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

April 22, 1980

Nuclear Regulatory Commission
Washington, D.C. 20555

Gentlemen:

In accordance with the regulations of your Commission, there is enclosed a copy of each of the following:

1. Annual Report of Wisconsin Electric Power Company which includes certified financial statements of the Company and its subsidiaries (consolidated);

2. Certified financial statements of Wisconsin Electric Power Company (corporate).

The abovementioned reports are being filed with your Commission pursuant to 10CFR, Section 50.71 of the Nuclear Regulatory Commission Regulations as Wisconsin Electric Power Company is the holder of Facility Operating Licenses Nos. DPR-24 and DPR-27 issued by your Commission under Dockets 50-266 and 50-301, respectively.

Very truly yours,

J. H. Goetsch
Secretary

J. H. Goetsch
Enclosures

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WISCONSIN ELECTRIC POWER COMPANY

Financial Statements for the Year 1979

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
the Stockholders of
WISCONSIN ELECTRIC POWER COMPANY

In our opinion, the accompanying balance sheet and the related statements of income, retained earnings, undistributed subsidiary earnings, and changes in financial position present fairly the financial position of Wisconsin Electric Power Company (parent company only) at December 31, 1979 and 1978, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations 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.

PRICE WATERHOUSE & CO.

Milwaukee, Wisconsin
January 24, 1980

WISCONSIN ELECTRIC POWER COMPANY

INCOME STATEMENT

Year Ended December 31

	1979	1978
	(Thousands of Dollars)	
Operating Revenues		
Electric	$667,963	$583,360
Steam	8,570	8,272
Total Operating Revenues	676,533	591,632
Operating Expenses		
Fuel (Note A)	180,757	155,969
Purchased power	67,863	48,568
Other operation expenses (Note B)	117,706	98,980
Maintenance	63,858	52,927
Taxes other than income taxes	30,996	31,342
Depreciation (Note C)		
Straight line	53,158	47,942
Deferred income taxes (Note D)	15,914	2,633
Federal income tax (Note D)	7,788	27,127
Investment tax credit adjustments - net	26,822	23,500
State income tax (Note D)	6,026	6,026
Total Operating Expenses	570,888	495,014
Operating Income	105,645	96,618
Other Income and Deductions		
Equity in earnings of subsidiaries	7,998	7,211
Interest income	2,885	2,243
Allowance for other funds used during construction (Note E)	7,535	3,372
Miscellaneous - net	191	(312)
Income taxes (Note D)	(1,474)	(1,053)
Total Other Income and Deductions	17,135	11,461
Income Before Interest Charges	122,780	108,079
Interest Charges		
Long term debt	37,829	33,942
Allowance for borrowed funds used during construction (Note E)	(6,165)	(1,895)
Other	8,584	4,427
Total Interest Charges	40,248	36,474
Net Income	$ 82,532	$ 71,605

The notes on pages 8 through 17 are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY

RETAINED EARNINGS STATEMENT

Year Ended December 31

	1979	1978
	(Thousands of Dollars)	
Balance, January 1	$201,844	$180,282
Additions		
Net income	82,532	71,605
Equity in earnings of subsidiaries	(7,998)	(7,211)
Dividends received from subsidiaries	7,935	5,175
Transfer of amortization reserve - hydroelectric projects	-	305
	284,313	250,156
Deductions		
Dividends - cash		
Preferred stock	12,178	7,088
Common stock	43,784	40,537
	55,962	47,625
Cost of issuing capital stock	104	687
	56,066	48,312
Balance, December 31	$228,247	$201,844

STATEMENT OF UNDISTRIBUTED SUBSIDIARY EARNINGS

Year Ended December 31

	1979	1978
	(Thousands of Dollars)	
Balance, January 1	$ 23,178	$ 21,142
Equity in earnings of subsidiaries	7,998	7,211
Dividends received from subsidiaries	(7,935)	(5,175)
Balance, December 31	$ 23,241	$ 23,178

The notes on pages 8 through 17 are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY

STATEMENT OF CHANGES IN FINANCIAL POSITION
Year Ended December 31

	1979	1978
	(Thousands of Dollars)	
Financial Resources Provided		
Operations		
Net income	$ 82,532	$ 71,605
Depreciation - straight line	53,158	47,942
- deferred income taxes	15,914	2,633
Accumulated deferred investment tax credits	22,893	19,611
Nuclear fuel expense	12,767	8,782
Undistributed subsidiary earnings	(63)	(2,036)
Allowance for funds used during construction	(13,700)	(5,267)
Total from operations	173,501	143,270
Common stock	14,864	5,516
Preferred stock	-	59,455
Long term debt	75,525	104,882
Sale of nuclear fuel	-	5,192
Release of construction funds held by trustees	10,695	-
Short term borrowings	110,300	3,028
Contributions in aid of construction	1,817	1,108
Miscellaneous	2,754	(868)
	$389,456	$321,583
Financial Resources Used		
Construction expenditures	$239,479	$212,388
Nuclear fuel	37,362	33,436
Dividends	55,962	47,625
Retirement of long term debt	9,400	12,014
Construction funds held by trustees	23,447	12,153
Increase in working capital (other than short term borrowings and long term debt due currently)	23,806	3,967
	$389,456	$321,583

The notes on pages 8 through 17 are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY

BALANCE SHEET

December 31

ASSETS

	1979	1978
	(Thousands of Dollars)	
Utility Plant		
Electric	$1,571,082	$1,511,172
Steam	17,274	17,161
	1,588,356	1,528,333
Accumulated provision for depreciation	(673,576)	(606,708)
	914,780	921,625
Construction work in progress	411,347	216,851
Nuclear fuel	94,709	55,420
Accumulated provision for amortization	(11,773)	(2,617)
	82,936	52,803
Net Utility Plant	1,409,063	1,191,279
Other Property and Investments		
Nonutility property	3,410	2,504
Accumulated provision for depreciation	(631)	(384)
Net nonutility property	2,779	2,120
Investment in subsidiary companies	49,747	49,684
Total Other Property and Investments	52,526	51,804
Construction Funds Held by Trustees (Note F)	24,905	12,153
Current Assets		
Cash	2,738	4,193
Temporary cash investments	9,996	2,700
Accounts receivable (Note G)	44,031	43,561
Accrued utility revenues	48,868	38,614
Accounts receivable from subsidiary companies (Note H)	5	56
Notes receivable from subsidiary companies (Note H)	19,704	17,568
Fossil fuel (at average cost)	59,126	46,319
Materials and supplies (at average cost)	32,033	23,669
Prepayments and other assets	6,522	6,418
Total Current Assets	223,023	183,098
Deferred Charges and Other Assets	17,915	30,721
	$1,727,432	$1,469,055

The notes on pages 8 through 17 are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY

BALANCE SHEET

December 31

LIABILITIES

	1979	1978
	(Thousands of Dollars)	
Capitalization		
Common Stock Equity (Note I)		
Common stock (authorized 41,000,000 shares, $10 par value; issued 19,085,720 and 18,473,747 shares)	$ 190,857	$ 184,737
Premium on capital stock	144,040	135,296
Retained earnings	228,247	201,844
Undistributed subsidiary earnings	23,241	23,178
Total Common Stock Equity	586,385	545,055
Preferred Stock (Note J)	160,451	160,451
Long Term Debt (Note K)	605,532	543,892
Total Capitalization	1,352,368	1,249,398
Current Liabilities		
Long term debt due currently (Note K)	11,635	7,662
Notes payable to banks (Note L)	14,983	14,983
Commercial paper (Note L)	114,322	4,022
Accounts payable	44,791	34,083
Accounts payable to subsidiary companies (Note H)	2,307	1,342
Payroll and vacation accrued	11,275	10,195
Taxes accrued - income and other	27,720	25,657
Interest accrued	11,379	9,488
Customer deposits	1,466	1,365
Other	5,639	6,328
Total Current Liabilities	245,517	115,125
Deferred Credits and Other Liabilities		
Accumulated deferred investment tax credits	69,454	46,561
Nuclear fuel costs accrued (Note D)	19,646	17,372
Unamortized accrued utility revenues	19,127	21,859
Other	6,142	5,379
Total Deferred Credits and Other Liabilities	114,369	91,171
Contributions in Aid of Construction	15,178	13,361
Commitments (Note M) and Contingencies (Note N)		
	$1,727,432	$1,469,055

The notes on pages 8 through 17 are an integral part of the financial statements.

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 company owns all of the common stock of Wisconsin Natural Gas Company (Wisconsin Natural) and Badger Service Company. The company carries its investments in subsidiaries in accordance with the equity method of accounting.

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 $32 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 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 $16,550,000 in 1979 and $21,010,000 in 1978. This includes charges of $15,000,000 in 1979 and $19,835,000 in 1978 for the portion of nuclear fuel which is leased. 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 $599,000 in 1979 and $891,000 in 1978 and an asset and corresponding liability equal to the unamortized cost of the leased nuclear fuel would have been recorded at December 31 in the amounts of $9,534,000 in 1979 and $21,499,000 in 1978.

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 $6,767,000 in 1979 and $5,244,000 in 1978.

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.

D - Income Tax Expense (continued)

	1979	1978
	(Thousands of Dollars)	
Current tax expense	$ 15,288	$ 34,206
Investment tax credit adjustments - net	26,822	23,500
Deferred taxes charged to depreciation expense	15,914	2,633
Total tax expense	$ 58,024	$ 60,339
Income before income taxes	$140,556	$131,944
Expected tax at federal statutory rate	$ 64,656	$ 63,333
Allowance for funds used during construction	(6,302)	(2,528)
Equity in earnings of subsidiaries	(3,679)	(3,461)
State income tax net of federal tax reduction	4,588	4,483
Other (no item over 5% of expected tax)	(1,239)	(1,488)
Total tax expense	$ 58,024	$ 60,339

The aggregate amount of deferred income taxes included in the accumulated provision for depreciation at December 31 was $131,985,000 in 1979 and $115,414,000 in 1978.

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 the tax effect of these costs for the years 1970-78 and for 1979 by increasing the current federal income tax provisions and normalizing those amounts by reducing deferred income taxes by $14,738,000 in 1978 and $2,057,000 in 1979, resulting in no effect on net income. Deferred nuclear fuel costs accrued were reduced by the amounts of taxes provided. This accounting for income taxes is in accordance with PSCW practice. Related interest was accrued in the amounts of $1,682,000 in 1978 and $807,000 in 1979.

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 1979 and 1978 at a rate of 7% approved by PSCW.

F - Construction Funds Held by Trustees

The construction funds were established to finance pollution control and environmental improvement facilities at the company's new Pleasant Prairie Power Plant. Proceeds from the sales of municipal revenue bonds issued by the Town of Pleasant Prairie in 1978 and 1979 were deposited in the funds under loan agreements with the company. As a revenue source and collateral for the loans, the company has issued to the town its first mortgage bonds in the aggregate principal amount of $52 million. Funds are released to the company as qualifying property is constructed at the plant.

G - Accounts Receivable

Accounts rece[illegible] are shown on the balance sheet after deducting an accumulated provision for doubtful accounts in the amount of $965,000 for 1979 and $686,000 for 1978. Uncollectible account write-offs net of recoveries were $1,852,000 in 1979 and $1,240,000 in 1978.

H - Transactions With Subsidiary Companies

The company renders managerial, financial, accounting, legal, data processing and other services to Wisconsin Natural, which in turn renders to the company certain accounting and other services. These services are billed at cost by the respective companies. The company also purchases gas from Wisconsin Natural for electric generation at rates approved by PSCW. To take advantage of the company's access to short term funds at a lower cost than that available to Wisconsin Natural, the company makes loans to the subsidiary at an interest rate approximating the cost to the company.

I - Common Stock and Premium on Capital Stock

Under the Automatic Dividend Reinvestment and Stock Purchase Plan, sales of 426,901 shares of common stock were made in 1979 and 114,506 shares in 1978. Proceeds from the sales were $10,173,545 in 1979 and $3,148,083 in 1978. Sales of common stock under the Tax Reduction Act Stock Ownership Plan (TRASOP) were 185,072 shares in 1979 and 83,173 shares in 1978. Proceeds from the TRASOP sales were $4,690,986 in 1979 and $2,367,709 in 1978. 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.

J - Preferred Stock

	December 31	
	1979	1978
	(Thousands of Dollars)	
Preferred Stock (cumulative)		
Six Per Cent. Preferred Stock - authorized 45,000 shares; $100 par value; issued 44,508 shares; not callable	$ 4,451	$ 4,451
Serial Preferred Stock - authorized 2,360,000 and 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	60,000
Serial Preferred Stock - authorized 5,000,000 shares; $25 par value, unissued	-	-
Total Preferred Stock	$160,451	$160,451

K - Long Term Debt

	December 31	
	1979	1978
	(Thousands of Dollars)	
First Mortgage Bonds		
Wisconsin Electric Power Company		
2-7/8% Series due 1979	$ -	$ 7,574
2-3/4% Series due 1980	10,995	11,122
3-1/4% Series due 1982	9,324	9,502
10.20% Series due 1982	50,000	-
3-1/8% Series due 1984	15,425	15,647
3-7/8% Series due 1986	22,070	22,332
4-1/8% Series due 1988	23,062	23,457
5 % Series due 1990	26,871	26,913
5-7/8% Series due 1996	28,097	28,122
6-7/8% Series due 1997	38,081	38,115
6-7/8% Series due 1998	33,808	33,834
6.10% Serial Series due 1999-2008	25,000	25,000
6.25% Serial Series due 1999-2008	1,000	1,000
7-1/4% Series due 1999	38,991	38,995
8-3/8% Series due 1999	39,555	39,591
6.45% Series due 2004	12,000	-
8-3/4% Series due 2006	60,000	60,000
6.45% Series due 2006	4,000	-
6.50% Serial Series due 2007-2009	10,000	-
8-7/8% Series due 2008	80,000	80,000
Former Wisconsin Michigan Power Company (merged with company in 1977)		
2-3/4% Series due 1980	640	640
3-5/8% Series due 1981	2,147	2,147
3-1/8% Series due 1984	2,164	2,164
4-3/4% Series due 1991	3,623	3,623
4-1/2% Series due 1993	5,052	5,077
5-7/8% Series due 1996	9,251	9,271
6-1/2% Series due 1997	11,539	11,539
6-5/8% Series due 1998	9,889	9,899
8-1/2% Series due 1999	11,829	11,829
	584,413	517,393
Debentures (unsecured)		
Wisconsin Electric Power Company		
7 % Series due 1993	33,531	34,429
	617,944	551,822
Unamortized Discount - net	(777)	(268)
Long Term Debt Due Currently	(11,635)	(7,662)
Total Long Term Debt	$605,532	$543,892

The maturities and sinking fund requirements through 1984 for the aggregate amount of long term debt outstanding at December 31, 1979 are shown below. Of the annual sinking fund requirements, $2,890,000 for the year 1980 and $3,690,000 for the years 1981-84 may be satisfied by certifying additional mortgaged property.

K - Long Term Debt (continued)

	Maturities	Sinking Fund
1980	$11,635,000	$5,230,000
1981	2,147,000	5,880,000
1982	59,137,000	5,845,000
1983	-	5,720,000
1984	16,733,000	5,720,000

Future sinking fund requirements have been anticipated by advance purchases of bonds to the extent of $2,766,000 and certification of property in the amount of $2,890,000. Sinking fund requirements for 1980 have been satisfied.

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

L - Notes Payable and Commercial Paper

The average interest rate for debt outstanding at December 31, 1979 was 12.20% for notes payable and 13.35% for commercial paper. Average short term borrowing outstanding during 1979 amounted to $60,910,000 with a weighted average interest rate of 11.43%. Maximum short term borrowing during 1979 was $129,305,000.

All bank loans outstanding at December 31, 1979 were demand notes held by banks in fiduciary capacities. Commercial paper outstanding matured in January and February 1980.

Unused lines of credit for short term borrowing amounted to $115,055,000 at December 31, 1979. In support of various informal lines of credit from banks, the company has 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, 1979 as well as $1,000,000 of non-interest bearing certificates of deposit included in temporary cash investments represent compensating balances.

M - Commitments

Construction expenditures through 1984 are estimated to be $1.2 billion, of which $325 million is planned for 1980. Commitments for generation facilities at December 31, 1979 amounted to $247 million, part of which is cancelable; with the abandonment of the Haven project, this amount was reduced to $143 million (see third paragraph of Note N).

N - Contingencies

On March 2, 1979 the company was ordered by PSCW (Commission) to write off throughout 1979 its share ($2.3 million after income tax effect) of certain capitalized expenditures related to the discontinued Koshkonong nuclear plant project in which the company was a participant with three other utilities. The Commission deemed that such expenditures were prudently made, but of no future value. The write-off reduced 1979 earnings by $0.12 a share. However,

N - Contingencies (continued)

in October 1979 the Brown County Circuit Court reversed the March 2 order of PSCW and on November 15 ordered the matter remanded to the Commission for modification of the order. The company and other utilities filed with PSCW on November 30 a motion for an accounting order which would reclassify the write-off to a deferred account pending subsequent action in separate rate dockets for each utility in which they would propose a formula for having the amount so reclassified borne by their ratepayers. The Commission appealed the October Circuit Court decision to the Wisconsin Court of Appeals in December 1979. Other precertification expenditures related to the project were transferred to the Haven nuclear project pursuant to the PSCW order.

An intervenor petition before the Dane County Circuit Court requested review of the PSCW finding that the expenditures for the Koshkonong project were reasonable and prudent. Although the actions of regulatory bodies cannot be predicted with assurance, the company continues to believe that expenditures in connection with the Koshkonong project were reasonable and prudent and that such expenditures should, therefore, be recognized for ratemaking purposes.

Under date of February 14, 1980, the company and other participants received an order from the PSCW stating that expenditures capitalized to June 30, 1979 in connection with the Haven project were prudent and requiring the company to amortize its investment of $21.9 million to operating expense monthly over a three-year period, starting with completion of the next rate proceeding. The order further directed that within thirty days the company advise the Commission of its decision as to continuance of the Haven application or withdrawal thereof and abandonment of the project. On February 29, 1980, the company notified the Commission of its intention to abandon the project. According to the order, the company will be allowed to earn on the unamortized expenditures through inclusion in the capital base for return purposes.

Public hearings were held by PSCW in November 1979 on the financial, accounting and ratemaking effects of steam generator tube degradation at Point Beach Nuclear Plant. On December 20 the Commission issued an amended notice of investigation and order directing the company to present testimony on replacement power costs and any associated costs deriving from unscheduled downtime as a result of the tube degradation. The company believes that the additional costs of fuel or replacement power incurred as a result of this tube degradation problem will continue to be recoverable, either under existing tariffs or otherwise, through the company's electric rates.

O - Supplementary Information Concerning the Effects of Inflation (Unaudited)

The Financial Accounting Standards Board requires that, beginning in 1979, certain information relating to the effects of changing prices (inflation) be included in the annual report to stockholders for certain large publicly held enterprises. No changes to the basic financial statements are required nor have any been made. While the required information is one means of displaying inflation's effects, it should not be considered as the only means of measuring inflation, nor necessarily the most meaningful for a public utility.

O - Supplementary Information Concerning the Effects of Inflation (Unaudited) (continued)

The following information, adjusted for general inflation, reflects conversion of historical costs into average 1979 dollars. The Consumer Price Index for All Urban Consumers was used for this purpose.

Statement of Income Adjusted for Inflation
Year Ended December 31, 1979

	As Reported in Financial Statements	Adjusted for General Inflation
	(Millions of Dollars)	
Operating Revenues	$677	$677
Operating Expenses		
Depreciation - straight line	53	106
Other expenses	461	461
Income taxes	57	57
Total Operating Expenses	571	624
Operating Income	106	53
Other Income and Deductions	17	17
Interest Charges	(40)	(40)
Net Income (excluding reduction of plant investment to net recoverable cost) (Note)	$ 83	$ 30
Reduction of utility plant to amount recoverable through regulatory process		$(127)
Gain from decline in purchasing power of debt and preferred stock		111
		$ (16)

Note - Net income (loss) after reduction of net utility plant to recoverable cost would have been $(97,000,000) adjusted for general inflation.

The only operating expense which has been adjusted is depreciation; this was computed using the same accounting principles as those used for the reported financial statements. The cost of fossil and nuclear fuel has not been restated because increases in fuel prices are passed on to ratepayers currently through fuel adjustment tariffs. Income tax expense has not been adjusted because the effects of inflation are not recognized for tax purposes.

The reduction of utility plant to the amount recoverable through the regulatory process ($127 million) shows the impact of 1979 inflation on the company's reported net plant cost not recognized by the increased depreciation

O - Supplementary Information Concerning the Effects of Inflation (Unaudited) (continued)

($53 million). The gain from decline in purchasing power of debt and preferred stock ($111 million) is the benefit accruing to the company in 1979 because these items will ultimately be repaid in dollars of reduced purchasing power.

In the following five-year summary, selected historical items have been restated in average 1979 dollars. The absolute numbers are not as meaningful as the five-year trend. For example, dividends adjusted for inflation are trending down, whereas historical dollar dividends increased from $1.90 a share in 1975 to $2.345 in 1979. The downward trend will continue unless inflation is controlled or changes are made in the incom tax laws or the regulatory process.

Selected Supplementary Financial Data Adjusted for the Effects of Inflation

(All amounts are stated in average 1979 dollars)

	Year Ended December 31				
	1979	1978	1977	1976	1975
	(Millions of Dollars Except Per Share Amounts)				
Common stock equity at year end	$555				
Operating revenues adjusted for general inflation	$677*	$658	$631	$599	$555
Cash dividends per share adjusted for general inflation	$ 2.345*	$ 2.46	$ 2.50	$ 2.52	$ 2.56
Market price per share of common stock at year end adjusted for general inflation	$ 21.64	$27.86	$36.36	$39.13	$37.91
Consumer price index - average for year	217.4	195.4	181.5	170.5	161.2

* Actual amount for 1979.

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.

WISCONSIN ELECTRIC POWER COMPANY

DIRECTORS

*Frederick M. Belmore
Russell W. Britt
Sol Burstein
*Richard L. Johnson
*Charles S. McNeer
Donald K. Mundt
*John P. Reeve
Morris W. Reid
*Jon G. Udell

(*) Member of Executive Committee; all other directors are alternate members

OFFICERS

Charles S. McNeer . . . . . President and Chief Executive Officer
Russell W. Britt . . . . . Executive Vice President
Sol Burstein . . . . . Executive Vice President
Thomas J. Cassidy . . . . . Senior Vice President
Nicholas A. Ricci . . . . . Senior Vice President
Robert H. Gorske . . . . . Vice President and General Counsel
John H. McLean . . . . . Vice President - Customer Relations
Huberto R. Platz . . Vice President - Engineering and Construction
Philip G. Sikes . . . . . Vice President - System Operations
Richard E. Skogg . . . . . Vice President - Operating Services
John E. Speaker . . . . . Vice President - Communications
Norman C Storck . . . . . Vice President - Division Operations
John H. Goetsch . . . . . Secretary
Jerry G. Remmel . . . . . Treasurer
Richard R. Piltz . . . . . Controller
John W. Fleissner . . . . . Assistant Secretary
Dawn L. Freitag . . . . . Assistant Secretary
Gordon A. Willis . . . . . Assistant Treasurer

GENERAL OFFICES

231 West Michigan Street, P.O. Box 2046, Milwaukee, Wisconsin 53201