Madison Gas and Electric Company

04/10/92

1991

ANNUAL

REPORT

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Building

on a

Solid

Base

Contents

To Our Shareholders 2

Building on a Base of Reliability 4

Building on a Strong Economic Base 6

Building on a Commitment to Our Customers 8

Building on Solid Performance . . 10

Responsibility for Financial Statements 12

Report of Independent Public Accountants . 12

Management's Discussion and Analysis 13

Consolidated Financial Statements and Notes 15

Quarterly Summary of Operations and Stock Prices 24

Summary of Selected Financial Data 25

Board of Directors and Officers 26

Shareholder Information 28

On the Cover:
Scott Nelson
Lineman - Class A

Madison Gas and Electric Company (MGE) is an investor-owned public utility located in Madison, Wis. The company generates, transmits and distributes electricity to nearly 114,000 customers in a 250-square-mile service territory in Dane County. MGE also transports and distributes natural gas to more than 90,000 customers in a 962-square-mile area in Dane, Columbia and Iowa counties.

Our mission: ***Provide quality service at competitive rates, meet all of our customers' gas, electric and related energy needs and earn a reasonable return for investors. Maintain the highest standards of corporate citizenship and fair treatment for all employees.***

Long-Term Corporate Objectives

Rates
Strive to maintain or decrease gas and electric rates. Any necessary rate increases must be limited to less than the rate of inflation and less than increases received by our competitors.

Customer Service
Maintain high levels of system reliability, customer satisfaction and safety.

Fair Return for Investors
Maintain consistent and competitive dividends, earn the authorized rate of return and maintain or improve our AA bond rating.

Employees
Employees are our most important asset. Maintain a positive work environment that enhances productivity and growth potential. Provide competitive wages that recognize individual performance while meeting corporate performance goals.

Regulation
Maintain positive relationships with all appropriate regulatory agencies.

Marketing
Continue effective marketing programs that promote strategic sales growth and conservation in order to achieve revenue increases and manage growth in peak demand.

Economic and Community Development
Promote the social and economic well-being of the communities we serve.

Environmental Protection
Maintain strict environmental standards and ensure compliance with all applicable laws and regulations.

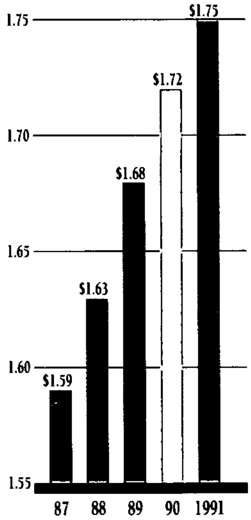
Cost Management
Maintain effective cost-management programs that reduce our reliance on rate increases and improve the position of the company and its customers in a competitive business environment.

Year at a Glance

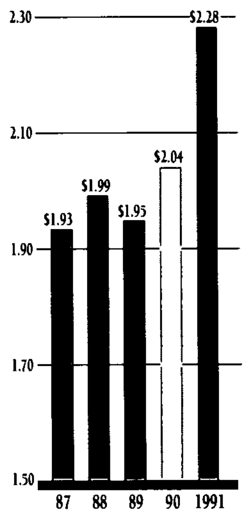
	1991	1990	Percent increase (decrease) 1991-1990
(Per Share)			
Earnings*	**$ 2.28**	$ 2.04	11.8%
Dividends*	**$ 1.75**	$ 1.72	1.7
Stock price closing*	**$ 30 5/8**	$ 22 3/8	36.9
Book value — year end*	**$16.47**	$15.93	3.4
Return on equity	**14.10%**	13.10%	7.6
(Thousands of Dollars)			
Operating revenues	**$232,200**	$220,568	5.3
Net operating income	**$ 36,374**	$ 34,798	4.5
Total assets — year end	**$455,065**	$450,334	1.1
Electric sales to consumers (mwh)	**2,367,000**	2,267,000	4.4
Peak electric demand (kw)	**523,000**	519,000	0.8
Electric customers — year end	**113,838**	112,374	1.3
Gas deliveries (therms)	**173,626,000**	155,794,000	11.4
Gas customers — year end	**90,111**	87,331	3.2
Employees	**745**	770	(3.2)

**These items have been restated to reflect the Company's three-for-two stock split effective January 2, 1992.*

Dividends Per Common Share



Earnings Per Common Share



To Our Shareholders

1991 was an outstanding year. Our stock split was approved by the Public Service Commission of Wisconsin (PSCW). We achieved unprecedented earnings. Our dividend was increased for the 11th consecutive year. We extended an electric rate freeze through mid-1993 and will reduce natural gas rates in 1992. Madison was recognized as one of the best places to live in the United States.

A three-for-two stock split was approved by the PSCW. We paid a stock dividend on Jan. 21, 1992, of one additional share for every two shares owned by shareholders of record on Jan. 2, 1992. The stock split helps us maintain value at an affordable price for individual investors. The following earnings, dividends and stock prices have been adjusted to reflect this increase in shares outstanding.

Earnings reached an all-time high of $2.28 per share last year, an increase of 12% over 1990 earnings of $2.04 per share. This is the second consecutive year we've achieved record earnings. A sincere "thank you" to our employees whose hard work and commitment to control costs contributed greatly to our financial success. Continued growth in our service area also helped increase earnings.

The quarterly dividend was increased by one cent per share by your board of directors in August. This marks the 11th consecutive year your dividend increased. Based on the adjusted closing stock price of $30⅝ on Dec. 31, 1991, the annual dividend of $1.76 produces a yield of 5.7%.

Electric rates will remain frozen for the third consecutive year and gas rates will decline. If approved by the PSCW, electric rates that were set in June 1990 will be in effect through mid-1993 and natural gas rates will decrease by about 1%. Our employees have worked diligently to find ways to improve efficiency and cut costs while preserving high standards for customer service. It is through their knowledge and ingenuity that we're able to hold the line on rates.

Our 20-year plan for electric generation and transmission facilities was filed with the PSCW in 1991. One natural gas-fired peaking plant is needed by 1996. We're working with a municipal electric company to develop new peaking plants in Dane County. Both companies will save money by sharing the costs of planning, siting, building and operating these plants.

MGE will delay a second gas-fired peaking plant that had been scheduled for 1996. Exceptional customer response to Power Control, our new electric load control program, is making this possible. We pay residential customers who allow us to control central air conditioners when energy use is very high or during emergencies. MGE will be able to control about 28 megawatts of load when this program is fully implemented in 1996.

We are in a strong, competitive position to meet our customers' electric and gas needs. Total annual construction costs to meet these needs are expected to average $23 million in 1992 and 1993, down about 20% from 1988-1990 levels.

A new blend of low-sulfur coal, new emission control devices and increased use of natural gas are options being considered for Blount Generating Station in Madison in order to comply with Wisconsin's acid rain law in 1993. These changes also meet the Phase One requirements of the federal Clean Air Act well before the 1995 deadline. Several options are being considered to meet the Phase Two federal requirements by 2000.

Natural gas started flowing through the new Northern Natural Gas Company pipeline into our distribution system last March. This second supplier provides access to additional gas-producing areas, helps us negotiate more competitive prices and provides a more reliable gas supply.

Our economy continued to flourish in 1991. More than $250 million was invested in commercial and industrial development in Dane County. Madison ranked among the top 10 growth markets in the Midwest according to a study by Ernst & Young, a national financial services firm. Money magazine ranked Madison the eighth best place to live out of 300 metropolitan areas in the nation.

MGE contributed significantly to projects that help prepare communities for growth and enhance the quality of life in our service area.

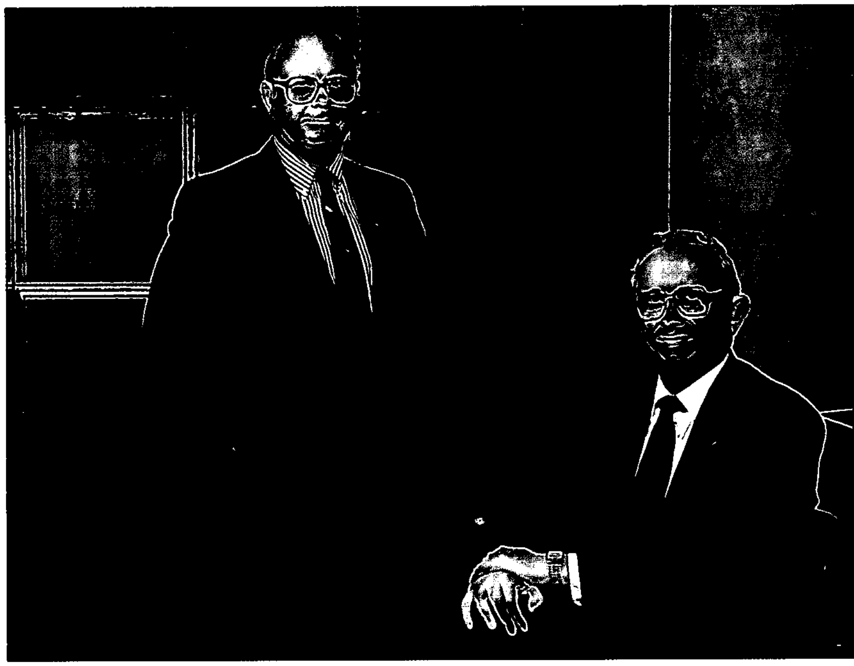
Donald J. Helfrecht retired as chairman and chief executive officer Sept. 30. He served MGE for more than 45 years. Mr. Helfrecht's tireless commitment and dedication to MGE and our customers have established a solid base on which we will continue to prosper.

Richard M. Lawrence retired as an officer and director of the company in mid-year. He served the company for 40 years, most recently as vice president - public affairs.

We assumed our new leadership responsibilities on Oct. 1. Your board of directors adopted a new mission statement and long-term objectives that reflect MGE's values and future direction. These are included on the inside front cover of this report.

Organizational changes were made to better align management responsibilities with our goals and objectives. Four executives were named to new officer positions: Robert E. Domek, vice president - human resources; Gary J. Wolter, vice president - administration and secretary; Joseph T. Krzos, assistant vice president - accounting and control; and Terry A. Hanson - treasurer.

We begin a new era at MGE. We continue to build on a solid base of accomplishments. But we can't rest on past achievements. We are empowering employees to use their creativity and skills to continue to improve our operation. We will remain in a competitive position to provide superior service to our customers and return fair compensation for our shareholders' investment.



Frank C. Vondrasek (*seated*),
David C. Mebane

F C Vondrasek

Frank C. Vondrasek
Chairman and Chief Executive Officer

David C. Mebane

David C. Mebane
President and Chief Operating Officer

Feb. 17, 1992

Record levels of electricity demand as well as system enhancements to ensure greater reliability marked MGE's electric and gas operations during 1991. The company continued to receive economical and dependable performance from its Columbia coal and Kewaunee nuclear plants, owned jointly with other utilities.

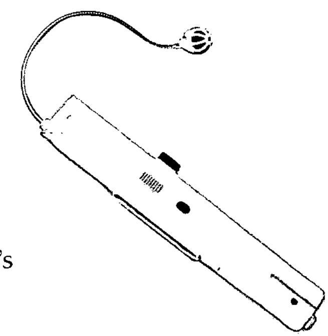
Building on a Base of Reliability

Electricity demand reached an all-time high on July 22, 1991. The one-hour peak demand for electricity was a record 523 megawatts, slightly surpassing the previous record set a month earlier. The record peak demand in 1990 was 519 megawatts set on Aug. 27.

MGE will be one of the first utilities in the United States to implement an Automated Mapping/Facilities Management/Geographical Information System (AM/FM/GIS) combining electric and gas facilities on a single, computerized land base. Electronic maps of MGE's electric and gas facilities will allow system planning, record keeping and trouble-shooting to be performed more quickly and cost-effectively.

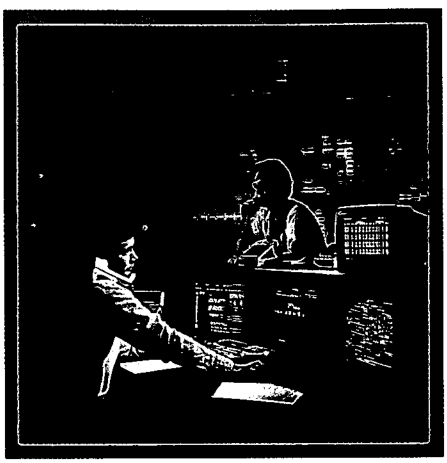
MGE is expanding its role at power plants owned jointly with other utilities. An improved monitoring program has been established and an MGE engineer has been assigned to help ensure that these power plants are operated efficiently and cost-effectively.

Electric transmission and distribution expenditures ensure continued reliability of electric service. A significant investment during the 1980s to upgrade facilities and develop a computerized model of the distribution system is saving money today. The computerized model enables MGE to identify and target problem areas before they become major and costly to repair. This also helps improve reliability of MGE's distribution system, which serves about 114,000 customers.

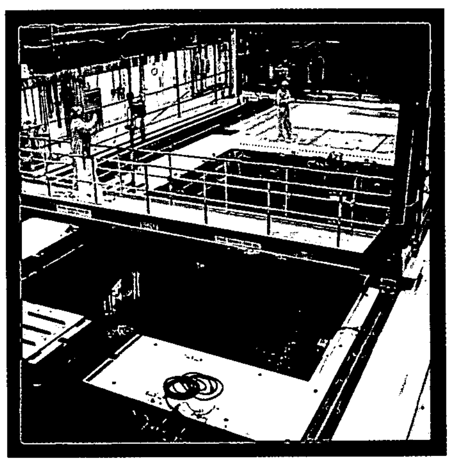


A severe windstorm on July 7 damaged MGE's electrical system and interrupted service to more than 30,000 customers. Insurance covered most of the company's $875,000 repair costs.

Completing a pipeline interconnection with a second natural gas supplier improves MGE's ability to ensure reliable service at market-responsive prices. This option also strengthened MGE's negotiating position with its other major supplier. The company continues to buy natural gas when prices are low and store it for use during the heating season when spot-market prices increase.



The Energy Management System (EMS) completed its first full year of operation during 1991. It serves as the hub for monitoring and controlling hoth gas and electric systems. It increases reliability by helping MGE anticipate and correct problems before service is affected. The EMS also helps control operating costs by allowing MGE to better evaluate generation and purchase power options. Eric Dietzman (seated), supervisor - system operations l, and Dou Morrow, superintendent - power supply, monitor system operations.



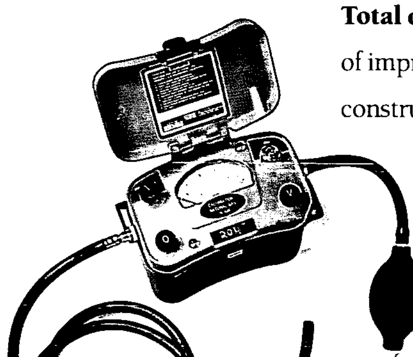
Tbe Kewaunee Nuelear Power Plant has one of the best reliabdity records in the industry. Licensed to operate through 2013, Kewaunee provides 29% of the electricity used by MGE's customers. The spent-fuel pool at the plant has enough storage space to accommodate used fuel rods through the end of the decade. On-site dry storage is being cousidered after 2000.

Building on a Strong Economic Base

MGE's service area is one of the Midwest's leading growth markets, according to the Ernst & Young National Real Estate Index. With an unemployment rate that's consistently well below the national average, this area continues to resist the recessionary trends felt by most of the country. Much of this success is due to a diversified economy in the region, including government, higher education and growing private enterprise.

Madison ranked among the top 10 cities in which to live in the United States, according to a Money magazine survey. With a public school system ranked among the 20 best in the country and a work force that is 22% more productive than the national average, this area continues to attract new business development. MGE works with the University of Wisconsin (UW), established businesses and venture investors to promote technology transfer and foster economic development in the Greater Madison area.

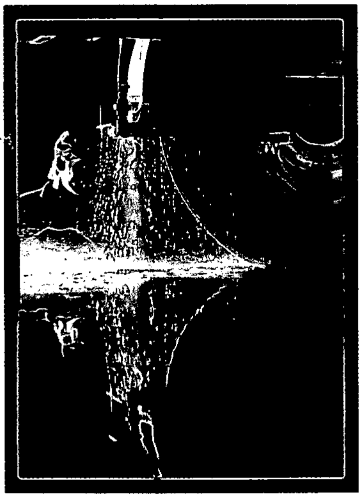
More than 120,000 square feet of new office, laboratory and manufacturing space was added to the UW Research Park in 1991. Three international firms are now among the tenants at the park – Fiskars, Eppendorf North America and Rhone-Poulenc. Novagen, a biotech start-up company and original tenant at the MGE Innovation Center, announced plans to leave the incubator and expand into new space at the park in 1992. MGE provides below-market rents and shared support services for tenants at the Innovation Center. This helps new businesses in the research park cut start-up costs and enhances their growth potential. The center was fully leased during 1991.



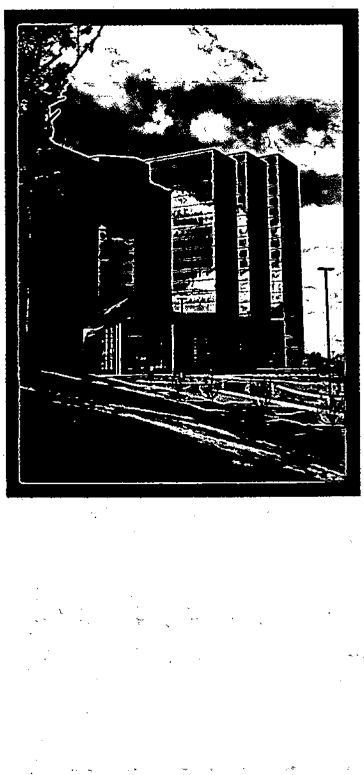
Total commercial and industrial construction was up 5% over 1990, continuing a trend of impressive development growth. More than $250 million was invested in non-residential construction in Dane County during 1991. More than $1 billion has been invested in commercial and industrial construction projects within the last five years.

One of the largest office development projects in the Midwest is under way in MGE's gas service area. A new 800-acre American Family Insurance headquarters and business center will add about $100 million to area construction activity.

Business and industrial parks coutinue to thrive as well. MGE works with community and business leaders to attract development to industrial and business parks throughout the company's service area. More than 2,300 acres are available for development at parks and other prepared sites in Fitchburg, Madison, McFarland, Middleton, Verona, Waunakee and other communities that MGE serves.



An MGE rebate of more than $150,000 will help Quarra Stone improve the efficiency of its sophisticated stone-cutting and polishing equipment. MGE also guaranteed loans during the firm's start-up phase to help it acquire a new generation of stone-cutting equipment. Quarra Stone is now one of two businesses in the country using this technology. This energy-intensive operation projects rapid growth over the next few years.



The Wisconsin World Trade Center building in Middleton opened in 1991. Its anchor tenant, the Wisconsin World Trade Center - Madison Inc., was established to foster local economic growth through world trade. The developer of this building worked with MGE to obtain tenant leads and other business assistance.

The future of MGE is directly linked to the overall well-being of the communities it serves. MGE helps strengthen these communities by providing competitive rates, promoting the efficient use of energy and committing time and money to support valuable community projects.

Energy incentives and rebates saved MGE customers more than $7 million on purchases of energy-efficient technologies since 1987. The company has benefited by improving its electric system load factor and reducing electric peak demand by nearly 18 megawatts.

MGE extended its electric rate freeze through mid-1993. A company-wide commitment to cost containment has enabled MGE to freeze electric rates since 1990. The company also plans to decrease natural gas rates in 1992. A typical residential gas heating and electric customer will pay less for service in 1992 than in 1985.

A continuing commitment to support entrepreneurship gained recognition for MGE as a 1991 Dane County Small Business Advocate. The company pledged more than $500,000 to business startups during the past five years.

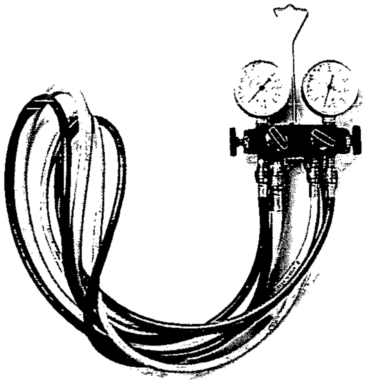
MGE initiated business support for Madison's expanded drug-enforcement program with a $25,000 donation. The city is increasing enforcement efforts and developing neighborhood programs to help prevent crime in the area.

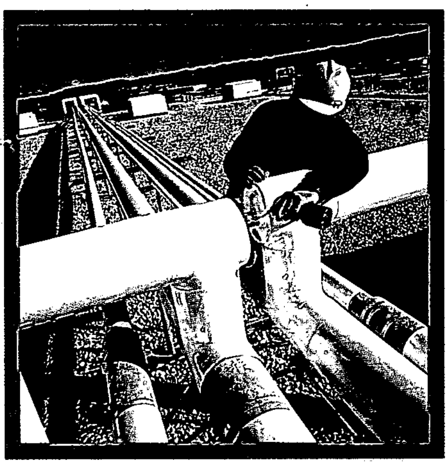
In partnership with area educators, MGE is helping better prepare students to excel in the work force. MGE is working with the Madison Schools 2000 initiative to develop a strategic plan for education. The company also sponsors a course that allows teachers to interact with leaders in technology-based businesses. Teachers gain a better understanding of the skills needed to provide a quality labor force for this fast-growing business sector.

Through MGE's Gatekeeper Program, employees are trained to identify older adults who need assistance. Specially trained employees then work with appropriate service agencies to help customers resolve problems, some of which are life-threatening. The League of Women Voters of Dane County presented a special award to MGE last year for its outstanding service in the field of aging. MGE was also named the YMCA Outstanding Corporate Citizen.

The MGE Energy Fund helps customers with temporary financial setbacks pay their heating bills. MGE shareholders, employees and customers have provided nearly $369,000 through this fund in one-time energy grants to about 1,300 families since 1985.

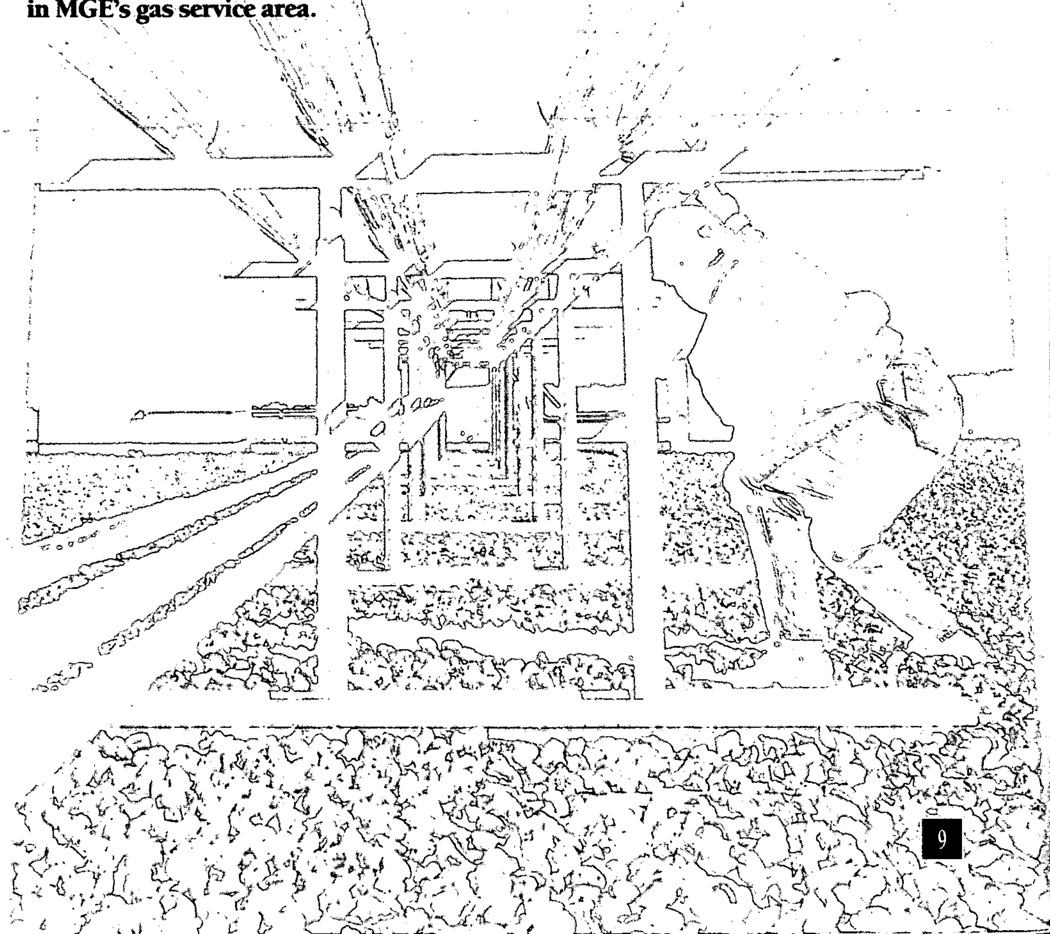
Building on a Commitment to Our Customers





When Central Storage Warehouse (CSW) experienced a devastating fire in May, MGE was there to help. MGE worked with CSW management and engineers to improve energy efficiency as they faced the task of rebuilding. An $88,600 rebate from MGE helped offset the added cost of installing a high-efficiency, computer-controlled refrigeration system. Energy-saving measures will reduce peak demand at the new facility by about 103 kilowatts, saving CSW about $48,000 on energy bills each year.

MGE provided a $65,000 grant to help low-income families build energy efficiency into their homes. Homeowners spent many hours building their homes as part of a federally funded Self-Help Housing project in Ridgeway, a community in MGE's gas service area.



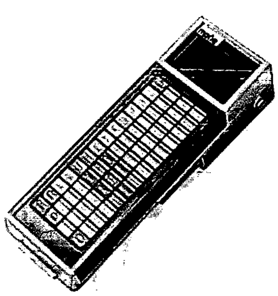
Building on Solid Performance

MGE demonstrates solid performance in providing reliable gas and electric service, upholding strict environmental standards and delivering consistent and competitive dividends for investors. MGE is committed to improving performance through careful planning and decision making.

A long-range plan for meeting customers' electric needs was filed with the Public Service Commission of Wisconsin in 1991. The plan includes:

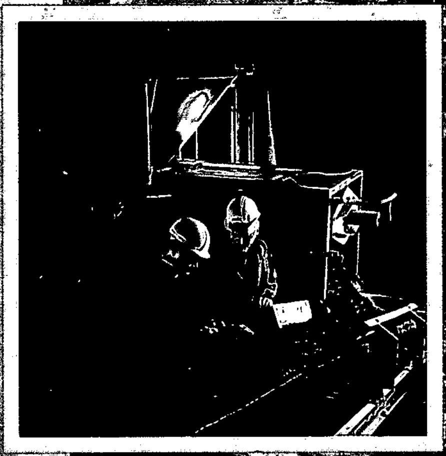
- Reducing electric peak demand by about 100 megawatts (mw) through cost-effective conservation programs by 2010.
- Controlling 28 mw of residential central air conditioning load by 1996, eliminating the need for one of two gas-fired peaking plants originally planned for 1996.
- Buying economical electricity from other utilities through 1995 and in 1997.
- Installing one gas-fired peaking plant of about 40 mw in 1996 and a second unit in 1998.
- Converting two boilers at the Blount Generating Station to atmospheric fluidized bed combustion by 2000 to burn a lower-cost fuel and reduce sulfur dioxide emissions.

MGE's Environmental Task Force ensures that environmental responsibility is incorporated into daily operations. Waste reduction, reuse and recycling are the goals. Employee recycling efforts last year saved about 55 tons of paper, aluminum and cardboard from going to a landfill. An innovative program was started last year to recycle used oil filters from fleet vehicles and employees' vehicles on a voluntary basis. This effort will keep thousands of used filters and the gallons of waste oil they retain out of Dane County landfills. Methods for reusing or recycling hazardous wastes are also being implemented.



Clean-burning natural gas is fueling two vehicles in the city of Monona's fleet. Monona received grants from the State of Wisconsin and MGE to help offset the cost of converting the vehicles. About one-fourth of MGE's fleet vehicles currently run on natural gas.

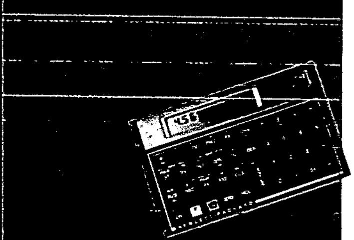
Through solid performance, a foundation for long-term value has been established for MGE's shareholders. Base-load electric facilities will not be needed until after the turn of the century. Cost-effective alternatives to building new generating plants are being used to meet electric demands in our growing service area. Making these decisions in a prudent and environmentally responsible way preserves the quality of life in our communities and enhances the financial integrity of MGE.



MGE tested a variety of coals and coal blends last year at Blount Generating Station to find the best combination for meeting state and federal clean air requirements. MGE may switch to a lower-sulfur coal blend and upgrade emission control devices to meet air quality requirements through 1999. Thomas Sullivan, laboratory and water systems specialist, burns coal samples at 1,380° Fahrenheit in a laboratory oven until only the ash remains. This test determines the sulfur content of the coal and the amount of ash that remains.

MGE squeezes water out of fly-ash sludge at Blount Generating Station to reduce waste going to the landfill. A screw press reduces about 15,000 gallons of watery waste down to a few wheelbarrows full of clay-like material. Paul Davig (right), supervisor - laboratory and water systems, and Kris Meuer, laborer - crane operation, check the water content in samples of the processed sludge before it's hauled away.

Financial Statements



Responsibility for Financial Statements

The management of Madison Gas and Electric Company is responsible for the preparation and presentation of the financial information in this Annual Report. The following financial statements have been prepared in accordance with generally accepted accounting principles consistently applied and reflect management's best estimates and informed judgments as required.

To fulfill these responsibilities, management has developed and maintains a comprehensive system of internal operating, accounting, and financial controls. These controls provide reasonable assurance that the Company's assets are safeguarded, transactions are properly recorded, and the resulting financial statements are reliable. An internal audit function assists management in monitoring the effectiveness of the controls.

The Report of Independent Public Accountants on the financial statements by Arthur Andersen & Co. appears below. The responsibility of the independent public accountants is limited to the audit of the financial statements presented and the expression of an opinion as to their fairness.

The Board of Directors maintains oversight of the Company's financial situation through its monthly review of operations and financial condition and its selection of the independent public accountants. The Audit Committee, comprised of all Board members who are not employees or officers of the Company, also meets periodically with the independent public accountants and the Company's internal audit staff who have complete access to and meet with the Audit Committee, without management representatives present, to review accounting, auditing, and financial matters. Pertinent items discussed at the meetings are reviewed with the full Board of Directors.

F C Vondrasek

Frank C. Vondrasek
Chairman and Chief Executive Officer

Joseph T. Krzos

Joseph T. Krzos
Assistant Vice President -
Accounting and Control

Report of Independent Public Accountants

To the Shareholders and Board of Directors,
Madison Gas and Electric Company:

We have audited the accompanying consolidated balance sheets and statements of capitalization of MADISON GAS AND ELECTRIC COMPANY (a Wisconsin corporation) and subsidiaries as of December 31, 1991 and 1990, and the related consolidated statements of income, retained income, and cash flows for each of the three years in the period ended December 31, 1991. 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 Madison Gas and Electric Company and subsidiaries as of December 31, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
February 14, 1992

Liquidity and Capital Resources

The Company's liquidity is primarily affected by the requirements of its ongoing construction program. During 1991, all of the Company's construction and nuclear fuel expenditures were provided for by internally generated cash. These expenditures declined $2 million in 1991 as compared to 1990, while cash generated internally increased approximately $2 million. It is anticipated that 1992 construction and nuclear fuel expenditures will be $23 million. In 1993 and 1994, expenditures are expected to be at slightly higher levels. The annual construction expenditures should continue to be less than 5 percent of our gross plant in service and our total assets. Through these expenditures, the Company will have efficient, up-to-date facilities for providing reliable service to customers and for meeting their future energy needs.

Expenditures for construction and nuclear fuel estimated for 1992, actual for 1991, and the average for the three-year period 1988 to 1990 are shown below.

The current financial statements report operating results in terms of historic cost. Even though the statements provide a reasonable, objective, quantifiable statement of financial results, they do not evaluate the impact of inflation. For ratemaking purposes, projected normal operating costs include impacts of inflation and are recoverable in revenues. However, electric and gas utilities, in general, are adversely impacted by inflation because depreciation of utility plant is limited to the recovery of historical costs. Thus, cash flows from the recovery of existing utility plant may, to a certain extent, not be adequate to provide replacement of plant investment.

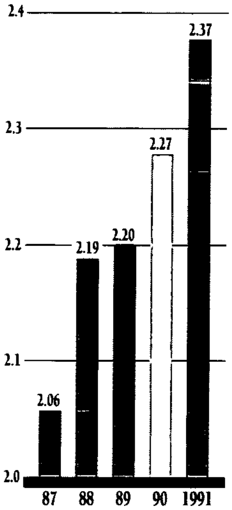
The Federal Clean Air Act as amended in 1990 will have a major impact on many electric utilities. However, the Company does not anticipate that Phase I of the Act, effective in 1995, will have any major impact on operations. The Company is also confident that if capital investments are required at some future date, the Public Service Commission of Wisconsin (PSCW) will allow timely recovery of such costs. The Company believes that fuel switching will be the effective strategy to follow to meet Phase II of the Act.

The Company has conservation and load management programs designed to curtail growth in electric peak demand in order to defer construction of additional generating capacity. Existing programs include controls for residential air conditioners and commercial lighting. The expenditures are deferred for subsequent recognition in rates over a 10-year period.

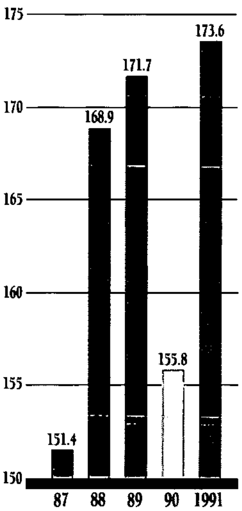
At December 31, 1991, bank lines of credit available to the Company were $20 million. The bank lines are generally used to support commercial paper issued, which represents a primary source of short-term financing. The Company's dealer-issued commercial paper carries the highest ratings assigned by Moody's Investors Service, Inc., and Standard & Poor's Corporation.

For the years ended December 31 *(Thousands of Dollars)*	1992 Estimated		**1991**		Annual Average 1988-1990	
Electric						
Production	$ 7,501	32%	**$ 3,262**	**17%**	$ 4,329	14%
Transmission	1,382	6	**3,440**	**17**	3,340	11
Distribution	6,742	29	**6,191**	**31**	11,856	40
Nuclear fuel	2,666	12	**2,670**	**13**	3,062	10
Total Electric	18,291	79	**15,563**	**78**	22,587	75
Gas	4,398	19	**3,293**	**17**	6,172	20
Common	411	2	**980**	**5**	1,514	5
Total	$23,100	100%	**$19,836**	**100%**	$30,273	100%

Electric Sales
(mwh in millions)



Gas Deliveries
(therms in millions)



The Company believes that trust indenture restrictions will not prevent the issuance of additional long-term debt in the foreseeahle future. The Company has asked the City of Madison to issue up to $55 million in tax exempt industrial revenue bonds (IRB) to refinance existing IRB debt and to provide funds for the future construction of new electric facilities. The Company's existing bonds are rated AA by Fitch Investors Service, Inc.; AA- by Standard & Poor's; and Aa2 by Moody's.

Capitalization ratios are shown at the bottom of the Summary of Selected Financial Data on page 25. In December 1990, the Company sold $15 million of its accounts receivables to decrease short-term debt and to achieve and maintain the Company's long-term goal of a common equity level of 50 to 55 percent. Some equity funds were received in 1990 and 1991 under the Company's Automatic Dividend Reinvestment and Stock Purchase Plan (DRIP). Under DRIP, the Company has the option to issue new shares of common stock or purchase the shares on the open market. In March 1991, the Company started purchasing common shares on the open market. The Company will be able to meet its construction requirements, reduce short-term debt and meet sinking fund debt requirements and debt maturities with internally generated funds and external debt financing over the next three years. No new equity funds should be required over the next three-year period.

Results of Operations

Electric Results

Electric retail sales for 1991 increased 4.4 percent over 1990. The increase in 1991 sales is mainly due to continued customer growth throughout our service territory and a warmer-than-normal summer compared to 1990. On July 22, 1991, demand for electricity by our customers during a one-hour period reached an all-time peak of 523,000 kw for the Company. Cooling degree days in 1991 (as measured by the number of degrees the mean daily temperature is above 65 degrees Fahrenheit) were 36 percent higher than in 1990. As a result, revenues increased 4.2 percent in 1991 as compared to 1990.

In 1990, electric retail sales were up 3.0 percent from 1989 while total electric revenues were up 6.5 percent for the same time period.

Gas Results

Gas delivered to our customers for 1991 increased 11 percent from 1990 as shown in the following table. Heating degree days (as measured by the number of degrees the mean daily temperature is below 65 degrees Fahrenheit) increased 5 percent for the year 1991 when compared to 1990, but was 8 percent below normal. This was due to mild weather experienced in the first quarter of 1991.

Changes in gas sold, transported, and delivered, as compared to the previous year, were:

	Retail Gas Sales	Gas Transported	Total Gas Delivered
	Increase (Decrease)		
1991			
Million therms	15.0	2.8	17.8
Percentage	10%	44%	11%
1990			
Million therms	(16.4)	0.5	(15.9)
Percentage	(10)%	8%	(9)%
1989			
Million therms	0.9	1.9	2.8
Percentage	1%	48%	2%

Fuel and Gas Costs

Electric fuel and purchased power expenses, in total, increased 3.1 percent in 1991 compared to 1990, despite an increase of 4.4 percent in electric sales. This is attributable to lower coal and per unit purchased power costs.

Natural gas costs increased 4.5 percent, while sales of natural gas increased 10 percent. The Company continued its efforts to purchase gas in months when prices are generally lower and place it in storage until it could be used during the 1991-92 heating season. The savings of storing gas purchased at lower prices is passed along to the Company's customers.

Other Items

A lower level of commercial paper outstanding throughout 1991 has contributed to a decrease in other interest expense for the year (see Note 1h. and 2d.).

Consolidated Statements of Income

For the years ended December 31	**1991**	1990	1989
(Thousands of Dollars, Except Per-Share Amounts)			
Operating Revenues (Notes 1b. and 4)			
Electric	**$146,378**	$140,493	$131,961
Gas	**85,822**	80,075	85,627
Total Operating Revenues	**232,200**	220,568	217,588
Operating Expenses			
Fuel used for electric generation (Note 1d.)	**27,684**	29,652	29,126
Purchased power	**7,119**	4,091	5,608
Natural gas purchased	**51,961**	49,700	53,073
Other operations (Note 1h.)	**52,460**	48,909	47,934
Maintenance	**13,170**	11,538	12,588
Depreciation and amortization (Note 1f.)	**21,025**	22,098	19,878
Income tax items (Note 1g.)			
Deferred taxes	**3,197**	2,528	2,720
Current federal income	**9,813**	8,444	4,998
Amortization of investment tax credits	**(893)**	(882)	(924)
Current state income	**2,418**	2,118	1,674
Other general taxes	**7,872**	7,574	7,307
Total Operating Expenses	**195,826**	185,770	183,982
Net Operating Income	**36,374**	34,798	33,606
Allowance for funds used during construction - equity funds (Note 1c.)	**76**	122	731
Other income, net	**1,114**	1,307	812
Income Before Interest Expense	**37,564**	36,227	35,149
Interest Expense			
Interest on long-term debt	**12,460**	12,688	12,757
Other interest (Note 1h.)	**276**	1,593	2,280
Allowance for funds used during construction - borrowed funds (Note 1c.)	**(52)**	(83)	(484)
Net Interest Expense	**12,684**	14,198	14,553
Net Income	**24,880**	22,029	20,596
Preferred stock dividend requirements	**524**	541	558
Earnings on Common Stock	**$ 24,356**	$ 21,488	$ 20,038
Earnings Per Share of Common Stock (Note 2a (1).) (Average shares outstanding – 10,695,773, 10,530,236 and 10,290,101, respectively)	**$2.28**	$2.04	$1.95

The accompanying notes are an integral part of the above statements.

Consolidated Balance Sheets

At December 31 *(Thousands of Dollars)*	**1991**	1990
Assets		
Utility Plant, at original cost (Note 1c.)		
In service–Electric (Note 1e.)	**$451,409**	$443,792
Gas	**152,018**	149,486
Gross Plant in Service	**603,427**	593,278
Less–Accumulated provision for depreciation (Note 1f.)	**(265,278)**	(245,427)
Net Plant in Service	**338,149**	347,851
Construction work in progress	**5,401**	1,990
Nuclear decommissioning fund (Note 1f.)	**20,827**	18,541
Nuclear fuel, net (Note 1d.)	**8,801**	9,351
Total Utility Plant	**373,178**	377,733
Other Property and Investments	**4,378**	5,290
Current Assets		
Cash	**1,747**	1,562
Deposits for jointly owned electric power production facilities	**2,881**	2,523
Accounts receivable, less reserves of $786 and $625, respectively (Note 1h.)	**10,580**	4,861
Unbilled revenue (Note 1b.)	**11,363**	11,678
Materials and supplies, at average cost	**8,353**	9,357
Fossil fuel, at average cost	**8,355**	8,145
Stored natural gas, at average cost	**3,509**	3,084
Prepaid taxes	**5,443**	5,168
Other prepayments	**1,149**	1,140
Total Current Assets	**53,380**	47,518
Deferred Charges (Note 1g.)	**24,129**	19,793
Total Assets	**$455,065**	$450,334
Capitalization and Liabilities		
Capitalization (see statement on next page) (Note 2)	**$306,872**	$311,981
Current Liabilities		
Preferred stock sinking fund requirements (Note 2b.)	**100**	100
Maturity of 4¾% First Mortgage Bonds, 1991 Series	**—**	4,012
Maturity of 9.65% First Mortgage Bonds, 1992 Series (Note 2c.)	**10,000**	—
Interim loans – commercial paper outstanding (Note 2d.)	**5,600**	2,100
Accounts payable	**16,551**	17,765
Accrued taxes	**5,870**	5,681
Other	**12,012**	10,610
Total Current Liabilities	**50,133**	40,268
Other Credits		
Accumulated deferred income taxes (Note 1g.)	**78,466**	75,091
Investment tax credit deferred (Note 1g.)	**15,613**	16,506
Other	**3,981**	6,488
Total Other Credits	**98,060**	98,085
Commitments and Contingencies (Note 5)		
Total Capitalization and Liabilities	**$455,065**	$450,334

The accompanying notes are an integral part of the above balance sheets.

Consolidated Statements of Capitalization

At December 31 *(Thousands of Dollars)*	**1991**	1990
Common Shareholders' Equity (Note 2a (1). and 2a (2).)		
Common stock — Par value $8 per share		
Authorized 14,000,000 shares		
Outstanding 10,697,218 and 10,680,286 shares, respectively	**$ 85,578**	$ 85,442
Amount received in excess of par value	**26,409**	26,132
Retained income	**64,226**	58,594
Total Common Shareholders' Equity	**176,213**	170,168
Redeemahle Preferred Stock, cumulative, $25 par value, authorized 1,215,000 and 1,223,000 sbares, respectively (Note 2b.)		
Series E, 8.70%, 236,000 and 244,000 shares outstanding, respectively, less current sinking fund requirements of $100	**5,800**	6,000
First Mortgage Bonds (Note 2c.)		
4¾%, 1991 Series	**—**	4,012
9.65%, 1992 Series	**10,000**	10,000
5.45%, 1996 Series	**8,000**	8,000
8%, 1999 Series	**8,788**	9,449
7¾%, 2001 Series	**11,582**	11,807
9¾%, 2004 Series	**17,265**	17,265
9¾%, 2005 Series	**22,199**	22,199
6½%, 2006 Series, Pollution Control Revenue Bonds, principal amount $8,780, less construction fund of $1,451 and $1,368, respectively	**7,329**	7,412
10.60%, 2012 Series, Industrial Development Revenue Bonds	**25,000**	25,000
9¼%, 2016 Series	**25,000**	25,000
First Mortgage Bonds Outstanding	**135,163**	140,144
Maturity of 4¾%, 1991 Series	**—**	(4,012)
Maturity of 9.65%, 1992 Series	**(10,000)**	—
Unamortized discount and premium on bonds, net	**(304)**	(319)
Total First Mortgage Bonds	**124,859**	135,813
Total Capitalization	**$306,872**	$311,981

Consolidated Statements of Retained Income

For the years ended December 31 *(Thousands of Dollars)*	**1991**	1990	1989
Balance—Beginning of Year	**$58,594**	$55,210	$52,451
Add—Net income	**24,880**	22,029	20,596
Deduct — Cash dividends on common stock	**(18,724)**	(18,104)	(17,279)
Preferred stock dividend requirements	**(524)**	(541)	(558)
Balance—End of Year	**$64,226**	$58,594	$55,210

The accompanying notes are an integral part of the above statements.

Consolidated Statements of Cash Flows

For the years ended December 31 *(Thousands of Dollars)*	**1991**	1990	1989
Operating Activities			
Net income	**$24,880**	$ 22,029	$ 20,596
Income items not affecting working capital			
Depreciation and amortization	**21,025**	22,098	19,878
Deferred taxes	**3,197**	2,528	2,720
Amortization of nuclear fuel	**3,228**	3,780	3,222
Amortization of investment tax credits	**(893)**	(882)	(924)
Allowance for funds used during construction–equity funds	**(76)**	(122)	(731)
Other	**179**	(250)	683
Net Funds Provided from Operations	**51,540**	49,181	45,444
Changes in working capital, excluding cash			
Special deposits	**(358)**	12	(328)
Accounts receivable	**(5,719)**	18,111	(1,853)
Unbilled revenue	**315**	769	(2,216)
Materials and supplies	**1,004**	(183)	(972)
Fossil fuel	**(210)**	(3,098)	(1,514)
Stored natural gas	**(425)**	448	(3,532)
Prepaid taxes	**(275)**	9	899
Other prepayments	**(9)**	231	(37)
Accounts payable	**(1,214)**	(2,304)	775
Accrued taxes	**189**	704	856
Other current liabilities	**1,402**	(3,235)	4,729
Other noncurrent items, net	**(3,380)**	4,479	(1,346)
Cash Provided by Operating Activities	**42,860**	65,124	40,905
Financing Activities			
Common stock issued	**413**	5,831	5,232
Cash dividends on common and preferred stock	**(19,248)**	(18,645)	(17,837)
Maturity of 4¾% First Mortgage Bonds, 1991 Series	**(4,012)**	—	—
Decrease in preferred stock and bonds outstanding	**(1,154)**	(1,233)	(1,179)
Increase (decrease) in interim loans	**3,500**	(25,900)	6,250
Cash Used for Financing Activities	**(20,501)**	(39,947)	(7,534)
Investing Activities			
Additions to utility plant and nuclear fuel	**(19,836)**	(22,955)	(30,881)
Allowance for funds used during construction – borrowed funds	**(52)**	(83)	(484)
Increase in nuclear decommissioning funds	**(2,286)**	(2,006)	(1,443)
Cash Used for Investing Activities	**(22,174)**	(25,044)	(32,808)
Change in Cash (Note 6)	**185**	133	563
Cash at Beginning of Period	**1,562**	1,429	866
Cash at End of Period	**$ 1,747**	$ 1,562	$ 1,429

The accompanying notes are an integral part of the above statements.

December 31, 1991, 1990, and 1989

1. Summary of Significant Accounting Policies

The consolidated financial statements reflect the application of certain accounting policies described in this note.

a. Basis of consolidation

The financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

b. Revenue recognition

The Company records unbilled revenue on the basis of service rendered. Gas revenues are subject to adjustment clauses related to periodic changes in the cost of gas.

c. Utility plant

Utility plant is stated at the original cost of construction, which includes indirect costs consisting of payroll taxes, pensions and other fringe benefits, administrative and general costs, and an allowance for funds used during construction (AFUDC).

AFUDC represents the approximate cost of debt and equity capital devoted to plant under construction. The Company currently capitalizes AFUDC at a rate of 11.15 percent on 50 percent of construction work in progress. The portion of the allowance applicable to borrowed funds is presented in the Consolidated Statements of Income as a reduction of interest expense, while the portion of the allowance applicable to equity funds is presented as other income. Although the allowance does not represent current cash income, it is recovered under the ratemaking process over the service lives of the related properties. Substantially, all of the Company's utility plant is subject to a first mortgage lien.

d. Nuclear fuel

The cost of nuclear fuel used for electric generation is being amortized to fuel expense and recovered in rates based on the quantity of heat produced for the generation of electric energy by the Kewaunee Nuclear Plant (Kewaunee). Such cost includes a provision for estimated future disposal costs of spent nuclear fuel. The Company currently pays disposal fees to the Department of Energy based on net nuclear generation. The Company has recovered through rates and satisfied its entire fuel disposal liability for past nuclear generation.

e. Joint plant ownership

The Company and two other Wisconsin investor-owned utilities jointly own two electric generating facilities, which account for 54 percent (325 mw) of the Company's net generating capability. Power from the facilities is shared in proportion to the companies' ownership interests. The Company's interests are 22 percent (232 mw) of the Columbia Energy Center (Columbia) and 17.8 percent (93 mw) of Kewaunee. Each owner provides its own financing and reflects its respective portion of facilities and operating costs in its financial statements. The Company's portions of these facilities, included in its gross utility plant in service, and the related accumulated depreciation reserves at December 31, were as follows (in thousands of dollars):

	Columbia		Kewaunee	
	1991	1990	**1991**	1990
Utility plant	**$85,148**	$85,122	**$55,533**	$53,661
Accumulated depreciation	**(37,384)**	(34,846)	**(27,685)**	(25,981)
Net Plant	**$47,764**	$50,276	**$27,848**	$27,680

f. Depreciation

Provisions at composite straight-line depreciation rates, excluding decommissioning costs as discussed below, approximate the following percentages of the cost of depreciable property: electric, 3.4 percent in 1991 and 3.5 percent in 1990 and 3.2 percent in 1989; gas, 3.7 percent in 1991 and 3.6 percent in 1990 and 3.5 percent in 1989. Depreciation rates are approved by the Public Service Commission of Wisconsin (PSCW) and are generally based on the estimated economic lives of property.

External trust funds bave been established for costs associated with the future decommissioning of Kewaunee. It is estimated that the Company's share of decommissioning, which includes the cost of decontamination, dismantling and site restoration will be $118.6 million at the time of future decommissioning. Decommissioning costs, recovered through rates, are $1.3 million annually.

g. Income taxes

(1) The eligible investment tax credit is amortized over the service lives of the related property. Deferred income tax expense results principally from property-related timing differences due to different depreciation methods and lives used for income tax and financial reporting purposes. Consistent with past regulatory treatment, the Company has not provided deferred taxes on tax timing differences of approximately $12.8 million at December 31, 1991. Beginning June 1, 1991, the PSCW began allowing rate recovery of these timing differences over a 15 year period.

(2) The Company's effective income tax rates are computed by dividing the total of current and deferred federal and state income tax expense, and taxes included in other income, less the amortization of investment tax credits,

by the sum of such expenses and net income. The total provision for income taxes was $14,600,000, $12,172,000, and $7,159,000 in 1991, 1990, and 1989, respectively. The reconciliation to the statutory federal income tax rate is as follows for the years ended December 31:

	1991	1990	1989
Effective income tax rate as computed	**37.0%**	35.6%	25.8%
Restoration of investment tax credit	**2.3**	2.6	3.3
State income taxes, net of federal benefit	**(5.4)**	(3.7)	(3.2)
Benefit of tax rate differential	**1.1**	1.8	3.3
Adjustment to nonoperating taxes	**—**	—	3.0
Recovery of tax settlements	**(1.1)**	(1.6)	—
Other differences, net	**0.1**	(0.7)	1.8
Statutory federal income tax rate	**34.0%**	34.0%	34.0%

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (SFAS) No. 109, which requires an asset and liability approach for financial accounting and reporting for income taxes rather than the deferred method. This standard is to be adopted by the Company no later than January 1993. Under the new standard, balance sheet reclassifications will be recorded to reflect adjustments to deferred income taxes payable primarily for the net effects of income tax rate changes and cumulative tax timing differences for which no income taxes have been previously provided. The Company expects that SFAS No. 109 will not have a material impact on either financial condition or results of operations.

(3) As of December 31, 1991, the Company has recorded $2.9 million in deferred charges representing net tax and interest payments made for income tax settlements from prior years. The net of tax interest amounts are being recovered in rates through income tax expense over a three-year period.

h. Accounts receivable

On December 17, 1990, the Company sold $15 million of accounts receivable, without recourse, to a wholly owned subsidiary of The First National Bank of Chicago. The proceeds from the sale were used to reduce short-term debt. All billing and collection functions will remain the responsibility of the Company. Costs and fees of approximately $1.1 million associated with this program for 1991, are recorded as other operating expenses.

i. Pension plans

The Company has maintained a contributory defined benefit plan and a noncontributory defined benefit plan for substantially all nonsalaried and salaried employees, respectively. The pension benefit formula used in the determination of pension costs is based upon the average compensation earned during the last five years of employment for the salaried plan and career earnings for the nonsalaried plan subject to a monthly maximum.

The Company's funding policy is to make such contributions as are necessary to finance the benefits provided under the plans. The Company's contributions meet the funding standards set forth in the Employee Retirement Income Security Act of 1974 (ERISA). Ratemaking practice has historically allowed the accrued pension funding amount in rates. The Company has recorded 1991 pension costs equal to the funding amount. The funding amounts were $566,000 in 1991, $1,040,000 in 1990, and $684,000 in 1989. Of these amounts, $383,000, $886,000, and $573,000 were charged to operating expenses for the years 1991 through 1989, respectively. The plans' assets consist primarily of pooled funds invested with the Prudential Asset Management Group.

The funded status of the plans is as follows (in thousands of dollars):

At December 31:	1991	1990
Fair value of plan assets	**$35,797**	$29,999
Actuarial present value of benefits rendered to date – Accumulated benefits based on compensation to date, including vested benefits of $30,759 and $25,888, respectively	**31,263**	26,308
Additional benefits based on estimated future salary levels	**6,746**	6,127
Projected benefit obligation	**$38,009**	32,435
Plan assets less than projected benefit obligation	**(2,212)**	(2,436)
Unrecognized net asset at date of initial application	**(155)**	(194)
Unrecognized net loss	**198**	962
Unrecognized prior service cost	**1,425**	1,541
Net liability	**$ (744)**	$ (127)

Components of net pension costs for the years ended December 31 (in thousands of dollars):

	1991	1990	1989
Service costs (benefits earned during the period)	**$1,267**	$1,162	$ 842
Interest costs on projected benefit obligation . . .	**2,587**	2,223	2,028
Actual return on plan assets	**(5,884)**	(861)	(3,636)
Net amortization and deferral	**3,265**	(1,673)	1,450
Regulatory effect based on funding	**(669)**	189	—
Net pension costs	**$ 566**	$1,040	$ 684

The net pension costs at December 31, 1991, 1990, and 1989 were based on an assumed long-term rate of return on plan assets of 9.0 percent, a weighted average discount rate of 7.5 percent in 1991 and 1990, and 8.25 percent in 1989, and an assumed rate of increase in future compensation levels of 5.0 percent in 1991 and 1990, and 6.0 percent in 1989.

In addition to the noted plans, the Company also maintains a defined contribution 401(k) benefit plan for salaried employees. The Company's costs of the 401(k) plan for the years 1991, 1990, and 1989 were $173,000, $168,000, and $158,000, respectively.

j. Post-retirement benefits other than pensions

The Financial Accounting Standards Board has issued a new statement, SFAS No. 106, which establishes accounting and reporting standards for post-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 assumptions and calculations involved in determining the accrual closely paralleled pension accounting requirements.

The Company expects to prospectively adopt the new standard effective January 1, 1993. The Company plans to amortize the discounted present value of the obligation to expense over a 20-year period. Management has engaged actuaries who have made a preliminary review using 1991 data. Their estimates are subject to significant change based on a number of factors, including possible changes in the assumed health care cost trend used in the calculation. Based on the actuaries' preliminary review, the post-retirement benefit obligation at January 1, 1992, measured in accordance with the new standard, is estimated in the range of $8 million to $12 million. If the new standard is adopted in 1992, the actuaries estimate that the additional post-retirement benefit cost charged to expense in 1992 would be in the range of $1.4 million to $2.2 million (pretax). The Company currently recovers the cost of such benefits through its rates on a pay-as-you-go (cash) basis. The cost of these benefits expensed was $381,000, $173,000 and $249,000 for the years ended 1991, 1990 and 1989, respectively. Although future regulatory treatment is uncertain at this time, the Company expects to ultimately recover through rates any difference in expense resulting from the SFAS No. 106 accrual approach. Also, management believes the effect of the actual adoption in 1993 could be changed significantly by changes in health care costs, work force demographics, interest rates, or plan changes between now and 1993.

2. *Capitalization Matters*

a (1). Common stock - stock split

On October 18, 1991, the Board of Directors authorized a three-for-two split of the Company's common stock in the form of a stock dividend. The stock dividend was distributed on January 21, 1992, to shareholders of record as of January 2, 1992. All current and prior year per share amounts have been adjusted to reflect this split.

To account for the three-for-two stock split, the number of common stock shares outstanding was increased by 3,564,902 shares in 1991 and 3,560,095 shares in 1990. As a result, common stock par value was increased by $28,519,216 in 1991 and $28,480,760 in 1990, with an offsetting decrease to amounts received in excess of par value. The Company paid out of retained earnings $37,478 to cover the fractional shares paid out in cash resulting from the stock split.

a (2). Common stock - dividend reinvestment plan

Pursuant to the Company's Automatic Dividend Reinvestment and Stock Purchase Plan, 12,125 shares of common stock were issued in January and February of 1991 and 176,788 shares were issued in 1990. Allocations of proceeds were $97,000 in 1991 and $1,415,000 in 1990 to common stock par value and $316,000 in 1991 and $4,416,000 in 1990 to amounts received in excess of par value. In March 1991, the Company began purchasing common shares on the open market. These share amounts do not reflect the three-for-two stock split.

b. Redeemable preferred stock

The Company has an obligation to retire 4,000 Series E shares for $100,000 during each 12-month period ending August 1 through 1993. For the 12-month periods ending August 1, 1994 through 1996, the Company has an obligation to retire 8,000 shares for $200,000. Additional Series E shares equal to the annual retirement obligations may be retired during any 12-month period ending August 1.

c. First mortgage bonds

The annual sinking fund requirements of the outstanding first mortgage bonds are $800,000 in 1992-1994, $1,000,000 in 1995, and $920,000 in 1996. The 9.65% First Mortgage Bonds, 1992 Series, will be maturing in October 1992, requiring $10 million to retire this Series of bonds. As of December 31,1991, the Company had satisfied its 1992 sinking fund bond requirements.

d. Notes payable to banks, commercial paper, and lines of credit

For short-term borrowings, the Company generally issues commercial paper (issued at the prevailing discount rate at the time of issuance) which is supported by unused bank lines of credit. Through negotiations with several banks, the Company has $20 million in bank lines of credit. Information concerning short-term borrowings is set forth below (in thousands of dollars):

At December 31:	**1991**	1990	1989
Available lines of credit	**$20,000**	$20,000	$30,000
Commercial paper outstanding	**$ 5,600**	$ 2,100	$28,000
Bank loans outstanding	**$ —**	$ —	$ —
Weighted average interest rate	**5.80%**	8.35%	8.52%
During the year:			
Maximum short-term borrowings (includes bank loans)	**$ 9,000**	$30,000	$32,000
Average short-term borrowings	**$ 2,669**	$17,551	$23,845
Weighted average interest rate	**5.96%**	8.29%	9.18%

3. *Segments of Business*

The table below presents information pertaining to the Company's segments of business.

Information regarding the distribution of net assets between electic and gas is set forth on page 25.

For the years ended December 31 (*Thousands of Dollars*)	**1991**	1990	1989
Electric Operations			
Total revenues	**$146,378**	$140,493	$131,961
Operation and maintenance expenses	**85,263**	79,049	79,643
Depreciation and amortization	**15,889**	16,902	14,967
Other general taxes	**6,406**	6,027	5,777
Pre-tax Operating Income	**38,820**	38,515	31,574
Income tax items	**11,166**	10,702	6,321
Net Operating Income	**$ 27,654**	$ 27,813	$ 25,253
Construction and Nuclear Fuel Expeuditures (Electric)	**$ 16,165**	$ 17,512	$ 24,249
Gas Operations			
Operating revenues	**$ 85,822**	$ 80,075	$ 85,627
Revenues from sales to electric utility	**1,213**	867	805
Total Revenues	**87,035**	80,942	86,432
Operation and maintenance expenses	**68,344**	65,708	69,491
Depreciation and amortization	**5,136**	5,196	4,911
Other general taxes	**1,466**	1,547	1,530
Pre-tax Operating Income	**12,089**	8,491	10,500
Income tax items	**3,369**	1,506	2,147
Net Operating Income	**$ 8,720**	$ 6,985	$ 8,353
Constructiou Expcnditures (Gas)	**$ 3,671**	$ 5,443	$ 6,632

4. Rate Matters

In June 1990, the PSCW authorized an increase of 1.33 percent for electric service and a 1.08 percent decrease for gas service. The new rates were designed to increase annual electric revenues by $1.9 million and to decrease annual gas revenues $0.9 million. The changes were based on estimated operations for the test year ending May 31, 1991, and an authorized return on common stock equity of 13.2 percent. The PSCW continues to allow a current return on 50 percent of construction work in progress.

In October 1990, the Company notified the PSCW of its intent to hold electric and gas rates to the levels authorized in June 1990, through its next test year which ends May 31, 1992. In May 1991, the PSCW granted the Company's request.

In October 1991, the Company notified the PSCW of its intent to hold electric rates at authorized levels, and lower gas rates approximately 1% for the period from June 1, 1992, through May 31, 1993. A final decision from the PSCW is expected during the first half of 1992.

5. Commitments and Contingencies

Utility plant construction expenditures for 1992, including the Company's proportional share of jointly owned electric power production facilities and purchases of fuel for Kewaunee, are estimated to be $23 million, and substantial commitments have been incurred in connection with such expenditures. Significant commitments have also been made for fuel for Columbia.

ANR Pipeline Company (ANR) and Northern Natural Gas Company (NNG) have both entered into settlements with their gas suppliers concerning provisions of take-or-pay contracts that are not being met or the contracts are being canceled. Remaining charges applicable to the Company for take-or-pay to ANR are $3.2 million, including interest. This is being paid to ANR as a fixed charge through January 1994. Also, a volumetric surcharge is being paid to ANR through April 1998. NNG agreed to a volumetric surcharge on the fee paid for transportation gas through May 1996. The PSCW has approved procedures whereby the Company is allowed the opportunity to recover both fixed and volumetric take-or-pay charges in rates.

The PSCW has assessed a $9 million penalty to Wisconsin Power and Light Company (WPL), the operator of Columbia (see Note 1e.). The penalty relates to tbe alleged imprudent administration and mishandling of a coal contract for Columbia. WPL appealed the PSCW decision to the Circuit Court and received a ruling reversing the PSCW's decision. The PSCW has appealed the decision to the Court of Appeals. In the opinion of Company management, the ultimate resolution of this matter will not result in any materially adverse effect on the Company's results of operations or financial position.

6. Supplemental Cash Flow Information

For purposes of the Consolidated Statements of Cash Flows, the Company considers cash equivalents to be cash on hand.

Cash payments for interest and income taxes were as follows for the years ended December 31 (in thousands of dollars):

	1991	1990	1989
Interest paid, net of amounts capitalized	**$12,880**	$13,682	$14,576
Income taxes paid	**$13,905**	$ 9,647	$ 1,655

Quarterly Summary of Operations and Stock Prices

(Thousands of Dollars, Except Per-Share Amounts)	Quarters Ended (Unaudited) (1) March 31	June 30	Sept. 30	Dec. 31
1991				
Operating Revenues:				
Electric	**$32,900**	**$36,117**	**$43,430**	**$33,930**
Gas	**37,097**	**9,896**	**7,882**	**30,948**
Total	**69,997**	**46,013**	**51,312**	**64,878**
Operating Expenses	**60,095**	**40,553**	**39,953**	**55,225**
Net Operating Income	**9,902**	**5,460**	**11,359**	**9,653**
Interest, Preferred Dividends, and Other	**2,998**	**3,021**	**3,005**	**2,994**
Earnings on Common Stock	**$ 6,904**	**$ 2,439**	**$ 8,354**	**$ 6,659**
Earnings per Common Share (2) (5)	**65¢**	**23¢**	**78¢**	**62¢**
Dividends Paid per Common Share (3) (5)	**43.3¢**	**43.3¢**	**44¢**	**44¢**
Price per Common Share (4) (5) —High	**$24½**	**$25⅝**	**$27⅛**	**$30⅝**
—Low	**21½**	**23⅝**	**25⅛**	**26⅛**
1990				
Operating Revenues:				
Electric	$ 32,129	$ 32,960	$ 42,122	$ 33,282
Gas	33,751	11,994	7,218	27,112
Total	65,880	44,954	49,340	60,394
Operating Expenses	56,984	39,217	39,159	50,410
Net Operating Income	8,896	5,737	10,181	9,984
Interest, Preferred Dividends, and Other	3,364	3,507	3,550	2,889
Earnings on Common Stock	$ 5,532	$ 2,230	$ 6,631	$ 7,095
Earnings per Common Share (2) (5)	53¢	21¢	63¢	67¢
Dividends Paid per Common Share (3) (5)	42.7¢	42.7¢	43.3¢	43.3¢
Price per Common Share (4) (5)—High	$23⅝	$22⅜	$23	$22⅞
—Low	21	21	20⅞	21⅛

Notes:

(1) The quarterly results of operations within a year are not comparable because of seasonal and other factors.

(2) The sum of earnings per share of common stock for any four quarterly periods may vary slightly from the earnings per share of common stock for the equivalent 12-month period due to the effect of rounding each quarterly period separately.

(3) There were 15,752 shareholders as of February 1, 1992. There currently are no restrictions on the Company's ability to pay dividends and none are expected in the foreseeable future. The Company has regularly paid dividends to its shareholders and expects that it will continue to do so in the future.

(4) The common stock of the Company is traded in the over-the-counter market and is included in the National Association of Securities Dealers, Inc. (NASD), National Market System. The range of prices is as quoted by the NASD Automated Quotation System.

(5) Earnings and dividends per share, and price per common share, have been restated to reflect the Company's three-for-two stock split effective January 2, 1992.

Summary of Selected Financial Data

(Thousands of Dollars, Except Per-Share Amounts)	**1991**	1990	1989	1988	1987
Electric Operating Reveuues					
Residential	**$ 53,216**	$ 49,338	$ 46,152	$ 45,338	$ 42,987
Commercial power and lighting	**75,946**	72,984	68,076	66,028	65,934
Industrial power and lighting	**7,583**	7,464	6,937	6,116	5,627
Street and highway lighting and public authorities	**8,478**	8,848	8,853	8,644	8,992
Other utilities	**620**	1,238	1,825	1,574	1,299
Miscellaneous	**535**	621	118	379	489
Total Electric Revenues	**$146,378**	$140,493	$131,961	$128,079	$125,328
Gas Operating Revenues					
Residential	**$ 48,856**	$ 44,913	$ 47,666	$ 46,248	$ 41,788
Commercial	**29,614**	28,487	30,630	31,374	29,942
Industrial	**1,781**	1,599	1,833	2,125	2,623
Interruptible boiler fuel (includes "Best Efforts")	**4,723**	4,621	5,017	6,163	883
Gas transport, net	**624**	397	445	290	1,286
Miscellaneous	**224**	58	36	44	283
Total Gas Revenues	**$ 85,822**	$ 80,075	$ 85,627	$ 86,244	$ 76,805
Income, Earnings, and Dividends					
Net income	**$ 24,880**	$ 22,029	$ 20,596	$ 20,538	$ 19,627
Earnings on common stock	**$ 24,356**	$ 21,488	$ 20,038	$ 19,962	$ 19,034
Earnings per average common share (1)	**$2.28**	$2.04	$1.95	$1.99	$1.93
Cash dividends paid per common share (1)	**$1.75**	$1.72	$1.68	$1.63	$1.59
Assets (year end)					
Electric	**$330,136**	$331,609	$316,014	$268,216	$249,878
Gas	**104,381**	104,270	119,402	88,898	84,096
Assets not allocated	**20,548**	14,455	32,592	31,335	30,741
Total	**$455,065**	$450,334	$468,008	$388,449	$364,715
Internal Generation of Cash					
Total cash used for construction expenditures and nuclear fuel	**$ 19,836**	$ 22,955	$ 30,881	$ 36,984	$ 32,644
Percent generated internally	**157.1%**	127.7%	84.3%	64.7%	70.9%
Long-term Deht and Redeemable Preferred Stock, Net (year end)	**$130,659**	$141,813	$147,042	$148,206	$139,338
Capitalization Ratios (year end)					
Common shareholders' equity	**54.6%**	53.5%	47.9%	47.4%	47.9%
Redeemable preferred stock (2)	**1.8**	1.9	1.9	2.0	2.2
Long-term debt (2)	**41.8**	43.9	41.9	43.9	46.2
Short-term debt (interim loans)	**1.8**	0.7	8.3	6.7	3.7

(1) Per share amounts have been restated to reflect the Company's three-for-two stock split effective January 2, 1992.

(2) Includes current maturities and current sinking fund requirements.

Board of Directors and Officers

Board of Directors

(Full page photo)

Richard E. Blaney
President and Manager,
Richard Blaney Seeds Inc.
Age 55, Director Since 1974

Robert M. Bolz
Retired Vice Chairman,
Oscar Mayer Foods Corp.
Age 69, Director Since 1972

Donald J. Helfrecht
Chairman Emeritus
Age 70, Director Since 1972

Jean N. Manchester
Retired Chief Executive Officer,
Neesvig's Inc.
Age 65, Director Since 1982

David C. Mebane
President and
Chief Operating Officer
Age 58, Director Since 1984

Frederic E. Mohs
Partner,
Mohs, MacDonald & Widder,
Attorneys at Law
Age 55, Director Since 1975

Robert B. Rennebohm
Consultant and Former President of the
University of Wisconsin Foundation
Age 69, Director Since 1983

Phillip C. Stark
Chairman of the Board,
The Stark Company
Age 66, Director Since 1985

H. Lee Swanson
President,
State Bank of Cross Plains
Age 53, Director Since 1988

Frank C. Vondrasek
Chairman and
Chief Executive Officer
Age 63, Director Since 1982

Andit Committee
Directors Blaney, Bolz, Manchester,
Mohs, Rennebohm, Stark and Swanson

Compensation Committee
Directors Blaney, Bolz, Mebane, Mohs
and Vondrasek

Executive Committee
Directors Blaney, Helfrecht, Manchester,
Mebane, Mohs, Rennebohm and
Vondrasek

Personnel Committee
Directors Manchester, Mebane, Mohs,
Swanson and Vondrasek

Officers of the Company

(Inset photo)

Frank C. Vondrasek
Chairman and Chief Executive Officer
Age 63, Years of Service, 21

David C. Mebane
President and Chief Operating Officer
Age 58, Years of Service, 14

Kent M. Barlow
Senior Vice President - Electric Systems
Age 57, Years of Service, 30

Robert E. Domek
Vice President - Human Resources
Age 61, Years of Service, 23

Richard H. Thies
Vice President - Gas Systems Operation
Age 50, Years of Service, 28

Gary J. Wolter
Vice President - Administration
and Secretary
Age 37, Years of Service, 8

Joseph T. Krzos
Assistant Vice President - Accounting
and Control
Age 48, Years of Service, 9

Terry A. Hanson
Treasurer
Age 40, Years of Service, 10

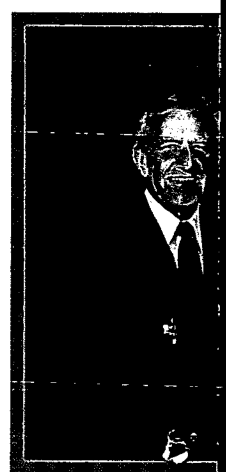
Beverly R. Duncan
Assistant Secretary - Corporate Affairs
Age 60, Years of Service, 41

Carol A. Wiskowski
Assistant Secretary - Administration
and Investor Relations
Age 52, Years of Service, 25

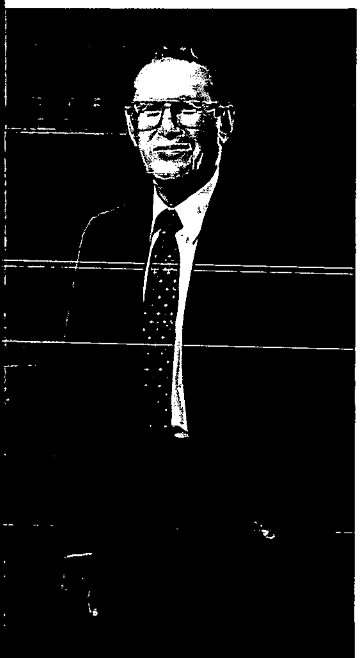
Seated (from left) ► Vondrasek, Mebane.

Standing (from left) Blaney, Mohs, Manchester, Stark, Rennebohm, Helfrecht, Bolz, Swanson.

(From left) Domek, Wolter, Duncan, Hanson, Krzos, Wiskowski, Thies, Barlow. ▼



Shareholder Information



Donald J. Helfrecht
retired Sept. 30, 1991, as chairman and chief executive officer after 45 years of service with MGE. He was instrumental in projects that contributed to the rapid growth of the company. These included developing the electric transmission system and expanding the natural gas service area. His dedicated leadership during a time of dramatic change in the utility industry helped lay a solid foundation for success in a competitive era. His many contributions to the company, utility industry, engineering profession and community are greatly appreciated.

Shareholder Services

We welcome calls from shareholders. Please use the toll-free telephone numbers below for questions about your account, dividend payments, dividend reinvestment, lost certificates and stock transfers:

Madison calling area.......(608) 252-4744
Other Wisconsin areas......1-800-362-6423
Outside Wisconsin..........1-800-356-6423
(Continental U.S.)

Be sure to notify us in writing when a stock certificate is lost or stolen. Also notify us if you do not receive a dividend check within 10 days of the scheduled payment date. Please report name and address changes to us promptly.

If you prefer to write to us, address correspondence to:

MGE Shareholder Services
Post Office Box 1231
Madison, WI 53701-1231

Transfer Agent and Registrar

Harris Trust and Savings Bank
Post Office Box 755
Chicago, IL 60690

Dividend Payment Dates

Dividends on the company's common stock in 1992 are expected to be paid quarterly on the 15th of March, June, September and December.

The record date for dividend payments is the first day of the payment month.

Dividend Reinvestment and Stock Purchase Plan

The MGE Automatic Dividend Reinvestment and Stock Purchase Plan is available to all shareholders, employees and customers of MGE.

Quarterly dividends are automatically reinvested in shares of MGE common stock. Participants may make optional cash payments of $10 to $3,000 each quarter to purchase shares of MGE common stock.

For more information, contact MGE Shareholder Services to receive the plan prospectus. An offer to sell common stock can only be made through the prospectus.

Stock Listing

MGE common stock is traded over-the-counter (OTC), reported through the NASD National Market System (symbol: MDSN) and quoted in the NASD Automated Quotation System. It is listed in most newspaper stock tables as MadsnGas or MadGE.

1992 Annual Meeting

The annual meeting of shareholders will be held Monday, April 27, 1992, at 2 p.m. at the Holiday Inn – Madison West, 1313 John Q. Hammons Drive, Greenway Center, Middleton, Wis.

Reports Available

Upon request, we will provide you with a copy of Form 10-K, our 1991 annual report to the Securities and Exchange Commission. A Statistical Supplement to this Annual Report to shareholders also is available. It contains additional financial and operating data.

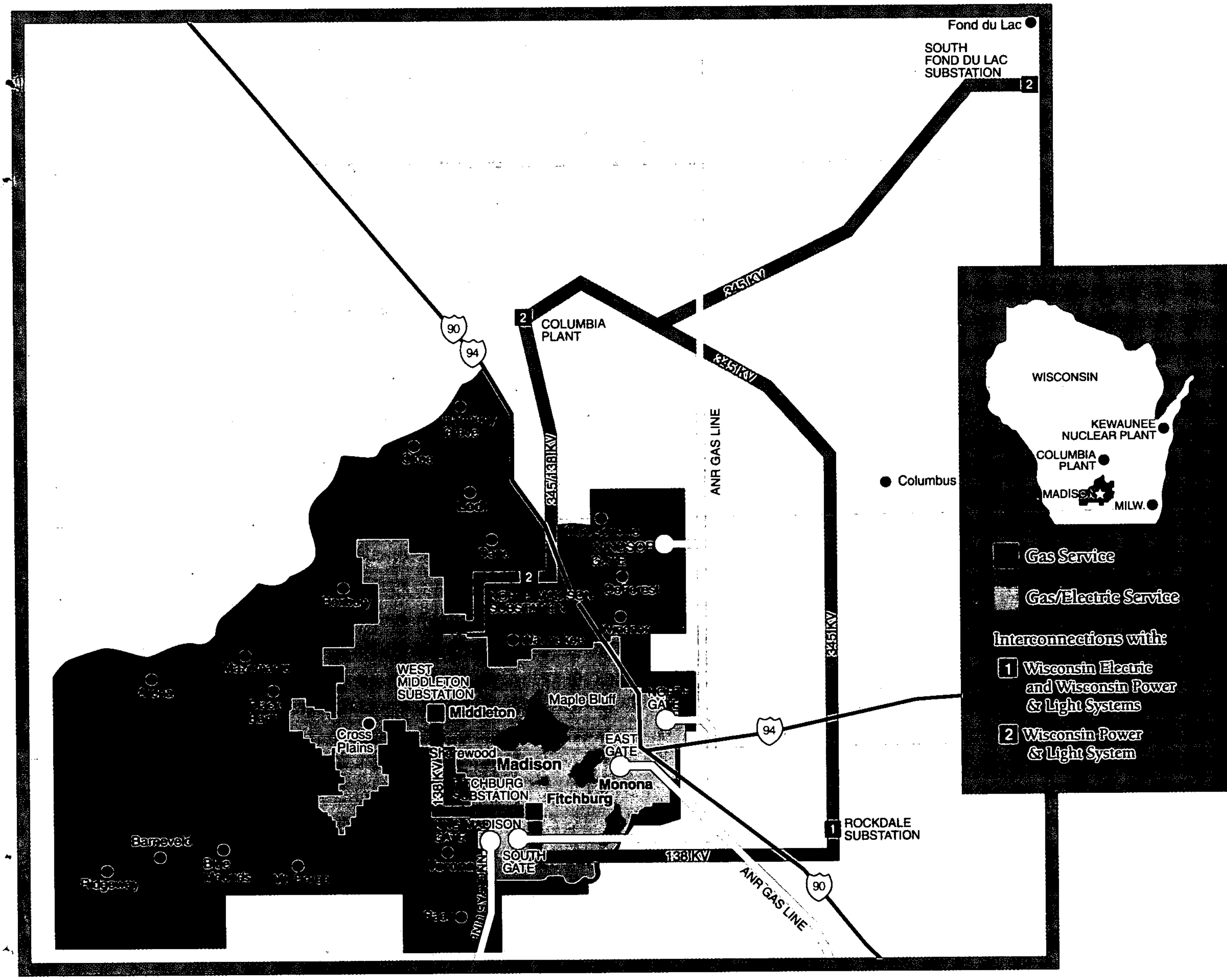
Please address requests for these reports to Joseph T. Krzos, Madison Gas and Electric Company, Post Office Box 1231, Madison, WI 53701-1231.

MGE General Offices
133 S. Blair St.
Post Office Box 1231
Madison, WI 53701-1231

Telephone: (608) 252-7000

Business hours:
8 a.m. to 4:30 p.m.,
Central Time,
Monday through Friday

The Area We Serve



Electric Service

MGE provides electricity service in Madison and surrounding communities in Dane County. The population in the electric service area is about 246,000. Generating facilities are the Kewaunee Nuclear Plant, northeast of Madison on Lake Michigan; the Columbia Energy Center, near Portage, Wis.; the Blount Generating Station and several combustion turbines located in the Madison area.

Natural Gas Service

MGE provides natural gas service in Dane, Columbia and Iowa counties. The population in the gas service area is about 310,000. MGE purchases gas from ANR Pipeline Company, Northern Natural Gas Company and other sources for distribution to customers. The company also arranges for the purchase and transportation of gas for commercial and industrial customers who request this service.

Photography by Bill Paulson; background cover photo by Steve Chen.

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