



**Wisconsin Electric** POWER COMPANY  
231 W. MICHIGAN, P.O. BOX 2046, MILWAUKEE, WI 53201

February 15, 1979

Mr. Jerome Saltzman, Chief  
Antitrust & Indemnity Group  
Nuclear Reactor Regulation  
Nuclear Regulatory Commission  
Washington, D. C. 20555

Dear Mr. Saltzman:

We are herewith providing our guarantee under the retrospective premium system which became effective August 1, 1977 pursuant to:

1. Certain provisions of the 1975 Amendments to the Price-Anderson Act,
2. Certain requirements relating to guaranteeing retrospective premiums published by the Nuclear Regulatory Commission in the Federal Register on January 31, 1977 (42 F.R. 46),
3. Your letter of June 15, 1977 addressed to Wisconsin Electric Power Company and Wisconsin Michigan Power Company, and
4. Our reply to your letter of June 15, 1977 dated June 27, 1977

with a showing of adequate cash flow as detailed in the documents attached and listed below which are required in utilizing this alternative:

1. Annual certified financial statements for year 1978.
2. Certified Cash Flow Projection for year 1979 with narrative statement.

Sincerely,

Treasurer

J. G. Rummel/bjk

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I

WISCONSIN ELECTRIC POWER COMPANY SYSTEM  
**INCOME STATEMENT** — YEAR ENDED DECEMBER 31

	1978	1977
	(Thousands of Dollars)	
<b>Operating Revenues</b>		
Electric .....	\$583,162	\$519,182
Gas .....	161,177	143,265
Steam .....	8,272	7,456
<b>Total Operating Revenues</b>	<b>752,611</b>	<b>669,903</b>
<b>Operating Expenses</b>		
Fuel (Note A) .....	155,615	131,108
Purchased power .....	48,568	30,819
Gas purchased for resale .....	115,948	98,999
Other operation expenses (Note B) .....	112,573	104,666
Maintenance .....	55,879	49,334
Taxes other than income taxes .....	35,049	33,429
Depreciation (Note C)		
Straight line .....	54,160	49,702
Deferred income taxes (Note D) .....	3,873	16,463
Federal income tax (Note D) .....	31,904	37,017
Investment tax credit adjustments — net .....	23,946	10,010
State income tax (Note D) .....	6,887	7,039
<b>Total Operating Expenses</b>	<b>644,402</b>	<b>568,586</b>
<b>Operating Income</b> .....	<b>108,209</b>	<b>101,317</b>
<b>Other Income and Deductions</b>		
Interest income .....	1,659	2,854
Allowance for other funds used during construction (Note E) .....	3,372	238
Miscellaneous — net .....	(322)	(153)
Income taxes (Note D) .....	(1,184)	(1,820)
<b>Total Other Income and Deductions</b>	<b>3,525</b>	<b>1,114</b>
<b>Income Before Interest Charges</b> .....	<b>111,734</b>	<b>102,431</b>
<b>Interest Charges</b>		
Long term debt .....	36,998	32,119
Allowance for borrowed funds used during construction (Note E) .....	(1,895)	(152)
Other .....	5,026	2,269
<b>Total Interest Charges</b>	<b>40,129</b>	<b>34,236</b>
<b>Net Income</b> .....	<b>71,605</b>	<b>68,195</b>
<b>Preferred Stock Dividend Requirement</b> .....	<b>7,337</b>	<b>7,088</b>
<b>Earnings Available for Common Stockholders</b> .....	<b>\$ 64,268</b>	<b>\$ 61,107</b>
<b>Average Number of Shares of Common Stock</b>		
Outstanding (Thousands) .....	18,354	18,213
<b>Earnings Per Share of Common Stock</b> .....	<b>\$3.50</b>	<b>\$3.36</b>

## RETAINED EARNINGS STATEMENT — YEAR ENDED DECEMBER 31

	1978	1977
	(Thousands of Dollars)	
Balance, January 1 .....	\$201,424	\$178,736
<b>Additions</b>		
Net income .....	71,605	68,195
Transfer of amortization reserve — hydroelectric projects .....	305	—
	273,334	246,931
<b>Deductions</b>		
Dividends — Cash		
Preferred stock .....	7,088	7,088
Common stock .....	40,537	38,055
	47,625	45,143
Cost of issuing capital stock .....	687	164
Call premium on retirement of preferred stock .....	—	200
	48,312	45,507
Balance, December 31 .....	\$225,022	\$201,424

## STATEMENT OF CHANGES IN FINANCIAL POSITION — YEAR ENDED DECEMBER 31

	1978	1977
	(Thousands of Dollars)	
<b>Financial Resources Provided</b>		
<b>Operations</b>		
Net income .....	\$ 71,605	\$ 68,195
Depreciation — straight line .....	54,160	49,702
-- deferred income taxes .....	3,873	16,463
Accumulated deferred investment tax credits .....	19,942	8,360
Nuclear fuel expense .....	8,782	6,679
Allowance for funds used during construction .....	(5,267)	(390)
Total from operations .....	153,095	149,009
Common stock .....	5,516	3,038
Preferred stock .....	59,455	—
Long term debt .....	104,882	—
Sale of nuclear fuel .....	5,192	—
Release of deposit with trustee under mortgage .....	—	11,851
Short term borrowings .....	3,675	968
Deferred accrued utility revenues .....	—	52,054
Contributions in aid of construction .....	3,338	4,120
Miscellaneous .....	(2,528)	(3,387)
	\$332,625	\$217,653
<b>Financial Resources Used</b>		
Construction expenditures .....	\$220,563	\$136,915
Nuclear fuel .....	33,436	12,605
Dividends .....	47,625	45,143
Retirement of preferred stock of former subsidiary .....	—	4,200
Retirement of long term debt .....	12,165	12,348
Construction funds held by trustees .....	12,153	—
Increase in working capital (other than short term borrowings and long term debt due currently) .....	6,683	6,442
	\$332,625	\$217,653

The notes on pages 24 through 28 are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY SYSTEM  
**BALANCE SHEET** — DECEMBER 31

	1978	1977
<b>ASSETS</b>		
(Thousands of Dollars)		
<b>Utility Plant</b>		
Electric .....	\$1,511,172	\$1,417,129
Gas .....	173,918	167,797
Steam .....	17,161	17,095
	<u>1,702,251</u>	<u>1,602,021</u>
Accumulated provision for depreciation .....	(653,291)	(588,886)
	<u>1,048,960</u>	<u>1,013,135</u>
Construction work in progress .....	217,108	103,652
Nuclear fuel .....	55,420	27,175
Accumulated provision for amortization .....	(2,617)	—
	<u>52,803</u>	<u>27,175</u>
<b>Net Utility Plant</b>	<u>1,318,871</u>	<u>1,143,962</u>
<b>Nonutility Property</b> .....	6,539	6,448
Accumulated provision for depreciation .....	(383)	(315)
<b>Net Nonutility Property</b>	<u>6,156</u>	<u>6,133</u>
<b>Construction Funds Held by Trustees (Note F)</b> .....	12,153	—
<b>Current Assets</b>		
Cash .....	5,947	4,073
Temporary cash investments .....	2,900	5,450
Accounts receivable (Note G) .....	50,013	40,279
Accrued utility revenues .....	59,787	52,039
Fossil fuel (at average cost) .....	46,665	33,613
Materials and supplies (at average cost) .....	25,193	20,846
Prepayments and other assets .....	6,588	6,028
<b>Total Current Assets</b>	<u>197,093</u>	<u>162,328</u>
<b>Deferred Charges and Other Assets</b> .....	30,898	29,688
	<u>\$1,565,171</u>	<u>\$1,342,111</u>

	1978	1977
	(Thousands of Dollars)	
<b>LIABILITIES</b>		
<b>Capitalization</b>		
Common Stock Equity (Note H)		
Common stock (authorized 41,000,000 shares, \$10 par value; issued 18,473,747 and 18,276,068 shares) .....	\$ 184,737	\$ 182,760
Premium on capital stock .....	135,296	131,757
Retained earnings .....	225,022	201,424
<b>Total Common Stock Equity</b>	<b>545,055</b>	<b>515,941</b>
Preferred Stock (Note J) .....	160,451	100,451
Long Term Debt (Note I) .....	589,576	494,257
<b>Total Capitalization</b>	<b>1,295,082</b>	<b>1,110,649</b>
<b>Current Liabilities</b>		
Long term debt due currently (Note I) .....	7,662	10,310
Notes payable to banks (Note K) .....	21,441	20,794
Commercial paper (Note K) .....	4,022	994
Accounts payable .....	54,711	38,426
Payroll and vacation accrual .....	11,171	10,148
Taxes accrued — income and other .....	26,732	20,627
Interest accrued .....	10,600	8,300
Customer deposits .....	1,863	1,679
Other .....	6,771	4,586
<b>Total Current Liabilities</b>	<b>144,973</b>	<b>115,864</b>
<b>Deferred Credits and Other Liabilities</b>		
Accumulated deferred investment tax credits .....	49,956	30,014
Nuclear fuel costs accrued (Note D) .....	17,372	27,332
Unamortized accrued utility revenues .....	33,778	38,000
Other .....	6,027	5,302
<b>Total Deferred Credits and Other Liabilities</b>	<b>107,133</b>	<b>100,648</b>
Amortization Reserve — Hydroelectric Projects .....	—	305
Contributions in Aid of Construction .....	17,983	14,645
Commitments (Note L) and Contingencies (Note M)		
	<b>\$1,565,171</b>	<b>\$1,342,111</b>



*Summary of Significant Accounting Policies*

**General**

The accounting records of the Company and its utility subsidiary are kept as prescribed by the Federal Energy Regulatory Commission, modified for requirements of the Public Service Commission of Wisconsin (PSCW). The consolidated financial statements include the accounts of the Company and its subsidiaries, Wisconsin Natural Gas Company and Badger Service Company.

**Revenues**

Meters are read and accounts are billed monthly. Since January 1, 1977 utility revenues have been recognized on the accrual basis and include estimated amounts for service rendered but not billed. Accrued utility revenue of \$52 million at December 31, 1976 is being recorded as revenue in equal amounts over a ten year period as prescribed by PSCW.

**Fuel**

The cost of fossil and nuclear fuel is expensed in the period consumed.

Nuclear fuel expense includes an estimate for offsite storage of spent nuclear fuel for ten years after removal from the reactor. No salvage value is recognized for spent nuclear fuel. The accounting for nuclear fuel follows the ratemaking treatment for such costs.

**Property**

Electric and gas utility property is recorded at original cost, and steam utility and nonutility property is recorded at cost. Additions to utility property and significant replacements are charged to utility plant at cost. Cost includes material, labor and allowance for funds used during construction (see Note E). Replacements of minor items of property are charged to maintenance expense. The cost of depreciable property, together with removal cost less salvage, is charged to accumulated provision for depreciation when property is retired.

**Income Taxes**

Deferred income tax accounting is practiced in respect to significant timing differences. The federal investment tax credit is accounted for on the deferred basis and is reflected in income ratably over the life of the related property.

**Debt Premium, Discount and Expense**

Long term debt premium or discount and expense of issuance are amortized by the straight line method over the lives of the debt issues. Unamortized amounts pertaining to debt reacquired for sinking fund purposes are written off currently.

**A — Rental Expense**

Total rental expense was \$20,989,000 in 1978 and \$18,053,000 in 1977. This includes lease payments for nuclear fuel of \$19,835,000 in 1978 and \$17,083,000 in 1977. The nuclear fuel lease can be terminated by the Company or the lessor on two years notice. The lease of any batch of fuel automatically terminates at the end of 78 months, or 18 months after removal from the reactor, unless the parties extend the term. The Company has agreed to pay the lessor for the unamortized cost of the nuclear fuel in the event the lease is terminated. The Company has an option to purchase the nuclear fuel at the higher of such unamortized cost or fair market value. Rental payments are made monthly based on the amount of nuclear fuel leased and the amount of leased nuclear fuel burned.

The nuclear fuel lease is treated as an operating lease by PSCW in determining revenue requirements, and the value of the leased fuel is not included in the Company's rate base. Had the lease been accounted for as a capital lease, expenses before income taxes and indeterminate effects of corresponding ratemaking treatment would have been decreased \$891,000 in 1978 and \$78,000 in 1977 and an asset and corresponding liability would have been recorded at December 31 in the amounts of \$27,855,000 in 1978 and \$39,214,000 in 1977.

**B — Pension Plans**

Several noncontributory pension plans cover all eligible employes. Normal employe pension cost is accrued and funded currently and unfunded prior service liability is amortized over periods from ten to thirty years. The unfunded prior service liability of the pension plans is not significant. Substantially all vested and accrued benefits under the plans have been funded. Pension expense was \$5,715,000 in 1978 and \$4,640,000 in 1977.

**C — Depreciation**

Depreciation expense is accrued at straight line rates certified by PSCW. Depreciation rates include estimates of salvage and plant removal costs. Nuclear plant depreciation rates provide for an amount to cover estimated plant decommissioning costs.

Additional depreciation is accrued in accordance with PSCW requirements which is equal to the tax effects of timing differences related to property and nuclear fuel including principally the use for tax purposes of accelerated depreciation methods (see Note D).

#### D — Income Tax Expense

Below is a summary of income tax expense and a reconciliation of total income tax expense with the tax expected at the federal statutory rate.

	1978	1977
	(Thousands of Dollars)	
Current tax expense .....	\$ 39,975	\$ 45,876
Investment tax credit adjustments — net ...	23,946	10,010
Deferred taxes charged to depreciation expense .....	3,873	16,463
Total tax expense .....	<u>\$ 67,794</u>	<u>\$ 72,349</u>
Income before income taxes .....	<u>\$139,399</u>	<u>\$140,544</u>
Expected tax at federal statutory rate .....	\$ 66,912	\$ 67,461
State income tax net of federal tax reduction .....	5,028	4,389
Other (no item over 5% of expected tax) .....	(4,146)	499
Total tax expense .....	<u>\$ 67,794</u>	<u>\$ 72,349</u>

The aggregate amount of deferred income taxes included in the accumulated provision for depreciation at December 31 was \$122,404,000 in 1978 and \$104,850,000 in 1977.

In 1978 the Company filed claims for refunds with the Internal Revenue Service (IRS) for the years 1970-72. The claims seek a refund of federal income taxes for the deduction of storage and other costs for spent nuclear fuel. Such costs were disallowed as a current deduction by IRS on audit and the resulting assessment was withheld from a previous refund. Management is contesting the disallowance, but pending resolution the Company recorded in 1978 the tax effect of these costs for the years 1970-78 by increasing the current federal income tax provision and normalizing that amount by reducing deferred income taxes by \$14,738,000, resulting in no effect on net income. Deferred nuclear fuel costs accrued have been reduced by the amount of taxes provided. This accounting for income taxes is in accordance with PSCW practice. Related interest of \$1,682,000 was accrued in 1978.

#### E — Allowance for Funds Used During Construction (AFDC)

AFDC is included in utility plant accounts and represents the cost of borrowed funds used during plant construction and a rate of return on stockholders' capital used for construction purposes. On the income statement the cost of borrowed funds (before income taxes) is a reduction of interest expense and the return on stockholders' capital is an item of noncash other income.

The Company is limited by PSCW to capitalizing AFDC only on construction work in progress exceeding 10% of its net investment rate base. Revenues granted by PSCW in rate orders include the equivalent of a return on investment in construction work in progress below this limit. AFDC was capitalized in 1978 and 1977 at a rate of 7% approved by PSCW.

#### F — Construction Funds Held by Trustees

The construction funds were established in May 1978 to finance pollution control and environmental improvement facilities at the Company's new Pleasant Prairie Power Plant. Proceeds of \$25,772,500 from the sale of municipal revenue bonds issued by the Town of Pleasant Prairie were deposited in the funds under a loan agreement with the Company. As a revenue source and collateral for the loan, the Company issued to the Town its First Mortgage Bonds in the principal amount of \$26 million. Funds are released to the Company as qualifying property is constructed at the plant.

#### G — Accounts Receivable

Accounts receivable are shown on the balance sheet after deducting an accumulated provision for doubtful accounts in the amount of \$826,000 for 1978 and \$923,000 for 1977. Uncollectible account write-offs net of recoveries were \$1,552,000 in 1978 and \$1,807,000 in 1977.

#### H — Common Stock and Premium on Capital Stock

Under the Automatic Dividend Reinvestment and Stock Purchase Plan, sales of 114,506 shares of common stock were made in 1978 and 80,378 shares in 1977. Proceeds from the sales were \$3,148,083 in 1978 and \$2,409,441 in 1977. Sales of common stock under the Tax Reduction Act Stock Ownership Plan (TRASOP) were 83,173 shares in 1978 and 21,147 shares in 1977. Proceeds from the TRASOP sales were \$2,367,709 in 1978 and \$628,468 in 1977. The increase in premium on capital stock is the excess of the proceeds from sales over the \$10 par value of the common stock sold.

**I — Long Term Debt**

	December 31	
	1978	1977
(Thousands of Dollars)		
<b>First Mortgage Bonds</b>		
<b>Wisconsin Electric Power Company</b>		
2% % Series due 1979 .....	\$ 7,574	\$ 7,574
2¼ % Series due 1980 .....	11,122	11,286
3¼ % Series due 1982 .....	9,502	9,628
3½ % Series due 1984 .....	15,647	15,832
3¾ % Series due 1986 .....	22,332	22,552
4¼ % Series due 1988 .....	23,457	23,614
5 % Series due 1990 .....	26,913	26,951
5½ % Series due 1996 .....	28,122	28,193
6¾ % Series due 1997 .....	38,115	38,247
6¾ % Series due 1998 .....	33,834	33,910
7¼ % Series due 1999 .....	38,995	39,053
8¼ % Series due 1999 .....	39,591	39,591
8¾ % Series due 2006 .....	60,000	60,000
8¾ % Series due 2008 .....	80,000	—
6.10% Serial Series due 1999-2008 .....	25,000	—
6.25% Serial Series due 1999-2008 .....	1,000	—
<b>Former Wisconsin Michigan Power Company (merged with Company in 1977)</b>		
3 % Series due 1978 .....	—	10,310
2¼ % Series due 1980 .....	640	640
3¼ % Series due 1981 .....	2,147	2,149
3½ % Series due 1984 .....	2,164	2,164
4¼ % Series due 1991 .....	3,623	3,624
4½ % Series due 1993 .....	5,077	5,112
5½ % Series due 1996 .....	9,271	9,271
6½ % Series due 1997 .....	11,539	11,549
6¾ % Series due 1998 .....	9,899	9,905
8½ % Series due 1999 .....	11,829	11,875
<b>Wisconsin Natural Gas Company</b>		
3¼ % Series due 1980 .....	1,861	1,861
4¼ % Series due 1986 .....	3,633	3,646
4½ % Series due 1987 .....	4,504	4,504
4¾ % Series due 1990 .....	6,513	6,603
6½ % Series due 1992 .....	9,462	9,477
8¼ % Series due 1994 .....	9,796	9,834
8½ % Series due 1996 .....	9,941	9,971
	563,103	468,927
<b>Debentures (unsecured)</b>		
<b>Wisconsin Electric Power Company</b>		
7 % Series due 1993 .....	34,429	35,163
	597,532	504,090
Unamortized Premium or (Discount) — net	(294)	477
Long Term Debt Due Currently .....	(7,662)	(10,310)
<b>Total Long Term Debt .....</b>	<b>\$589,576</b>	<b>\$494,257</b>

The maturities and sinking fund requirements through 1983 for the aggregate amount of long term debt outstanding at December 31, 1978 are shown below. Of the annual sinking fund requirements, \$3,190,000 for the years 1979-80 and \$3,990,000 for the years 1981-83 may be satisfied by certifying additional mortgaged property.

	Maturities	Sinking Fund
1979 .....	\$ 7,574,000	\$5,735,000
1980 .....	13,514,000	5,725,000
1981 .....	2,147,000	6,350,000
1982 .....	9,137,000	6,315,000
1983 .....	—	6,190,000

Future sinking fund requirements have been anticipated by advance purchases of bonds to the extent of \$3,110,000 and certification of property in the amount of \$2,750,000.

Substantially all utility plant and nonutility property is subject to the lien of the applicable mortgage.

**J — Preferred Stock**

	December 31	
	1978	1977
(Thousands of Dollars)		
<b>Preferred Stock (cumulative)</b>		
<b>Wisconsin Electric Power Company —</b>		
<b>Six Per Cent. Preferred Stock —</b>		
authorized 45,000 shares;		
\$100 par value; issued 44,508		
shares; not callable .....	\$ 4,451	\$ 4,451
<b>Serial Preferred Stock —</b>		
authorized 1,560,000 shares;		
\$100 par value		
3.60% Series — issued 260,000		
shares; redemption price \$101 .....	26,000	26,000
8.90% Series — issued 400,000		
shares; redemption price \$107		
to December 1, 1980 and		
declining amounts thereafter to		
\$101 after December 1, 1985 .....	40,000	40,000
7.75% Series — issued 300,000		
shares; redemption price \$107		
to November 1, 1981 and		
declining amounts thereafter to		
\$101 after November 1, 1986 .....	30,000	30,000
8.80% Series — issued 600,000		
shares; redemption price \$108.80		
to January 1, 1984 and		
declining amounts thereafter to		
\$101 after December 31, 1993 .....	60,000	—
<b>Serial Preferred Stock —</b>		
authorized 5,000,000 shares;		
\$25 par value, unissued .....	—	—
<b>Total Preferred Stock .....</b>	<b>\$160,451</b>	<b>\$100,451</b>

**K — Notes Payable and Commercial Paper**

The average interest rate for debt outstanding at December 31, 1978 was 10.25% for notes payable and 10.42% for commercial paper. Average short term borrowings outstanding during 1978 amounted to \$34,877,000 with a weighted average interest rate of 8.01%. Maximum short term borrowing during 1978 was \$66,538,000.



All bank loans outstanding at December 31, 1978 were demand notes held by banks in fiduciary capacities. Commercial paper outstanding matured in January 1979.

Unused lines of credit for short term borrowing amounted to \$125,355,000 at December 31, 1978. In support of various informal lines of credit from banks, the companies have agreed to maintain unrestricted compensating balances. With the exception of funds required for daily operations, the cash balance shown on the balance sheet at December 31, 1978 as well as \$1,000,000 of non-interest bearing certificates of deposit included in temporary cash investments represent compensating balances.

#### L — Commitments

Construction expenditures through 1983 are estimated to be \$1.4 billion, of which \$255 million is planned for 1979. Plans for expansion of generation facilities include a 62.5% ownership in a nuclear plant, and investment in coal fired generating units. Commitments for generation facilities at December 31, 1978 amounted to \$271 million, part of which are cancelable.

#### M — Contingencies

In July 1977 the Company and other participants in the proposed construction of two nuclear power plant units at Lake Koshkonong withdrew their application for regulatory approval because the Wisconsin Department of Natural Resources considered this site to be environmentally unsuitable. The participants then announced they proposed instead to build the project at the Haven site near Sheboygan, Wisconsin.

PSCW held hearings in May and June 1978 on the proposal of the Company and the other participants

to transfer capitalized expenditures on the Koshkonong project (approximately \$20.5 million for the Company) less the cost of site acquisition (\$600,000 for the Company) to the Haven nuclear project. In an October 1974 order PSCW had stated that any expenditures on the Koshkonong project found to be imprudent or unreasonable will not be allowed as an operating expense or included in the rate base.

Although the actions of regulatory bodies cannot be predicted with assurance, the Company continues to believe that its decisions with respect to the Koshkonong project and its expenditures in connection therewith were and continue to be prudent and reasonable and that any portion of such expenditures that cannot be transferred to the Haven project should be, therefore, recognized for ratemaking purposes in some way. Recent press reports indicate, however, that the PSCW has decided to direct an immediate write-off of some of these expenditures, which, for the Company, would amount to approximately \$4.4 million before income tax effect. A formal decision, which would be subject to court review, is expected in the near future.

#### N — Replacement Cost of Productive Capacity (Unaudited)

Because of inflation, the cost of replacing existing utility plant today would exceed the original cost of these facilities. In compliance with the Securities and Exchange Commission requirement, the Company's annual report to the Commission (Form 10-K) will include the unaudited, estimated cost of replacing present productive capacity and the corresponding depreciation expense based on replacement cost.

#### O — Quarterly Financial Data (Unaudited)

	Three Months Ended							
	March		June		September		December	
	1978	1977	1978	1977	1978	1977	1978	1977
Total operating revenues .....	\$204,802	\$183,068	\$164,910	\$144,688	\$184,798	\$159,766	\$198,101	\$182,381
Operating income .....	25,590	27,932	23,188	20,218	34,223	29,771	25,208	23,396
Net income .....	17,697	19,606	14,583	12,133	25,287	21,712	14,038	14,744
Earnings per share of common stock .....	\$0.87	\$0.98	\$0.70	\$0.57	\$1.28	\$1.09	\$0.65	\$0.71

Because of seasonal factors which affect the utility business and differences between summer and winter electric rates, the quarterly results of operations are not directly comparable.

**P — Information by Segments of Business**

Year Ended December 31

	1978	1977
	(Thousands of Dollars)	
<b>Electric Operations</b>		
Revenue from unaffiliated customers .....	\$ 583,162	\$ 519,182
Intersegment sales .....	198	155
Operating revenues .....	583,360	519,337
Operating income before income taxes .....	153,948	151,492
Depreciation — straight line .....	47,432	43,249
Construction expenditures .....	212,063	127,598
<b>Gas Operations</b>		
Revenue from unaffiliated customers .....	161,177	143,265
Intersegment sales .....	3,224	1,918
Operating revenues .....	164,401	145,183
Operating income before income taxes .....	18,908	18,963
Depreciation — straight line .....	6,217	5,991
Construction expenditures .....	8,153	7,991
<b>Steam Operations</b>		
Operating revenues (unaffiliated) .....	8,272	7,456
Operating income before income taxes .....	1,963	1,391
Depreciation — straight line .....	511	462
Construction expenditures .....	273	704
<b>Consolidated</b>		
Operating revenues (excluding intersegment sales eliminated in consolidation) .....	752,611	669,903
Operating income before income taxes .....	174,819	171,846
Depreciation — straight line .....	54,160	49,702
Construction expenditures (including nonutility) .....	220,563	136,915
<b>At December 31</b>		
<b>Net Identifiable Assets</b>		
Electric .....	\$1,387,513	\$1,167,792
Gas .....	159,369	155,668
Steam and nonutility .....	18,289	18,651
Total Consolidated Assets .....	<u>\$1,565,171</u>	<u>\$1,342,111</u>

Intersegment sales consist principally of gas sold by Wisconsin Natural to the Company at rates approved by PSCW.

**REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors and  
 the Stockholders of  
 Wisconsin Electric Power Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, retained earnings, and changes in financial position present fairly the financial position of Wisconsin Electric Power Company and its subsidiaries at December 31, 1978 and 1977, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examination of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Milwaukee, Wisconsin  
 January 25, 1979

*Pine Waterhouse & Co.*

WISCONSIN ELECTRIC POWER COMPANY SYSTEM  
**STATISTICAL INFORMATION**

	1978	1977	1976	1975	1974
<b>Financial</b>					
Net income (\$000) .....	71,605	68,195	60,130	49,011	46,921
Preferred stock dividend requirement (\$000) .....	(7,337)	(7,088)	(7,088)	(7,088)	(7,088)
Net income available for common stock (\$000) .....	64,268	61,107	53,042	41,923	39,833
% of operating revenues .....	8.54	9.12	8.95	8.28	9.23
% of return on average common equity .....	12.18	12.19	12.09	10.02	10.23
Ratio of market to book value of common stock — December 31 .....	.88	1.10	1.16	1.13	.90
Times fixed charges earned before income taxes .....	4.32	5.09	4.56	4.13	3.86
Earnings per share of common stock (\$) .....	3.50	3.36	3.19	2.54	2.57
Dividends paid per share of common stock (\$) .....	2.21	2.09	1.98	1.90	1.81
Average number of shares of common stock .....	18,354,14 <sup>e</sup>	18,212,721	16,642,249	16,480,868	15,514,837
<b>Plant and Production</b>					
Gross utility plant (\$000) .....	1,974,779	1,732,848	1,616,405	1,548,505	1,460,161
Investment in gross plant per:					
Revenue dollar (\$) .....	2.62	2.59	2.73	3.06	3.38
Customer:					
Electric (\$) .....	2,278	2,019	1,906	1,851	1,769
Gas (\$) .....	881	875	866	874	861
Generating capability (kilowatts) .....	3,686,000	3,577,000	3,594,000	3,603,000	3,618,000
System peak (kilowatts) .....	3,339,000	3,452,300	3,215,600	3,109,000	3,000,800
<b>Sales, Revenue and Customers</b>					
<b>Electric</b>					
Kilowatt-hours (thousands)					
Net generated .....	16,945,796	17,085,864	16,790,986	16,281,565	16,439,518
Purchased .....	1,720,042	1,077,832	614,392	469,123	355,157
Total output .....	18,665,838	18,163,696	17,405,378	16,750,688	16,794,675
Company use, transmission losses and unaccounted for .....	(1,196,165)	(1,203,322)	(1,248,770)	(1,187,402)	(1,129,709)
Total sales .....	17,469,673	16,960,374	16,156,608	15,563,286	15,664,966
Accrued .....	(154,963)	4,837	—	—	—
Billed .....	17,314,710	16,965,211	16,156,608	15,563,286	15,664,966
Operating revenues (\$000) .....	583,162	519,182	462,507	405,232	347,392
Operating income before income taxes (\$000) .....	153,948	151,492	136,817	112,211	106,574
Customers (End of year) .....	782,851	766,730	754,703	742,900	731,834
<b>Gas</b>					
Therms (thousands)					
Purchased .....	681,169	646,916	728,390	707,685	712,616
Company use, distribution losses and unaccounted for .....	(410)	827	(24,567)	(410)	(1,365)
Total sales .....	680,759	647,743	703,823	707,275	711,251
Accrued .....	(2,108)	11,373	—	—	—
Billed .....	678,651	659,116	703,823	707,275	711,251
Operating revenues (\$000) .....	161,177	143,265	122,525	94,956	78,580
Operating income before income taxes (\$000) .....	18,909	18,963	13,853	12,343	14,369
Customers (End of year) .....	197,603	191,807	186,329	180,251	175,104
<b>Steam Service</b>					
Sales (Millions of pounds) .....	2,352	2,193	2,319	2,218	2,327
Operating revenues (\$000) .....	8,272	7,456	7,319	6,380	5,608
Customers (End of year) .....	610	615	625	627	642

WISCONSIN ELECTRIC POWER COMPANY

1979 Internal Cash Flow Projection  
for Point Beach Nuclear Power Station  
(Dollars in Millions)

	<u>Actual 1978</u>	<u>Projected 1979</u>
Net Income After Taxes	72	32
Less Dividends Paid	(48)	(54)
Retained Earnings	<u>24</u>	<u>28</u>
Adjustments:		
Depreciation and Amortization	54	60
Deferred Income Taxes and Investment Tax Credits	43(1)	50
Allowance for Funds Used During Construction	<u>(5)</u>	<u>(15)</u>
Total Adjustments	92	95
Internal Cash Flow	<u>116</u>	<u>123</u>
Average Quarterly Cash Flow (2)	<u>29</u>	<u>30.75</u>
Percentage Ownership in all Operating Nuclear Units	Unit No. 1	100%
	Unit No. 2	100%
Maximum Total Contingent Liability	<u>\$20,000,000</u>	

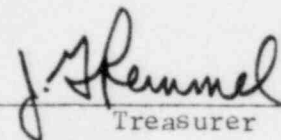
- (1) Before debit of \$15 million to Deferred Income Tax expense resulting from IRS disallowing certain portions of nuclear fuel expense relating to future storage and bonus/warranty. The Company is contesting the disallowance.
- (2) If it becomes necessary to curtail capital expenditures to ensure meeting a retrospective premium call, we would anticipate reducing construction activities to the extent necessary.

CERTIFICATION:

The Cash Flow Projections detailed above are based on the most current information available to us and represent our best estimates as of this date.

Dated February 15, 1979

By

  
Treasurer