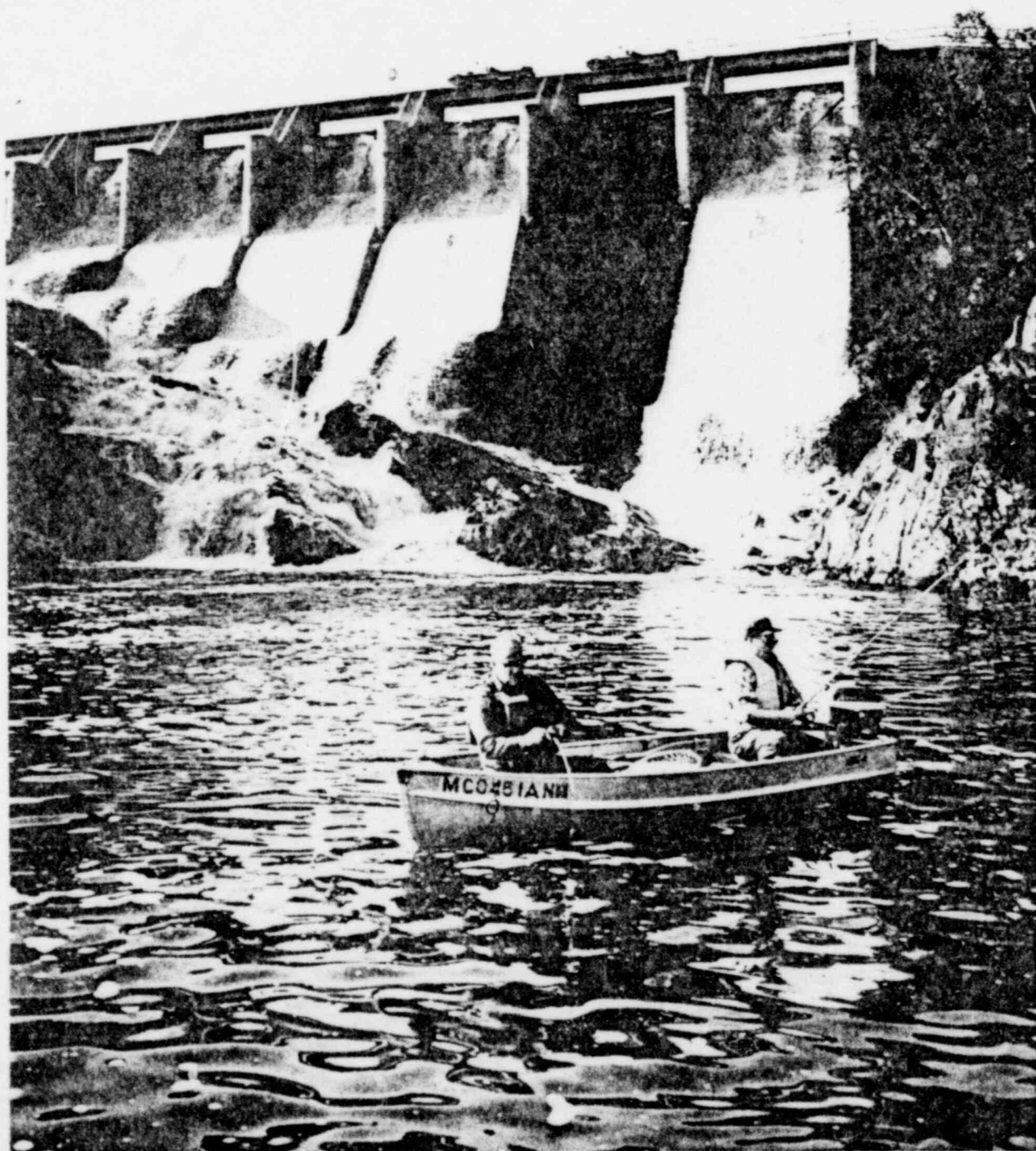


WISCONSIN ELECTRIC POWER COMPANY 1979 ANNUAL REPORT

WISCONSIN ELECTRIC POWER COMPANY
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COVER

Autumn grandeur provides a scenic background for linemen William Trotter, left, and John Raffin working near Iron River, Mich. The words subtly surrounding the picture describe innovative methods the company is using to assure an adequate supply of electricity for our customers.

At left, fishermen find the waters below the Big Quinnesec Falls hydro plant a productive angling spot. Hydro power provides a small but important part of our electric generation.

ANNUAL MEETING

The Annual Meeting of Wisconsin Electric Power Co. stockholders will be held at 10:00 a.m. on May 1, 1960 at Uihlein Hall, Performing Arts Center, 929 N. Water St., Milwaukee, Wis. In order to ensure your participation in major decisions concerning the company to be made at the annual meeting, we encourage you to vote, sign and return your proxy promptly.

HIGHLIGHTS

	1979	1978	PERCENT INCREASE
Earnings per Share of Common Stock	\$3.75	\$3.50	7.1
Dividends per Share of Common Stock	\$2.345	\$2.21	6.1
Total Operating Revenues	\$867,565,000	\$752,611,000	15.3
Earnings Available for Common Stockholders	\$ 70,164,000	\$ 64,268,000	9.2
Average Number of Common Shares Outstanding	18,705,000	18,354,000	1.9
Electric Sales to Retail, Municipal and Cooperative Customers (thousand KWH)	17,541,493	17,307,755	1.4
Gas Sales (thousand therms)	706,101	680,759	3.7
Retail, Municipal and Cooperative Customers (year end)			
Electric	795,664	782,845	1.6
Gas	206,032	197,603	4.3

REPORT TO STOCKHOLDERS



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Nineteen seventy-nine was a year of significant accomplishment for Wisconsin Electric despite oppressive inflation and deepening energy problems for the nation. Revenues, earnings and dividends all increased, work progressed on a major coal-fired power plant, and there were positive signs that customers were continuing their efforts to both conserve energy and use it more wisely.

While utilities which rely heavily on oil-fired power plants were severely affected by supply problems and sharp price increases in 1979, Wisconsin Electric's well balanced fuel mix again proved to be a stabilizing factor in our operations.

More than 49 percent of the electricity generated by Wisconsin Electric in 1979 came from coal, about 41 percent came from nuclear power, 5 percent from natural gas and nearly 3 percent from hydroelectric plants in northern Wisconsin and the Upper Peninsula of Michigan. The remaining 2 percent came from oil and recycled solid waste.

As a result of this fuel diversity, the company's electric rates continued to be among the lowest of those in the nation's largest metropolitan areas. The price of natural gas increased, but only to reflect the greater charges of our pipeline supplier.

As the highlights on page 1 reveal, 1979 was a year of financial improvement. Total revenues were up more than 15 percent. Earnings per share of common stock continued to rise to an all-time high of \$3.75 in 1979, compared to \$3.50 in 1978. Common stock dividend payments were increased for the 19th year in a row, to \$2.34½ a share. Common dividend payments per share have increased 30 percent in the past five years.

The effects of rate increases granted to Wisconsin Electric in the spring of 1979 were realized largely in the second half of the year, resulting in the improved earnings. Greater natural gas revenues, brought about by increased sales and a near-record number of new customers, also contributed to the earnings improvement.

As we look to the future, however, the rate of inflation continues to be a major concern for Wisconsin Electric, the utility industry and the nation. Like most companies, we have experienced substantial increases in the day-to-day costs of doing business. We have intensified efforts to control costs and improve the efficiency of our operations, but unless inflation abates,

we expect to go before the regulatory agencies almost annually for rate increases. A request for a 9 percent electric rate increase, filed with the Public Service Commission of Wisconsin in August 1979, was pending at the end of the year.

The effects of inflation are both short-term and long-term. They are obvious in the rapidly escalating costs of construction, in the rising costs of coal and other fuel, and in wages and supplies and all the other expenses of producing and distributing energy.

Perhaps more serious are the long-term effects — the high cost of money to finance major construction programs, and the depressing effect which high interest rates have on the market price of common stocks, including your own Wisconsin Electric stock.

While Wisconsin Electric's sales of electricity and natural gas increased in 1979, customers at the same time were responding to efforts to conserve energy and shift electricity use to off-peak times.

These developments are encouraging, as it is imperative to minimize the addition of on-peak electrical loads in order to reduce the need to build new power plants in these high cost times. By holding down growth in peak demand, we will be able to keep our construction program within reasonable limits, to the benefit of both stockholders and customers.

In previous Annual Reports, I have outlined the positive steps the company is taking to control the growth in peak electrical demand. We continue to be committed to this program, which includes the aggressive promotion of conservation, load management activities and changes in rates to make the price of energy more closely reflect the cost of providing service.

As we enter a new decade, Wisconsin Electric is well prepared to supply our customers' energy requirements. With conservation and firm commitments from our pipeline supplier we expect to be able to meet the needs of our natural gas customers and accommodate the increasing number of requests for conversion to gas for heating.

The first unit at the coal-fired Pleasant Prairie Power Plant is nearing completion in Kenosha County and will begin operation in 1980, with a second unit also under construction.

In early 1980, Wisconsin Electric and two other utilities decided to abandon plans for the Haven Nuclear Plant.

This plant has been in the planning stages for a number of years, and the decision to cancel the project was not an easy one. The increasing uncertainties concerning the licensing of nuclear plants coupled with the slower growth in peak demand for electricity, however, were among the factors making it impractical to proceed with the project.

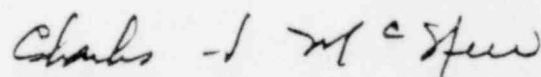
Because of the moderate growth expected in peak demand, we will not need additional electric generating capacity for a number of years. This gives us flexibility before making final commitments on future generating units.

On the national level, there has been much talk and little action as our energy problems have become more severe. The efforts of energy companies have been increasingly frustrated by the lack of national commitment to energy goals. Our nation must develop practical energy guidelines and exhibit the backbone to allow their implementation. We must move ahead with a balanced program to make the most effective use of domestic energy resources and encourage new technologies.

As our country's oil supplies decline, however, the nation must increasingly depend on coal and nuclear energy to provide our supply of electricity. Similarly, in Wisconsin we must continue to rely on nuclear and coal plants, which have served us well in the past, to provide most of the electricity our customers will need for the remainder of this century.

At the same time, utilities must continue to work with the business community, government and individuals to develop alternate energy sources on a practical and economic basis.

Working together, we can meet the difficult challenges we face today in order to have the energy available tomorrow.


President

March 14, 1980

OUR DIRECTION FOR THE 1980s

Wisconsin Electric's mission in the 1980s, as in the past, will be to provide our customers with an adequate supply of reasonably priced energy, to earn a fair return on our stockholders' investment and to provide meaningful employment for those who serve our customers and stockholders.

Accomplishing those goals in the 1980s will require new approaches, open minds, creativity and determination — along with continued application of the sound business and engineering practices traditional with our company.

These areas are of critical importance:

Fuels. *Our nation's number one goal for this decade must be to reduce dependence on imported oil, for that reliance not only affects all aspects of the energy supply picture, but our economic and national security interests as well. The dimension of the energy problem is such that we cannot afford to turn our backs on any potential energy source.*

Every fuel and potential fuel has supporters promoting its greater development and use. But no single fuel can solve our energy dilemma today. We must expand the use of conventional electrical generation methods using coal, nuclear and hydroelectric power to reduce oil dependence. At the same time, it is in the national interest to aggressively develop the energy resources of the sun, wind, nuclear fusion and other technologies.

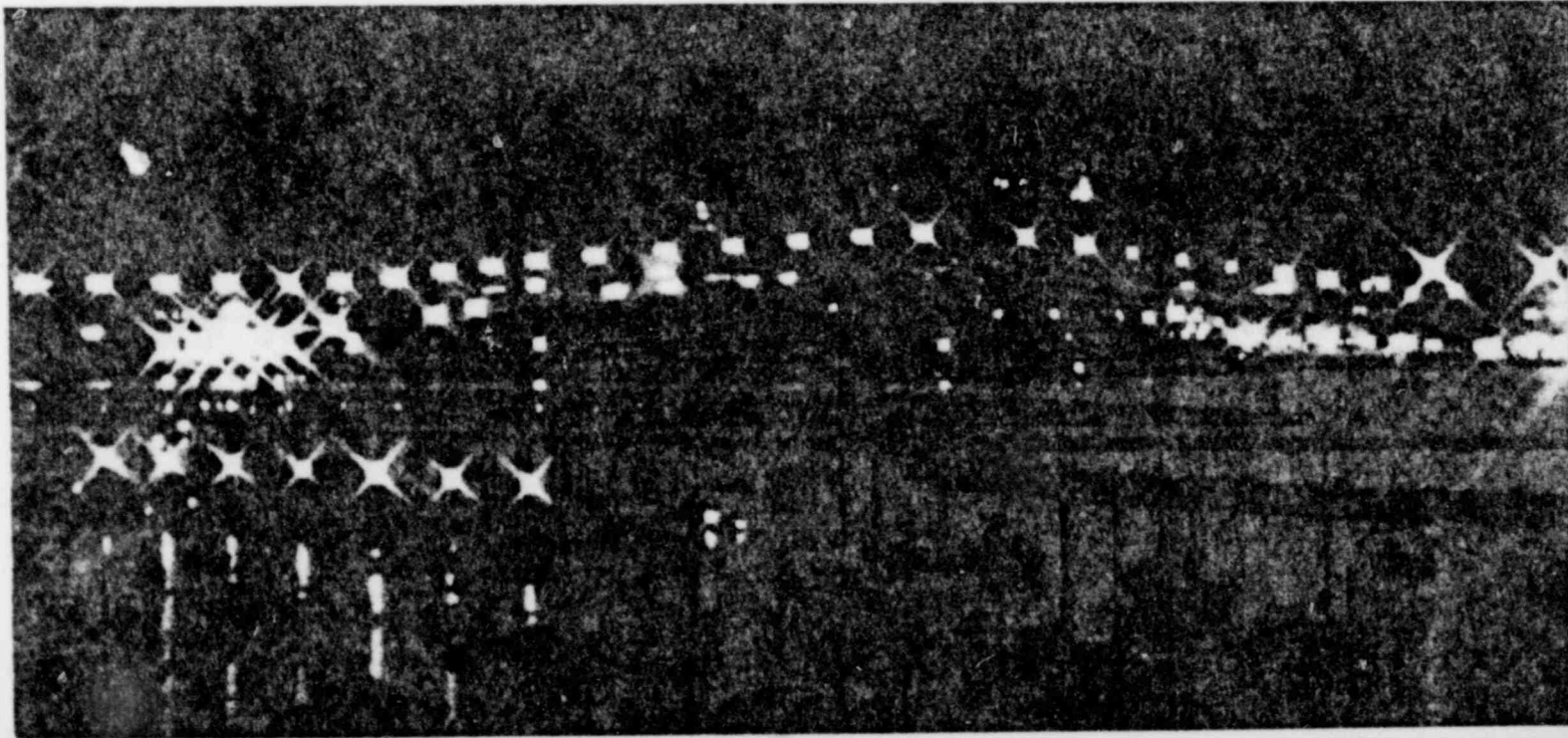
As a supplier of electricity and natural gas to a large part of Wisconsin and Michigan's Upper Peninsula, Wisconsin Electric must play a role in this national effort. Through our own efforts and industry research, we have increased our program to make more meaningful use of solar energy, the wind, small dams, solid waste and other alternate resources in energy production. We expect to continue to produce more than 90 percent of the electricity our customers use with America's most abundant fuels — coal and uranium.

Conservation. *This must continue to be the keystone of our energy efforts in the 1980s. Both in Wisconsin and on a national level, substantial amounts of energy are being saved in homes, factories, stores, public buildings and on the road. But more can be accomplished.*

Wisconsin Electric will continue to encourage prudent and effective use of both electricity and natural gas. We will provide information and assistance to help our customers conserve. We will continue to stress the need to shift electricity usage to off-peak periods, both to relieve the need for additional power plants and to reduce the use of natural gas and oil at our peaking plants.

We do not believe, however, that conservation alone will provide the additional energy resources Wisconsin and the nation will need in the future. Domestic energy production must expand, but even with

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this expansion, we expect to see a continuing shift from petroleum to electricity, natural gas and other energy sources for many applications.

Growth. It is our corporate objective to hold down the growth in peak demand for electricity consistent with the sound economic development of our service area. By controlling peak demand, we will be able to reduce the need to build expensive new power plants, thus maintaining both earnings and electric rates at reasonable levels.

Our forecasts anticipate a continuation of electricity usage patterns similar to what they are today. But if economics or technology change those patterns, we will be prepared to modify our generation planning. A major breakthrough in the development of a practical electric car or widespread use of solar heating with electricity as a backup source, for example, could considerably change the demand for electricity.

The Price of Energy. In the face of continued inflation, electricity and natural gas prices have increased. There will be further increases in all energy costs in the future.

Our goal for the 1980s is to further improve the efficiency of our operations, utilizing the most economical fuels and methods, to maintain reliable energy service and hold rate increases to the rate of inflation or below.

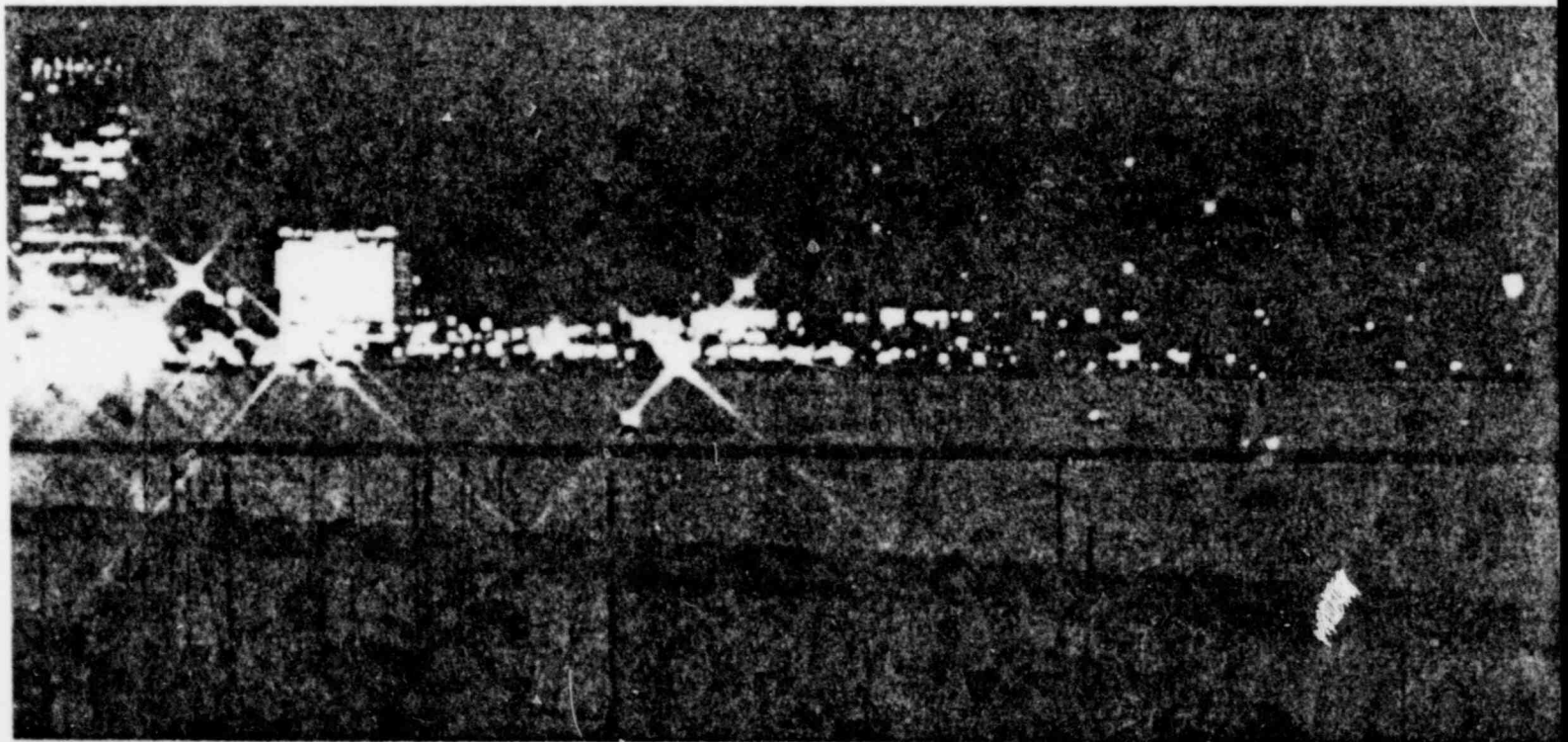
Responsibility to Those We Serve. Increasingly, Wisconsin Electric will be in the midst of conflicting public attitudes and ideologies about energy in the 1980s. Because there is little unanimity on energy issues, managing our business in the coming decade will require a careful analysis of emerging issues and a consideration of divergent views.

While our primary obligation is to provide dependable energy services at a reasonable cost, we can best serve our customers when we understand their concerns. In an effort to establish two-way communications, company officers have had a series of meetings with various customer and employee groups during the past two years. Many useful suggestions made at these meetings for improving efficiency and service have been implemented. In addition, informational meetings with stockholders have been held in various parts of our service area with three of these gatherings held in 1979. Over 15,000 stockholders have been invited to participate in these informal meetings.

We will continue to keep our customers, stockholders and employees fully informed about our operations, maintain an open dialogue and be responsive to their concerns. We re-emphasize our commitment to provide efficient and courteous service to all customers, and to protect the value of our stockholders' investment. We will make the energy decisions necessary to provide the greatest benefit to those we serve.

Milwaukee's skyline at dusk symbolizes the need for electricity and our commitment to provide adequate supplies in the years ahead.

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THE YEAR IN REVIEW

Planning for the Future

A major addition to the company's generating capacity will be made in mid-1980, when the first 580,000-kilowatt unit at the coal-fired Pleasant Prairie Power Plant is scheduled to begin producing electricity. The plant, located in Kenosha County, has been under construction since 1976. A second 580,000-kilowatt unit at Pleasant Prairie also is well underway.

Pleasant Prairie is the largest construction project ever undertaken by the company, and will play an important role in meeting our customers' electrical requirements in the 1980s. When operating at full capacity, the plant will be able to supply enough electricity to meet almost one-third of the company's peak load requirements.

No other company power plants are under construction at the present time, although Wisconsin Electric is negotiating for the possible purchase of one-half ownership in a new 400,000-kilowatt generating unit at Wisconsin Power and Light Co.'s Edgewater Power

Plant in Sheboygan.

With the addition of these coal-fired units, the company will be well-prepared to supply our customers' needs in the 1980s.

During the past two years, our customers have intensified their efforts to conserve electricity and shift electrical use to off-peak times in response to the company's program. As a result, we have been able to reduce our forecast of future electrical demand and have delayed plans for a coal plant which was scheduled for operation in the late 1980s. Sites near Port Washington, Wis., and Escanaba, Mich., have been under consideration for this plant, which is not now expected to be needed until the early 1990s.

In February 1980, Wisconsin Electric and two other utilities planning the Haven Nuclear Plant announced that they have decided to abandon plans for the plant. The 900,000-kilowatt facility had been planned for 1989 operation at a site near Sheboygan, Wis.

The first unit at Pleasant Prairie Power Plant is scheduled to begin operating in 1980. Construction continues on the second unit, right, which frames the cooling tower.

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The decision to cancel the plant was made following an order by the Public Service Commission of Wisconsin (PSCW) which established the accounting treatment for expenditures which have already been made on the proposed plant. The commission determined that \$36.7 million spent on the project was "prudently made in the course of pursuing regulatory review" and instructed the company to write off those expenditures over a three-year period. The company's share of that amount is \$21.9 million.

While the company believes that it is important for Wisconsin and the nation to maintain the nuclear option for the generation of electricity, recent regulatory decisions, the uncertainties in federal licensing and other factors have made it impractical to proceed with the Haven project.

The nuclear plant had been under consideration since the early 1970s. The plant originally was proposed for a site near Lake Koshkonong in Jefferson County and

was shifted to the Haven site near Sheboygan in 1977. A two-year deferral in the operational date of the plant was announced in 1979 because of expected licensing delays by the Nuclear Regulatory Commission.

Downtown Milwaukee Project

Planning is continuing on a project to build a new corporate headquarters building in downtown Milwaukee. A study conducted by an independent architectural firm concluded that constructing a single headquarters building would be the most efficient method to provide for present and future office needs. The company's present headquarters building is 75 years old, and Wisconsin Electric employees are now located in five downtown Milwaukee buildings.

Construction is underway on a new electric substation in downtown Milwaukee which will strengthen the supply of electric power to the area. A redevelopment of the downtown area is anticipated, with several

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projects in the construction and planning stages. A major hotel is nearing completion, work will begin soon on a downtown mall, a new federal building is planned and several other building projects have been announced.

Wisconsin Electric's plans for the downtown area also include plans for a new parking structure, additional steam lines, and eventual retirement of two old downtown power plants.

Financing

Even with the moderate growth in electrical peak demand forecast for the future, capital expenditures are expected to continue at a high level during the early part of the 1980s. For the next five years, capital requirements are expected to approach \$1.5 billion. Of that amount, \$800 million will be raised internally and the remainder from outside sources.

Construction expenditures in 1979 amounted to \$252 million, and are expected to total about \$340 million in 1980. The company raised \$26 million in 1979 through the sale of pollution control bonds and \$50 million from three-year bonds sold in a private placement. Common stock was sold through a combination of dividend reinvestment and the Tax Reduction Act Stock Ownership Plan (TRASOP), an employee stock ownership plan funded through federal tax credits and employee contributions.

In 1980, the company is considering the sale of bonds and offerings of preferred and common stocks, depending on market conditions. New common stock also will be sold through dividend reinvestment and TRASOP.

Load Management and Conservation

Wisconsin Electric is continuing to move forward with innovative programs designed to hold down the growth in the peak demand for electricity and to encourage more efficient energy use by our customers. Developments during the past two years indicate that these programs are showing success.

Controlling electrical demand is important because lower load growth delays the need for expensive new power plants, and extends the time we have to finance and put these facilities in service.

The company's efforts to control peak electrical demand center around three activities: time-of-use

rates, a load management program and customer conservation.

Time-of-use rates, which first went into effect in 1978, were extended to a larger number of customers in 1979. These rates charge more for electricity during peak demand periods and less during off-peak times to more accurately reflect the economics of providing electricity. For instance, it costs more to produce electricity on weekdays than at night and on weekends, and it costs more during the hot summer months than during the rest of the year. Larger and more economical coal and nuclear plants provide relatively inexpensive power during off-peak hours when demand is fairly low. Electricity to meet higher daily peak demand is more expensive to produce, since oil-fired plants or older, less efficient coal plants must be used.

Our industrial, major commercial and largest residential customers are now on daily time-of-use rates which are higher in the daytime and lower at night. Rates for all customers have a seasonal differential.

These rates provide economic incentive for customers to reduce on-peak electrical usage, or to shift daily usage to off-peak times. In establishing seasonal rates, the PSCW set a 50 percent difference between winter and summer rates. Although the company is committed to the time-of-use concept, we believe this difference is too severe. In our current rate case, we have asked the commission to reduce the winter-summer differential.

The company's major load management activity is a system-wide water heater control program. Installation of equipment for this system is continuing.

The load management system will allow dispatchers at our System Control Center to remotely and selectively turn off electric water heaters during times of heavy demand. The system will be the first of its kind in the country to operate on a full-time basis. Customer participation in the program is voluntary.

We estimate that by controlling 150,000 residential and farm electric water heaters, power plant construction needs will be reduced by 125,000 kilowatts.

In late 1979, the company announced a major program to explore the potential of solar water heating in Wisconsin. Domestic solar water heating systems have been installed at the homes of four employees, and after a winter's experience, the program will be expanded to include 300 Wisconsin Electric residential customers.



The company's water heater control program is expected to hold down the growth in peak demand for electricity. WE's Ray Vande Castle checks a load control device which is installed at customer homes.



Another project being tested is solar water heating. Don Reck of the Customer Relations Department examines the installation of a solar roof panel.

The solar water heating system has been designed to meet the needs of a typical family of four and to take advantage of the company's lower off-peak rates. When the sun is shining, hot water will be provided by solar energy. At night and during extended cloudy periods, water in a storage tank will be heated by an electric element. The solar system is expected to supply about half the hot water needs of the homes' occupants. The solar devices will be monitored by the company to provide information on operating costs.

In another project, the company is studying "stored cooling" for residential air conditioning as part of a research activity being conducted in cooperation with the U.S. Department of Energy. Stored cooling equipment uses a conventional air conditioning unit to freeze water in a storage tank during off-peak times. The stored ice is then used to provide cooling during high-demand periods. Equipment has been installed in 70 homes in the metropolitan Milwaukee area in order to conduct the research which will continue over the next two years. The stored cooling concept has been proven workable over the past three years in test homes and company offices.

During 1979, both Wisconsin Electric and our subsidiary, Wisconsin Natural Gas Co., continued active public information programs to promote energy conservation. The conservation effort was promoted through the use of radio, television and newspaper advertising, as well as in booklets, bill inserts and special presentations.

Opinion surveys and energy usage show that these programs have been effective in increasing customer understanding of the need to conserve natural gas and electricity.

As the result of an energy audit program started at Wisconsin Natural in 1977, more than 13,000 home energy surveys have been conducted by company personnel. For 1979, the company averaged more than 140 home surveys a week. A similar home energy inspection program has been implemented by Wisconsin Electric, and is now available to electric as well as gas customers.

Wisconsin Electric's public information program was recognized by the Public Utilities Communicators Association for the "Best Utility Communications Program" in 1979, and Wisconsin Natural's activity was cited as the best public relations program of the year by the American Gas Association.

Rate Increases

Final electric rate increases approved by various regulatory commissions in the first half of 1979 amount to approximately \$53 million on an annual basis. These included an overall 9 percent increase granted by the Public Service Commission of Wisconsin (PSCW) in March, and a 15 percent increase authorized by the Michigan commission in April for our customers in Michigan's Upper Peninsula.

The Wisconsin commission's action was the result of a rate request filed by the company in April 1978, while the rate request in Michigan was filed in December 1978. The Michigan increase was the first change in base rates for those customers in 2½ years. In addition, an increase for wholesale customers under the jurisdiction of the Federal Energy Regulatory Commission was approved by that agency in May.

Despite these increases, however, the high rate of inflation is continuing to affect all phases of the company's operation, and has resulted in further increases in the cost of doing business. This trend is expected to continue in 1980. As a result, the company filed a request with the PSCW in August 1979, to increase 1980 revenues by 9.2 percent. This request is still pending, with action expected to be taken in the first half of 1980.

Recurring increases in electric rates during the past few years have tended to obscure the fact that Wisconsin Electric customers continue to receive exceptional value for every dollar they spend on electricity. Our rates continue to be lower than those in most other parts of the nation. A study in 1979 showed that, based on a monthly use of 500 kilowatt-hours, electric rates in Milwaukee were the fourth lowest among the nation's 20 largest metropolitan areas. Despite general concerns about rising prices, it also is significant that a 1979 public opinion survey found that seven out of ten customers interviewed felt that the company's requests for rate increases were justified.

A primary reason for the company's favorable rates has been the efficient operation of Point Beach Nuclear Plant, which has produced an economical supply of electricity during a time of rapidly rising prices.

Nuclear Operations

After the much publicized Three Mile Island (TMI) accident in Pennsylvania, the company formed a task force to determine if any changes were needed in the

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operations of our Point Beach Nuclear Plant. The task force conducted a detailed analysis of the plant's procedures and operations, and concluded that no significant modifications were necessary.

The Presidential Commission which investigated the TMI accident recommended several steps to improve nuclear safety and concluded that the nation can continue to utilize nuclear power if it is managed well. Point Beach operations will continue to be reviewed in response to regulatory requirements, recommendations of the Presidential Commission, and analyses made by other utilities, manufacturers and scientific groups.

In a major energy address in 1979, President Carter pointed out that further development of nuclear power is necessary if the nation is to meet its energy requirements. Similarly, a comprehensive energy study released by the National Academy of Sciences in January 1980 cited the need to increase conservation

and to develop both our coal and nuclear resources.

The company plans to use a combination of coal and nuclear power plants to provide most of our electrical energy for the remainder of this century. We believe this balanced fuel mix will provide the most dependable and economical power supply to meet the needs of our customers.

Point Beach Nuclear Plant, which began operation in 1970, has been one of the nation's outstanding nuclear plants, both from the standpoint of safety and dependability of operation. The procedures which have led to this outstanding performance record are being shared with other utilities through the company's participation in two newly created industry groups — the Institute of Nuclear Power Operations, established to upgrade the training and performance of reactor operators, and the Nuclear Safety Analysis Center, set up to investigate the TMI accident and to analyze nuclear safety issues.

High school students, sponsored by Wisconsin Electric, learn resource management at the Trees for Tomorrow Camp at Eagle River, Wis.



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Point Beach continued to supply a major part of the company's electrical requirements in 1979, although the company has experienced problems with deterioration of steam generator tubes particularly in Unit 1 at the plant. The deterioration, which is believed due to chemicals used to condition water in the steam supply systems during the early years of plant operation, has led to leaks in some of the steam generator tubes. As a result, about 10 percent of the tubes in Unit 1's steam generators have been plugged, removing them from service, and the unit is now being operated at a lower power level to reduce further deterioration. Because of the conservative design of the plant, however, the unit can be operated efficiently with 25 percent of its tubes out of service.

Even if it ultimately becomes necessary to replace the steam generators in Unit 1 — an option which is now being considered — our customers will continue to enjoy substantial savings because of the lower cost operation of Point Beach. Since the plant began operation, the savings compared to electricity generated at coal-fired plants have amounted to more than \$280 million.

Westinghouse Settlement

A long-standing legal dispute between Wisconsin Electric and Westinghouse Electric Corp. was ended in

May 1979, when an \$81 million settlement agreement was announced. The settlement is the result of legal action started by the company in 1975 when Westinghouse said it could not continue to supply uranium for our Point-Beach Nuclear Plant under a 1968 contract, citing commercial impracticability because of uranium price increases.

The terms of the agreement provided for Westinghouse to supply fuel and other items which will reduce future costs at Point Beach.

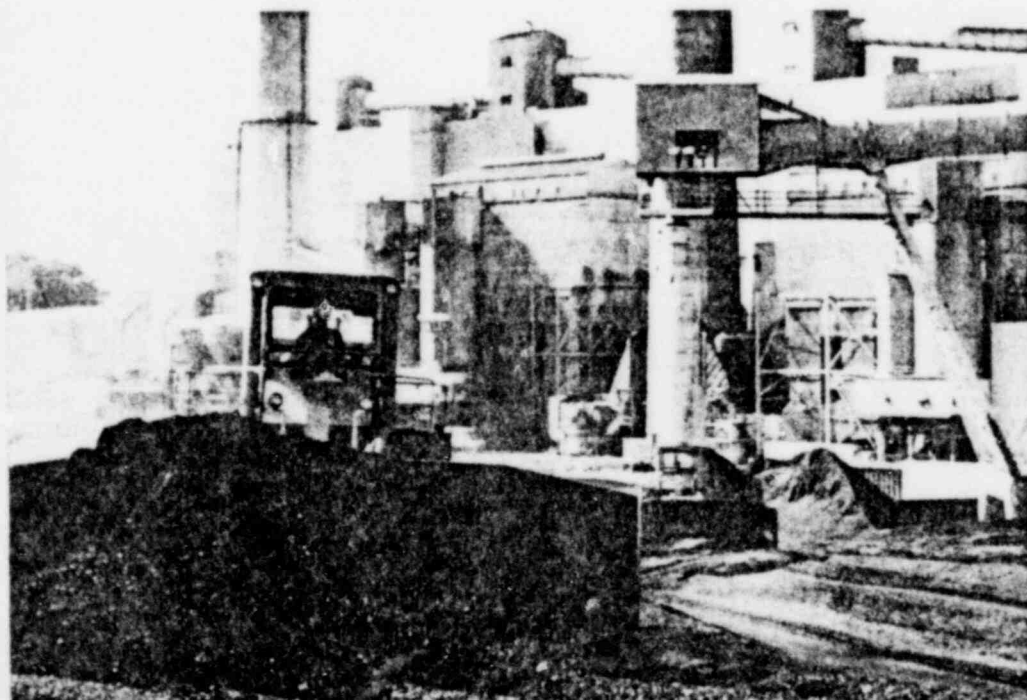
Included in the settlement was \$8 million in cash, together with future discounts for equipment and spare parts for Point Beach valued at \$9.2 million, fuel fabrication services through 1992 estimated to total \$37.4 million, and 1.35 million pounds of uranium to be supplied over the next several years estimated to total \$26.4 million.

Natural Gas Operations

Natural gas supplies continue to be stable, with no annual curtailments expected for the next several years. The company's pipeline supplier is optimistic about the development of future supplies which will ensure a dependable long-term gas supply.

Wisconsin Natural Gas Co. reported that sales exceeded 79 billion cubic feet in the 1978-79 contract

Bulldozers compact the coal at the Oak Creek Power Plant, the company's largest coal-fired plant. During 1979, coal-fired plants generated 49 percent of our electricity. At right, a Wisconsin Natural Gas Co. crew installs a new gas service to a home converting from oil. During 1979, the company added over 10,000 new customers.



year, about 11 percent more than the original amount contracted with our pipeline supplier. For the current contract year, which runs from Sept. 1, 1979 to Aug. 31, 1980, Wisconsin Natural has received approval to purchase an additional 10 billion cubic feet of annual overrun gas, 14 percent over the present contract volume of 72 billion cubic feet.

Wisconsin Natural reported a sharp increase in the number of requests for conversion from oil to natural gas in 1979, reflecting the continuing upward spiral of oil costs and the uncertainty of supply.

During the year, Wisconsin Natural connected 10,289 new heating customers, the second-largest annual increase in the company's history. The company was serving more than 200,000 gas customers at the end of the year, with requests for new gas service still strong despite a decrease in building. At the start of 1980, Wisconsin Natural had a waiting list of 1,860 residential requests for new or additional service. Conversions of non-heating customers to gas heat were 246 percent more in 1979 than in the preceding year.

Consolidation Study

Wisconsin Electric has discontinued studying the possibility of combining electric operations with Upper Peninsula Power Co. The company also decided not to proceed further with a study of possible acquisition of

Cliffs Electric Service Co., a subsidiary of Cleveland Cliffs Iron Co.

The decisions were made because of market conditions and a preliminary study which failed to show potential advantages sufficient to justify proceeding further.

Upper Peninsula Power, headquartered in Houghton, Mich., provides electric service to over 42,000 customers in Upper Michigan. Cliffs Electric Service owns a major part of a large coal-fired power plant in Marquette, Mich., and supplies energy to iron mines in that area.

Management Changes

John H. Goetsch was elected secretary of Wisconsin Electric at the Board of Directors meeting in May. He succeeded Howard L. Warhanek, who retired as secretary and vice president after more than 40 years of service with the company.

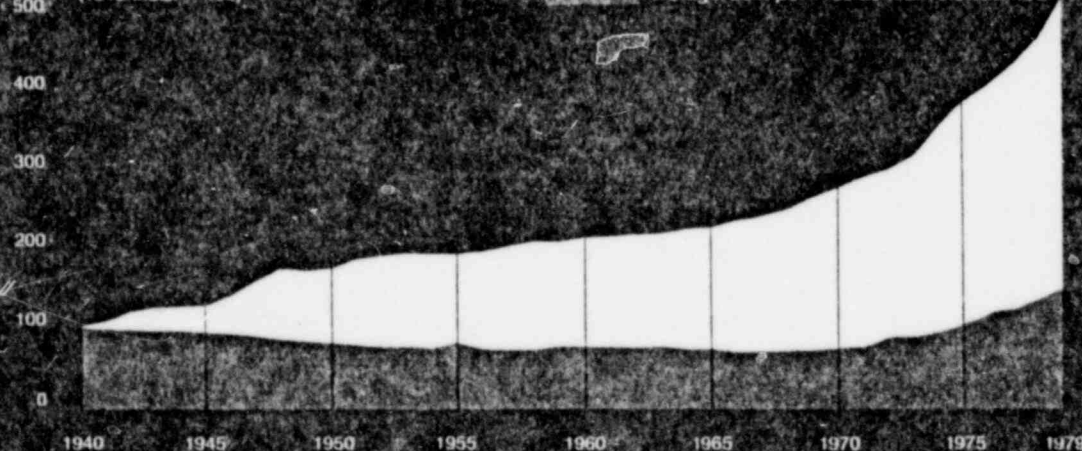
The board also appointed John W. Fleissner and Dawn L. Freitag assistant secretaries of Wisconsin Electric.

The Board of Directors of our subsidiary, Wisconsin Natural Gas Co., elected Mr. Goetsch secretary to succeed Mr. Warhanek, and appointed Mr. Fleissner assistant secretary and Gordon A. Willis assistant treasurer. Mr. Goetsch and Mr. Fleissner also were named secretary and assistant secretary, respectively, of WE's other subsidiary, Badger Service Co.

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RESIDENTIAL ELECTRICITY COSTS
VS. CONSUMER PRICE INDEX

(1940 Index = 100)



Net Income and Earnings

Consolidated net income of Wisconsin Electric Power Co. was \$82.5 million in 1979, 15 percent greater than in 1978. The increase primarily resulted from rate relief granted during 1979 and to a lesser extent from an increase in the sales of electricity and natural gas. Earnings per share increased by 7 percent over 1978 to \$3.75 a share, despite a larger provision for preferred stock dividends and more common shares outstanding.

In 1978 net income was up \$3.4 million or 5 percent over 1977 while earnings per share of \$3.50 were 4 percent greater than the previous year.

Operating Revenues and Sales

Higher rates for our utility services and the recovery of higher costs for fuel, purchased power and purchased gas through adjustment tariffs were primarily responsible for the revenue increases over prior years. Revenues rose \$115 million in 1979 and \$83 million in 1978.

Kilowatt-hour sales to retail, municipal and cooperative customers were up 1.4 percent in 1979 from the preceding year compared to an increase of 5.1 percent in 1978. Sales of electricity to other public utilities were lower in both 1979 and 1978 than in preceding years. As a result, total kilowatt-hour sales increased only 1.2 percent in 1979 and 3.0 percent in 1978. Use of electricity per residential customer declined 1.9 percent in 1979 after remaining constant in 1978.

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reflecting in part customer conservation and the cooler summer in 1979. The average number of electric customers showed a 2 percent growth in both years.

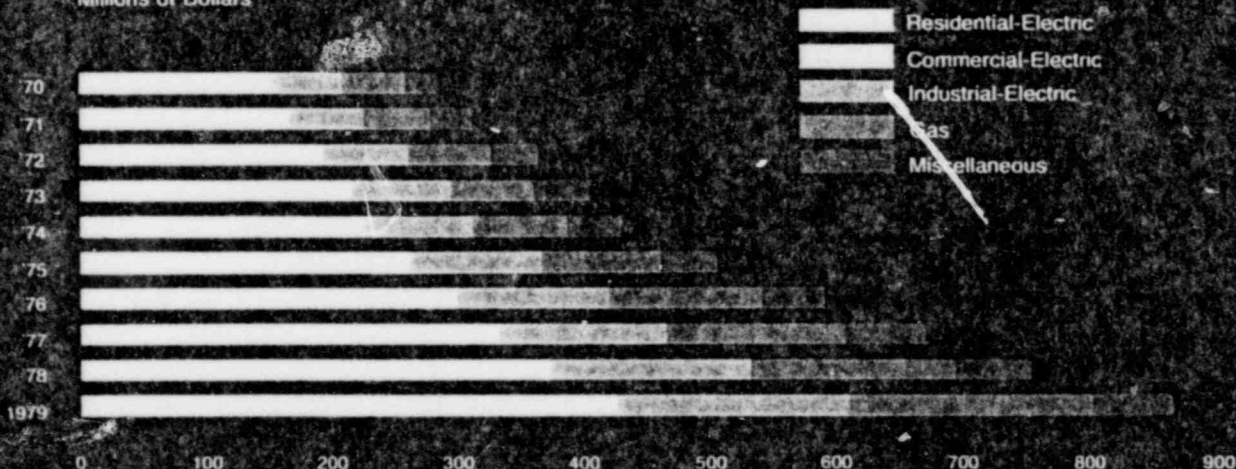
The volume of natural gas sold increased 3.7 percent in 1979 and 5.1 percent in 1978 compared to the preceding periods. Sales increased in both 1979 and 1978 principally because of improved availability of natural gas supplies. Sales to residential heating customers in 1979 were up only 1 percent over 1978, reflecting customer conservation and milder weather in December 1979. The average number of gas customers during both years rose approximately 3 percent.

Rate Increases

In March 1979, the Public Service Commission of Wisconsin (PSCW) approved a 9 percent increase in electric rates for retail customers in Wisconsin and in April 1979 the Michigan Public Service Commission authorized a 15 percent increase in electric rates for Michigan retail customers. During January 1978 the PSCW granted the company a 3 percent increase in electric rates for Wisconsin retail customers designed to produce \$11 million on an annual basis.

Pressures of inflation and rising operating costs will require additional rate relief during 1980 in order to maintain earnings. The company has a request for \$59 million of additional annual electric revenues pending before the PSCW. The request is based on anticipated 1980 costs.

TOTAL OPERATING REVENUES
Millions of Dollars



POOR ORIGINAL

Operating Expenses

Fuel and purchased power costs increased 21 percent in 1979 over 1978 primarily because of higher prices for fossil fuel, additional purchases of power from other utilities and greater use of gas-fired generation. These costs were partially offset by \$8 million in cash received from the Westinghouse Electric Corp. as part of the settlement of uranium litigation. Of this amount, \$7.5 million was refunded to customers through fuel adjustment clauses. Because of increased maintenance at Point Beach Nuclear Plant, there was a 12 percent reduction in nuclear generation in 1979, which required the purchase of larger amounts of electricity from other utilities and the use of more expensive alternative energy sources. The company expects to be able to reduce the amount of power it purchases from other companies in 1980, when Unit 1 at Pleasant Prairie Power Plant begins operation.

In 1978 higher fossil fuel costs, greater energy purchases and utilization of oil-fired generation were the major factors which caused fuel and purchased power costs to increase 26 percent over 1977. A portion of the increase in these expenses during 1978 is attributable to the extended coal miners' strike which required the company to use more expensive energy sources in order to conserve coal supplies.

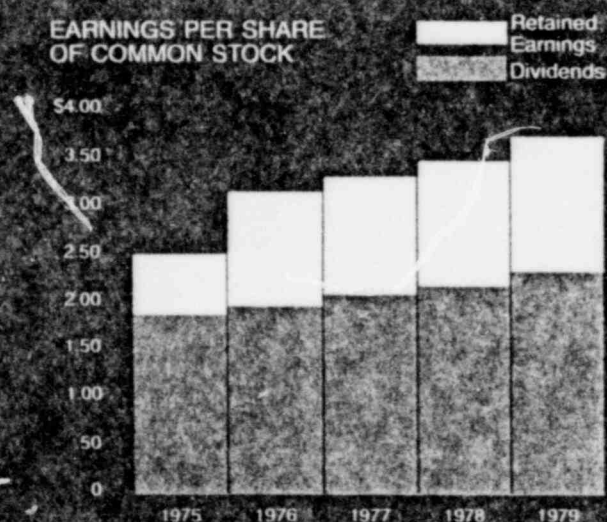
The cost of gas purchased for resale increased 24 percent in 1979 and 17 percent in 1978 over the preceding periods. Approximately 85 percent of the

increase in 1979 and 70 percent of the increase in 1978 reflects the higher cost of gas purchased from the pipeline supplier. The remaining increases in cost reflect a 3.5 percent increase in 1979 and a 5.3 percent increase in 1978 in the volumes of gas purchased for resale. The larger purchases can be attributed to improved gas supplies. The average cost per therm of gas purchased for resale has risen steadily from 15.3 cents in 1977 to 20.4 cents in 1979.

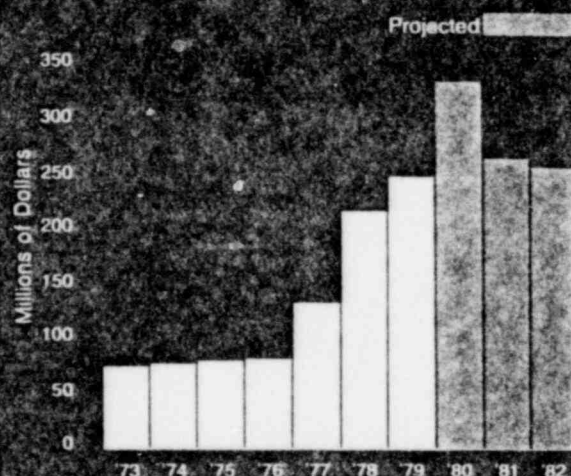
The increases from year to year in other operation expenses primarily reflect the general rise in wage and price levels. Other operation expenses for 1979 include the write-off of \$2.3 million (net of income taxes) of the company's share of capitalized expenditures for the planned nuclear plant near Lake Koshkonong. The PSCW deemed such expenditures to have been prudent, but of no future value when the site of the plant was changed to Haven. The company has filed a motion to recover this write-off as the result of a court decision which reversed the PSCW's order mandating the write-off.

The increase in maintenance during these periods reflects principally the timing of scheduled repairs to major generating units and the rise in wage and price levels. Part of the unusually high increase in maintenance during 1979 was caused by additional inspections and analyses at the Point Beach Nuclear Plant required by the Nuclear Regulatory Commission, to some degree prompted by the Three Mile Island accident.

EARNINGS PER SHARE OF COMMON STOCK



CONSTRUCTION EXPENDITURES



The changes in income taxes charged to operating expense during these periods result mainly from variations in pre-tax income. Income taxes for the year 1979 also were affected by the reduction in the federal income tax rate from 48 percent to 46 percent as of Jan. 1, 1979. Income taxes, including income taxes charged to Other Income and Deductions, approximated 44 percent of income before income taxes in 1979 compared to 49 percent in 1978. The reduction in the effective tax rate for 1979 is primarily due to the lower federal tax rate and larger noncash credits to income for allowance for funds used during construction (AFDC) than a year ago. AFDC credits are excluded from taxable income.

Straight line depreciation increased in both 1979 and 1978 over the preceding years principally because of larger investments in utility plant and higher electric depreciation rates which became effective July 1, 1978.

Interest Expense

Interest expense increased in both 1979 and 1978 because of the issuance of new bonds and larger short-term borrowings at higher rates than in preceding periods.

Allowance for Funds Used During Construction

AFDC credits were substantially greater in 1979 and

1978 than in the prior years primarily because of increased construction work in progress associated with expenditures on Units 1 and 2 of the Pleasant Prairie Power Plant and to a lesser extent to expenditures on the Germantown combustion turbines prior to the latter going into service in 1978.

Preferred Stock Dividend Requirement

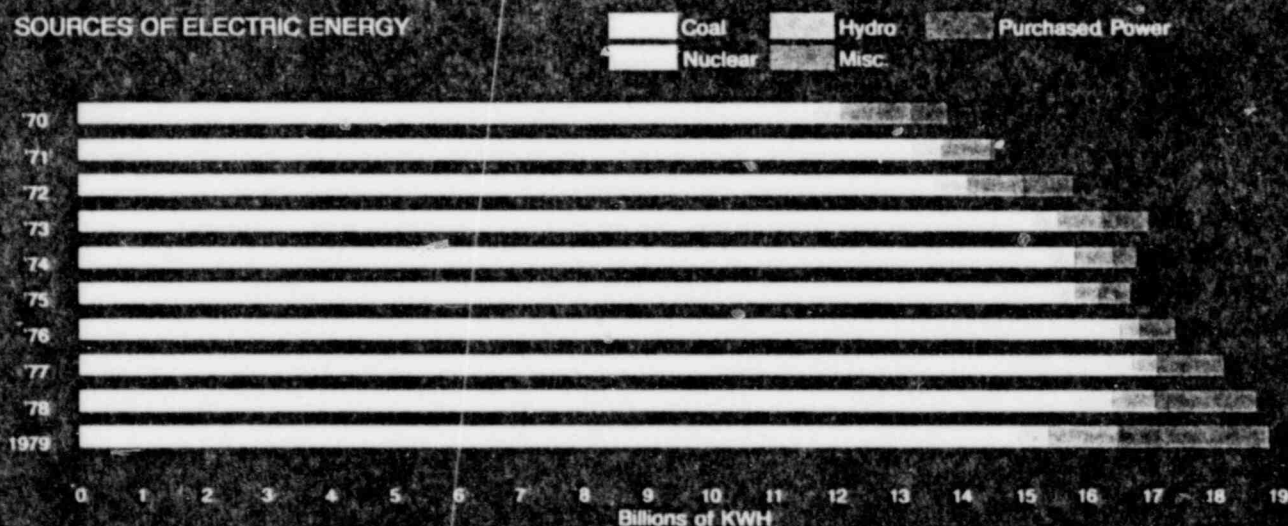
The preferred stock dividend requirement increased in both 1979 and 1978 over previous periods because of the issuance of the 8.80 percent Serial Preferred Stock in December 1978.

Financing

The issuance of new securities during 1979 and 1978 was required primarily to provide funds for the company's construction program. A significant number of additional long-term financings will be required over the next five years. Tentative plans for 1980 call for acquiring \$190 million of new capital through a combination of the sale of long-term debt, preferred stock, common stock and additional leasing of nuclear fuel. Market conditions will influence the timing and amount of any security issue. At Dec. 31, 1979, the company had lines of credit of \$126 million for short-term borrowings which can be temporarily utilized if market conditions for long-term securities are unfavorable.

POOR ORIGINAL

SOURCES OF ELECTRIC ENERGY

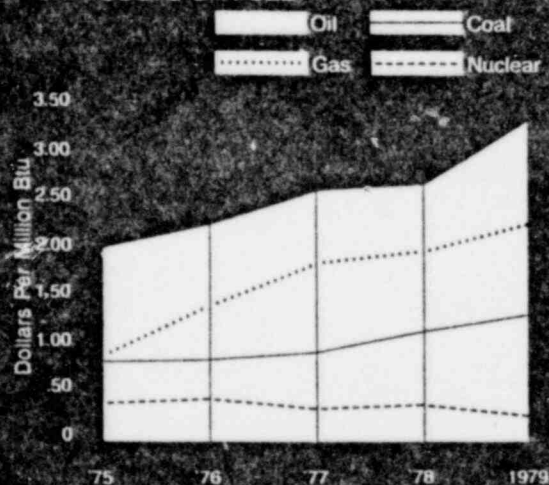


SUMMARY OF OPERATIONS — YEAR ENDED DECEMBER 31

	1979	1978	1977	1976	1975
	(Thousands of Dollars)				
Operating Revenues	\$867,565	\$752,611	\$669,903	\$592,441	\$506,568
Operating Expenses					
Fuel and purchased power	246,913	204,183	161,927	141,574	126,044
Gas purchased for resale	143,844	115,948	98,999	84,519	60,863
Other operation expenses	167	147,622	138,095	123,671	109,655
Maintenance	66	55,879	49,334	42,727	38,231
Depreciation — straight line	59,855	54,160	49,702	47,535	45,505
Income taxes	64,282	66,610	70,529	58,971	47,327
	19,624	644,402	568,586	498,997	427,625
Operating Income	117,941	108,209	101,317	93,444	78,943
Other Income and Deductions					
Miscellaneous income — net	969	153	876	439	1,076
Allowance for other funds used during construction	7,535	3,372	238	—	—
	8,504	3,525	1,114	439	1,076
Income Before Interest Charges	126,445	111,734	102,431	93,883	80,019
Interest Charges					
Interest expense	50,078	42,024	34,388	33,753	31,008
Allowance for borrowed funds used during construction	(6,165)	(1,895)	(152)	—	—
	43,913	40,129	34,236	33,753	31,008
Net Income	82,532	71,605	68,195	60,130	49,011
Preferred Stock Dividend Requirement	(12,368)	(7,337)	(7,088)	(7,088)	(7,088)
Earnings Available for Common Stockholders	\$ 70,164	\$ 64,268	\$ 61,107	\$ 53,042	\$ 41,923
Earnings per share	\$3.75	\$3.50	\$3.36	\$3.19	\$2.54

POOR ORIGINAL

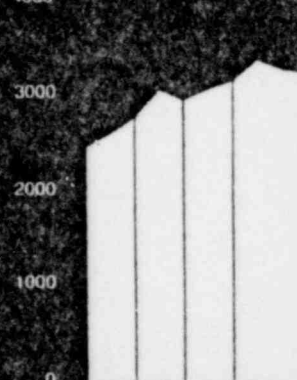
UNIT COSTS OF FUEL



PEAK DEMAND

Megawatts

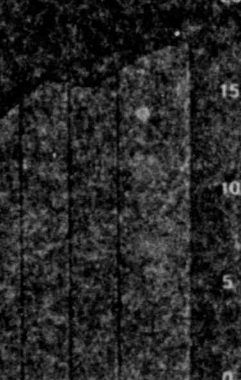
4000



ELECTRIC SALES

Million Megawatt-hours

20



	1979	1978
	(Thousands of Dollars)	
Operating Revenues		
Electric	\$667,757	\$583,162
Gas	191,238	161,177
Steam	8,570	8,272
Total Operating Revenues	867,565	752,611
Operating Expenses		
Fuel (Note A)	179,050	155,615
Purchased power	67,863	48,568
Gas purchased for resale	143,844	115,948
Other operation expenses (Note B)	133,442	112,573
Maintenance	66,824	55,879
Taxes other than income taxes	34,464	35,049
Depreciation (Note C)		
Straight line	59,855	54,160
Deferred income taxes (Note D)	17,192	3,873
Federal income tax (Note D)	12,452	31,904
Investment tax credit adjustments — net	27,657	23,946
State income tax (Note D)	6,981	6,887
Total Operating Expenses	749,624	644,402
Operating Income	117,941	108,209
Other Income and Deductions		
Interest income	2,491	1,659
Allowance for other funds used during construction (Note E)	7,535	3,372
Miscellaneous — net	185	(322)
Income taxes (Note D)	(1,707)	(1,184)
Total Other Income and Deductions	8,504	3,525
Income Before Interest Charges	126,445	111,734
Interest Charges		
Long term debt	40,875	36,998
Allowance for borrowed funds used during construction (Note E)	(6,165)	(1,895)
Other	9,203	5,026
Total Interest Charges	43,913	40,129
Net Income	82,532	71,605
Preferred Stock Dividend Requirement	12,368	7,337
Earnings Available for Common Stockholders	<u>\$ 70,164</u>	<u>\$ 64,268</u>
Average Number of Shares of Common Stock		
Outstanding (Thousands)	18,705	18,354
Earnings Per Share of Common Stock	\$3.75	\$3.50

The notes on pages 22 through 27 are an integral part of the financial statements.

RETAINED EARNINGS STATEMENT — YEAR ENDED DECEMBER 31
WISCONSIN ELECTRIC POWER COMPANY SYSTEM

	1979	1978
	(Thousands of Dollars)	
Balance, January 1	\$225,022	\$201,424
Additions		
Net income	82,532	71,605
Transfer of amortization reserve — hydroelectric projects	—	305
	307,554	273,334
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	\$251,488	\$225,022

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	59,855	54,160
— deferred income taxes	17,192	3,873
Accumulated deferred investment tax credits	23,598	19,942
Nuclear fuel expense	12,767	8,782
Allowance for funds used during construction	(13,700)	(5,267)
Total from operations	182,244	153,095
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	108,559	3,675
Contributions in aid of construction	4,259	3,338
Miscellaneous	1,004	(2,528)
	\$397,150	\$332,625
Financial Resources Used		
Construction expenditures	\$252,258	\$220,563
Nuclear fuel	37,362	33,436
Dividends	55,962	47,625
Retirement of long term debt	9,511	12,165
Construction funds held by trustees	23,447	12,153
Increase in working capital (other than short term borrowings and long term debt due currently)	18,610	6,683
	\$397,150	\$332,625

The notes on pages 22 through 27 are an integral part of the financial statements.

	1979	1978
	(Thousands of Dollars)	
ASSETS		
Utility Plant		
Electric	\$1,571,082	\$1,511,172
Gas	184,642	173,918
Steam	17,274	17,161
	1,772,998	1,702,251
Accumulated provision for depreciation	(725,821)	(653,291)
	1,047,177	1,048,960
Construction work in progress	411,397	217,108
Nuclear fuel	94,709	55,420
Accumulated provision for amortization	(11,773)	(2,617)
	82,936	52,803
Net Utility Plant	1,541,510	1,318,871
Nonutility Property	7,453	6,539
Accumulated provision for depreciation	(630)	(383)
Net Nonutility Property	6,823	6,156
Construction Funds Held by Trustees (Note F)	24,905	12,153
Current Assets		
Cash	5,026	5,947
Temporary cash investments	11,098	2,900
Accounts receivable (Note G)	51,544	50,013
Accrued utility revenues	71,686	59,787
Fossil fuel (at average cost)	59,179	46,665
Materials and supplies (at average cost)	34,131	25,193
Prepayments and other assets	6,649	6,588
Total Current Assets	239,313	197,093
Deferred Charges and Other Assets	18,113	30,898
	\$1,830,664	\$1,565,171

The notes on pages 22 through 27 are an integral part of the financial statements.

1979 1978

(Thousands of Dollars)

LIABILITIES

Capitalization

Common Stock Equity (Note H)

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	251,488	225,022
Total Common Stock Equity	586,385	545,055

Preferred Stock (Note J)	160,451	160,451
Long Term Debt (Note I)	649,227	589,576
Total Capitalization	1,396,063	1,295,082

Current Liabilities

Long term debt due currently (Note I)	13,493	7,662
Notes payable to banks (Note K)	19,700	21,441
Commercial paper (Note K)	114,322	4,022
Accounts payable	69,326	54,711
Payroll and vacation accrued	12,309	11,171
Taxes accrued — income and other	33,774	26,732
Interest accrued	12,428	10,600
Customer deposits	1,998	1,863
Other	5,563	6,771
Total Current Liabilities	282,973	144,973

Deferred Credits and Other Liabilities

Accumulated deferred investment tax credits	73,554	49,956
Nuclear fuel costs accrued (Note D)	19,646	17,372
Unamortized accrued utility revenues	29,556	33,778
Other	6,630	6,027
Total Deferred Credits and Other Liabilities	129,386	107,133

Contributions in Aid of Construction	22,242	17,983
Commitments (Note L) and Contingencies (Note M)		
	\$1,830,664	\$1,565,171

The notes on pages 22 through 27 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 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.

Gas Purchased for Resale

The cost of purchased gas sold is expensed in the period the gas is received from the pipeline supplier.

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 \$16,521,000 in 1979 and \$20,989,000 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 employees. Normal employee 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 \$7,449,000 in 1979 and \$5,715,000 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.

	1979	1978
	(Thousands of Dollars)	
Current tax expense	\$ 21,140	\$ 39,975
Investment tax credit adjustments — net	27,657	23,946
Deferred taxes charged to depreciation expense	17,192	3,873
Total tax expense	<u>\$ 65,989</u>	<u>\$ 67,794</u>
Income before income taxes	<u>\$148,521</u>	<u>\$139,399</u>
Expected tax at federal statutory rate	\$ 68,320	\$ 66,912
Allowance for funds used during construction	(6,302)	(2,528)
State income tax net of federal tax reduction	5,227	3,028
Other (no item over 5% of expected tax)	(1,256)	(1,618)
Total tax expense	<u>\$ 65,989</u>	<u>\$ 67,794</u>

The aggregate amount of deferred income taxes included in the accumulated provision for depreciation at December 31 was \$140,253,000 in 1979 and \$122,404,000 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 noncapital 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 receivable are shown on the balance sheet after deducting an accumulated provision for doubtful accounts in the amount of \$1,175,000 for 1979 and \$826,000 for 1978. Uncollectible account write-offs net of recoveries were \$2,316,000 in 1979 and \$1,552,000 in 1978.

H — 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.

I — 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 3/4% 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
4.5% 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 1/4% Series due 1980	640	640
3 3/8% 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 3/8% Series due 1998	9,889	9,899
8 1/2% Series due 1999	11,829	11,829
Wisconsin Natural Gas Company		
3 1/8% Series due 1980	1,858	1,861
4 1/4% Series due 1986	3,631	3,633
4 3/4% Series due 1987	4,499	4,504
4 7/8% Series due 1990	6,513	6,513
6 3/8% Series due 1992	9,435	9,462
8 3/4% Series due 1994	9,730	9,796
8 3/8% Series due 1996	9,912	9,941
	629,991	563,103
Debentures (unsecured)		
Wisconsin Electric Power Company		
7 % Series due 1993	33,531	34,429
	663,522	597,532
Unamortized Discount — net	(802)	(294)
Long Term Debt Due Currently	(13,493)	(7,662)
Total Long Term Debt	\$649,227	\$589,576

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, \$3,190,000 for the year 1980 and \$3,990,000 for the years 1981-84 may be satisfied by certifying additional mortgaged property.

	Maturities	Sinking Fund
1980	\$13,493,000	\$5,725,000
1981	2,147,000	6,350,000
1982	59,137,000	6,315,000
1983	—	6,190,000
1984	16,733,000	6,190,000

Future sinking fund requirements have been anticipated by advance purchases of bonds to the extent of \$3,001,000 and certification of property in the amount of \$3,190,000. Sinking fund requirements for 1980 have been satisfied.

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

J — Preferred Stock

	December 31	
	1979	1978
	(Thousands of Dollars)	
Preferred Stock (cumulative)		
Wisconsin Electric Power Company —		
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 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 — 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 \$66,483,000 with a weighted average interest rate of 11.36%. Maximum short term borrowing during 1979 was \$134,022,000.

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 \$126,055,000 at December 31, 1979. 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, 1979 as well as \$1,100,000 of non-interest bearing certificates of deposit included in temporary cash investments represent compensating balances.

L — Commitments

Construction expenditures through 1984 are estimated to be \$1.3 billion, of which \$340 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.

M — 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, 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 30 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 rate making 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 down time 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.

N — Quarterly Financial Data (Unaudited)

	Three Months Ended							
	March		June		September		December	
	1979	1978	1979	1978	1979	1978	1979	1978
	(Thousands of Dollars)							
Total operating revenues	\$236,760	\$204,802	\$183,158	\$164,910	\$213,261	\$184,798	\$234,386	\$198,101
Operating income	26,360	25,590	28,074	23,188	38,654	34,223	24,853	25,208
Net income	18,049	17,697	19,343	14,583	30,069	25,287	15,071	14,038
Earnings per share of common stock	\$0.81	\$0.87	\$0.87	\$0.70	\$1.44	\$1.28	\$0.63	\$0.65

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.

O — Information by Segments of Business

Year Ended December 31

	1979	1978
	(Thousands of Dollars)	
Electric Operations		
Revenue from unaffiliated customers	\$ 667,757	\$ 583,162
Intersegment sales	206	198
Operating revenues	667,963	583,360
Operating income before income taxes	160,656	153,948
Depreciation — straight line	52,619	47,432
Construction expenditures	238,728	212,063
Gas Operations		
Revenue from unaffiliated customers	191,238	161,177
Intersegment sales	24,584	3,224
Operating revenues	215,822	164,401
Operating income before income taxes	20,027	18,908
Depreciation — straight line	6,697	6,217
Construction expenditures	12,772	8,153
Steam Operations		
Operating revenues (unaffiliated)	8,570	8,272
Operating income before income taxes	1,540	1,963
Depreciation — straight line	539	511
Construction expenditures	243	273
Consolidated		
Operating revenues (excluding intersegment sales eliminated in consolidation)	867,565	752,611
Operating income before income taxes	182,223	174,819
Depreciation — straight line	59,855	54,160
Construction expenditures (including utility)	252,258	220,563
At December 31		
Net Identifiable Assets		
Electric	\$1,643,722	\$1,387,513
Gas	168,635	159,369
Steam and nonutility	18,307	18,289
Total Consolidated Assets	\$1,830,664	\$1,565,171

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

P — 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.

Information in the table at the right, 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.

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 (\$138 million) shows the impact of 1979 inflation on the company's reported net plant cost not recognized by the increased depreciation (\$59 million). The gain from decline in purchasing power of debt and preferred stock (\$122 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

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	\$868	\$ 868
Operating Expenses		
Depreciation — straight line	60	119
Other expenses	626	626
Income taxes	64	64
Total Operating Expenses	750	809
Operating Income	118	59
Other Income and Deductions	8	8
Interest Charges and Preferred Stock Dividends	(56)	(56)
Earnings Available for Common Stockholders (excluding reduction of plant investment to net recoverable cost) (Note)	\$ 70	\$ 11
Earnings Per Share of Common Stock	\$3.75	\$0.59
Reduction of utility plant to amount recoverable through regulatory process		\$(138)
Gain from decline in purchasing power of debt and preferred stock		122
		<u>\$ (16)</u>

Note — Earnings (loss) after reduction of net utility plant to recoverable cost would have been \$(127,000,000) adjusted for general inflation.

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 income tax laws or the regulatory process.

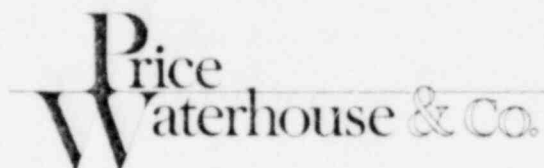
In compliance with the Securities and Exchange Commission requirement, the company's annual report to the Commission (Form 10-K) will include the unaudited estimated cost of replacing present productive capacity and the corresponding depreciation expense based on replacement cost.

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	\$868*	\$837	\$802	\$755	\$683
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.



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, 1979 and 1978, 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 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

STATISTICAL INFORMATION
WISCONSIN ELECTRIC POWER COMPANY SYSTEM

	1979	1978	1977	1976	1975
Financial					
Net income (\$000)	82,532	71,605	68,195	60,130	49,011
Preferred stock dividend requirement (\$000)	(12,368)	(7,337)	(7,088)	(7,088)	(7,088)
Earnings available for common stock (\$000)	70,164	64,268	61,107	53,042	41,923
% of operating revenues	8.09	8.54	9.12	8.95	8.28
% of return on average common equity	12.51	12.18	12.19	12.09	10.02
Ratio of market to book value of common stock — December 31	74	88	110	116	113
Times fixed charges earned before income taxes	3.97	4.32	5.09	4.56	4.13
Earnings per share of common stock (\$)	3.75	3.50	3.36	3.19	2.54
Dividends paid per share of common stock (\$)	2.345	2.21	2.09	1.98	1.90
Average number of shares of common stock	18,705,029	18,354,149	18,212,721	16,642,249	16,480,868
Plant and Production					
Gross utility plant (\$000)	2,279,104	1,974,779	1,732,848	1,616,405	1,548,505
Investment in gross plant per:					
Revenue dollar (\$)	2.63	2.62	2.59	2.73	3.06
Customer:					
Electric (\$)	2,610	2,278	2,019	1,906	1,851
Gas (\$)	896	881	875	866	874
Generating capability (megawatts)	3,781	3,686	3,577	3,594	3,603
System peak (megawatts)	3,313	3,339	3,452	3,216	3,109
Sales, Revenue and Customers					
Electric					
Mega-watt hours					
Net generated	16,506,481	16,945,796	17,085,864	16,790,986	16,281,565
Purchased	2,374,000	1,720,042	1,077,832	614,392	469,123
Total output	18,880,481	18,665,838	18,163,696	17,405,378	16,750,688
Company use, transmission losses, and unaccounted for	(1,209,869)	(1,196,165)	(1,203,322)	(1,248,770)	(1,187,402)
Total sales	17,670,612	17,469,673	16,960,374	16,156,608	15,563,286
Operating revenues (\$000)	667,757	583,162	519,182	462,597	405,232
Operating income before income taxes (\$000)	160,656	153,948	151,492	136,817	112,211
Customers (End of year)	795,670	782,851	766,730	754,703	742,900
Gas					
Therms (thousands)					
Purchased	704,945	681,169	646,916	728,390	707,685
Company use, distribution losses, stored gas and unaccounted for	1,156	(410)	827	(24,567)	(410)
Total sales	706,101	680,759	647,743	703,823	707,275
Operating revenues (\$000)	191,238	161,177	143,265	122,525	94,956
Operating income before income taxes (\$000)	20,027	18,908	18,963	13,853	12,343
Customers (End of year)	206,032	197,603	191,807	186,329	180,251
Steam Service					
Sales (Millions of pounds)	2,188	2,352	2,193	2,319	2,218
Operating revenues (\$000)	8,570	8,272	7,456	7,319	6,380
Customers (End of year)	585	610	615	625	627

RANGE OF STOCK PRICES AND DIVIDENDS 1978/1979

1978				1979			
Common				Common			
Quarter	Div Per Share	Price Range Composite NYSE		Quarter	Div Per Share	Price Range Composite NYSE	
		High	Low			High	Low
1	\$.53	\$ 31¼	\$ 26¼	1	\$.56	\$ 27	\$ 25¼
2	.56	28¼	26¼	2	.595	26¼	23¼
3	.56	29¼	27¼	3	.595	26¼	24¼
4	.56	28¼	25	4	.595	25¼	22¼
8.90% Series Pfd.				8.90% Series Pfd.			
Quarter	Div Per Share	Price Range Composite NYSE		Quarter	Div Per Share	Price Range Composite NYSE	
		High	Low			High	Low
1	\$2.225	\$107	\$102	1	\$2.225	\$100¼	\$97¼
2	2.225	106	100¼	2	2.225	101	93
3	2.225	106	101¼	3	2.225	103¼	94
4	2.225	104	97¼	4	2.225	95	79¼
7.75% Series Pfd.				7.75% Series Pfd.			
Quarter	Div Per Share	Price Range Composite NYSE		Quarter	Div Per Share	Price Range Composite NYSE	
		High	Low			High	Low
1	\$1.9375	\$.96	\$.92	1	\$1.9375	\$.86	\$.82¼
2	1.9375	.93	.89	2	1.9375	.88	.80¼
3	1.9375	.93	.87	3	1.9375	.89¼	.81¼
4	1.9375	.92¼	.83	4	1.9375	.81	.69
3.60% Series Pfd.				3.60% Series Pfd.			
Quarter	Div Per Share	Over the Counter		Quarter	Div Per Share	Over the Counter	
		Low Bid	High Asked			Low Bid	High Asked
1	\$.90	\$.41	\$.43¼	1	\$.90	\$.36	\$.39
2	.90	.38¼	.42	2	.90	.34¼	.38¼
3	.90	.38¼	.39¼	3	.90	.34¼	.36¼
4	.90	.36¼	.39¼	4	.90	.31¼	.36¼
Six Per Cent. Pfd.				Six Per Cent. Pfd.			
Quarter	Div Per Share	Over the Counter		Quarter	Div Per Share	Over the Counter	
		Low Bid	High Asked			Low Bid	High Asked
1	\$1.50	\$.69¼	No Asked	1	\$1.50	\$.62	\$.64
2	1.50	.66	No Asked	2	1.50	.60	.64
3	1.50	.66	No Asked	3	1.50	.58	No Asked
4	1.50	.62	No Asked	4	1.50	.53	.56
8.80% Series Pfd. (1)				8.80% Series Pfd. (1)			
Quarter	Div Per Share	Price Range Over the Counter		Quarter	Div Per Share	Price Range Over the Counter	
		High	Low			High	Low
1	\$ —	—	—	1	\$1.8822	\$100	\$97¼
2	—	—	—	2	2.20	99	97¼
3	—	—	—	3	2.20	101	93¼
4	—	\$100¼	\$98¼	4	2.20	93¼	80¼

The Company has paid all regular quarterly dividends on preferred stocks outstanding since 1900 and on the Common Stock since 1942.

(1) On December 14, 1978, the Company issued 600,000 shares of Preferred Stock, 8.80% Series.

Stock Transfer Agents

Common Stock, Six Per Cent. Preferred Stock and \$100 Par Value Serial Preferred, 3.60% Series, 8.90% Series, 7.75% Series and 8.80% Series

Peter Sirko
231 W. Michigan Street
P.O. Box 2046
Milwaukee, WI 53201

Common Stock and \$100 Par Value Serial Preferred Stock, 8.90% Series, 7.75% Series and 8.80% Series

Manufacturers Hanover Trust Company
4 New York Plaza
New York, NY 10015

Stock Registrars

Common Stock

First Wisconsin Trust Company
777 E. Wisconsin Avenue
Milwaukee, WI 53202
Manufacturers Hanover Trust Company
4 New York Plaza
New York, NY 10015

Six Per Cent. Preferred Stock

M&I Marshall & Ilsley Bank
770 N. Water Street
Milwaukee, WI 53202

\$100 Par Value Serial Preferred Stock, 3.60% Series

First Wisconsin Trust Company
777 E. Wisconsin Avenue
Milwaukee, WI 53202

\$100 Par Value Serial Preferred Stock, 8.90% Series, 7.75% Series and 8.80% Series

M&I Marshall & Ilsley Bank
770 N. Water Street
Milwaukee, WI 53202
Manufacturers Hanover Trust Company
4 New York Plaza
New York, NY 10015

Stock Listing and Trading

Common Stock and \$100 Par Value Serial Preferred Stock, 8.90% Series and 7.75% Series are listed and traded on the New York Stock Exchange.

Six Per Cent. Preferred Stock and \$100 Par Value Serial Preferred Stock, 3.60% Series and 8.80% Series are traded on an over-the-counter basis.

The Company's trading symbol on the New York Stock Exchange is WPC.

A copy of Wisconsin Electric's
1979 10-Year Statistical Report is
available by writing the
Corporate Secretary, J. H. Goetsch,
231 W. Michigan St.,
P.O. Box 2046, Milwaukee, WI 53201

DIRECTORS

FREDERICK M. BELMORE

Corporate Director and Consultant. Formerly Chairman of the Board of Directors, Will Ross Inc. (manufacturer and distributor of hospital and laboratory supplies and equipment), subsidiary of G. D. Searle & Co., and Vice President, G. D. Searle & Co.

RUSSELL W. BRITT

Executive Vice President of the Company

SOL BURSTEIN

Executive Vice President of the Company

RICHARD L. JOHNSON

President of the Menasha Corp. (manufacturer of paperboard, corrugated containers and plastic products and manager of timber)

CHARLES S. McNEER

President and Chief Executive Officer of the Company

DONALD K. MUNDT

Executive Vice President, The Northwestern Mutual Life Insurance Co.

JOHN P. REEVE

Retired. Formerly President and Chief Executive Officer, Appleton Papers (manufacturer of pulp, paper and coated papers), then a Division of NCR Corp., and former Vice President, NCR Corp.

MORRIS W. REID

Independent Management Consultant. Formerly Chairman of the Board of Directors of J. I. Case Co. (manufacturer of construction and farm machinery), subsidiary of Tenneco Corp.

JON G. UDELL

Irwin Mael Professor of Business, the University of Wisconsin in Madison

Members of the Executive Committee are directors Belmore, Johnson, McNeer, Reeve and Udell. All other directors are alternate members.

Members of the Audit Committee are directors Belmore, Johnson, Mundt, Reeve, Reid and Udell.

Members of the Compensation Committee are directors Belmore, Johnson and Reeve.

Members of the Nominating Committee are directors Belmore, McNeer and Reeve.

OFFICERS

CHARLES S. McNEER (53;29)

President and Chief Executive Officer

RUSSELL W. BRITT (53;31)

Executive Vice President

SOL BURSTEIN (57;14)

Executive Vice President

THOMAS J. CASSIDY (55;33)

Senior Vice President

NICHOLAS A. RICCI (55;32)

Senior Vice President

ROBERT H. GORSKE (47;15)

Vice President and General Counsel

JOHN H. McLEAN (55;26)

Vice President-Customer Relations

HUBERTO R. PLATZ (51;13)

Vice President-Engineering and Construction

PHILIP G. SIKES (62;28)

Vice President-System Operations

RICHARD E. SKOGG (51;28)

Vice President-Operating Services

JOHN E. SPEAKER (49;3)

Vice President-Communications

NORMAN C. STORCK (64;42)

Vice President-Division Operations

JOHN H. GOETSCH (46;21)

Secretary

JERRY G. REMMEL (48;24)

Treasurer

RICHARD R. PILTZ (39;15)

Controller

JOHN W. FLEISSNER (55;9)

Assistant Secretary

DAWN L. FREITAG (28;3)

Assistant Secretary

GORDON A. WILLIS (41;18)

Assistant Treasurer

GEORGE W. BOMIER (56;25)

Vice President and General Manager
Wisconsin Natural Gas Company

Figures in parentheses indicate age and years of service

