by state regulators. The company's plans are part of a utility integrated, state-wide plan which includes building new power plants, cogeneration and use of renewable energy resources (supply side) and conducting energy conservation programs and load [illegible]ment programs (demand side [illegible] regulators are expecte[illegible]ze all the details of this Ad[illegible]an in June 199[illegible]

Highlig[illegible]ew integrated plan [illegible]

- Electrical [illegible]d to grow a[illegible] 1.5% per ye[illegible]
- An aggressive conservation program is expected to reduce customer loads by 158 megawatts over the next ten years.
- Control of customer air conditioners should reduce load on peak usage days by 28 megawatts.
- Comprehensive maintenance programs at power plants will allow the company to postpone retirement of 149 megawatts over the next 15 years.
- Cogeneration units should produce 200 megawatts for the company.
- Gas-fired peaking combustion turbine units will result in 150 megawatts over the next 15 years.



Major gains in energy efficiency were made in commercial buildings like this Door County restauront by replacing old lighting with higher efficiency lighting.

Major paper mills and other industrial customers in our service territory install high efficiency motors, lighting, and processing equipment to lower their operating costs.

- The company is pursuing the licensing and construction of a coal-fired plant of 300 to 400 megawatts to start up in 2004.
- Several small renewable generation projects using solid waste, landfill gas, hydro, photovoltaics and wind will also be pursued.

A key element in integrated planning is to remain flexible to changing conditions. A set of contingency plans has also been prepared to address potential uncertainties.

In October the company announced five sites under consideration for a new base load power plant. The company forecasts the need for a base load power plant in the year 2004, to cost between $400 million to $500 million. Two of the sites are at existing power plants in Green Bay and near Wausau. Three additional sites are in Oconto, Brown and Portage Counties.

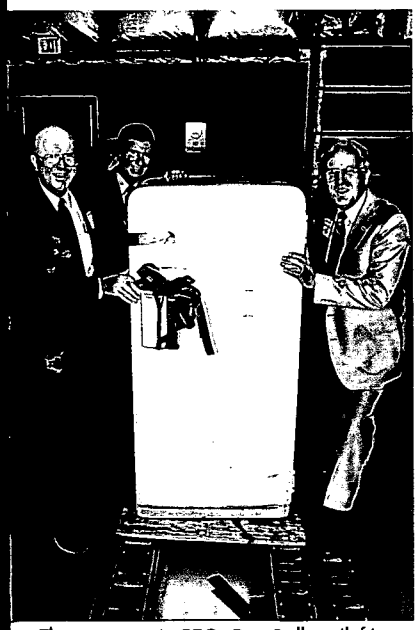
A record electrical peak load was set on August 29 as generation topped 1,592 megawatt-hours. The previous peak was 1,571 megawatt-hours which was set earlier in the summer on June 27. Prior to this summer, the previous peak of 1,516 megawatt-hours was set in the summer of 1990.

About 80,000 customers were without power following a May 28 storm that hit the north central part of the company's service territory. Restoration costs topped $820,000 as 315 line electricians worked to restore power to five operating districts.

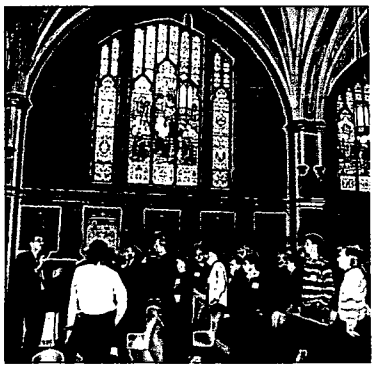
Upgrading of 12 miles of 46 kilovolt transmission line to 115 kilovolts between Tomahawk and the Grandfather Falls Hydro Plant was completed. Plans were submitted for PSCW approval to extend this line to the Merrill area.

Informational meetings were held on the $25 million Hoover to Hintz transmission reinforcement project in Central Wisconsin. This project, also involving two other state utilities, will add about 60 miles of new line while removing 120 miles of older, less reliable transmission facilities. Several intervenor groups are opposing this project. Hearings will be held and a decision made on the project in 1992.

Electric system improvements enable the company to ensure system reliability. Last year

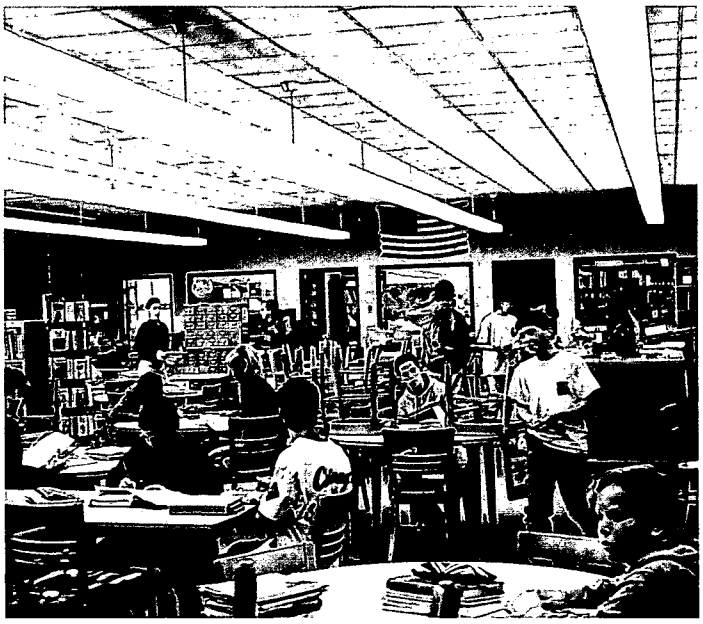


The company's CEO, Dan Bollom (left), and PSCW Commissioner John Coughlin (middle) and former Commissioner Charles Thompson (right), mark the introduction of the company's appliance turn-in program. The company is one of a few utilities in the country with this program.



The company started a major residential load management program in 1991 using a radio controlled system to coordinate customers' air conditioning use during peak times of electrical usage.

To encourage energy efficiency in religious buildings, the company sponsored a seminar to train church leaders to identify the potential for saving energy.



Many schools in the company's service territory have undergone major lighting renovations which will improve lighting for students while at the same time save taxpayers' money.

customers were supplied with reliable electrical energy 99.62% of the time.

The company has been working aggressively to increase its efforts in the development of cogeneration. Several projects are at varying levels of development with a number of industrial customers.

Customers interested in cogeneration at their facility have found a number of advantages in using the company as their project developer. This activity keeps the company in the power generation business and brings the benefits of cogeneration to industrial hosts and ratepayers alike.

The need for additional capacity in this area brings new market potential for independent companies to get into the power generation business. In Green Bay, Destec Energy Inc., a cogeneration development company, announced a cogeneration plant project to be built adjacent to a Green Bay paper mill. The industrial steam produced would be used by the paper mill and the electricity would be sold to electrical utilities.

In Central Wisconsin, Applied Energy Services Corporation is looking to build a 300 megawatt coal-fired power plant. The cogeneration plant would sell electricity to utilities and steam to the two potato processing plants.

The company is keeping all cogeneration and independent power production possibilities open.

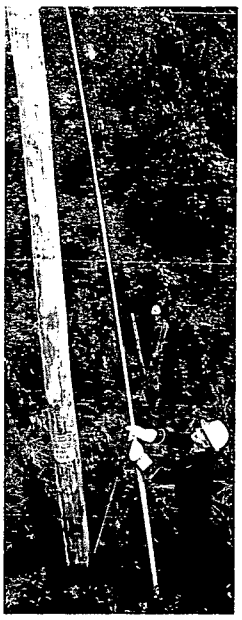
Nuclear Power

It was another operating record setting year for the Kewaunee nuclear plant. The plant generated electricity for 325 consecutive days, breaking the old record of 306. This marks the seventh time in the plant's 17-year history of operating more than 200 consecutive days.

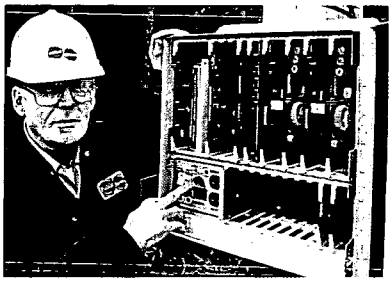
The plant was available to produce electricity 87.5% of the time. The industry average for availability is 68.4%.

For the fourth time, the plant received the "Award of Excellence" from the Institute of Nuclear Power Operations or INPO. The 535 megawatt plant is one of only three plants in the country to win the award four times.

A Nuclear Regulatory Commission (NRC) report noted a



Preventing a problem before it becomes one is the theory behind the company's maintenance program. This is instrumental in maintaining reliable service.



A new innovative application in microelectronics allows company personnel to quickly detect exactly where a line is broken or faulted.

In order to keep customer outages to a minimum, the company has an extensive ongoing tree trimming program in all of its operating divisions.

Reliable nuclear operations means fire team personnel are put through their paces during regular drills and exercises at the Kewaunee nuclear plant.

slight decline in performance rankings from the perfect score it received in the previous rating. The Systematic Assessment of Licensee Performance (SALP) examines seven areas of plant operation. Security, engineering/technical support and safety assessment/quality verification were areas identified as needing attention. The company intends to improve in these areas.

The National Nuclear Accrediting Board, which is part of INPO, has renewed the accreditation for three training programs at the Kewaunee plant. The accreditation for three others were placed on probation for 180 days. The probationary period will provide the company an opportunity to make significant progress on open items identified in the Accreditation Renewal Report and to show continuous commitment to the accreditation objectives.

Hydro

All but one relicensing application for the company's 19 hydroelectric stations have been completed. Applications to relicense six Peshtigo River projects, the Grand Rapids project, and the Jersey hydroelectric project were submitted to the Federal Energy Regulatory Commission (FERC) in 1991. The last application to be completed is for the Wausau hydroelectric license which expires in 1995.

Several improvements were made to increase the recreational use of the land adjacent to the hydroelectric plants including the

"We have always had an excellent reputatian for dependable service. The bottom line is, we maintain a strong commitment ta providing custamers with safe, reliable energy."

Patrick D Schrickel

Patrick D. Schrickel
Senior Vice President, Operations

Qualified personnel pravide reliable service. Company experts wark with local technical college students who are learning line mechanic skills for possible future emplayment in the utility industry.

Reliability of Sorvice

Our contrasting climate demands the diverse labor skills of our line electricians. Whether it's a -25° blizzard in January or an electrical wind storm at 100° in July, the company is committed to providing customers with reliable energy, no matter what the working conditions. Extensive preparations are taken to ensure reliability of service, from preparing line electricians for the worst possible conditions to establishing a preventative maintenance program which identifies potential future system faults so they can be repaired before they become a problem. The company wants to make sure when a customer requires energy, it is there.

"I'm always delighted to hear of incidents where an employee took the extra effort to help out a customer in need. It makes me feel proud to work for a compang that demonstrates true public service.

If we can help someone who needs it, we will. That's more than just good customer service, that's human decencg and respect for others."

James H. Liethen

James H. Liethen
Senior Vice President, Finance

dedication of a portion of land along the Peshtigo River in the Town of Stephenson for the development of a town park.

As part of the relicensing effort, company representatives, along with county and local officials, responded to an emergency exercise at the Caldron Falls hydro plant which simulated a dam break and flood.

Coal Power

The company renegotiated coal supply and delivery contracts. In step with a buy-out payment program, starting July 1992, the company will end its obligation to buy coal from the NERCO Coal Corporation.

Fuel Co[illegible]d Generation

Fuel co[illegible]pared
h 199[illegible]ollars per

million BTU, were: nuclear, $.52, up from $.50; coal, $1.68, down from $1.69; natural gas, $3.18, up from $2.95; No. 2 fuel oil, $5.04, up from $4.89.

The generation mix of fuels needed to operate company power plants in 1991 compared to 1990 was: coal, 65.9%, down from 67% nuclear, 14.9%, down from 16.2% hydro, 3.2%, up from 2.6%; combined natural gas and fuel oil, .4%, same as 1990; and power purchased from other utilities, 15.6%, up from 13.8%.

The company is awaiting a decision by the State Court of Appeals in a lawsuit settlement between the PSCW and Wisconsin Power and Light Company (WP&L) over a coal contract dispute at the Columbia power plant. The

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A homeless shelter in Green Bay received high efficiency heating equipment from the company. The new heating system will reduce the shelter's expenses enabling them to serve more homeless people.

company owns 31.8% of the plant which is operated by WP&L. A Dane County court ruled in favor of the utility over the alleged mishandling of the coal contract at the jointly-owned power plant. The PSCW appealed that decision to the State Court of Appeals.

Natural Gas

For two years, the company has been negotiating with its natural gas supplier, ANR Pipeline Company, to restructure a new service agreement.

The current 20-year contract expires on October 31, 1992. For over one year, the company has been represented in ANR's rate case at the FERC.

Both the restructuring of the service agreement and the rate case were brought together in settlement conferences. In the meantime, FERC issued a notice of proposed rulemaking. This marks the close of the take-or-pay issue pertaining to ANR rates. The industry will now function more as a free market.

During 1991, about 65 miles of gas main were installed, and nearly 3,900 new gas customers were connected to the company's system. Continued growth is anticipated over the next several years.

Environment

The company and the Wisconsin Department of Natural Resources (DNR) entered into an agreement which allowed the company to continue to test new coals which will be required to meet the Wisconsin Acid Rain Law which goes into effect January 1, 1993. The company spent $12 million in improved equipment and now meets all regulations.

Investigations have shown that blending two "low sulfur" coals, each having its own unique characteristics, can enhance a plant's ability to meet the sulfur dioxide emission requirements, increase operational flexibility and reduce costs. A $5.7 million blending conveyor system is being installed at the Pulliam plant. Weston Units 1 and 2 already have the capability to blend coals.

The company purchased three railroad trains, each containing about 120 rail cars, to transport low sulfur coal to its power plants. The $15.9 million purchase gives the company more control over transportation costs.

The company has an active counseling program to help customers with employment or other personal financial problems.

If one of the company's employees learns of a passible domestic problem, they refer and assist the customer to an appropriate agency to seek help.

The company has always had an ongoing program to work with a number of community agencies in trying to help customers in need.

In addition, nitrogen oxide limitations will require the installation of low nitrogen oxide burners on Pulliam Unit 8 by 1995. Burner modifications may be required on two additional units by 2000. The estimated cost for burner modification to these units is about $15 million.

The tiny fast-breeding zebra mussel has found its way through the Great Lakes waterways to the company's Kewaunee nuclear plant on the Lake Michigan shoreline and to the Pulliam plant on the waters of Green Bay. During the spring refueling outage at the Kewaunee plant, the tiny mussels were discovered. Chlorine is being used to control the mussels which are known to clog pipes. During 1992, $360,000 and $415,000, respectively, will be spent at the Kewaunee and Pulliam plants on engineering, hardware and equipment to control the spread of the mussels in pipes and water systems.

Environmental projects include construction of a 2.5 acre wetlands near Green Bay for water fowl nesting and protection and planting walleye in the Wisconsin River near Tomahawk.

The company continues recycling whatever and wherever it can.

All office paper is recycled. The company's printing department uses recycled paper. A pilot program using reusable envelopes for customers in one company location proved successful and the company will soon be sending out all monthly energy bills to customers using reusable envelopes.

The company continued to recycle fly ash from the Pulliam and Weston coal-burning power plants. In August, a milestone was reached when all fly ash produced was earmarked for recycling. The ash from the Weston units was used for concrete and some was stockpiled for use at the Central Wisconsin Airport project, while the Pulliam plant's 70,000 tons of fly ash was stockpiled for a planned highway interchange.

Business Ventures

The company, along with two other utility partners, sold their interest in NorLight to Journal Communications, Inc. of Milwaukee.

The Materials Management System allows for improved service to customers and better financial management while maintaining thousands of company records.

Employees go over the installation of computer capacity information equipment which will increase our ability to store data that is essential to providing good customer service.

Communicotion is the key to effective customer service. Significant improvements were made this year to enhance the capabilities of the campany's telecommunicatians system.

The company has been a partner in NorLight, a fiber optics communications company which operates in Wisconsin, Minnesota and Illinois, since it was formed in 1985.

Employees

It's the second year of the company-wide transformation to the ways of Total Quality Focus (TQF). About one-quarter of all employees have received TQF training. The quality evolution is already paying back dividends. At the Weston plant, improvements in coal sampling techniques have resulted in more accurate unit heat calculations. Another Weston team is working to improve safety awareness. Another group used TQF principles to improve map quality resulting in safer customer service during normal and emergency situations.

The TQF approach was used in the "win-win" process to negotiate a new three-year labor agreement between the company and the International Union of Operating Engineers.

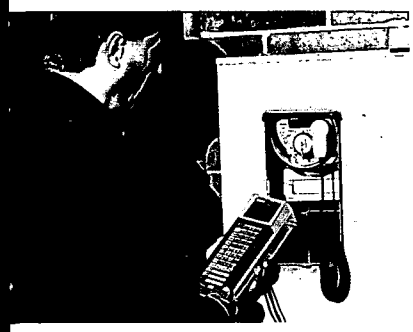
Employees who meet the criteria are able to add flexibility to their work schedule. This change of work schedule idea was discovered as part of an informational gathering project by a TQF team. Another employee TQF team is looking into ways of improving company communications.

Through the efforts of some skilled employees, the company has

"I'm always amazod ot how our employees are ohle to continuolly come up with new woys to do things better. We provide the hest possible training, tools and eqaipmont, and our omployees respond hy doing tbe joh right. That's when customers ore served best."

Clark R. Steinhardt

Clark R. Steinhardt
Senior Vice President,
Nuclear Power

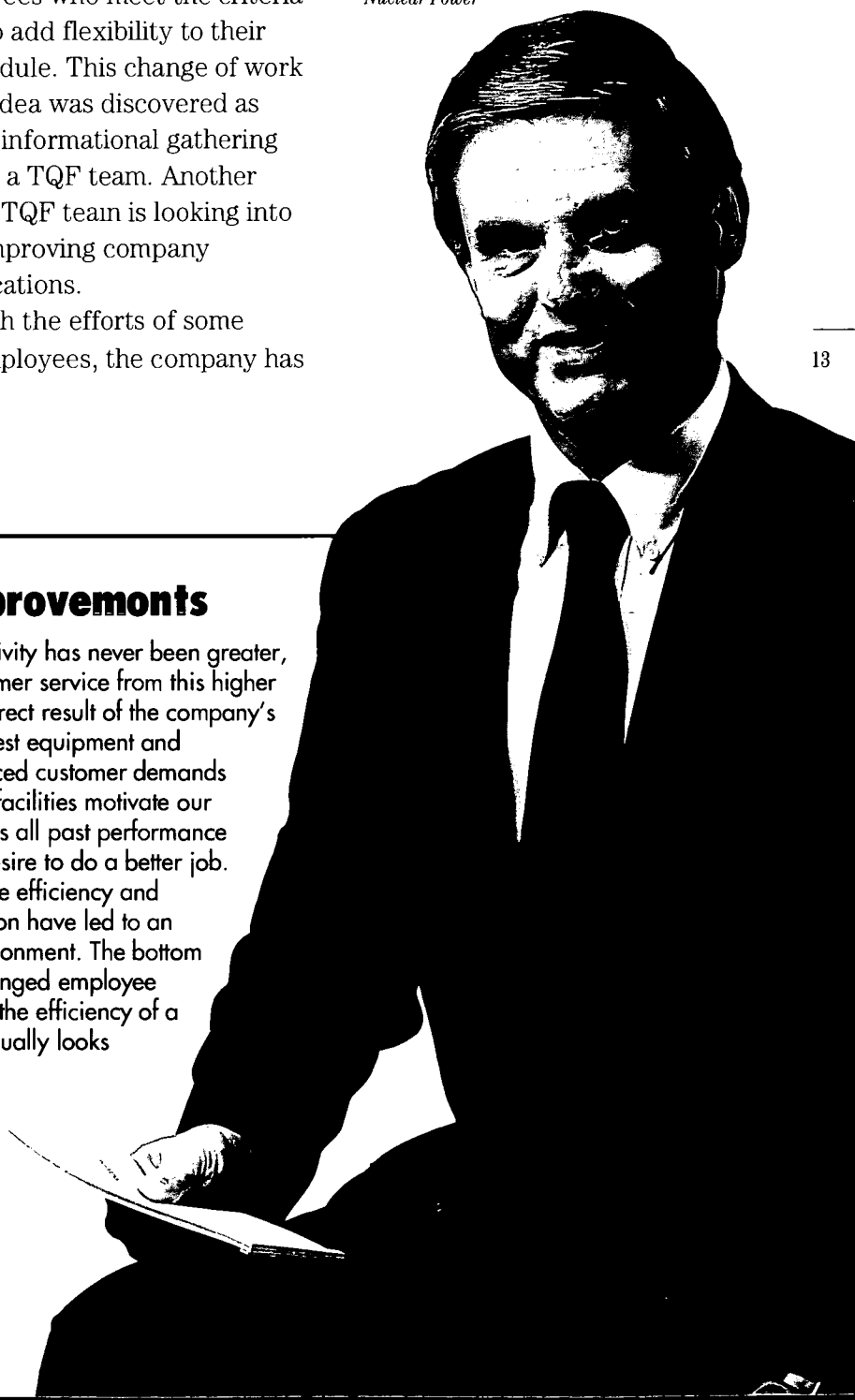


Good communications equipment is vital to safe field operations. An improved radio system allows work crews to communicate more reliably.

New industrial meter reading equipment will allow meter readers to obtain specific detailed customer use information every time the meter is read.

Service Improvemonts

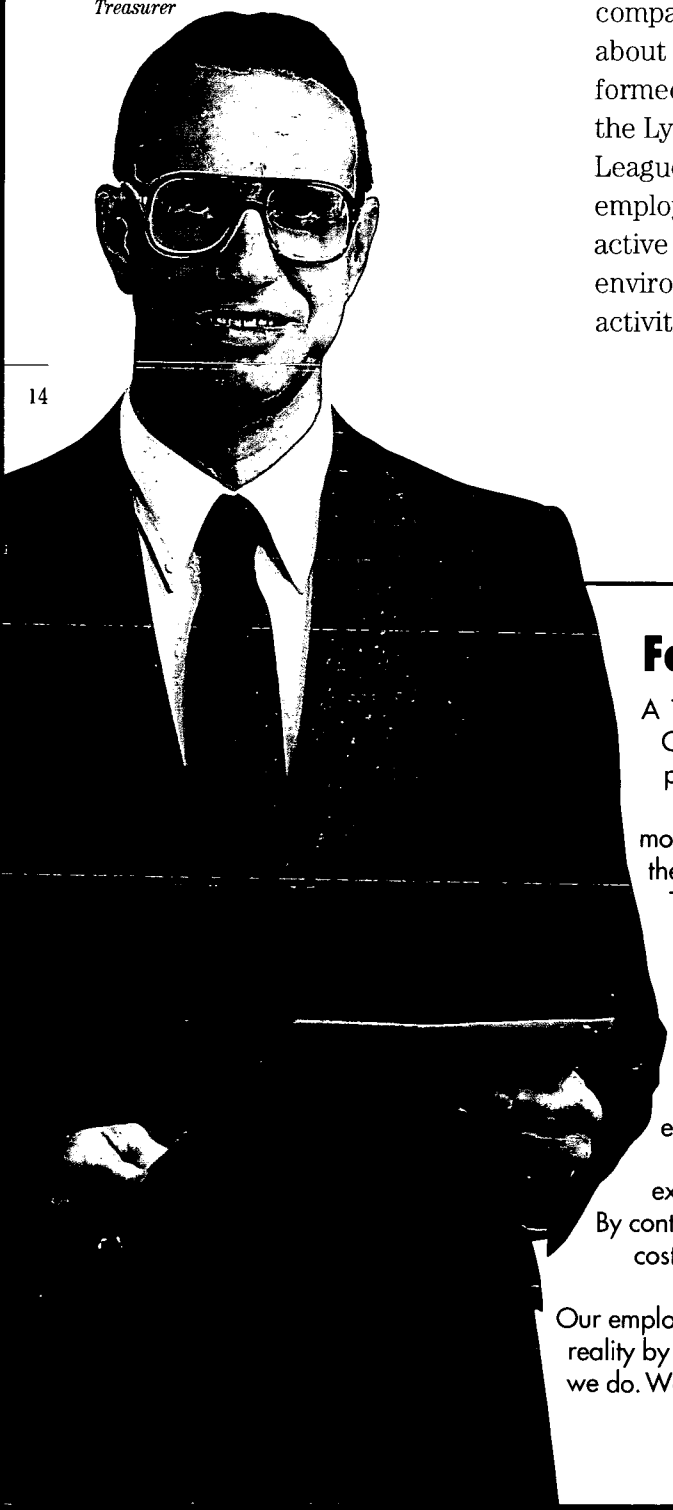
Employee productivity has never been greater, and improved customer service from this higher productivity is the direct result of the company's investment in the latest equipment and technology. Fast-paced customer demands and state-of-the-art facilities motivate our employees to surpass all past performance in their increased desire to do a better job. Innovation to achieve efficiency and rewarding recognition have led to an attractive work environment. The bottom line result is a challenged employee working to improve the efficiency of a compony that continually looks for ways to improve customer service. That's a total quality commitment.



"It's exciting to see our employees become more knowledgeable and comfortable with the principles of continuous quality improvement. We know the chanye is a major one and it's not an eusy one to make; but we are committed to puttiny in place the best environment possible for total quality thinking to flourish among our employees."

Daniel P. Bittner

Daniel P. Bittner
Vice President, Treasurer



become a recognized industry leader in evaluating and improving existing distribution systems. Presentations on the subject were given to members of the Edison Electric Institute and to the Institute of Electrical and Electronic Engineers.

About 200 company employees and retirees from five different company locations concerned about environmental protection formed a new organization called the Lyle Kingston Conservation League. Lyle Kingston was a former employee who was known as an active protector of the environment. The group does activities which enhance wildlife habitat. For its efforts, the group received an award from the DNR.

Marketing Efforts/ Area Development

The company announced a number of new programs aimed at helping customers use energy more efficiently and at promoting conservation.

Since July, when the company began its Appliance Turn-In Program, until year-end, over 10,000 appliances were recycled. Old energy inefficient refrigerators, freezers and room air conditioners were picked up at customers' homes and dismantled for reprocessing.

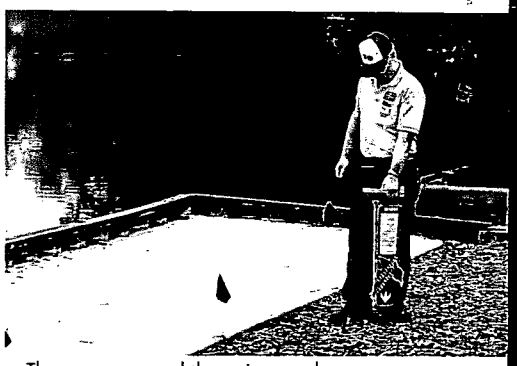
In October, the company began a program offering energy efficient

Focus On Quality

A 1991 survey of the Chief Executive Officers of Wisconsin's 100 largest privately-held companies identified customer focus and quality as the most important strategic issues facing their companies.

Three years ago, Wisconsin Public Service introduced a process of continuous impravement in the quality of our products and services. We call it Total Quality Focus or TQF.

The goal of TQF is to get all employees working together across organizational lines to meet and exceed our customers' expectations. By continually impraving work processes, costs are reduced, rates will stabilize, and customer service is improved. Our employees make customer satisfactian a reality by emphasizing quality in everything we do. We are seeing many TQF successes.



The company and the union used a new quality concept for union labor negatiations through a mutually beneficial "win-win" approach.

Locating underground gas facilities is now done faster and more accurately through the use of a micro processor.

compact fluorescent light bulbs. The new bulbs will save about $35 in energy costs over the lifetime of the bulb while lasting up to 13 times longer than a regular bulb. About 107,000 compact fluorescents were sold in the first three months of the program.

The company implemented a pilot program offering financial incentives if the customer agrees to allow radio control of their air conditioning during peak times of high electrical energy usage. About 4,200 residential customers in the Green Bay area are on the program. The goal was 3,000 customers. Because of its popularity, the company is expanding the program.

The company assisted about 10 school systems in upgrading their existing lighting with energy efficient fluorescent lighting.

In August, the company selected the city of Merrill for a Community Conservation Project. The project will try to deliver the maximum energy savings potential to be attained in homes and businesses in Merrill. It is a pilot project and may be used in other communities in the company's service area.

Other conservation plans were also offered to commercial, industrial and farm customers, as well as residential customers.

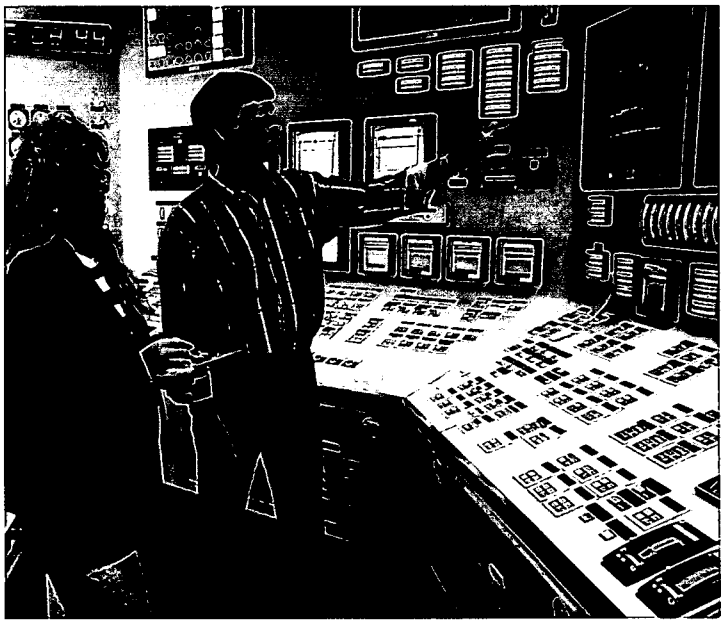
Other plans to increase energy conservation include new financing options to encourage customer investments in energy efficiency, energy management services for large customers, and customized rebates for investments by customers in new or unique efficiency technologies.

The company met its 1991 conservation goal for natural gas but, despite its increased emphasis, fell short in the electric conservation area.

The company's economic development area took on an international perspective as company representatives, along with 12 other area businesses, participated in the United States Midwest-Japan Association meeting. About 200 Japanese business executives met with area business leaders to discuss potential economic development.

The company assisted in attracting Gen Corp, Inc. to build a latex processing plant in the Green

Quality improvements were made on switching equipment at Lambeau Field, home of the Green Bay Packer football team. The new installation allows for increased reliability of lighting facilities and the stadium's electrical system.



Operators at the company's Weston power plant near Wausau monitor the coal combustion process in order to find ways to get more electricity from fuel burned.

Bay area. The company's low rates and impressive reliability of service record combined with its energy efficiency rebate programs helped Gen Corp, Inc. reduce their operating costs and decide to build in the Green Bay area.

The company also helped in attracting Fox River Fibre to set up its operations in De Pere. The company manufactures a high quality pulp to make paper from recycled paper. The pulp plant is expected to begin operation in 1992 and use 4 to 5 megawatts of electricity.

Governmental Affairs

Congressional action on a proposed National Energy Strategy Senate Bill 1220, stalled late in the year because of an array of issues that are difficult to resolve. Debate is expected to continue in both the Senate and the House during 1992.

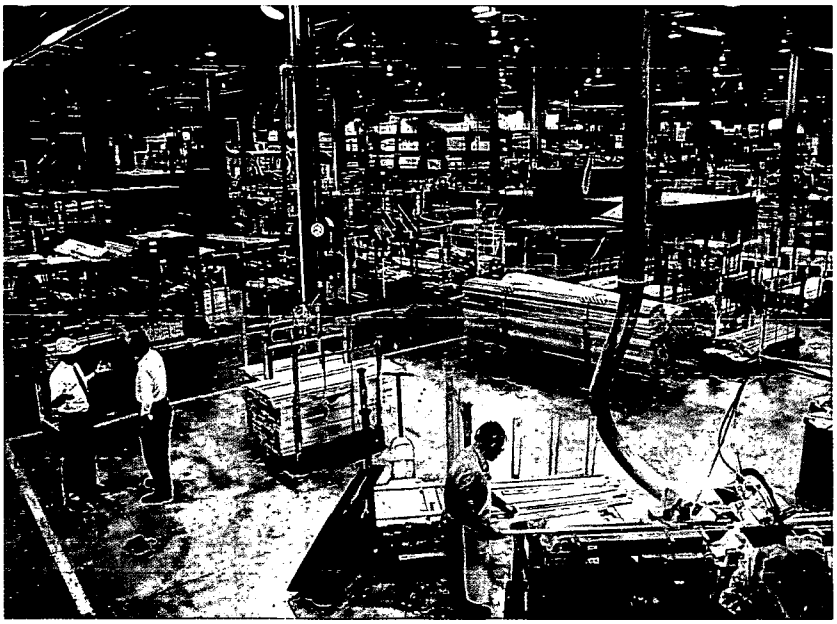
Two provisions of the bill were of particular interest to the company:

* Title XV would revise the Public Utility Holding Company Act of 1935 (PUHCA) to deregulate nonutility wholesale electric generators, placing utility generators at a competitive disadvantage. The company is actively opposing this provision.
* Title IX would streamline the federal nuclear plant licensing process. The company is actively supporting this provision.

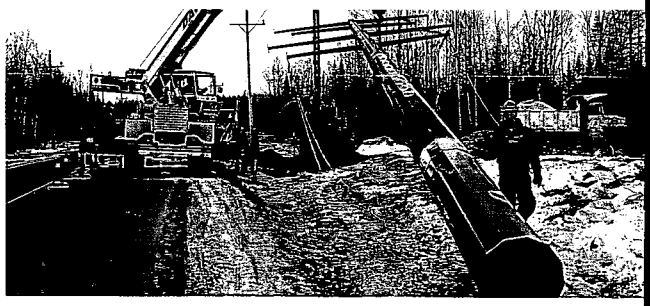
In Wisconsin, Governor Tommy G. Thompson signed into law a bill which clarifies a State Supreme Court decision which would have permitted the award of treble damages in a variety of cases not previously covered. This law significantly reduces utilities' exposure in cases where they may not have had knowledge of the conditions which might have contributed to an event that leads to a fine or forfeiture.

Research and Development

The company continued its active role in Electric and Magnetic Field (EMF) research to determine if there are health effects associated with EMFs. Six times a year, EMF levels at 12 homes are



The company supplies energy to SNE Millwork, the largest single structure by square footage that was built in the state during the 1980s. SNE manufactures door and window moldings in central Wisconsin.



As part of the continuing effort to improve our electric transmission system, a regular maintenance schedule is planned to upgrade older parts and equipment.

Customer satisfaction is the result of new energy service provided by our company to a major expansion at the Waupaca Foundry in Marinette.

recorded. The measurements are part of a nationwide EMF study. Company representatives also continue to take EMF measurements at customers' homes upon request. The two-year EMF study will be completed in 1992.

The company is funding a two-ar wind energy study near Green y. U.S. Wind Power, the nation's ding wind generator company, 'll evaluate the engineering and regulatory possibilities for a 10,000 kilowatt wind farm.

The company continues to pursue options to develop landfill biogas, waste-to-energy plants and the increased use of hydroelectricity. The company has included renewable energy sources as part of its future energy plans.

Superconductivity, Inc., of Madison, a company funded research venture, sold its first commercial Superconductivity Storage Device (SSD) to a paper mill in the state of Washington, and a second unit to a large computer company in New York State. Superconductivity, Inc., developed the SSD and is now manufacturing and marketing the devices, which compensate for microsecond lags in the flow of electricity. Other targeted companies include electronic manufacturers, paper mills, chemical plants and computer manufacturers.

The company continued its investment in UTECH, a venture capit partnership. Twelve utilities esting in the pro

"We're gearing up to meet the many new challenges associated with aur future energy supply. We are already positianing ourselves to turn those challenges into opportunities for both our customers and the compony."

Glen R. Schwalbach

Glen R. Schwalbacb
Assistant Vice President,
Gas Engineering and Supply

Providing

Our customers' constantly chang meeting and kee At the same time is also changing. planning efforts upgraded to ensu those changing and cost-effective

Fortunately, the service territory attractive for exp continues at a co positive indicator and enhance its At the same time opportunities and customers' future

A major gas main extension was added to service additional customers in the northeastern part of our service territory. Part of the extension went through the town of Goodman.

Board Of Directors

A. Dean Arganbright
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Daniel A. Bollom
President and Chief Executive Officer of the Company

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Partner and General Manager, Hasselblad Machine Company, Green Bay, WI

James L. Kemerling
President and Chief Executive Officer, Shade Information Systems, Inc., Green Bay, WI

James H. Liethen
Senior Vice President of the Company

Linus M. Stoll
Retired Chairman and Chief Executive Officer of the Company, Green Bay, WI

Paul D. Ziemer
Retired Chairman and Chief Executive Officer of the Company, Green Bay, WI

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Senior Vice President, Finance

Patrick D. Schrickel*
Senior Vice President, Operations

Clark R. Steinhardt*
Senior Vice President, Nuclear Power

J. Gus Swoboda*
Senior Vice President, Marketing and Corporate Services

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Robert H. Knuth
Assistant Vice President, Secretary

David W. Schonke
Assistant Vice President, Electric Distribution Engineering

Glen R. Schwalbach
Assistant Vice President, Gas Engineering and Supply

*Senior Staff

Managomont

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Division Manager, Green Bay

James L. Dobratz
Manager, Pulliam Plant

Kenneth H. Evers
Manager, Nuclear Plant Support Services

Ronald K. Grosse
Manager, Customer Accounts

Charles K. Heidemann
Manager, Substation and Transmission

Richard E. James
Manager, Rates and Economic Evaluation

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Randall G. Johnson
Manager, Quality Implementation

Paul J. Liegeois
Manager, Retail Marketing

Dennis J. Maki
Manager, Weston Plant

Mark L. Marchi
Manager, Kewaunee Plant

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Phillip M. Mikulsky
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Gerald L. Mroczkowski
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Manager, Nuclear Engineering

Walter T. Shier
Division Manager, Marinette and Menominee

Bernard J. Treml
Manager, Marketing Programs and Services

Peter J. Van Beek
Division Manager, Wausau

Shareholder Information

Executive Office

700 North Adams Street
P.O. Box 19001
Green Bay, Wisconsin 54307
Telephone: (414) 433-1598 for general information or for shareholder information call (414) 433-1050 or (toll free) 1-800-236-1551.

Common Stock

Listed on New York and Midwest Stock Exchanges
Ticker Symbol: WPS
Transfer Agent and Registrar:
First Wisconsin Trust Company
P.O. Box 2077
Milwaukee, Wisconsin 53201
As of December 31, 1991, there were 24,943 common stock shareholders of record.

Annual Shareholders' Meeting

Midway Motor Lodge
780 Packer Drive
Green Bay, Wisconsin
Thursday, May 7, 1992
at 10:30 a.m.

Annual SEC Report Form 10-K

This report (not including exhibits thereto) will be available without charge about April 1, 1992 to shareholders who make requests to:
Robert H. Knuth
Assistant Vice President-Secretary
700 North Adams Street
P.O. Box 19001
Green Bay, Wisconsin 54307

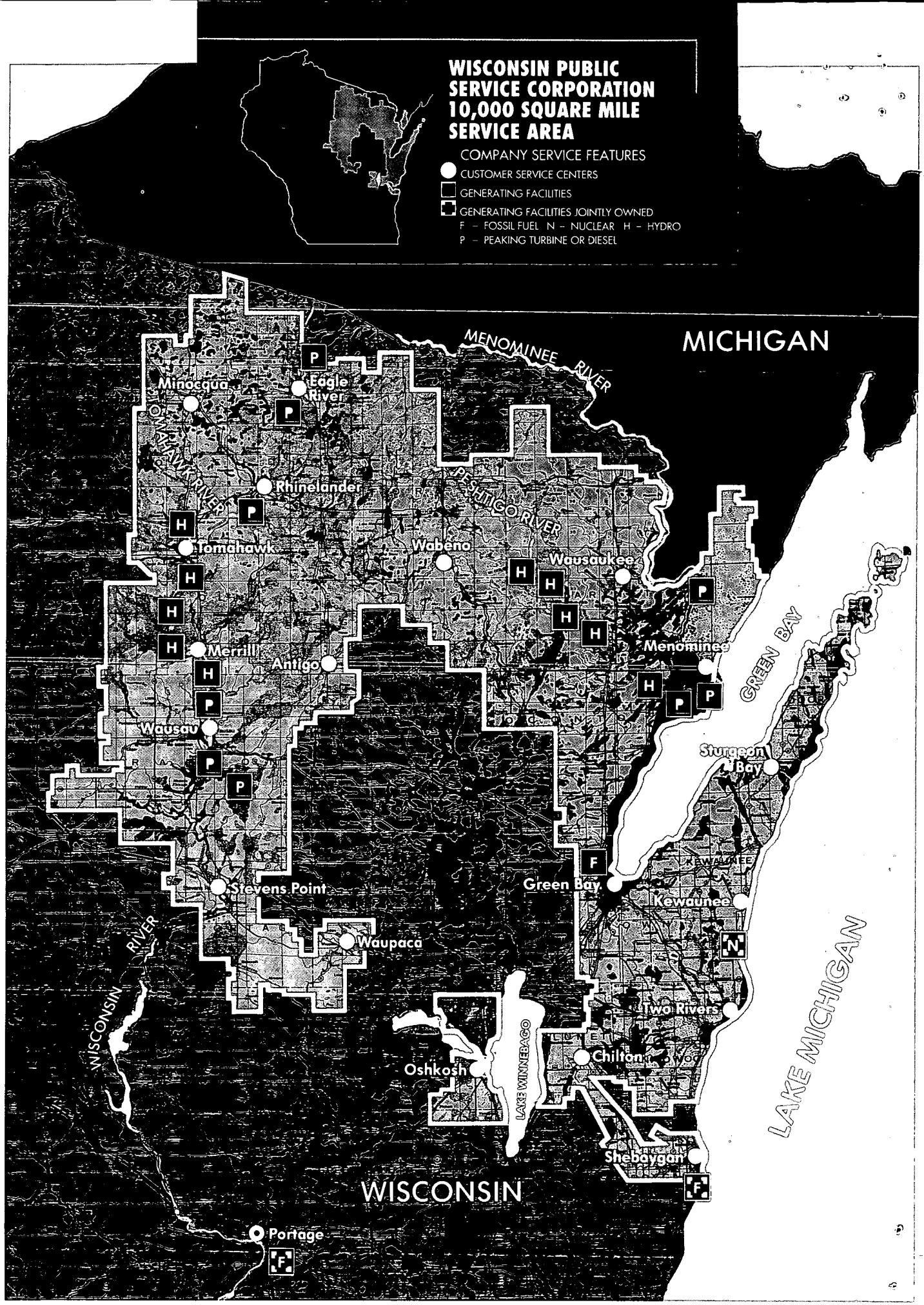
Preferred Stock

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

Wisconsin Utility Investors

WUI is an independent, non-profit organization representing the collective voice of utility shareholders before regulators, legislators and the general public. WUI invites the participation of all utility investors.

For information write:
Wisconsin Utility Investors, Inc.
161 W. Wisconsin Avenue
Suite 6058
Milwaukee, Wisconsin 53203
or telephone:
(414) 221-3849


WISCONSIN PUBLIC SERVICE CORPORATION 10,000 SQUARE MILE SERVICE AREA
COMPANY SERVICE FEATURES
CUSTOMER SERVICE CENTERS
GENERATING FACILITIES
GENERATING FACILITIES JOINTLY OWNED
F – FOSSIL FUEL N – NUCLEAR H – HYDRO
P – PEAKING TURBINE OR DIESEL
MICHIGAN
MENOMINEE RIVER
Minocqua
Eagle River
ONAHAY RIVER
Rhinelander
PESHTIGO RIVER
Tomahawk
Wabeno
Wausaukee
Menominee
GREEN BAY
Merrill
Antigo
Wausau
Sturgeon Bay
KEWAUNEE
Green Bay
Kewaunee
Stevens Point
Waupaca
WISCONSIN RIVER
Two Rivers
Chilton
Oshkosh
LAKE WINNEBAGO
LAKE MICHIGAN
Sheboygan
WISCONSIN
Portage

Results of Operations

1991 Compared to 1990

Electric operating revenues increased 5% in 1991 compared to 1990. Kilowatt-hour sales increased 3% during the period due to new electric customers and increases in heating and cooling degree days. In addition, a rate increase of 2.8% became effective January 1, 1991 for our Wisconsin retail electric customers.

Gas operating revenues increased 9% in 1991 compared to 1990. Gas therm sales increased 7% due primarily to an increase in heating degree days. A 1.3% rate increase for our Wisconsin retail gas customers became effective January 1, 1991.

Electric production fuels increased $1.3 million, or 1.0%, in 1991 compared to 1990. This increase is due to higher generation levels, but was offset by a slight decrease in the cost of coal. This reduction reflects the company's efforts to decrease fuel costs by buying out of certain high cost, long-term coal contracts to allow purchases of coal in the more favorable spot market.

Gas purchased for resale increased $5.7 million, or 5.9%, in 1991 compared to 1990. This increase is due to higher sales volumes caused by colder winter weather, offset by a 2% decrease in the cost of gas.

Purchased power increased $5.7 million, or 21.2%, in 1991 compared to 1990. The increase was due to higher kilowatt-hour purchases, which were required to offset unanticipated and extended outages at some of the company's generating stations, and warmer summer weather. There was also an increase in capacity purchases, which reserves a portion of other companies' generating capacity.

Other operating expenses increased $11.3 million, or 9.6%, in 1991 compared to 1990, due to higher employee benefits, primarily in medical costs, and increased expenditures for energy conservation programs. A significant factor in the increase in employee benefit costs was an approximate 5% increase in employees. This increase was due to a large number of contract maintenance employees at the Kewaunee nuclear plant being hired as company employees, which is more cost effective. With regard to energy conservation, the company's 1991 and 1992 PSCW rate orders required the company to substantially expand its electric and gas conservation programs.

Maintenance expense increased $4.0 million, or 8.9%, in 1991 compared to 1990 primarily due to additional maintenance activities at the Kewaunee nuclear plant.

Federal and state income taxes increased $1.8 million, or 6.9%, in 1991 compared to 1990 due to higher earnings.

Other income increased by $.9 million, or 27.2%, in 1991 compared to 1990. This is due primarily to the sale of NorLight, a fiber optics telecommunications company in which our company was a partner.

1990 Compared to 1989

Electric operating revenues increased 1% during 1990 compared to 1989. Kilowatt-hour sales increased 4% during the period due to new customers and increased demand from commercial and industrial customers. Sales to wholesale customers increased due primarily to one customer's internal generation problems which resulted in the customer contracting 100% of its load from the company. Previously, the company supplied only a portion of this customer's energy requirements. These increases were offset by a 2% rate decrease for our Wisconsin retail electric customers which became effective January 1, 1990, and lower heating and cooling degree days.

Gas operating revenues decreased 2% during 1990 compared to 1989. The most significant factor influencing gas revenue was the mild weather which caused a 14% decrease in heating degree days. In addition, the average cost of gas declined approximately 9% between years. Offsetting these declines was a $21.1 million one-time adjustment made in 1989 to record a refund from the company's primary gas supplier, which reduced both 1989 revenues and expenditures.

Management's Discussien and Analysis

Electric production fuel cost decreased $4.9 million, or 3.7%, even though generation increased by 7%. The decline in electric production fuel cost is due to lower fuel costs at the company's coal-fired plants as a result of lower transportation costs and a downward adjustment during the annual physical coal inventory.

Purchased power decreased $4.0 million, or 12.8%, due to increased availability of the company's own generating capacity because of less down time.

Other expenses increased $7.7 million, or 7.0%, reflecting a number of factors, including higher operating expenses at all of the company's generating facilities, higher employee benefit costs, and increased payments to customers for energy conservation programs.

Other interest was higher by $1.1 million, or 40.1%, reflecting interest on a long-term contract with one of the company's rail carriers, and as the result of interest on a $21.1 million gas refund received from the company's primary gas supplier in December 1989 which was refunded to customers in the first quarter of 1990.

Balance Sheet

Deferred charges increased $46.6 million in 1991 compared to 1990. The primary reason for this increase was the buyout of a major long-term coal contract and its related transportation contracts for approximately $34.0 million. For a more detailed discussion of this item, refer to Note l(i) in the "Notes to Financial Statements." Another significant factor was $5.6 million of demand-side management expenditures, recoverable in rates over the next 10 years. These expenditures were funded primarily from the proceeds of $60 million in new debt that was issued in September 1991. The proceeds from these new bonds were also used to reduce commercial paper borrowings.

Financial Condition

The company has maintained good liquidity levels and its financial position is considered to be strong by utility analysts. No funding difficulties are anticipated in the future. Because of high securities' ratings, the company has good access to debt markets at attractive interest rates. The company's commercial paper ratings of A-1+ (Standard & Poor's) and P-1 (Moody's) are the highest given. The company's bonds have strong ratings of AA+ (Standard & Poor's), Aa2 (Moody's), and AA+ (Duff & Phelps), due in part to high interest coverages. Pretax interest coverage for the twelve months ended December 31, 1991 was 4.0 times. Although decreasing in recent years, it still compares favorably with the current electric utility average which is about 3.0 times. Under the most restrictive covenants of the mortgage indenture, the company would be able to issue approximately $340 million of new bonds.

In recent years, internally generated funds (net cash from operating activities less dividends) exceeded construction and other investments (including nuclear decommissioning trusts and conservation expenditures) and the company was able to retire bonds, and preferred and common stock. For the year 1991, however, a funding shortfall of $23 million required outside financing. Therefore, the company sold $60 million of bonds in September.

For the five-year period 1992-1996, internally generated funds are expected to lag construction expenditures and other investments by about $180 million. The company plans to add three combustion turbines or cogeneration units during that period. This plan suggests future sales of about $150 million of bonds and $70 million of common stock. Additional factors such as Federal Clean Air legislation could increase the need for outside financing.

The company guarantees leveraged employee stock ownership plan (ESOP) loans totaling about $28 million. The loans are to be retired by the trust by 2000 from a combination of common stock dividends on unallocated shares held by the trust and company contributions to the trust. As of December 31, 1991, the ESOP held about 11% of the company's outstanding common stock.

For financial reporting purposes, the ESOP loan guarantees are reflected as a reduction from common stock equity and an increase in long-term debt. For ratemaking purposes, this adjustment is not reflected

by the PSCW. With common equity as reported for financial statement purposes, book value per share as of December 31, 1991 was $16.14. Without the loan guarantees, however, book value per share was $17.42.

Common and preferred shareholders' equity was 56% of long-term capitalization at December 31, 1991. Company management has taken action to limit this equity ratio in recent years by retiring some of its highest dividend rate preferred stock and some of its common stock. Additional retirements are unlikely due to sales and load forecasts which indicate a need for new generating units that will be financed in part with common stock sales starting in 1992.

Starting in 1991, the PSCW has required the company to substantially increase expenditures to promote conservation of electricity and gas and to capitalize a significant portion of these amounts. The company's previous practice had been to expense these conservation activities currently and recover them in rates. The company is authorized to spend up to $23 million in 1992 for demand-side management projects, of which about $12 million is to be expensed and recovered currently in rates with the balance being capitalized. Although company management expects to spend less to achieve PSCW mandated load reductions, financing of about $11 million could be required for 1992. Similar amounts may be necessary in the following years.

The company came to agreement during 1991 to buy out of certain long-term coal and transportation contracts. This will allow the company to purchase fuels at lower costs. As part of the buyouts, the company spent $28 million in 1991 and expects to spend $6 million in 1992. These costs have been recorded as regulatory assets. Management expects to recover in rates the $28 million over the following periods, $18 million will be recovered over 3½ years and $6 million will be recovered over 10½ years. The remaining $10 million will be recovered over a period to be determined in the company's next rate filing.

In March 1991, the company filed for rate increases for Wisconsin retail customers in the amounts of $10.2 million (2.5%) for electric and $2.5 million (1.6%) for gas. A rate order was received in December authorizing a $5.7 million (1.4%) increase for electric and no change in gas rates, effective January 1, 1992.

Refer to the "Notes to Financial Statements" for discussion of the impact of Statement of Financial Standards No. 96 and No. 106 on the company's financial statements.

Trends

New Federal Clean Air Act amendments were enacted in 1990. The Act establishes stringent sulfur dioxide and nitrogen oxide emission limitations. Wisconsin has previously enacted laws to limit sulfur emissions. The company anticipates meeting these new limitations primarily by switching to lower sulfur fuels. However, some new capital expenditures will be required to upgrade existing equipment and to monitor emission levels.

The company has been notified that it is a potentially responsible party for cleanup of six manufactured gas plant sites and some waste disposal sites to which it has been a minimal contributor. At December 31, 1991, the company has paid minor amounts to study these sites and has accrued its estimated share, which is not material, for future cleanup costs.

For a more detailed discussion of these items, refer to the "Notes to Financial Statements."

Impact of Inflation

Current financial statements are prepared in accordance with generally accepted accounting principles and report operating results in terms of historic cost. They provide a reasonable, objective, quantifiable statement of financial results but do not evaluate the impact of inflation. Under ratemaking prescribed by the commissions regulating the company, projected operating costs are recoverable in revenues. Because forecasts are prepared assuming inflation, the majority of inflationary effects on normal operating costs are recoverable in rates. However, the company is only allowed to recover the historical cost of plant via depreciation in these forecasts.

Statements ef Inceme

	Year Ended December 31		
	1991	1990	1989
		(Thousands)	
Operating Revenues:			
Electric	$471,277	$448,905	$442,938
Gas	152,222	140,068	142,874
	623,499	588,973	585,812
Operating Expenses:			
Operation –			
Electric productions fuels	131,054	129,792	134,719
Gas purchased for resale	103,189	97,443	97,927
Purchased power	32,886	27,145	31,125
Other	128,820	117,494	109,765
Maintenance	48,223	44,265	43,363
Depreciation	55,687	55,363	53,135
Taxes –			
Federal income	21,961	20,775	20,972
Investment credit restored	(2,071)	(2,298)	(2,256)
State income	5,688	5,083	4,373
Other	23,034	23,138	22,403
	548,471	518,200	515,526
Operating income	75,028	70,773	70,286
Other Income and (Deductions):			
Allowance for equity funds used during construction	113	451	595
Other, net	4,351	2,845	1,464
Income taxes	(478)	(162)	556
	3,986	3,134	2,615
Income Before Interest Expense	79,014	73,907	72,901
Interest Expense:			
Interest on long-term debt	22,127	21,289	21,327
Allowance for borrowed funds used during construction	(193)	(306)	(341)
Other interest	2,908	3,901	2,785
	24,842	24,884	23,771
Net Income	54,172	49,023	49,130
Preferred Stock Dividend Requirements	3,237	3,293	3,436
Earnings On Common Stock	$ 50,935	$ 45,730	$ 45,694
Average Number Of Shares Of Common Stock Outstanding (Thousands)	22,889	22,889	23,086
Earnings Per Average Share On Common Stock	$2.23	$2.00	$1.98
Dividends Per Average Share On Common Stock	$1.68	$1.64	$1.60

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

Balance Sheets

	December 31		
	1991	1990	1989
		(Thousands)	
Assets			
Utility Plant:			
In service – Electric	$1,269,979	$1,234,225	$1,193,195
Gas	163,901	156,062	149,877
	1,433,880	1,390,287	1,343,072
Less – Accumulated provision for depreciation	695,586	648,398	600,965
	738,294	741,889	742,107
Nuclear decommissioning trusts	45,504	40,587	36,003
Construction in progress	8,071	7,487	6,678
Nuclear fuel, less accumulated provisions for amortization of $117,792, $110,807, and $103,763, respectively	18,704	19,531	23,503
Net utility plant	810,573	809,494	808,291
Investments	17,835	20,889	16,147
Current Assets:			
Cash and equivalents	477	161	5,257
Customer and other receivables (less uncollectible reserve)	65,673	57,572	63,429
Accrued utility revenues	29,545	28,402	30,425
Fossil fuel, at average cost	27,317	22,404	29,769
Materials and supplies, at average cost	19,260	17,795	15,596
Prepayments and other	19,673	21,969	22,959
Income taxes receivable	3,448	–	–
Total current assets	165,393	148,303	167,435
Deferred Charges	63,360	16,771	19,817
Other Assets	16,376	13,782	11,479
	$1,073,537	$1,009,239	$1,023,169
Capitalization and Liabilities			
Capitalization:			
Common stock equity	$ 369,298	$ 372,132	$ 373,125
Preferred stock with no mandatory redemption	51,200	51,200	51,200
Preferred stock with mandatory redemption	–	–	642
Long-term debt	332,907	273,349	255,275
Total capitalization	753,405	696,681	680,242
Current Liabilities:			
Note payable	10,000	10,000	10,000
Commercial paper	3,000	25,000	26,000
Maturing first mortgage bonds	235	235	–
Accounts payable	62,898	51,559	56,739
Accrued taxes	1,258	1,707	975
Accrued interest	6,729	5,026	5,309
Gas refunds	587	4,612	23,578
Other	11,688	4,429	4,346
Total current liabilities	96,395	102,568	126,947
Other Credits:			
Accumulated deferred income taxes	160,703	150,199	153,741
Accumulated deferred investment credit	38,093	40,164	42,462
Other	24,941	19,627	19,777
	223,737	209,990	215,980
Commitments and Contingencies (See Note 6)			
	$1,073,537	$1,009,239	$1,023,169

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

Statements ef Capitalizatien

		December 31		
		1991	1990	1989
			(Thousands)	
COMMON STOCK EQUITY:				
Common stock, $4 par value, 32,000,000 shares authorized:				
22,888,620 shares outstanding in each year		$ 91,555	$ 91,555	$91,555
Premium on capital stock		49,711	49,711	49,711
Retained earnings		257,404	244,922	236,741
ESOP loan guarantee		(29,372)	(14,056)	(4,882)
Total common stock equity		369,298	372,132	373,125
PREFERRED STOCK:				
Cumulative, $100 par value, 1,000,000 shares authorized:				
With no mandatory redemption –				
Series	Shares outstanding			
5.00%	132,000	13,200	13,200	13,200
5.04%	30,000	3,000	3,000	3,000
5.08%	50,000	5,000	5,000	5,000
6.76%	150,000	15,000	15,000	15,000
7.72%	150,000	15,000	15,000	15,000
		51,200	51,200	51,200
With mandatory redemption –				
10.50% Series, 0, 0, and 6,418 shares outstanding, respectively		–	–	642
LONG-TERM DEBT:				
First mortgage bonds –				
Series	Year Due			
4-3/8%	1993	8,726	8,726	8,726
4-1/2%	1994	10,944	10,944	10,944
9.50%	1994	45,000	45,000	45,000
6-3/8%	1997	23,482	23,482	23,482
7-1/4%	1999	24,039	24,039	24,039
8-1/4%	2001	25,000	25,000	25,000
8-1/8%	2003	25,000	25,000	25,000
7-7/8%	2005	10,530	10,765	11,000
8.20%	2012	45,000	45,000	45,000
9.70%	2014	22,000	22,000	22,000
10-1/8%	2014	1,000	1,000	1,000
11.50%	2015	–	–	10,705
8.80%	2021	60,000	–	–
		300,721	240,956	251,896
Unamortized discount and premium on bonds, net		(1,193)	(1,309)	(1,503)
Total first mortgage bonds		299,528	239,647	250,393
ESOP loan guarantee		29,372	14,056	4,882
Rail contract settlements		2,426	4,646	–
Other long-term debt		1,581	15,000	–
Total long-term debt		332,907	273,349	255,275
Total capitalization		$753,405	$696,681	$680,242

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

Statements of Cash Flows

	Year Ended December 31		
	1991	1990	1989
		(Thousands)	
Cash Flows From Operating Activities:			
Net income	$54,172	$49,023	$49,130
Adjustments to reconcile net income to net cash from operating activities –			
Depreciation	55,687	55,363	53,135
Amortization of nuclear fuel	8,499	8,652	7,412
Deferred income taxes	10,659	(3,726)	(815)
Investment credit restored	(2,071)	(2,298)	(2,256)
AFUDC equity	(112)	(451)	(595)
Coal and rail contract settlements	(28,290)	–	–
Other, net	6,218	4,928	7,204
Changes in –			
Customer and other receivables	(8,101)	5,857	(11,213)
Accrued utility revenues	(1,143)	2,023	(2,205)
Fossil fuel	(4,913)	7,532	(6,688)
Accounts payable	7,989	(7,830)	(174)
Accrued taxes	(3,897)	732	(1,152)
Gas refunds	(4,025)	(18,966)	23,661
	36,500	51,816	66,314
Net cash from operating activities	90,672	100,839	115,444
Cash Flows From (Used For) Investing Activities:			
Construction expenditures and nuclear fuel, including AFUDC debt	(64,887)	(61,390)	(70,897)
Decommissioning funding, net	(4,917)	(4,584)	(4,288)
Other, net	(1,627)	(1,772)	207
Net cash from (used for) investing activities	(71,431)	(67,746)	(74,978)
Cash Flows From (Used For) Financing Activities:			
Redemption and maturities of first mortgage bonds	(235)	(10,705)	(450)
Repurchase of common stock	–	–	(7,472)
Redemption of preferred stock	–	(642)	(1,503)
Sale of first mortgage bonds	60,000	–	–
Change in other long-term debt	(15,000)	15,000	–
Change in commercial paper	(22,000)	(1,000)	14,500
Preferred stock cash dividends	(3,237)	(3,305)	(3,462)
Common stock cash dividends	(38,453)	(37,537)	(36,898)
Net cash from (used for) financing activities	(18,925)	(38,189)	(35,285)
Net Increase (Decrease) in Cash and Equivalents	316	(5,096)	5,181
Cash and Equivalents at Beginning of Year*	161	5,257	76
Cash and Equivalents at End of Year*	$477	$161	$5,257
Cash Paid During Year For:			
Interest, less amount capitalized	$21,001	$22,455	$22,601
Income taxes	$21,977	$28,378	$24,421
Construction expenditures and nuclear fuel including accruals, AFUDC, and customer contributions	$64,536	$66,031	$71,561

**Includes short-term investments with an original maturity of three months or less.*

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

Statements of Retained Earnings

	Year Ended December 31		
	1991	1990	1989
		(Thousands)	
Balance at Beginning of Year	$244,922	$236,741	$233,521
Add – Net income	54,172	49,023	49,130
	299,094	285,764	282,651
Deduct –			
Cash dividends declared on preferred stock –			
5.00% Series ($5.00 per share)	660	660	660
5.04% Series ($5.04 per share)	151	151	151
5.08% Series ($5.08 per share)	254	254	254
6.76% Series ($6.76 per share)	1,014	1,014	1,014
7.72% Series ($7.72 per share)	1,158	1,158	1,158
10.50% Series ($10.50 per share)	–	68	225
Cash dividends declared on common stock	38,453	37,537	36,898
Premium paid for repurchase of common stock	–	–	5,550
	41,690	40,842	45,910
Balance at End of Year	$257,404	$244,922	$236,741

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

Management's Responsibility For Financial Reporting

The management of Wisconsin Public Service Corporation has prepared and is responsible for the financial statements and related financial information encompassed in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles, and financial information included elsewhere in this report is consistent with the financial statements.

The company maintains a system of internal accounting control designed to provide reasonable assurance that the company's assets are safeguarded and that transactions are executed and recorded in accordance with authorized procedures. Written policies and procedures have been developed to support the internal controls in place and are updated as necessary.

The company also maintains an internal auditing department that reviews and assesses the effectiveness of selected internal controls, and reports to management as to their findings and recommendations for improvement.

The Board of Directors has established an Audit Committee, comprised entirely of outside directors, which actively assists the Board in its role of overseeing the company's financial reporting process and the system of internal control.

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

D. P. Bittner
Vice President-Treasurer

D.A. Bollom
President and Chief Executive Officer

Report of Independent Public Accountants

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

We have audited the accompanying balance sheets and statements of capitalization of Wisconsin Public Service Corporation (a Wisconsin corporation) as of December 31, 1991, 1990 and 1989, and the related statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wisconsin Public Service Corporation as of December 31, 1991, 1990 and 1989, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Milwaukee, Wisconsin,
January 28, 1992.

ARTHUR ANDERSEN & CO.

Notes te Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Business – The company is a public utility operating company engaged in supplying electrical energy and natural gas to its customers who are located primarily in northeastern Wisconsin and Upper Michigan. The company's accounting reflects the effects of the different ratemaking principles followed by the various jurisdictions regulating the company. These include the Public Service Commission of Wisconsin (PSCW), 89% of revenues, the Michigan Public Service Commission (MPSC), 2% of revenues, and the Federal Energy Regulatory Commission (FERC), 9% of revenues.

(b) Utility Plant – Utility plant is stated at the original cost of construction, which includes an allowance for funds used during construcion (AFUDC). Approximately 50% of retail jurisdictional construction work in progress (CWIP), is subject to AFUDC using a rate based on the company's overall cost of capital. For 1991, the rate was approximately 11.3%. AFUDC is recorded on wholesale jurisdictional electric construction work in progress at debt and equity percentages specified in the FERC Uniform System of Accounts. For 1991, the rate was approximately 6.3%.

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

(c) Property Additions, Maintenance and Retirements – The cost of renewals and betterments of units of property (as distinguished from minor items of property) is charged to utility plant accounts. The cost of units of property retired, sold or otherwise disposed of, plus removal costs, less salvage, is charged to the accumulated provision for depreciation. No profit or loss is recognized in connection with ordinary retirements of property units. Maintenance and repair costs and replacement and renewal of items less than units of property are generally charged to operating expenses.

(d) Depreciation – Straight-line composite depreciation expense is recorded over the estimated useful life of the property (including estimated salvage and cost of removal) as approved by the PSCW.

	1991	1990	1989
Annual composite depreciation rates:			
Electric	4.11%	4.22%	4.14%
Gas	3.88%	4.11%	4.73%

(e) Nuclear Decommissioning Trusts – External trust funds are maintained to cover the estimated future decommissioning costs of the Kewaunee nuclear plant. These costs are currently recovered from customers in rates and deposited in the trusts. Earnings on these trusts are reflected in other income in the statements of income. The company's share of future decommissioning costs of this plant is estimated to be $275 million based on a site specific study, performed in 1988, using immediate dismantlement as the method of decommissioning.

(f) Nuclear Fuel – The cost of nuclear fuel is amortized to fuel expense based on the quantity of heat produced for the generation of electric energy by the Kewaunee plant (Kewaunee). The costs amortized to fuel expense (which assume no salvage values for uranium or plutonium) include an amount for ultimate disposal and are recovered through current rates. As required by the Nuclear Waste Policy Act of 1982, a contract with the Department of Energy (DOE) has been signed, and quarterly payments are being made to the DOE for the fuel storage fee related to generation. Interim storage space for spent nuclear fuel is provided at Kewaunee, and expenses associated with this storage are recognized as current operating costs.

Notes to Financial Statements

(g) Investments – Investments include various immaterial subsidiaries and affiliates, whose income is included in other income and deductions using the equity method of accounting.

(h) Revenue and Customer Receivables – The company accrues revenues related to electric and gas service, including estimated amounts for service rendered but not billed.

Automatic fuel adjustment clauses are used for FERC wholesale electric and MPSC retail electric portions of the company's business. The PSCW retail electric portion of the business uses a "cost variance range approach." This range is based on a specific estimated fuel cost for the upcoming year. If the company's actual fuel costs fall outside this range, a hearing may be held and adjustment to future rates may result. As of December 31, 1991, the company's fuel costs were within the allowable range.

The company has a purchased gas adjustment clause which allows it to pass on to all classes of gas customers changes in the cost of gas purchased from its suppliers, subject to PSCW and MPSC review.

In December 1989, the company received a refund of approximately $21.1 million from its primary gas supplier representing a settlement involving rate levels and modification of a number of tariffs for the period November 1986 to October 1989. As prescribed by the PSCW, the refund was credited against gas purchased for resale with an offsetting reduction in gas revenues (thus having no impact on net income) and was refunded to gas customers in 1990.

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

Approximately 9% of the company's total revenues are from the paper industry.

(i) Deferred Charges – Deferred charges primarily represent costs recoverable in future rates, including such items as the cost of coal and rail contract buyouts, demand-side management expenditures, major computer systems development, purchased software, and leasehold improvements.

During 1991, in order to lower overall fuel costs, the company bought out of a major long-term coal contract and its related rail transportation contract. Based on management analyses and projected benefit tests as prescribed by regulators, these buyouts are expected to yield benefits to ratepayers that significantly exceed these costs. These buyouts occurred in two steps and totalled approximately $34 million which is included in deferred charges.

The company has received approval from the PSCW to begin recovering the retail portion (approximately $20 million) of the initial buyouts. Since the last buyout occurred on December 31, 1991, the remaining retail portion (approximately $8.4 million) will be incorporated in the next PSCW rate filing which will be made in 1992. In December 1991, the company made a fuel filing with FERC to recover the FERC portion of the initial buyouts (approximately $4 million). This filing was amended in January 1992 to include the FERC portion (approximately $1.6 million) of the last buyout. Management believes it is probable that the company will be able to recover from ratepayers all buyout costs described above based on prior and current treatment of such costs.

(j) Employee Benefit Plans – The company has non-contributory retirement plans covering substantially all employees under which annual contributions are made to an irrevocable trust established to provide retired employees with a monthly payment if conditions relating to age and length of service have been met. The plans are fully funded, and no contributions were made in 1991, 1990 and 1989. The PSCW requires the recognition of the funded amounts for ratemaking and such amounts are reflected as retirement plan expense in the financial statements. Because the pension expense recorded in the financial statements is greater than pension expense which would have been recognized under Statement of Financial Accounting Standards (SFAS) No. 87, the company has a prepaid retirement plan cost. This asset has not been recorded because it is not material to the financial statements.

The following tables set forth the plans' funded status and expense provision.

	As of December 31		
	1991	1990	1989
		(Thousands)	
Vested benefit obligation	$ 129,943	$ 123,225	$ 114,695
Non-vested benefit obligation	6,316	5,637	5,767
Total actuarial present value of accumulated benefit obligation	$ 136,259	$ 128,862	$ 120,462
Projected benefit obligation for service rendered to date	$(181,750)	$(166,796)	$(157,744)
Plan assets at fair value	304,672	251,340	259,495
Plan assets in excess of projected benefit obligation	122,922	84,544	101,751
Unrecognized net gain	(73,381)	(36,003)	(51,223)
Prior service cost not yet recognized	8,292	7,684	8,233
Unrecognized net asset at January 1, being recognized over 17 years	(37,313)	(40,778)	(44,242)
Prepaid retirement plan cost	$ 20,520	$ 15,447	$ 14,519

The net retirement plan expense includes the following components:

Service cost – benefits earned during the year	$ 4,122	$ 4,065	$ 3,764
Interest cost on projected benefit obligation	14,247	13,071	12,360
Actual return on plan assets	(61,912)	5,332	(48,025)
Net amortization and deferral	38,471	(23,396)	31,187
Regulatory adjustment to funded amount	5,072	928	714
Net retirement plan expense	$ –	$ –	$ –

The assumed rates for calculations used in the above tables were:

	1991	1990	1989
Expected long-term rate of return	9.00%	7.00%	7.00%
Average rate for future salary increases	6.25%	6.25%	6.25%
Discount rate to compute projected benefit obligation	8.50%	8.50%	8.50%

The company also has self-funded plans which provide medical, dental and life insurance benefits to employees, retirees and their dependents. The expenses for active employees are expensed as incurred. Since 1981, the company has been prospectively funding to irrevocable trusts the actuarially determined post-retirement benefit amounts, within the limits of the current deduction for tax purposes. This funded amount has been expensed and recovered from customers. Because the company has been funding anticipated post-retirement costs, the trusts have accumulated assets of $62.4 million (market value) as of December 31, 1991.

The Financial Accounting Standards Board has issued a new statement, SFAS No. 106, which establishes accounting and reporting standards for retirement benefits other than pensions. The new Statement would require the accrual of the expected cost of such benefits during the employees' years of service. The company expects to prospectively adopt the new standard effective January 1, 1993. The company plans to amortize the transition obligation, or difference between recognition under the requirements of the new standard and the company's existing method, to expense over the average remaining service life of its employees, not to exceed 20 years. Management has

engaged actuaries who have made a preliminary review using 1990 data. Based on the actuaries' preliminary review, the accumulated post-retirement benefit obligation at December 31, 1991, measured in accordance with the new standard, is approximately $65.7 million. Had the new standard been adopted in 1991, the actuaries estimate that the additional post-retirement benefit cost charged to expense in 1991 would have been approximately $1.1 million (pre-tax). Management believes the effect of actual adoption in 1993 will be similar, although it could be changed significantly by changes in health care costs, interest rates, or plan changes between now and 1993.

In the company's next PSCW rate case, for rates to be effective January 1, 1993, the company intends to recognize expense under both statements, No. 87 and 106, subject to regulatory approval. Since the pension trusts are in an overfunded position, pension expense under SFAS No. 87 will result in a credit to expense. Therefore, management anticipates the effect of this action will result in a net decline in costs.

The following table reflects company health care costs for the years ended December 31, 1991, 1990 and 1989.

	1991	1990	1989
	(Dollars in thousands)		
Plans:			
Post-retirement medical and dental plans funding	$4,980	$5,350	$4,656
Active employee medical and dental costs	$7,096	$5,772	$5,606

The company has a leveraged Employee Stock Ownership Plan and Trust (ESOP) that held 2,373,789 shares of company common stock at December 31, 1991. At that date, the ESOP also had loans totaling $29.4 million that are guaranteed by the company and secured by the stock (market value $34.8 million).

Principal and interest on the loans are to be paid through company contributions and dividends on company common stock held by the ESOP. Shares in the ESOP are allocated to participants as the loans are repaid. Tax benefits from dividends paid to the ESOP are a reduction in the company's cost of service.

(k) Income Taxes – The effective income tax rates are computed by dividing total income tax expense, including investment credit restored, by the sum of such expense and net income. Previously deferred investment tax credits are being restored over the life of the related utility plant.

	1991		1990		1989	
	(Thousands except for percentages)					
	Amount	Rate	Amount	Rate	Amount	Rate
Statutory federal income tax	$27,277	34.0%	$24,733	34.0%	$24,365	34.0%
State income taxes, net	4,546	5.7	3,095	4.3	2,498	3.5
Investment credit restored	(2,066)	(2.6)	(2,370)	(3.3)	(2,570)	(3.6)
Rate difference on deferred income tax reversals	(1,903)	(2.4)	(1,623)	(2.2)	(1,551)	(2.2)
Regulatory effects of dividends paid to ESOP	(1,375)	(1.7)	(595)	(.8)	(723)	(1.0)
Other differences, net	(423)	(.5)	482	.6	514	.7
Effective income tax	$26,056	32.5%	$23,722	32.6%	$22,533	31.4%

The current and deferred components of income tax expense are as follows:

	1991	1990	1989
Current provision:			
Federal	$13,783	$23,683	$20,247
State	3,685	6,063	5,357
	17,468	29,746	25,604
Deferred provision (benefit):			
Depreciation differences	(1,239)	(727)	1,803
Nuclear fuel costs	36	230	1,520
Coal contract buyouts, net	10,996	(1,325)	(2,120)
Other, net	866	(1,904)	(2,018)
	10,659	(3,726)	(815)
Investment credit restored, net	(2,071)	(2,298)	(2,256)
Total income tax expense	$26,056	$23,722	$22,533
Classification of income taxes:			
Operating expenses	$25,578	$23,560	$23,089
Other income and deductions	478	162	(556)
	$26,056	$23,722	$22,533

Pursuant to a rate order, the company has certain property timing differences that have not previously been normalized that total approximately $9.2 million and are to be recovered in future retail rates over 15 years beginning in 1991.

The Financial Accounting Standards Board has issued a new standard on accounting for income taxes, SFAS No. 96, which as amended is effective January 1993. The company expects to adopt the new standard on the effective date. This new standard requires adjustments of previously recorded deferred taxes to reflect income tax rate changes and recognition of any previously unrecorded deferred taxes. Based on preliminary analyses of the impact of the new standard, adoption in 1991 would have resulted in the company reducing its outstanding deferred tax balances by between $40 million and $50 million and increasing its regulatory liabilities by a like amount to reflect expected future rate treatment of the adjustments. Because of the expected future rate treatment, management does not expect the new standard to have a significant impact on future operations.

(2) JOINTLY-OWNED FACILITIES:

Information with respect to the company's share of jointly-owned electric generating facilities in service at December 31, 1991 is as follows:

	Columbia Energy Center	Edgewater Unit No. 4	Kewaunee
	(Thousands except for percentages)		
Ownership	31.8%	31.8%	41.2%
Utility plant in service	$108,992	$18,715	$124,862
Accumulated provision for depreciation	$49,861	$10,430	$61,579
Plant capacity (Mw)	335.2	104.9	221.0
In-service date	1975 and 1978	1969	1974

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

(3) COMMERCIAL PAPER AND LINES OF CREDIT: To support outstanding commercial paper, the company maintains unused bank lines of credit. Some of these lines may be withdrawn at the discretion of the lenders. While some cash balances represent compensating balances for credit lines and bank services, there are no legal restrictions as to withdrawal of these funds. The majority of the lines of credit require a fee based on the unused balance.

Notos to Financial Statomonts

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

	1991	1990	1989
	(Thousands except for percentages)		
As of end of year –			
Discount rate on outstanding commercial paper	4.9%	7.7% to 8.0%	8.4% to 8.5%
Interest rate on note payable	4.2%	6.9%	7.5%
Unused lines of credit	$23,150	$21,590	$28,940
Compensating balance requirements	$108	$130	$172
For the year –			
Maximum amount of borrowings	$44,000	$38,800	$50,000
Average amount of borrowings	$29,541	$27,375	$23,321
Weighted average interest rate on borrowings	6.3%	8.1%	8.9%

Included in the above lines of credit are agreements with commercial banks that permit the company to borrow up to $16 million at any time provided compliance with certain financial covenants is maintained. These agreements extend for 13 months or more. As of Decemer 31, 1991, no borrowings were outstanding under these agreements.

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

All series requiring cash or reacquired bonds for sinking fund purposes have been satisfied to maturity. The company has adequate unpledged property to satisfy the remaining series for at least ten years. The 7⅞% bonds will mature annually in the amount of $235,000 for the next nine years, increasing thereafter to maturity. In 1993, $8,726,000 of 4⅜% bonds will mature. In 1994, $10.9 million of 4½% bonds and $45 million of 9½% bonds will mature.

At December 31, 1991, other long-term debt includes the long-term portion of the company's obligation under a ten-year coal transportation contract effective in 1990, which carries an interest rate of 9.25%, and the long-term portion of the company's take-or-pay obligation to ANR pipeline. At December 31, 1990, the other long-term debt includes the same coal transportation contract obligation and $15 million ($10 million at 7.85% and $5 million at 8.75%) of bank borrowings under long-term revolving credit arrangements referred to in Note 3 above.

(5) COMMON EQUITY: During 1989, the company repurchased 311,932 shares of common stock for $7.5 million. This repurchase reduced the common stock balance by $1.2 million ($4 par per share), premium on capital stock by $.7 million ($2.17 per share) and retained earnings by $5.6 million. Management plans on issuing approximately $25 million to $32 million of new common stock in 1992.

At December 31, 1991, $257.4 million of retained earnings were available for dividends. However, in the latest PSCW rate order, the Commission has required the company to maintain common equity capitalization ratio in a range between 47% to 52%, which incorporates the company's leveraged ESOP.

(6) COMMITMENTS AND CONTINGENCIES: To ensure a reliable, low cost supply of coal the company has entered into certain long-term contracts that have take-or-pay obligations totaling $450.6 million from 1992 through 2016. Of this amount, $10.4 million represents demand payments which the company would be required to pay through 1994 even if it is unable to fully utilize all contracted quantities of coal under future emission limits and acid rain legislation. The remainder of the take-or-pay obligations are subject to force majeure provisions which provide the company other options, if the specified coal will not meet emission limits and acid rain legislation. In the opinion of management, any amounts paid under the take-or-pay obligations described above would be a legitimate cost of service expense subject to recovery in rates.

The company also has natural gas contracts that require total demand payments of $32.2 million through March 1996.

The Price-Anderson Act provides for the payment of funds for public liability claims arising out of a nuclear incident. In the event of a nuclear incident involving any of the nation's licensed reactors, the company is subject to a proportional assessment which is approximately $27.0 million per incident, not to exceed $4.1 million per incident, per calendar year. These amounts represent the company's 41.2% ownership share of Kewaunee.

The Columbia Energy Center (Columbia) is owned 31.8% by Wisconsin Public Service Corporation (WPSC), 46.2% by Wisconsin Power and Light Company (WP&L), and 22.0% by Madison Gas and Electric Company (MG&E). WP&L operates Columbia. In 1989, the PSCW concluded that WP&L did not properly administer a coal contract for Columbia and ordered WP&L to refund $9 million to the ratepayers of WPSC, WP&L and MG&E proportionately according to the ownership shares of each utility in Columbia. WP&L appealed and the case was overturned since the court deemed it retroactive ratemaking. However, the PSCW has appealed that decision. If WP&L is not required to reimburse WPSC ratepayers, the PSCW might seek reimbursement of WPSC's share (31.8% of $9 million) directly from WPSC. In addition, this matter has not yet been reviewed by FERC. Although the ultimate outcome of this matter is uncertain, in the opinion of company management, there will be no material effect on the company's results of operations or financial position.

ANR Pipeline Company (ANR), the company's primary gas supplier, filed with the FERC for approval to recover a portion of certain take-or-pay costs it incurred from renegotiating its long-term gas contracts. As a result of the filing, ANR was allowed to recover a portion of these costs from its customers. The company began paying its share of these take-or-pay costs to ANR in 1989 and recovering these costs directly from customers through its purchased gas adjustment clause. In March 1991, the FERC approved the settlement under which the company will pay ANR monthly, through take-or-pay amounts. The anticipated payments are approximately $12.2 million. Of this total, the company has recorded $3.0 million as of December 31, 1991, representing the present value of the fixed charge component. Additional take-or-pay claims by ANR have not yet been settled with FERC. To date, the PSCW has granted the company recovery of all take-or-pay costs.

In 1990, the Federal Clean Air Act Amendments (Act) were signed into law. Since Wisconsin had already mandated reduced sulfur emissions by 1993 which were lower than federal levels mandated for 1995, the company was already working on lowering emissions. All units will need to comply with the state law by 1993 and two units will need to comply with phase 1 of the federal law by 1995. Since federal emissions limits for 2000 are lower than those mandated for the state in 2000, the company is continuing to develop its compliance plans for phase 2 of the Act. This Act also requires the installation of low nitrogen oxide (NO_X) burners to meet new NO_X emission limits. The first unit will be affected in 1995. Additional nitrogen oxide burners will need to be installed by the year 2000. At this time, management has not determined the total financial impact of these state and federal emission laws. However, some capital expenditure will likely be required to install continuous emission monitors, low nitrogen oxide burners and upgrade precipitators. Management believes that costs incurred to meet these laws would be recoverable in future rates.

The company is currently investigating the need for environmental cleanup of six manufactured gas plant sites previously operated by the company. Since it is uncertain what actions will be necessary to meet final regulations, it is difficult to predict the ultimate cost of remedial action. However, the company has received approval from the PSCW to defer these costs concurrent with recovery in future rates.

The company is also involved, and has made minor payments for the investigation and potential cleanup of certain waste disposal sites. Management believes the company has been a minor contributor to the total contamination at these known sites, and accordingly, does not believe its share of cleanup costs to be material.

The company is not currently engaged in any major construction projects. Utility plant construction expenditures for 1992 are estimated to be approximately $111.6 million, and conservation program expenditures of about $22.9 million of which approximately $14.5 million will be capitalized and amortized over ten years.

Notes to Financial Statements

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

	1991			1990			1989		
				(Thousands)					
	Electric	Gas	Total	Electric	Gas	Total	Electric	Gas	Total
Operating revenues	$471,277	$152,222	$ 623,499	$448,905	$140,068	$ 588,973	$442,938	$142,874	$ 585,812
Operating expenses – Operation and maintenance	311,028	133,145	444,173	293,049	123,091	416,140	294,217	122,682	416,899
Depreciation	49,683	6,004	55,687	49,354	6,009	55,363	46,470	6,665	53,135
Other taxes	20,516	2,518	23,034	20,293	2,844	23,137	19,620	2,783	22,403
	381,227	141,667	522,894	362,696	131,944	494,640	360,307	132,130	492,437
Operating income before income taxes	90,050	10,555	100,605	86,209	8,124	94,333	82,631	10,744	93,375
AFUDC	286	20	306	699	58	757	910	26	936
Provisions for income tax	23,143	2,434	25,577	21,509	2,051	23,560	20,549	2,540	23,089
Operating income including AFUDC	$ 67,193	$ 8,141	75,334	$ 65,399	$ 6,131	71,530	$ 62,992	$ 8,230	71,222
Other income, net			3,873			2,683			2,020
Interest expense			25,035			25,190			24,112
Net income			$ 54,172			$ 49,023			$ 49,130
Identifiable assets (a)	$904,908	$129,483	$1,034,391	$855,121	$114,944	$ 970,065	$870,944	$127,953	$ 998,897
Assets not allocated (b)			39,146			39,174			24,272
Total assets			$1,073,537			$1,009,239			$1,023,169
Construction and nuclear fuel expenditures including AFUDC	$ 55,850	$ 8,686	$ 64,536	$ 56,590	$ 9,441	$ 66,031	$ 64,494	$ 7,067	$ 71,561

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

(8) QUARTERLY FINANCIAL INFORMATION (Unaudited):

	Three Months Ended (Thousands except for per share data)			
	1991			
	March	June	September	December
Operating revenues	$181,342	$137,430	$139,835	$164,892
Operating income	$21,599	$11,560	$21,581	$20,288
Net income	$16,331	$6,745	$15,996	$15,100
Earnings on common stock	$15,522	$5,936	$15,187	$14,290
Average number of shares of common stock outstanding	22,889	22,889	22,889	22,889
Earnings per average share on common stock	$.68	$.26	$.66	$.63
	1990			
	March	June	September	December
Operating revenues	$167,284	$131,458	$131,975	$158,256
Operating income	$19,927	$13,206	$18,510	$19,130
Net income	$14,417	$7,951	$12,930	$13,725
Earnings on common stock	$13,591	$7,125	$12,104	$12,910
Average number of shares of common stock outstanding	22,889	22,889	22,889	22,889
Earnings per average share on common stock	$.59	$.31	$.53	$.57
	1989			
	March	June	September	December
Operating revenues	$184,150	$129,019	$127,613	$145,030
Operating income	$24,345	$11,053	$15,410	$19,478
Net income	$19,352	$5,930	$10,094	$13,754
Earnings on common stock	$18,487	$5,065	$9,228	$12,914
Average number of shares of common stock outstanding	23,201	23,201	23,057	22,892
Earnings per average share on common stock	$.80	$.22	$.40	$.56
Pro Forma Information*				
Earnings on common stock	$13,221	$7,055	$13,126	$12,292
Earnings per average share on common stock	$.57	$.31	$.57	$.53

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

* On January 1, 1990, the company changed its method of accounting for revenue related to gas supplier demand costs. This change has the effect of reducing first and fourth quarter revenues and earnings while increasing revenues and earnings during the second and third quarters; however, the effect on annual earnings is minimal.

Statistics – Financial

Statements Of Income (Thousands)

	1991	1990	1989	1988	1987	1986	1981
Operating Revenues:							
Electric	$471,277	$448,905	$442,938	$435,958	$429,443	$410,514	$294,509
Gas	152,222	140,068	142,874	168,376	151,013	181,756	197,753
	623,499	588,973	585,812	604,334	580,456	592,270	492,262
Operating Expenses:							
Operation –							
Electric production fuels	131,054	129,792	134,719	134,437	132,430	132,028	88,400
Gas purchased for resale	103,189	97,443	97,927	120,702	109,447	141,656	166,787
Purchased power, net	32,886	27,145	31,125	24,887	19,109	9,015	20,333
Other	128,820	117,494	109,765	101,935	100,305	95,258	59,005
Maintenance	48,223	44,265	43,363	43,422	35,142	32,927	25,571
Depreciation	55,687	55,363	53,135	50,486	49,170	47,271	29,685
Taxes –							
Federal income	21,961	20,775	20,972	26,605	37,611	36,895	13,266
Net investment credit	(2,071)	(2,298)	(2,256)	(2,826)	(4,040)	(2,122)	11,616
State income	5,688	5,083	4,373	5,096	6,087	5,569	4,733
Other	23,034	23,138	22,403	22,399	21,309	21,293	15,566
	548,471	518,200	515,526	527,143	506,570	519,790	434,962
Operating Income	75,028	70,773	70,286	77,191	73,886	72,480	57,300
Other Income and (Deductions):							
AFUDC, other funds	113	451	595	659	456	595	472
Other, net	4,351	2,845	1,464	823	(2,815)	(306)	1,002
Income taxes	(478)	(162)	556	697	1,912	(182)	(544)
Gains on bonds reacquired	–	–	–	–	–	–	405
	3,986	3,134	2,615	2,179	(447)	107	1,335
Income Before Interest Expense	79,014	73,907	72,901	79,370	73,439	72,587	58,635
Interest Expense:							
Interest on long-term debt	22,127	21,289	21,327	21,583	18,309	19,914	21,224
AFUDC, borrowed funds	(193)	(306)	(341)	(363)	(275)	(277)	(8,941)
Other interest	2,908	3,901	2,785	1,730	2,634	1,409	7,270
	24,842	24,884	23,771	22,950	20,668	21,046	19,553
Net Income	54,172	49,023	49,130	56,420	52,771	51,541	39,082
Preferred Stock Dividend Requirements	3,237	3,293	3,436	3,594	3,751	4,392	5,644
Earnings on Common Stock	$ 50,935	$ 45,730	$ 45,694	$ 52,826	$ 49,020	$ 47,149	$ 33,438
Income Statistics							
Common Stock:							
Shares outstanding, Dec. 31*	22,888,620	22,888,620	22,888,620	23,200,552	23,200,552	23,200,552	22,617,480
Shares outstanding, Avg.*	22,888,620	22,888,620	23,086,474	23,200,552	23,200,552	23,200,552	22,259,880
Earnings per share**	$2.23	$2.00	$1.98	$2.28	$2.11	$2.03	$1.50
Dividends paid per share*	$1.68	$1.64	$1.60	$1.56	$1.52	$1.465	$.945
Times Interest Earned:							
Before income taxes	4.00	3.74	3.85	4.49	5.13	5.17	3.43
After income taxes	3.03	2.84	2.95	3.33	3.41	3.34	2.37
Times Interest and Preferred Dividends Earned	2.70	2.53	2.60	2.90	2.91	2.78	1.98

** Adjusted to reflect 2 for 1 common stock split in June 1987.*

*** Based on weighted average shares outstanding.*

Statistics – Financial

Balance Sheets (Thousands)

	1991	1990	1989	1988	1987	1986	1981
Assets							
Utility Plant:							
Electric	$1,277,913	$1,241,346	$1,199,700	$1,155,645	$1,111,987	$1,076,400	$885,448
Gas	164,038	156,428	150,050	143,617	135,530	131,556	103,859
	1,441,951	1,397,774	1,349,750	1,299,262	1,247,517	1,207,956	989,307
Less – accumulated depreciation	695,586	648,398	600,965	548,950	504,349	466,427	266,307
	746,365	749,376	748,785	750,312	743,168	741,529	723,000
Nuclear decommissioning trusts, at cost	45,504	40,587	36,003	31,715	25,502	–	–
Nuclear fuel, net	18,704	19,531	23,503	19,156	16,106	15,574	12,846
Net utility plant	810,573	809,494	808,291	801,183	784,776	757,103	735,846
Investments	17,835	20,889	16,147	17,689	20,517	19,573	14,944
Current assets	165,393	148,303	167,435	138,254	143,033	146,991	119,273
Deferred charges and other assets	79,736	30,553	31,296	37,249	28,249	27,054	8,465
Total assets	$1,073,537	$1,009,239	$1,023,169	$ 994,375	$ 976,575	$ 950,721	$878,528
Capitalization and Liabilities							
Common stock and premium	$ 141,266	$ 141,266	$ 141,266	$ 143,187	$ 143,187	$ 143,187	$134,452
Retained earnings	228,032	230,866	231,859	227,981	216,914	203,258	118,626
Preferred stock with no mandatory redemption	51,200	51,200	51,200	51,200	51,200	51,200	51,200
Preferred stock with mandatory redemption	–	–	642	2,145	3,645	5,144	26,250
Long-term debt	332,907	273,349	255,275	256,264	254,867	228,631	272,283
Total capitalization	753,405	696,681	680,242	680,777	669,813	631,420	602,811
Short-term borrowings	13,000	35,000	36,000	21,500	13,000	33,400	46,915
Bond sinking fund requirements and maturing first mortgage bonds	235	235	–	–	–	5,062	–
Deferred income taxes	160,703	150,199	153,741	157,620	152,870	142,091	90,404
Other liabilities and credits	146,194	127,124	153,186	134,478	140,892	138,748	138,398
Total capitalization and liabilities	$1,073,537	$1,009,239	$1,023,169	$ 994,375	$ 976,575	$ 950,721	$878,528
Book Value Per Share, Dec. 31*	$16.14	$16.26	$16.30	$16.00	$15.52	$14.94	$11.19
Return on Average Equity	13.1%	12.1%	12.1%	14.4%	14.0%	13.9%	13.9%
Capitalization Ratios							
Common equity	49.0	53.4	54.9	54.5	53.8	54.9	42.0
Preferred stock	6.8	7.4	7.6	7.8	8.1	8.9	12.8
Long-term debt	44.2	39.2	37.5	37.7	38.1	36.2	45.2
Percent Long-Term Debt to Net Utility Plant	41.1	33.8	31.6	32.0	32.5	30.2	41.5
Average Bond Rate	8.2	8.0	8.1	8.1	8.2	7.9	7.7
Average Preferred Stock Rate	6.3	6.3	6.4	6.5	6.6	6.7	7.8
Shareholders –							
Common stock	24,943	25,248	25,752	26,858	27,243	27,240	35,333
Preferred stock	4,332	4,538	4,821	5,164	5,402	5,756	7,628
Number of employees, Dec. 31	2,619	2,500	2,472	2,466	2,495	2,497	2,116

**Adjusted to reflect 2 for 1 common stock split in June 1987.*

Statistics – Operating

	1991	1990	1989	1988	1987	1986	1981
Electric Operations							
Operating Revenues (Thousands):							
Residential	$158,014	$145,114	$146,472	$145,087	$139,940	$138,365	$103,050
Commercial and industrial	245,351	234,124	228,980	222,157	223,133	212,180	152,153
All other	67,912	69,667	67,486	68,714	66,370	59,969	39,306
Total electric revenues	$471,277	$448,905	$442,938	$435,958	$429,443	$410,514	$294,509
Kwh Sales (Thousands)	9,568,203	9,287,914	8,957,064	8,840,298	8,351,062	7,772,905	6,794,926
Number of Customers, Dec. 31:							
Residential	298,194	293,733	289,004	285,387	281,111	276,407	256,882
Commercial and industrial	34,106	33,482	32,566	31,820	31,262	30,673	27,833
All other	908	944	1,012	488	485	479	1,023
Total electric customers	333,208	328,159	322,582	317,695	312,858	307,559	285,738
Annual Average Use (Kwh):							
Residential	7,845	7,495	7,450	7,616	7,294	7,340	7,235
Commercial and industrial	155,173	154,608	152,797	152,225	148,158	141,793	134,713
Average Kwh Price (Cents):							
Residential	6.81	6.65	6.86	6.73	6.89	6.89	5.59
Commercial and industrial	4.68	4.59	4.66	4.63	4.88	4.93	4.16
Production Data:							
System Capacity (Kw):							
Steam	1,269,240	1,269,240	1,269,240	1,269,240	1,269,240	1,269,240	1,269,240
Nuclear	221,000	221,000	221,000	221,000	221,000	221,000	221,000
Hydraulic	64,786	64,786	64,236	64,236	64,236	64,236	62,156
Combustion turbine	156,200	156,200	156,200	156,200	156,200	156,200	156,200
Other	4,040	4,040	4,040	4,040	4,040	4,040	4,000
Total	1,715,266	1,715,266	1,714,716	1,714,716	1,714,716	1,714,716	1,712,596
Interest in Wisconsin River Power Company	11,667	11,667	11,667	11,667	11,667	11,667	11,667
Total system capacity	1,726,933	1,726,933	1,726,383	1,726,383	1,726,383	1,726,383	1,724,263
Generation and Purchases (Thousands of Kwh):							
Steam	6,731,857	6,641,716	6,178,771	6,313,838	6,091,075	5,916,885	4,387,774
Nuclear	1,512,712	1,606,898	1,541,647	1,612,880	1,651,626	1,588,287	1,553,941
Hydraulic	326,212	252,806	188,617	198,150	206,397	340,488	300,794
Purchases	1,603,161	1,368,396	1,714,075	1,371,811	993,319	459,468	1,070,093
Total	10,173,942	9,869,816	9,623,110	9,496,679	8,942,417	8,305,128	7,312,602
System peak – firm (Kw)	1,592,000	1,516,300	1,504,000	1,509,500	1,381,300	1,292,600	1,132,800
Annual load factor	69.44%	72.61%	71.97%	70.24%	72.72%	71.93%	72.80%
Gas Operations							
Operating Revenues (Thousands):							
Residential	$ 94,274	$ 84,030	$ 98,181	$ 97,184	$ 84,529	$ 91,513	$ 74,969
Commercial and industrial	49,953	45,622	55,021	58,251	54,160	82,755	120,862
All other	7,995	10,416	(10,328)	12,941	12,324	7,488	1,922
Total gas revenues	$152,222	$140,068	$142,874	$168,376	$151,013	$181,756	$197,753
Therm Sales (Thousands)	313,705	290,933	331,695	313,646	272,939	351,014	484,993
Transportation (Therms-Thousands)	228,991	215,420	210,202	187,452	178,754	99,407	–
Total gas volume	542,696	506,353	541,897	501,098	451,693	450,421	484,993
Number of Customers, Dec. 31:							
Space heating	173,544	169,281	165,002	161,615	158,229	154,672	140,576
All other	6,844	7,148	7,517	7,754	7,949	8,241	11,322
Total gas customers	180,388	176,429	172,519	169,369	166,178	162,913	151,898

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