WISCONSIN ELECTRIC POWER COMPANY
1981
ANNUAL REPORT

People serving people

8204230435

People serving people

It is more difficult to be a utility employe today than it was in years past. Our business, which operated quietly, efficiently and relatively out of the public eye for many years, increasingly has become a focal point of attention from an energy-conscious society.

Our employes are personal representatives of Wisconsin Electric and Wisconsin Natural Gas to the people they meet, most of whom also are our customers. They are on the firing line every day on behalf of their companies—even when not on the job.

In other ways, our employes are like everyone else. They are people with the same hopes, the same dreams, the same needs. They are people with a single-minded dedication to doing their jobs at the highest level of professionalism—in the best interests of the 2 million people they serve.

The people on the cover of this year's annual report, some of whom you'll meet elsewhere in this publication, are just a few of the more than 6,000 employes of Wisconsin Electric and Wisconsin Natural. They are people serving people in the finest tradition of public service.

We dedicate this annual report to them.

Business of the Company

Wisconsin Electric Power Co. is engaged principally in the generation, transmission, distribution and sale of electric energy in a territory consisting of approximately 12,600 square miles in southeastern Wisconsin, including the metropolitan Milwaukee area, the east central and northern portions of Wisconsin and the Upper Peninsula of Michigan. The operating area has an estimated population of over 2 million.

The company owns all the common stock of Wisconsin Natural Gas Co., which purchases natural gas from Michigan Wisconsin Pipe Line Co., then distributes and sells it in two service areas: west and south of Milwaukee, and in the Appleton area. The gas service territory which has an estimated population of over 800,000 is mainly within the electric service area of the company.

The executive offices of the company are located at 231 W. Michigan St., P.O. Box 2046, Milwaukee, WI 53201, telephone (414) 277-2345.

Highlights

	1981	1980	Per Cent Increase (Decrease)
Earnings per Share of Common Stock	**$4.39**	$3.53	24.4
Dividends per Share of Common Stock	**$2.64**	$2.485	6.2
Total Operating Revenues	**$1,152,383,000**	$1,007,145,000	14.4
Earnings Available for Common Stockholders	**$ 90,415,000**	$ 68,968,000	31.1
Average Number of Common Shares Outstanding	**20,596,000**	19,542,000	5.4
Electric Sales to Retail, Municipal and Cooperative Customers (thousand KWH)	**17,399,450**	17,551,159	(0.9)
Gas Sales (thousand therms)	**652,171**	693,675	(6.0)
Retail, Municipal and Cooperative Customers (year-end) Electric	**812,834**	806,322	0.8
Gas	**215,520**	212,279	1.5

Annual Meeting
The annual meeting of Wisconsin Electric Power Co. stockholders will be held at 2 p.m. on May 4, 1982 at the Public Service Building, 231 W. Michigan St., Milwaukee, Wis. In order to ensure your participation in the annual meeting, we encourage you to vote, sign and return your proxy promptly.

Report to the Stockholders

Wisconsin Electric recorded a solid financial performance in 1981 despite the effects of the recession which slowed industrial production in the company's service area and the nation. Revenues for the year increased 14 percent over 1980, and earnings per share of common stock rose from $3.53 in 1980 to $4.39 in 1981.

Common stock dividends increased from $2.48½ a share in 1980 to $2.64 in 1981, continuing a long-term growth pattern. It was the 21st consecutive year in which common stock dividend payments have risen.

The increase in earnings is particularly gratifying and is due primarily to rate increases and a continuing program to control operating expenses. Electric, gas and steam rate increases granted in 1981 amounted to $160 million on an annual basis.

In the past year, the company instituted new procedures designed to minimize the financial impact caused by the lengthy regulatory review of rate cases. These include longer-term budgeting which allows rate increase applications to be filed well in advance of the year for which they are needed. The rate adjustments which became effective in 1981, and a $63 million increase approved by the Public Service Commission of Wisconsin in January 1982, represent significant steps in the company's program to reduce "regulatory lag."

In last year's annual report, I noted that Wisconsin Electric was financially strong and well-positioned to meet the future energy needs of our customers. That statement continues to be true today and the strong 1981 results demonstrate the company's ability to rebound sharply from a disappointing performance in 1980.

There are several factors which set Wisconsin Electric apart from most of the nation's utilities and enhance the company's future prospects. First is the favorable fuel mix used in the generation of electricity. More than 95 percent of the electric energy generated by the company last year was produced at coal and nuclear plants. More expensive fuels—oil and natural gas—are used to generate electricity only at times of peak demand. This major reliance on dependable domestic fuel sources is responsible for our electric rates being among the lowest of the nation's largest cities.

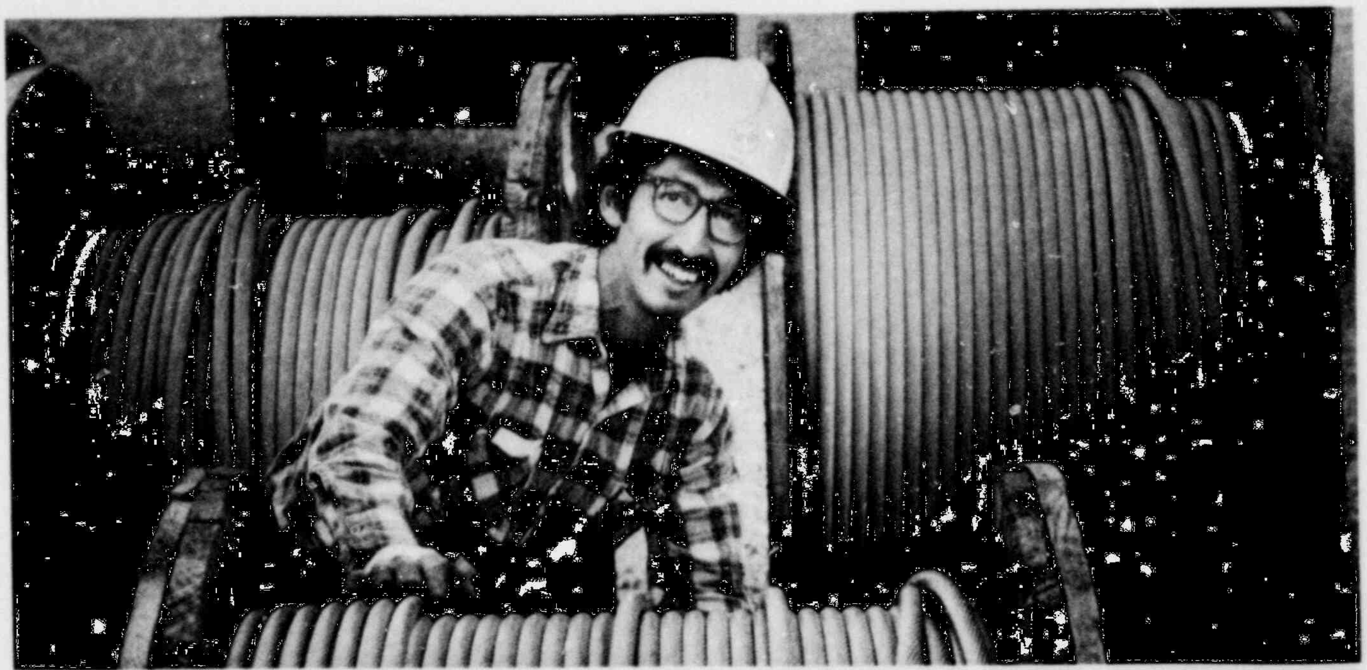
A second and equally important factor is the manageable size of our construction program. At present, construction continues on Unit 2 at the coal-fired Pleasant Prairie Power Plant, planned for 1984 operation. We own a 25 percent interest in a coal plant being built by another Wisconsin utility with scheduled completion in 1985. Beyond that, we do not expect to bring additional power plant capacity on line until 1992. Because our future construction needs are moderate, we expect to raise almost 70 percent of our capital requirements from internal sources during the next five years.

We remain committed to programs designed to control growth in the peak demand for electricity in order to defer the need for new power plants. These programs include the aggressive promotion of conservation, comprehensive load management activities and rate structures which are based on a reasonable allocation of costs. Wisconsin Electric first instituted load control programs in the mid-1970s and has been a leader in developing load management strategies. The success of these programs has been apparent in the slower peak demand growth pattern, which has substantially reduced future construction requirements.

Our natural gas business, which last year accounted for 24 percent of system revenues, also provides balance to company operations. The long-term gas outlook is favorable, with adequate supplies available for present and future customer needs.

Management will continue to seek innovative approaches to improve

Jose Monreal (top photo), Pewaukee Central Stores, takes inventory of reels of cable. JoEllen Federman (bottom photo), telephone accounts clerk, handles customer questions.



your investment while maintaining dependable, reasonably-priced utility services for our customers. One such approach was announced in 1981 when the Board of Directors approved plans to establish a new holding company to pursue diversification into new business areas. Plans for the holding company have been delayed, however, until the Public Service Commission of Wisconsin states the extent of its jurisdiction over the proposed corporate restructuring. The commission intends to establish rules for holding company formation, and we are awaiting the commission's final action to determine what further steps should be taken.

The recession had a significant impact on business conditions in our service area in 1981, with manufacturing operations the most adversely affected. As a result, electric kilowatt-hour sales were down 1 percent from 1980, and gas sales declined 6 percent.

We believe the opportunity exists for significant economic growth in the nation and in our service area. The initiatives undertaken by the federal administration are encouraging, particularly those aimed at controlling inflation and streamlining restrictive regulatory policies. At the state level, the inherent strengths of our service area—an experienced, productive work force and a diversified industrial base—must be fully utilized and further developed. This will require cooperation between business, government and labor to improve productivity, stimulate new ventures and create jobs. Particularly important is the need for increased understanding by governmental leaders of the role which business can play in stimulating the economy. We pledge to work closely with all concerned to assure the sound development of our service area.

The management of Wisconsin Electric looks to the future with confidence and optimism. With an ample energy supply and a moderate construction program, we will be able to provide the dependable, reasonably priced utility services our customers will need in the 1980s and beyond.

Charles S McNeer

March 12, 1982 Charles S. McNeer

Jerry Sullivan (left), substation electrician, checks equipment at the new Everett Substation. Art Flowers (right), educational services specialist, instructs a kindergarten class on electrical safety.

Load Control Programs Show Results

Direct and significant benefits for both stockholders and customers were realized during 1981 through Wisconsin Electric's efforts to control growth in peak electricity demand.

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

An important part of this load control program is a load management system which permits the company to selectively and remotely turn off customers' electric water heaters for short periods during times of heavy demand. We have been a pioneer in this activity, and the company's program is one of the largest of its kind in the nation.

More than 75,000 water heater control units have been installed and eventually we expect to have more than 100,000 water heaters connected to this system. Participation in the program is voluntary, and those who do take part receive a $4.50 monthly credit on their electric bills.

This load management program is a less expensive alternative to building new generating facilities or operating an expensive peaking plant to meet peak load.

Promotion of energy conservation is another part of our load control activities. This was accomplished in 1981 through media advertising, as well as through conservation messages in booklets, bill enclosures, special presentations and individual contacts.

More Energy Surveys Planned

During 1981, Wisconsin Electric and Wisconsin Natural Gas energy auditors performed more than 16,700 home surveys, bringing to 45,000 the number of audits conducted since the program began in 1977. This activity is expected to accelerate in 1982 as the companies plan to complete an additional 28,600 home energy checkups. Energy auditors make recommendations on insulation, storm windows and doors, weatherstripping, caulking, thermostat settings, timing devices and appliance efficiency.

Effective energy conservation has helped the average residential heating customer of Wisconsin Natural reduce consumption almost 25 percent

Line mechanic Gerald Liebetrau (top photo) helps maintain electric service in the West Bend area. Computer operator Faye Mirr (bottom photo) supplies and stores countless bits of company information.

in the past eight years, making the gas saved available for use by other customers. In addition to promoting energy conservation, customers are encouraged to consider new high-efficiency gas furnaces and "add-on" heat pumps. Research also continues on stored cooling as a method of saving energy and reducing summer peak demands for electricity.

Time-Of-Use Rates Expanded

During the past few years, a number of changes in rates have been implemented to more accurately reflect the economics of providing energy. Time-of-use rates, which price electricity higher on weekdays and less at night and on weekends, have been expanded since they were introduced in 1978, first with mandatory time-of-use for large-use residential and commercial customers, and more recently in a voluntary program for residential customers. More than 11,000 residential customers are now on time-of-use rates, in addition to all industrial and major commercial customers. By the end of 1982, we expect to have 17,000 customers on these rates. More significantly, in 1981 about 50 percent of the kilowatt-hours sold by the company were billed on time-of-use rates—one of the highest percentages in the country.

Seasonal pricing has also been a part of all Wisconsin Electric residential, industrial and commercial rates since 1978. The seasonal differential in these rates, however, has been reduced substantially because of the cost efficiencies which have resulted from on-peak conservation and lower growth in peak demand. Four years ago, there was a 50 percent differential between summer and winter rates. In early 1982, the Public Service Commission of Wisconsin approved our plan to reduce the differential to 10 percent. Our current rate application seeks a further reduction.

Construction Program Reduced

Because of the success of our load control programs and continued customer conservation, dramatic reductions have been made in the company's construction program. Just five years ago we planned to build seven new power plant units in the 1980s. Now our forecast shows that only three of those units will be needed. One of these units has been completed and the other two already are under construction. Additional generating facilities will not be needed until 1992.

Supervisor Greg Brown (left) checks modifications at WN's Liquefied Natural Gas facility. Linda House (right), assistant fuel equipment operator, helps feed the Pleasant Prairie plant's huge appetite for coal.

By deferring the costs of financing and the building of new generating plants, significant benefits have been realized by both stockholders and customers. Stockholders benefit generally because lower costs maintain the financial strength of the company and improve earnings potential. Customers benefit because rates can be held at levels lower than would be necessary if the additional capacity had to be built.

By reducing the need for new plants, we have been able to lower projected construction spending in this decade by more than $1.5 billion.

Pleasant Prairie Unit 1, a 580,000-kilowatt coal-fired unit, went on line in 1980, and its twin, Unit 2, will be operating in 1984. The only other capacity addition scheduled in the 1980s will come from the company's one-quarter share of a 380,000-kilowatt coal-fired power plant being built by Wisconsin Power and Light Co. That unit is scheduled to operate in 1985.

Coal and Nuclear Provide Balanced Mix

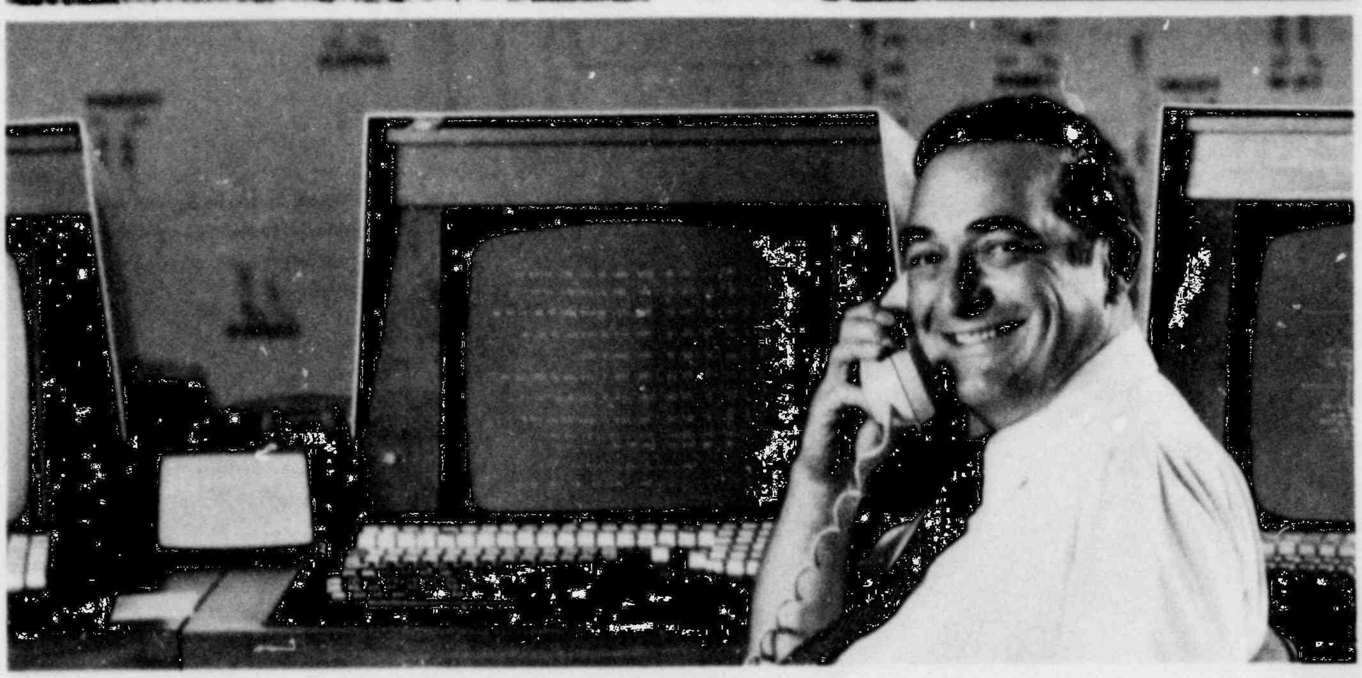
Coal and uranium continue to be the chief fuels used at Wisconsin Electric power plants for the generation of electricity. In 1981, the company produced 59 percent of its electric energy with coal, 36 percent with nuclear energy, 3 percent at hydroelectric plants and only 2 percent with gas and oil. We expect to continue this favorable fuel mix which depends principally on more reliable domestic energy sources.

The contribution made to our system by the two-unit Point Beach Nuclear Plant continues to be a major factor in keeping Wisconsin Electric rates competitive with other parts of the nation. Point Beach produces the lowest-cost electricity on our system, except for hydroelectric, and it has regularly been rated as one of the nation's most efficient nuclear plants. Our customers have already saved more than $400 million with energy from Point Beach compared to electricity produced from a coal-fired plant of similar size, and the savings are accumulating at the rate of more than $60 million a year.

Alternate Energy Research Continues

Wisconsin Electric continues to explore the potential of alternate energy sources. Our customers have expressed a high level of interest in the company's program to install residential solar water heater units and 265 of these units are now in operation. The program, largest of its kind

Joanne Schmitz (top photo) runs a laboratory test at Point Beach Nuclear Plant. Power system supervisor Ron Meleski (bottom photo) maintains close control of the company's generation and customer needs.



in Wisconsin, was established to explore the potential for solar heating in the company's service area.

Another project started during the year reflects the company's commitment to investigate and analyze the potential for small wind and photovoltaic generating systems. The first wind generator to produce electricity on the Wisconsin Electric System has been in service at the Point Beach Energy Information Center since 1979. A more modern, larger 10-kilowatt unit was installed at our Waukesha Service Center in 1981. A photovoltaic system—a series of cells capable of producing small amounts of electricity directly from sunlight—will be installed at our service center in Appleton in the spring of 1982. Three more wind generators and two additional photovoltaic systems will be installed at various company facilities as part of a three-year demonstration project.

Gas Supplies Continue Strong

An ample supply of natural gas is available for the customers of our subsidiary, Wisconsin Natural Gas Co., and for potential future customers as well. WN's pipeline supplier has pursued an active and successful gas acquisition program. These new supplies, coupled with lower market projections by the pipeline company, ensure adequate amounts of natural gas to meet our subsidiary's requirements.

Consumer Functions Expanded

Consumer relations functions at Wisconsin Electric were combined and expanded during the year in a newly formed Consumer Affairs Department.

Existing consumer information efforts were consolidated and additional programs developed to respond to consumer concerns. The department's responsibility centers on consumer information and customer assistance as part of the company's program to assist consumers in making better use of energy services. Included in the new department is the Energy Facts Phone service, which provides customers with quick access to a tape library of energy information.

Company Officer Named

Carlyle W. Fay was appointed assistant vice president of the company, effective Jan. 1, 1982. He continues as director of the Nuclear Power Department.

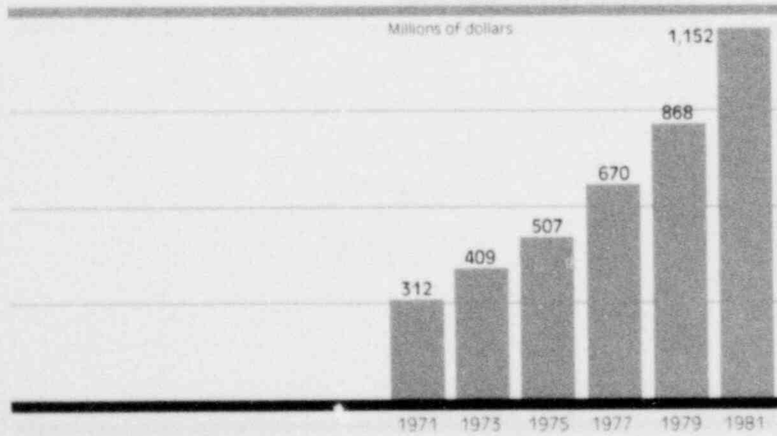
Management's Discussion
and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

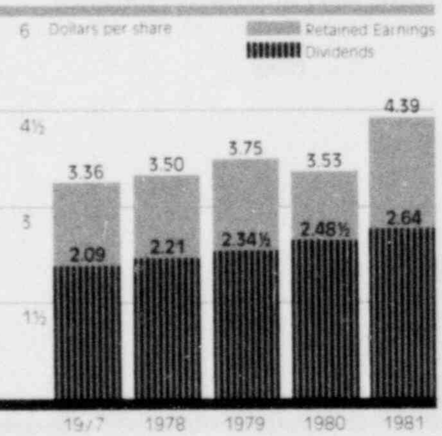
Wisconsin Electric Power Co.'s capital requirements for the three years ended Dec. 31, 1981 totaled $848 million. Eighty-three percent of this amount was for construction of new or improved facilities, 12 percent for acquisition of nuclear fuel, 3 percent for retirement of long-term debt and 2 percent for increases in working capital. The company acquired $432 million, or 51 percent, of its capital requirements during this period through internal sources of cash. Such internal sources of cash consisted principally of depreciation accruals, normalization of investment tax credits and retained earnings. The remaining $416 million of the company's capital requirements during the period was supplied through the issue of $224 million of additional first mortgage bonds, $25 million of additional preferred stock, $62 million of additional common stock, sale and leaseback of $90 million of nuclear fuel, $14 million from contributions in aid of construction and $1 million from other sources. All sales of common stock during the period were made through either the company's Automatic Dividend Reinvestment and Stock Purchase Plan or its Tax Reduction Act Stock Ownership Plan.

At Dec. 31, 1981, the company's long-term capitalization consisted of 46 percent long-term debt, 11 percent preferred stock and 43 percent common equity. The company's short-term indebtedness at that date consisted of $19,982,000 of notes payable to banks and $59,119,000 of long-term debt due within 12 months. Short-term debt, including long-term debt due currently, and leased nuclear fuel were equal to 5 percent and 4 percent, respectively, of long-term capitalization. The company also, on that date, had $38.9 million of short-term investments available, which could be used to finance a portion of the company's anticipated capital requirements, as well as $117,350,000 in lines of bank credit available to support the issuance of commercial paper. The company has

Total Operating Revenues



Earnings per Share of Com. Stock

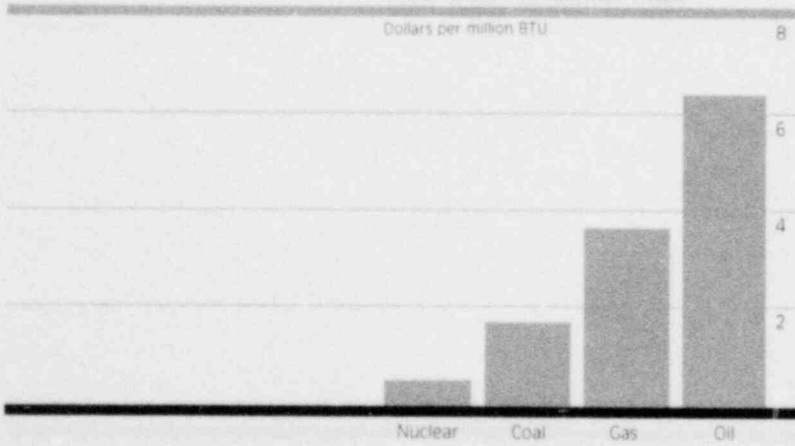


a nuclear fuel lease with a trust which issues commercial paper backed by a line of revolving bank credit of $75 million. The line of revolving bank credit would generally be available to finance the trust's ownership of the nuclear fuel for a period of three years if the trust were unable to sell its commercial paper. The company is in effect the ultimate guarantor of the commercial paper and the revolving bank credit. At Dec. 31, 1981, the trust had $64,740,000 of commercial paper outstanding.

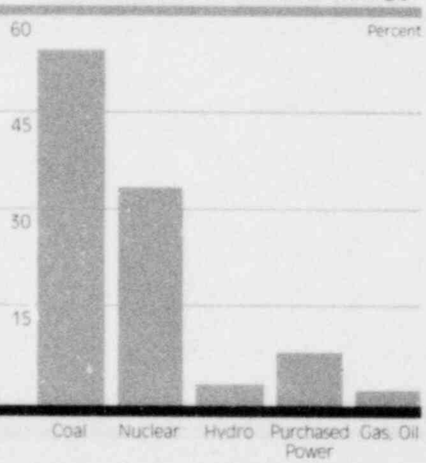
The company currently estimates that for the years 1982 through 1986 its capital requirements will aggregate $1.3 billion. Estimated construction expenditures constitute 74 percent of these capital requirements and include $112 million for completion of the 580-megawatt Unit 2 at Pleasant Prairie Power Plant, $47 million for the 25 percent interest in the 380-megawatt Edgewater Unit 5 which is being constructed by Wisconsin Power and Light Co. and $20 million for expenditures on generating plants to be completed in 1992 and subsequent years. The other estimated construction expenditures are primarily for additions to and replacements of portions of the distribution and transmission system, for new service centers and for other buildings and equipment. The balance of capital requirements during this period is principally for the retirement of maturing long-term debt.

The company believes that it will be able to obtain capital in sufficient amounts to meet its capital requirements over the five years ending Dec. 31, 1986 provided that adequate rate relief can be obtained from regulatory authorities to permit the company to maintain its credit worthiness during the period. The company expects to provide 69 percent of its capital requirements during this period from internal sources. The remaining 31 percent of the company's capital requirements during this period are expected to be met through a combination of the sale of long-term debt and preferred stock, the sale of common stock through

Unit Costs of Fuel in 1981



1981 Sources of Electric Energy



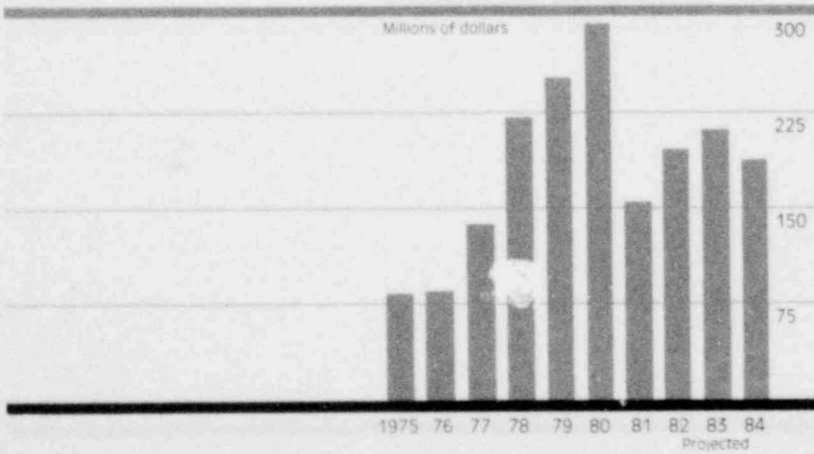
the company's stock plans and the additional leasing of fuel. Market conditions will influence the timing and amount of any security issue. No public offerings of common stock other than through the company's stock plans are anticipated during these five years. The company's financing plan for these five years contemplates a capitalization structure consisting of 40-50 percent long-term debt, 10-15 percent preferred stock and 40-45 percent common equity. Short-term debt and leased nuclear fuel are expected to aggregate approximately 5 percent of capitalization during this period.

The company's embedded cost of long-term debt was 6.72 percent at Dec. 31, 1978 and had climbed to 8.17 percent at Dec. 31, 1981. Long-term debt issued in recent years was substantially more costly than debt issued prior to Dec. 31, 1978. The company anticipates that its embedded costs of debt and preferred stock will continue to rise during the five years ending Dec. 31, 1986 as maturing debt is replaced by securities which have higher costs.

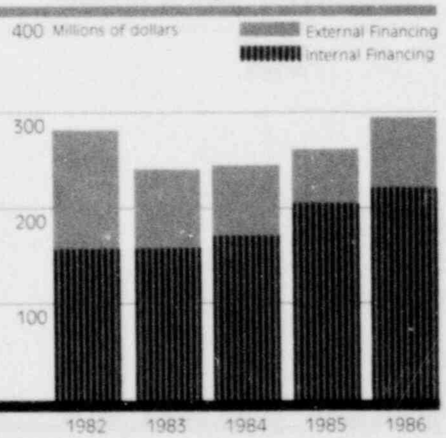
Results of Operations

Earnings per share of common stock rose to $4.39 in 1981 from the depressed level of $3.53 in 1980, due principally to increased revenue and continued close control of operating expenses. Rate increases totaling $160 million, on an annual basis, were granted in 1981. The company estimates that, of this amount, $96 million was included in 1981 revenues since the rate orders were received at various times throughout the year. The impact on earnings of the higher rates was offset slightly by lower unit sales. Electricity sales to retail and municipal customers declined by 1 percent in 1981 from 1980, and gas sales declined by 6 percent from 1980 levels, reflecting the slower economic activity in the company's service area and continued conservation efforts

Construction Expenditures



Sources of Capital (Estimated)



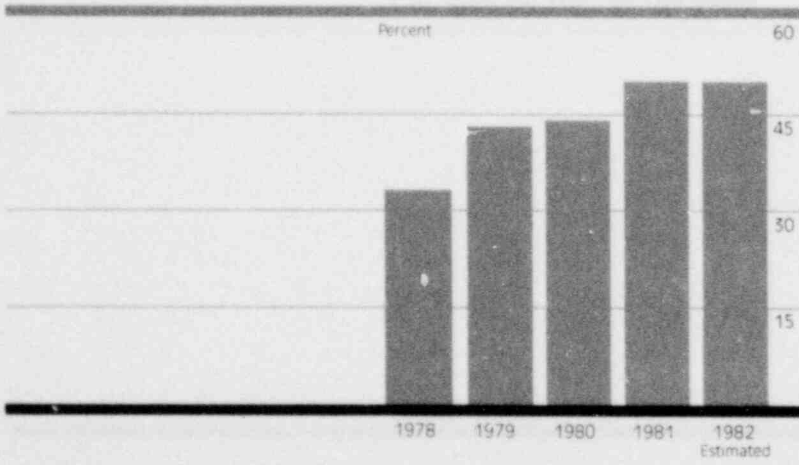
by customers. The decline in gas therm sales also reflects milder weather.

For the three years ended Dec. 31, 1981, sales of electricity were essentially flat, while the cost of fuel and purchased power grew at a compound annual rate of 11.3 percent. Other operating expenses increased at a rate of 14.6 percent. General rate increases account for approximately 75 percent of the increase in electric revenues. The balance reflects principally the recovery of increases in fuel costs through fuel adjustment clauses in the company's tariffs.

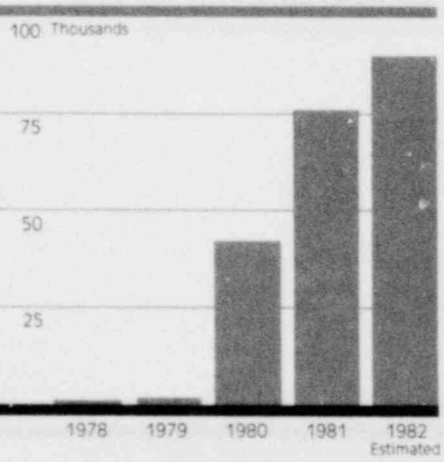
Over the same three-year period, gas sales decreased 4.2 percent. Gas operating expenses advanced at a compound annual rate of 20.6 percent due primarily to the rapid increase in the price of purchased natural gas. However, virtually all of the increase in purchased gas expenses was recovered in revenues through purchased gas adjustment clauses. In addition, the increase in gas revenues reflects to a lesser extent rate relief granted in the third quarter of 1981.

The company anticipates that, assuming an uptrend in the economy, sales of electricity will grow at a compound annual rate of 2.4 percent over the five years ending Dec. 31, 1986. That rate assumes continued conservation by customers, a practice endorsed by the company. The company expects little change in sales of natural gas over the next five years. Costs of operations and of capital are expected to continue to increase because of inflation. The financial viability of the company will be dependent upon regulatory bodies granting prompt rate increases from time to time to meet rising costs for materials, taxes, wages and capital, and on the company continuing to recover costs of fuel, purchased power and purchased gas through its adjustment clauses. For supplementary information concerning the effects of inflation, see Note N to the Financial Statements.

% of Sales on Time-of-use Rates



Customers on Load Management



Income Statement • Year ended December 31

(Thousands of Dollars)

	1981	1980	1979
Operating Revenues			
Electric	$ 869,977	$ 761,051	$ 667,757
Gas	273,065	237,932	191,238
Steam	9,341	8,162	8,570
Total Operating Revenues	1,152,383	1,007,145	867,565
Operating Expenses			
Fuel (Note A)	256,045	215,604	179,050
Purchased power	30,509	63,203	67,863
Gas purchased for resale	224,651	190,598	143,844
Other operation expenses (Note B)	172,120	158,426	133,442
Maintenance	85,664	78,095	66,824
Taxes other than income taxes	44,576	35,249	34,464
Depreciation (Note C)			
Straight line	78,600	68,849	59,855
Deferred income taxes (Note D)	29,192	22,081	17,192
Federal income tax (Note D)	33,676	1,316	12,452
Investment tax credit adjustments—net (Note D)	15,581	32,024	27,657
State income tax (Note D)	9,601	2,623	6,981
Total Operating Expenses	980,215	868,068	749,624
Operating Income	172,168	139,077	117,941
Other Income and Deductions			
Interest income	7,156	3,897	2,491
Allowance for other funds used during construction (Note E)	3,155	5,330	7,535
Discount on purchase of bonds for sinking fund	816	640	499
Miscellaneous—net	(967)	(830)	(314)
Federal income tax (Note D)	(2,852)	(2,274)	(1,465)
State income tax (Note D)	(515)	(378)	(242)
Total Other Income and Deductions	6,793	6,385	8,504
Income Before Interest Charges	178,961	145,462	126,445
Interest Charges			
Long term debt	65,344	52,304	40,875
Allowance for borrowed funds used during construction (Note E)	(3,557)	(8,338)	(6,165)
Other	11,672	19,008	9,203
Total Interest Charges	73,459	62,974	43,913
Net Income	105,502	82,488	82,532
Preferred Stock Dividend Requirement	15,087	13,520	12,368
Earnings Available for Common Stockholders	$ 90,415	$ 68,968	$ 70,164
Average Number of Shares of Common Stock Outstanding (Thousands)	20,596	19,542	18,705
Earnings Per Share of Common Stock	$4.39	$3.53	$3.75

The notes on pages 24 through 29 are an integral part of the financial statements.

Statement of Changes in Financial Position • Year ended December 31

(Thousands of Dollars)

	1981	1980	1979
Financial Resources Provided			
Operations			
Net income	**$105,502**	$ 82,488	$ 82,532
Depreciation—straight line	**78,600**	68,849	59,855
—deferred income taxes	**29,192**	22,081	17,192
Accumulated deferred investment tax credits	**12,954**	27,331	23,598
Nuclear fuel expense	**7,573**	8,431	12,767
Amortization of precertification expenditures	**8,358**	5,906	—
Allowance for funds used during construction	**(6,712)**	(13,668)	(13,700)
Total from operations	**235,467**	201,418	182,244
Common stock	**25,260**	21,767	14,864
Preferred stock	**—**	24,906	—
Long term debt	**—**	148,970	75,525
Sale of nuclear fuel	**23,042**	66,501	—
Release of construction funds held by trustees	**2,578**	20,633	10,695
Normalization of income taxes—precertification expenditures	**(4,141)**	9,939	—
Short term borrowings	**—**	—	108,559
Contributions in aid of construction	**5,643**	3,652	4,259
Deferred charges and other	**(10,558)**	5,355	1,004
	$277,291	$503,141	$397,150
Financial Resources Used			
Construction expenditures	**$154,814**	$294,102	$252,258
Nuclear fuel	**32,813**	31,260	37,362
Dividends	**69,262**	61,763	55,962
Retirement of long term debt	**3,675**	15,107	9,511
Reduction of short term borrowings	**55,062**	58,978	—
Construction funds held by trustees	**—**	—	23,447
Increase (decrease) in working capital (other than short term borrowings and long term debt due currently)	**(38,335)**	41,931	18,610
	$277,291	$503,141	$397,150
Increase (Decrease) in Components of Working Capital			
Cash and temporary cash investments	**$39,027**	$(10,877)	$ 7,277
Accounts receivable and accrued utility revenues	**14,078**	22,482	13,430
Fossil fuel	**(16,283)**	40,550	12,514
Accounts payable and accrued liabilities	**(70,892)**	(19,630)	(23,610)
Other	**(4,265)**	9,406	8,999
	$(38,335)	$ 41,931	$ 18,610

The notes on pages 24 through 29 are an integral part of the financial statements

Balance Sheet • December 31

	(Thousands of Dollars)	
Assets	**1981**	1980
Utility Plant		
Electric	**$2,114,435**	$2,027,080
Gas	**206,838**	195,976
Steam	**18,483**	18,113
	2,339,756	2,241,169
Accumulated provision for depreciation	**(913,402)**	(809,750)
	1,426,354	1,431,419
Construction work in progress	**266,546**	218,186
Nuclear fuel (Note A)	**46,976**	46,533
Net Utility Plant	**1,739,876**	1,696,138
Nonutility Property	**7,899**	7,496
Accumulated provision for depreciation	**(1,006)**	(633)
Net Nonutility Property	**6,893**	6,863
Construction Funds Held by Trustees	**1,694**	4,272
Current Assets		
Cash	**5,374**	2,546
Temporary cash investments	**38,900**	2,701
Accounts receivable (Note F)	**52,443**	59,063
Accrued utility revenues	**107,347**	86,649
Fossil fuel (at average cost)	**83,446**	99,729
Materials and supplies (at average cost)	**40,349**	44,129
Prepayments and other assets	**5,572**	6,057
Total Current Assets	**333,431**	300,874
Deferred Charges and Other Assets	**34,176**	22,094
	$2,116,070	$2,030,241

The notes on pages 24 through 29 are an integral part of the financial statements.

(Thousands of Dollars)

Liabilities	1981	1980
Capitalization (See Capitalization Statement)		
Common Stock Equity (Note G)	**$ 690,186**	$ 628,707
Preferred Stock—Redemption Not Required (Note H)	**160,451**	160,451
Preferred Stock—Redemption Required (Note I)	**25,000**	25,000
Long Term Debt (Note J)	**732,631**	793,905
Total Capitalization	**1,608,268**	1,608,063
Current Liabilities		
Long term debt due currently (Note J)	**59,119**	2,137
Notes payable to banks (Note K)	**19,982**	19,982
Commercial paper (Note K)	**—**	55,062
Accounts payable	**98,366**	89,562
Payroll and vacation accrued	**13,410**	11,209
Taxes accrued—income and other	**72,176**	28,131
Interest accrued	**19,195**	17,041
Customer deposits	**2,218**	2,205
Other	**20,615**	6,940
Total Current Liabilities	**305,081**	232,269
Deferred Credits and Other Liabilities		
Accumulated deferred investment tax credits	**113,839**	100,885
Nuclear fuel costs accrued	**30,578**	29,369
Unamortized accrued utility revenues	**21,111**	25,334
Other	**5,656**	8,427
Total Deferred Credits and Other Liabilities	**171,184**	164,015
Contributions in Aid of Construction	**31,537**	25,894
Commitments and Contingencies (Note M)		
	$2,116,070	$2,030,241

The notes on pages 24 through 29 are an integral part of the financial statements.

Capitalization Statement • December 31

	1981	1980
	(Thousands of Dollars)	
Common Stock Equity (Note G)		
Common Stock ($10 par value; authorized 41,000,000 shares; 21,154,973 and 20,067,779 shares issued)	**$ 211,550**	$ 200,678
Premium on Capital Stock	**170,374**	155,986
Retained Earnings	**308,262**	272,043
Total Common Stock Equity	**690,186**	628,707
Preferred Stock—Wisconsin Electric Power Company, Cumulative		
Six Per Cent. Preferred Stock—$100 par value; authorized 45,000 shares; 44,508 shares issued	**4,451**	4,451
Serial Preferred Stock—$25 par value, authorized 5,000,000 shares; unissued	**—**	—
Serial Preferred Stock—$100 par value, authorized 2,360,000 shares		
3.60% Series—260,000 shares issued	**26,000**	26,000
8.90% Series—400,000 shares issued	**40,000**	40,000
7.75% Series—300,000 shares issued	**30,000**	30,000
8.80% Series—600,000 shares issued	**60,000**	60,000
Total Preferred Stock—Redemption Not Required (Note H)	**160,451**	160,451
10.875% Series—250,000 shares issued, redeemable at par	**25,000**	25,000
Total Preferred Stock—Redemption Required (Note I)	**25,000**	25,000

Long Term Debt (Note J)
First Mortgage Bonds

Series Due	1981	1980	Series Due	1981	1980	1981	1980
Wisconsin Electric Power Company							
3¼%—1982	**$ 9,119**	$ 9,220	6⅞%—1998	**$ 33,698**	$ 33,771		
10.20%—1982	**50,000**	50,000	6.10%—1999-2008	**25,000**	25,000		
3⅛%—1984	**15,065**	15,275	6.25%—1999-2008	**1,000**	1,000		
3⅞%—1986	**21,420**	21,778	7¼%—1999	**38,986**	38,988		
13¾%—1986	**30,000**	80,000	8⅜%—1999	**39,550**	39,552		
11.40%—1987	**70,000**	70,000	6.45%—2004	**12,000**	12,000		
4⅛%—1988	**22,426**	22,789	8¾%—2006	**60,000**	60,000		
5%—1990	**26,701**	26,756	6.45%—2006	**4,000**	4,000		
5⅞%—1996	**28,014**	28,041	6.50%—2007-2009	**10,000**	10,000		
6⅞%—1997	**37,907**	37,959	8⅞%—2008	**80,000**	80,000		
				664,886	666,129		
Former Wisconsin Michigan Power Company (merged with company in 1977)							
3⅝%—1981	**—**	2,137	5⅞%—1996	**9,241**	9,251		
3⅛%—1984	**2,112**	2,112	6½%—1997	**11,512**	11,539		
4¾%—1991	**3,620**	3,623	6⅝%—1998	**9,832**	9,877		
4½%—1993	**5,049**	5,049	8½%—1999	**11,756**	11,772		
				53,122	55,360		
Wisconsin Natural Gas Company							
4¾%—1986	**3,631**	3,631	6⅜%—1992	**9,324**	9,340		
4⅝%—1987	**4,479**	4,499	8¾%—1994	**9,611**	9,695		
4⅞%—1990	**6,513**	6,513	8⅜%—1996	**9,776**	9,841		
				43,334	43,519	**761,342**	765,008

	1981	1980
Debentures (Unsecured)		
Wisconsin Electric Power Company—7% Series due 1993	**31,942**	32,767
Unamortized Discount—net	**(1,534)**	(1,733)
Long Term Debt Due Currently	**(59,119)**	(2,137)
Total Long Term Debt	**732,631**	793,905
Total Capitalization	**$1,608,268**	$1,608,063

The notes on pages 24 through 29 are an integral part of the financial statements.

Retained Earnings Statement • Year ended December 31

(Thousands of Dollars)

	1981	1980	1979
Balance, January 1	**$272,043**	$251,488	$225,022
Additions			
Net income	**105,502**	82,488	82,532
	377,545	333,976	307,554
Deductions			
Dividends – Cash			
Preferred stock	**15,087**	13,294	12,178
Common stock – $2.64, $2.485 and $2.345 per share	**54,175**	48,469	43,784
	69,262	61,763	55,962
Cost of issuing capital stock	**21**	170	104
	69,283	61,933	56,066
Balance, December 31	**$308,262**	$272,043	$251,488

The notes on pages 24 through 29 are an integral part of the financial statements.

Notes to 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 the 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 after removal from the reactor. No salvage value is recognized for spent nuclear fuel. The accounting for nuclear fuel follows the rate-making 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 $33,092,000 in 1981, $27,800,000 in 1980 and $16,521,000 in 1979. This includes charges of $30,442,000 in 1981, $25,551,000 in 1980, and $15,000,000 in 1979 for the portion of nuclear fuel which was leased.

During 1980 the company entered into a new nuclear fuel leasing arrangement with Wisconsin Electric Fuel Trust and placed $66,501,000 of nuclear fuel thereunder. The lease provides the company with lower financing costs as compared to the prior lease which has been phased out. The new lease as described below is accounted for in a manner similar to that for the prior lease. The lease on any batch of fuel terminates upon removal from the reactor or covers a period up to a maximum of 60 months. The company has agreed to pay the lessor for the unamortized cost of nuclear fuel in the event the lease is terminated which can be done by the company on five days' notice. Rental payments are made quarterly based on the burn-up rate of the fuel plus the lessor's cost of commercial paper, the cost of a back-up line of bank credit and a management fee. The company is obligated to pay additional rental in an amount sufficient to enable the lessor to repay maturing commercial paper of the lessor in connection with the lease transaction if the lessor is unable to meet those obligations out of the proceeds of normal rental payments and other borrowings.

The nuclear fuel leases have been treated as operating leases in the financial statements and by the PSCW in determining revenue requirements. The value of the leased fuel is not included in the company's rate base. Had the leases been accounted for as capital leases, expenses before income taxes and indeterminate effects of corresponding ratemaking treatment would have been increased $3,787,000 in 1981 and $1,857,000 in 1980 and decreased $599,000 in 1979 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 $53,241,000 in 1981, and $55,568,000 in 1980.

B • Pension Plans

Several noncontributory pension plans cover all eligible employes. Normal employe pension cost is accrued and funded currently. Unfunded prior service liability is amortized over periods from ten to thirty years. Pension expense was $11,414,000 in 1981, $9,015,000 in 1980, and $7,449,000 in 1979.

A comparison of accumulated plan benefits and plan net assets available for benefits is shown below.

(Thousands of Dollars)	December 31 1981	1980
Actuarial present value of accumulated plan benefits		
Vested benefits	$135,817	$120,307
Nonvested benefits	7,554	5,567
	$143,371	$125,874
Net plan assets	$137,037	$131,088

The weighted average rate of return used in determining the actuarial present value of accumulated plan benefits was 7.0%.

C • Depreciation

Depreciation expense is accrued at straight line rates certified by the 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 the 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).

Straight line depreciation as a percent of average depreciable utility plant was 3.6% in 1981 and 1980, and 3.7% in 1979.

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.

(Thousands of Dollars)	1981	1980	1979
Current tax expense	$ 46,644	$ 6,591	$ 21,140
Investment tax credit adjustments—net	15,581	32,024	27,657
Deferred taxes charged to depreciation expense	29,192	22,081	17,192
Total tax expense	$ 91,417	$ 60,696	$ 65,989
Income before income taxes	$196,919	$143,184	$148,521
Expected tax at federal statutory rate	$ 90,583	$ 65,865	$ 68,320
Allowance for funds used during construction	(3,088)	(6,287)	(6,302)
State income tax net of federal tax reduction	7,785	4,894	5,227
Investment tax credit restored	(4,952)	(3,940)	(2,981)
Other (no item over 5% of expected tax)	1,089	164	1,725
Total tax expense	$ 91,417	$ 60,696	$ 65,989

The aggregate amount of deferred income taxes included in the accumulated provision for depreciation at December 31 was $199,314,000 in 1981 and $163,469,000 in 1980.

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 has been limited by the PSCW to capitalizing AFDC only on construction work in progress exceeding 10% of its net investment rate base. Revenues granted by the PSCW in rate orders include the equivalent of a return on investment in construction work in progress below this limit. AFDC was capitalized in 1981, 1980 and 1979 at a rate of 7% approved by the PSCW.

F • Accounts Receivable

Accounts receivable are shown on the balance sheet after deducting an accumulated provision for doubtful accounts in the amount of $1,683,000 for 1981 and $1,424,000 for 1980. Uncollectible account write-offs net of recoveries were $3,451,000 in 1981, $2,897,000 in 1980, and $2,316,000 in 1979.

G • Common Stock and Premium on Capital Stock

Under the Automatic Dividend Reinvestment and Stock Purchase Plan, sales of common stock were 838,605 shares in 1981, 727,076 shares in 1980, and 426,901 shares in 1979. Proceeds from the sales were $19,199,000 in 1981, $15,551,000 in 1980, and $10,173,000 in 1979. Sales of common stock under the Tax Reduction Act Stock Ownership Plan (TRASOP) were 248,589 shares in 1981, 254,983 shares in 1980, and 185,072 shares in 1979. Proceeds from the TRASOP sales were $6,061,000 in 1981, $6,216,000 in 1980, and $4,691,000 in 1979. 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.

H • Preferred Stock—Redemption Not Required

The Serial Preferred Stock is redeemable in whole or in part at the option of the company at the following redemption prices plus any accrued dividends.

Series	Redemption Price Per Share
3.60%	$101
8.90%	$104 to December 1, 1985 and $101 thereafter
7.75%	$104 to November 1, 1986 and $101 thereafter
8.80%	$108.80 to January 1, 1984; $105.87 to January 1, 1989; $102.94 to January 1, 1994 and $101 thereafter

I • Preferred Stock—Redemption Required

In 1980 the company issued 250,000 shares of Serial Preferred Stock, 10.875% Series. The redemption at $100 par value of 6,250 shares is required annually on each September 1, from 1990 through 2009, with redemption of the remaining shares required on September 1, 2010. In addition to the mandatory redemption, the company may at its option redeem the stock at $110.50 to September 1, 1982 and at declining amounts thereafter to $100 after September 1, 2009. In the event of default in the payment of dividends or in the mandatory redemption requirements, no dividends or other distribution shall be declared on junior stock. In addition, no dividend shall be declared on any preferred stock class and series except ratably on all preferred shares according to their respective dividend rates.

J • Long Term Debt

The maturities and sinking fund requirements through 1986 for the aggregate amount of long term debt outstanding at December 31, 1981 are shown below. Of the annual sinking fund requirements, $3,990,000 may be satisfied by certifying additional mortgaged property.

	Maturities	Sinking Fund
1982	$59,119,000	$ 6,315,000
1983	—	6,190,000
1984	16,733,000	32,857,000
1985	—	55,960,000
1986	24,267,000	55,659,000

Future sinking fund requirements have been anticipated by advance purchases of bonds to the extent of $2,714,000 and certification of property in the amount of $3,990,000. Sinking fund requirements for 1982 have been satisfied.

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

K • Notes Payable and Commercial Paper

Unused lines of credit for short term borrowing amounted to $117,350,000 at December 31, 1981. 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, 1981 as well as $400,000 of non-interest bearing certificates of deposit included in temporary cash investments represent compensating balances.

L • Information by Segments of Business

(Thousands of Dollars)			
Year Ended December 31	**1981**	1980	1979
Electric Operations			
Reve..ue from unaffiliated customers	**$ 869,977**	$ 761,051	$ 667,757
Intersegment sales	**129**	181	206
Operating revenues	**870,106**	761,232	667,963
Operating income before income taxes	**244,166**	181,138	160,656
Depreciation – straight line	**70,239**	60,992	52,619
Construction expenditures	**140,899**	276,929	238,728
Gas Operations			
Revenue from unaffiliated customers	**273,065**	237,932	191,238
Intersegment sales	**11,878**	21,588	24,584
Operating revenues	**284,943**	259,520	215,822
Operating income before income taxes	**14,272**	14,794	20,027
Depreciation – straight line	**7,802**	7,311	6,697
Construction expenditures	**13,250**	16,240	12,772
Steam Operations			
Operating revenues (unaffiliated)	**9,341**	8,162	8,570
Operating income before income taxes	**1,780**	1,189	1,540
Depreciation – straight line	**559**	546	539
Construction expenditures	**665**	760	243
Consolidated			
Operating revenues (excluding intersegment sales eliminated in consolidation)	**1,152,383**	1,007,145	867,565
Operating income before income taxes	**260,[illegible]18**	197,121	182,223
Depreciation – straight line	**78,600**	68,849	59,855
Construction expenditures (including nonutility)	**154,814**	294,102	252,258
At December 31			
Net Identifiable Assets			
Electric	**$1,899,843**	$1,820,679	$1,643,722
Gas	**196,843**	190,555	168,635
Steam and nonutility	**19,384**	19,007	18,307
Total Consolidated Assets	**$2,116,070**	$2,030,241	$1,830,664

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

M • Commitments and Contingencies

Plans for the construction and financing of future additions to utility plant can be found elsewhere in this report in "Management's Discussion and Analysis of Financial Condition and Results of Operations." At December 31, 1981, construction work in progress includes $28,409,000 of company-financed expenditures relating to the company's 25% share in the 380 megawatt Edgewater Unit 5 coal-fired generating station which is being constructed by Wisconsin Power and Light Co.

In January 1982 the PSCW issued a final electric service rate order for the year 1982 to provide additional revenue of $63,109,000. The order also directed the company immediately to write off $5,000,000 of its investment in Pleasant Prairie Power Plant Unit 1, representing certain additional construction costs incurred to place Unit 1 in operation by June 30, 1980. The PSCW deemed this expenditure imprudently incurred and also directed a refund to customers of approximately $900,000 of revenues held subject to refund pending determin..ion of the prudence of certain Unit 1 construction costs. The PSCW found that the costs of construction of Pleasant Prairie Unit 1 were otherwise prudently incurred and that the remaining portion of the annual revenue requirement of $16,573,000 attributable to such costs was no longer subject to refund. Management believes the additional construction costs incurred were prudent and should be recognized for ratemaking purposes. The PSCW has denied a request by the company for a rehearing on this matter. The company intends to seek judicial review of this matter and, accordingly, the $5,000,000 write-off has not been reflected in the 1981 financial statements, and no refund to customers has been planned.

The Wisconsin Court of Appeals has upheld the PSCW's 1979 rate order providing for the inclusion of nuclear fuel costs in the company's automatic fuel adjustment tariff and the collection of monies to cover future decommissioning costs for Point Beach Nuclear Plant. This decision reverses an earlier Circuit Court decision which had resulted in the PSCW establishing a limitation on the amount of nuclear fuel costs which could be recovered through the fuel adjustment tariff. In light of the Court of Appeals decision, the PSCW has removed this limitation. The Wisconsin Supreme Court has declined a petition of an intervening party to review the Court of Appeals decision.

In 1979 the company wrote off its share ($2.3 million after income tax effect) of certain capitalized expenditures related to the discontinued Koshkonong nuclear plant project. The write-off ordered by the PSCW reduced 1979 earnings by $0.12 a share. In late 1979 the Brown County Circuit Court found that such expenditures were prudently made and were not to be charged to the stockholders and, therefore, reversed and remanded the order to the PSCW for modification. The Wisconsin Court of Appeals reversed the Circuit Court order in December 1981. The company and other participating utilities have filed a petition with the Wisconsin Supreme Court to review the Court of Appeals decision.

N • Supplementary Information Concerning the Effects of Changing Prices (Unaudited)

The following supplementary information provides certain data about the effects of changing prices in accordance with Financial Accounting Standards Board (FASB) requirements. This information should be viewed as estimates of the possible effects of inflation rather than as precise measures.

Amounts adjusted for general price level represent historical costs stated in terms of dollars of equal purchasing power through use of the Consumer Price Index for All Urban Consumers. Current cost amounts represent changes in specific prices and differ from amounts adjusted for general price level to the extent that specific prices have increased more or less rapidly than prices in general. Current cost represents an estimated cost of replacing existing plant and was determined by indexing the original cost of plant by the Handy-Whitman Index of Public Utility Construction Costs.

The provisions for depreciation stated in general price level and current cost were determined by applying the company's certified depreciation rates to the average indexed plant amounts. Fuel expense has not been restated because rate regulation allows the recovery of actual costs through fuel adjustment tariffs on a current basis. Income tax expense has not been adjusted because the effects of inflation are not recognized for tax purposes. Other items of expense have not been restated in accordance with FASB Statement No. 33.

Statement of Income Adjusted for Changing Prices

Year Ended December 31	1981		
		Average 1981 Dollars	
(Millions of Dollars)	As Reported in Financial Statements	Adjusted for General Price Level	Adjusted for Current Cost
Operating Revenues	$1,152	$1,152	$1,152
Operating Expenses			
Depreciation—Straight line	79	174	199
Other expenses	813	813	813
Income taxes	88	88	88
Total Operating Expenses	980	1,075	1,100
Operating Income	172	77	52
Other Income and Deductions	7	7	7
Interest Charges and Preferred Stock Dividends	(89)	(89)	(89)
Earnings (Loss) Available for Common Stockholders (excluding reduction of plant investment to net recoverable cost) (Note)	$ 90	$ (5)	$ (30)
Earnings (Loss) Per Share of Common Stock	$ 4.39	$ (0.24)	$ (1.46)

The current cost of net utility plant at December 31, 1981 was $4.1 billion. The increase in the current cost of property and the adjustment to net recoverable cost was $259 million and $38 million in 1981.

Note—Earnings (loss) after reduction of net utility plant to net recoverable cost would have been $(73) million in 1981 adjusted for general price level.

Under the ratemaking prescribed by the regulatory commissions to which the company is subject, only historical cost of plant is recoverable in rates. The impact of this ratemaking is mitigated to the extent that plant is financed with debt which can be repaid with dollars of reduced purchasing power.

Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

Year Ended December 31 (All amounts are stated in average 1981 dollars) (Millions of dollars except for per share amounts)	1981	1980	1979	1978	1977
General Price Level Information					
Earnings (loss) available for common stockholders*	(5)	(11)	14		
Earnings (loss) per share of common stock*	$(0.24)	$(0.56)	$0.74		
Current Cost Information					
Earnings (loss) available for common stockholders*	(30)	(39)	(44)		
Earnings (loss) per share of common stock*	$(1.46)	$(1.98)	$(2.34)		
Excess of increase in general price level over increase in current cost of property after adjustment to net recoverable cost	43	114	112		
General Information					
Unrealized gain from decline in purchasing power of debt and preferred stock	107	150	154		
Common stock equity at year-end	668	663	695		
Operating revenues	1,152**	1,112	1,087	1,049	1,005
Cash dividends per share of common stock	$2.64**	$2.74	$2.94	$3.08	$3.14
Market price per share of common stock at year-end	$26.37	$23.46	$27.10	$34.91	$45.56
Consumer Price Index—average for year	272.4	246.8	217.4	195.4	181.5

*Excluding adjustment to net recoverable cost.
**Actual 1981 dollars.

Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheet and statement of capitalization 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, 1981 and 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1981, 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
Price Waterhouse

Milwaukee, Wisconsin
January 28, 1982

Selected Financial Data

(Thousands of dollars except for per share amounts)

	1981	1980	1979	1978	1977
Financial					
Net income	**105,502**	82,488	82,532	71,605	68,195
Preferred stock dividend requirement	**(15,087)**	(13,520)	(12,368)	(7,337)	(7,088)
Earnings available for common stock	**90,415**	68,968	70,164	64,268	61,107
Earnings per share of common stock ($)	**4.39**	3.53	3.75	3.50	3.36
Dividends declared per share of common stock ($)	**2.64**	2.485	2.345	2.21	2.09
Operating revenues:					
Electric	**869,977**	761,051	667,757	583,162	519,182
Gas	**273,065**	237,932	191,238	161,177	143,265
Steam	**9,341**	8,162	8,570	8,272	7,456
Total operating revenues	**1,152,383**	1,007,145	867,565	752,611	669,903
Total assets	**2,116,070**	2,030,241	1,830,664	1,565,171	1,342,111
Long term debt and preferred stock—redemption required	**757,631**	818,905	649,227	589,576	494,257
Sales and Customers					
Electric					
Megawatt-hours sold	**17,792,080**	17,729,184	17,670,612	17,469,673	16,960,374
Customers (End of year)	**812,841**	806,329	795,670	782,851	768,730
Gas					
Therms (thousands) sold	**652,171**	693,675	706,101	680,759	647,743
Customers (End of year)	**215,520**	212,279	206,032	197,603	191,807
Steam					
Pounds (millions) sold	**1,924**	1,941	2,188	2,3[illegible]2	2,193
Customers (End of year)	**549**	561	585	610	615

Quarterly Financial Data

(Thousands of dollars except for per share amounts)

	Three Months Ended							
	March		June		September		December	
	1981	1980	**1981**	1980	**1981**	1980	**1981**	1980
Total operating revenues	**$300,161**	$274,250	**$254,190**	$220,088	**$275,100**	$248,378	**$322,932**	$264,429
Operating income	**40,670**	30,561	**38,133**	29,293	**49,349**	47,531	**44,016**	31,692
Net income	**21,563**	18,931	**20,032**	18,531	**34,095**	30,913	**29,812**	14,113
Earnings per share of common stock	**$0.88**	$0.83	**$0.80**	$0.79	**$1.46**	$1.39	**$1.24**	$0.52

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.

Stockholder Hotline

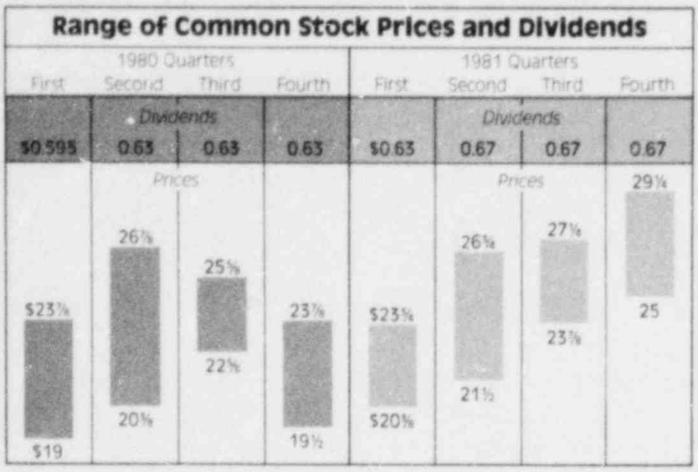
If you have a question, comment or problem relating to company securities, call our toll-free telephone hotline. Stockholders can call even when the offices are closed.

Stockholder relations representatives are available to assist you from 8:00 a.m. to 4:30 p.m. (Central Time) every business day. If you call in the evening, on a weekend or holiday, your call will be recorded and returned at the time you indicate.

The Stockholder Hotline numbers are:

In Milwaukee	**277-2100**
In Wisconsin	**800-242-9686**
Outside Wisconsin	**800-558-9663**

Stock and Dividend Information



As of Dec. 31, 1981, there were 50,741 Common Stockholders, based on the number of stockholder accounts.

Dividend Restrictions on Common Stock

Wisconsin Electric has from time to time in issuing its securities entered into dividend restrictions. Those relating to various series of Bonds, in general, prohibit cash dividends and certain other distributions on, and certain acquisitions of, Common Stock during or after the year of issuance of the particular series, except to the extent of retained earnings at the beginning of each year plus net income thereafter, as defined. A covenant relating to the Debentures provides, in general, that if consolidated shareholders' equity is less than one-third or one-quarter of consolidated capitalization, then dividends, distributions and acquisitions of such nature may not exceed three-quarters or one-half, respectively, of consolidated net income available for Common Stock for a preceding 12-month period. Similar or less restrictive covenants relate to other outstanding securities. (These restrictions do not currently, and it is not anticipated that they will in the future, impair Wisconsin Electric's ability to maintain its consistent record of dividend payments on its Preferred and Common Stock.)

A copy of Wisconsin Electric's 1981 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

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, 8.80% Series and 10.875% Series
Peter Sirko
231 West Michigan Street
P.O. Box 2046
Milwaukee, Wisconsin 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, New York 10015

Stock Registrars

Common Stock
First Wisconsin Trust Company
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202

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

Six Per Cent Preferred Stock
M&I Marshall & Ilsley Bank
770 North Water Street
Milwaukee, Wisconsin 53202

$100 Par Value Serial Preferred Stock, 3.60% Series
First Wisconsin Trust Company
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202

$100 Par Value Serial Preferred Stock, 8.90% Series, 7.75% Series and 8.80% Series
M&I Marshall & Ilsley Bank
770 North Water Street
Milwaukee, Wisconsin 53202

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

$100 Par Value Serial Preferred Stock, 10.875% Series
M&I Marshall & Ilsley Bank
770 North Water Street
Milwaukee, Wisconsin 53202

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.

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

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.

$100 Par Value Serial Preferred Stock, 10.875% Series was sold through a private placement and is not registered for public trading.

Directors and Officers

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
Chairman of the Board 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 Maier Professor of Business, the University of Wisconsin in Madison

OFFICERS

Charles S. McNeer (55;31)
President and Chief Executive Officer

Russell W. Britt (55;33)
Executive Vice President

Sol Burstein (59;16)
Executive Vice President

Thomas J. Cassidy (56;35)
Senior Vice President

Nicholas A. Ricci (57;34)
Senior Vice President

Robert H. Gorske (49;17)
Vice President and General Counsel

Richard A. Abdoo (37;6)
Vice President-Corporate Planning

John H. McLean (57;28)
Vice President-Customer Relations

Russell A. Niles (58;33)
Vice President-Division Operations

Huberto R. Platz (52;15)
Vice President-Engineering and Construction

Philip G. Sikes (64;30)
Vice President-System Operations

Richard E. Skogg (53;29)
Vice President-Operating Services

John E. Speaker (50;5)
Vice President-Communications

John H. Goetsch (48;23)
Secretary

Jerry G. Remmel (50;26)
Treasurer

Richard R. Piltz (41;16)
Controller

Carlyle W. Fay (55;15)
Assistant Vice President

John W. Fleissner (5.[illegible]
Assistant Secretary

Dawn L. Freitag (30;5)
Assistant Secretary

Gordon A. Willis (43;20)
Assistant Treasurer

George W. Bomier (57;27)
Vice President and General Manager Wisconsin Natural Gas Company

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

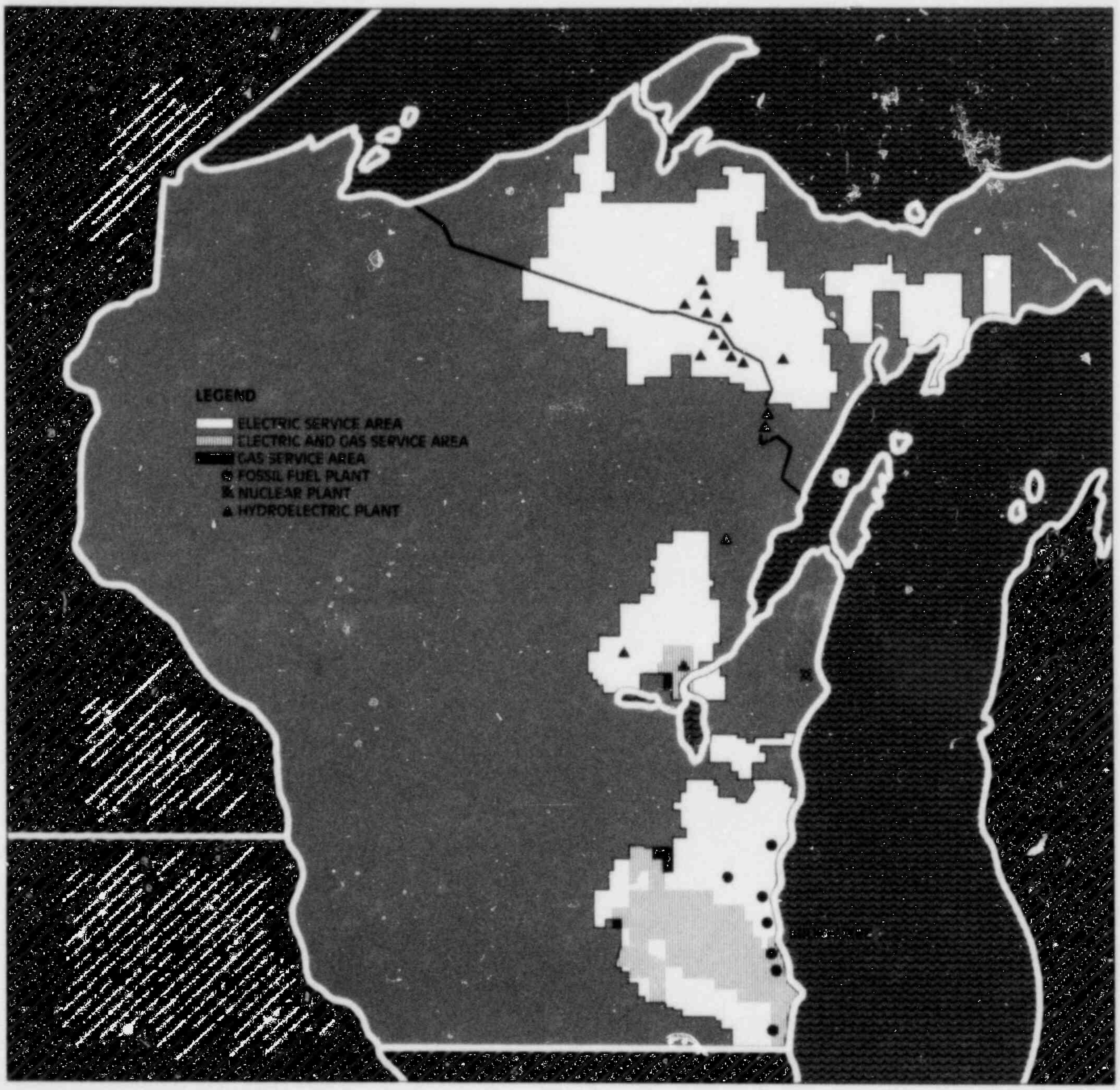
Members of the Audit Committee are directors Belmore, Johnson, Mundt, Reeve, Reid and Udell.

Members of the Compensation Committee are directors Belmore, Reid and Udell.

Members of the Nominating Committee are directors Johnson, Reeve, Reid and Udell.

Figures in parentheses indicate age and years of service.

Wisconsin Electric
Power Co. System
Service Area



WISCONSIN ELECTRIC POWER COMPANY
231 West Michigan Street P.O. Box 2046
Milwaukee, Wisconsin 53201
(414) 277-2345

WISCONSIN ELECTRIC POWER COMPANY

Financial Statements
for the Year 1981

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 statement of capitalization 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, 1981 and 1980, and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1981, 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

PRICE WATERHOUSE

Milwaukee, Wisconsin

January 28, 1982

WISCONSIN ELECTRIC POWER COMPANY

INCOME STATEMENT

Year Ended December 31

	1981	1980	1979
	(Thousands of Dollars)		
Operating Revenues			
Electric	$870,106	$761,232	$667,963
Steam	9,341	8,162	8,570
Total Operating Revenues	879,447	769,394	676,533
Operating Expenses			
Fuel (Notes A and G)	257,163	216,615	180,757
Purchased power	30,509	63,203	67,863
Other operation expenses (Note B)	152,103	140,054	117,706
Maintenance	82,366	73,851	63,858
Taxes other than income taxes	40,602	31,807	30,996
Depreciation (Note C)			
Straight line	70,799	61,538	53,158
Deferred income taxes (Note D)	28,061	21,044	15,914
Federal income tax (Note D)	31,558	(243)	7,788
Investment tax credit adjustments - net (Note D)	14,453	30,728	26,822
State income tax (Note D)	8,991	2,115	6,026
Total Operating Expenses	716,605	640,712	570,888
Operating Income	162,842	128,682	105,645
Other Income and Deductions			
Equity in earnings of subsidiaries	3,858	5,328	7,998
Interest income	9,998	4,852	2,885
Allowance for other funds used during construction (Note E)	3,155	5,330	7,535
Discount on purchase of bonds for sinking fund	750	575	479
Miscellaneous - net	(875)	(770)	(288)
Federal income tax (Note D)	(4,064)	(1,901)	(1,266)
State income tax (Note D)	(729)	(314)	(208)
Total Other Income and Deductions	12,093	13,100	17,135
Income Before Interest Charges	174,935	141,782	122,780
Interest Charges			
Long term debt	62,388	49,289	37,829
Allowance for borrowed funds used during construction (Note E)	(3,557)	(8,338)	(6,165)
Other	10,602	18,343	8,584
Total Interest Charges	69,433	59,294	40,248
Net Income	$105,502	$ 82,488	$ 82,532

The notes on pages 9 through 15 are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY

RETAINED EARNINGS STATEMENT

Year Ended December 31

	1981	1980	1979
	(Thousands of Dollars)		
Balance, January 1	$248,649	$228,247	$201,844
Additions			
Net income	105,502	82,488	82,532
Equity in earnings of subsidiaries	(3,858)	(5,328)	(7,998)
Dividends received from subsidiaries	2,588	5,175	7,935
	352,881	310,582	284,313
Deductions			
Dividends - cash			
Preferred stock	15,087	13,294	12,178
Common stock - $2.64, $2.485 and $2.345 per share	54,175	48,469	43,784
	69,262	61,763	55,962
Cost of issuing capital stock	21	170	104
	69,283	61,933	56,066
Balance, December 31	$283,598	$248,649	$228,247

STATEMENT OF UNDISTRIBUTED SUBSIDIARY EARNINGS

Year Ended December 31

	1981	1980	1979
	(Thousands of Dollars)		
Balance, January 1	$23,394	$23,241	$23,178
Equity in earnings of subsidiaries	3,858	5,328	7,998
Dividends received from subsidiaries	(2,588)	(5,175)	(7,935)
Balance, December 31	$24,664	$23,394	$23,241

The notes on pages 9 through 15 are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31

	1981	1980	1979
	(Thousands of Dollars)		
Financial Resources Provided			
Operations			
Net income	$105,502	$ 82,488	$ 82,532
Depreciation - straight line	70,799	61,538	53,158
- deferred income taxes	28,061	21,044	15,914
Accumulated deferred investment tax credits	12,008	26,232	22,893
Nuclear fuel expense	7,573	8,431	12,767
Amortization of precertification expenditures	8,358	5,906	-
Undistributed subsidiary earnings	(1,270)	(153)	(63)
Allowance for funds used during construction	(6,712)	(13,668)	(13,700)
Total from operations	224,319	191,818	173,501
Common stock	25,260	21,767	14,864
Preferred stock	-	24,906	-
Long term debt	-	148,970	75,525
Sale of nuclear fuel	23,042	66,501	-
Release of construction funds held by trustees	2,578	20,633	10,695
Normalization of income taxes - precertification expenditures	(4,141)	9,939	-
Short term borrowings	-	-	110,300
Contributions in aid of construction	4,882	1,756	1,817
Deferred charges and other	(8,860)	7,130	2,754
	$267,080	$493,420	$389,456
Financial Resources Used			
Construction expenditures	$141,558	$277,861	$239,479
Nuclear fuel	32,813	31,260	37,362
Dividends	69,262	61,763	55,962
Additional investment in subsidiaries	15,000	-	-
Retirement of long term debt	3,556	13,112	9,400
Reduction of short term borrowings	55,061	59,260	-
Construction funds held by trustees	-	-	23,447
Increase (decrease) in working capital (other than short term borrowings and long term debt due currently)	(50,170)	50,164	23,806
	$267,080	$493,420	$389,456
Increase (Decrease) in Components of Working Capital			
Cash and temporary cash investments	$ 41,772	$(10,970)	$ 5,841
Accounts receivable and accrued utility revenues	9,289	8,931	10,673
Fossil fuel	(16,400)	40,603	12,807
Notes receivable from subsidiaries	(25,893)	9,400	2,136
Accounts payable and accrued liabilities	(55,100)	(6,815)	(16,119)
Other	(3,838)	9,015	8,468
	$(50,170)	$ 50,164	$ 23,806

The notes on pages 9 through 15 are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY

BALANCE SHEET

DECEMBER 31

ASSETS

	1981	1980
	(Thousands of Dollars)	
Utility Plant		
Electric	$2,114,435	$2,027,080
Steam	18,483	18,113
	2,132,918	2,045,193
Accumulated provision for depreciation	(849,422)	(751,945)
	1,283,496	1,293,248
Construction work in progress	264,489	216,034
Nuclear fuel (Note A)	46,976	46,533
Net Utility Plant	1,594,961	1,555,815
Other Property and Investments		
Nonutility property	3,823	3,426
Accumulated provision for depreciation	(1,006)	(633)
Net nonutility property	2,817	2,793
Investment in subsidiary companies (Note G)	66,172	49,900
Total Other Property and Investments	68,989	52,693
Construction Funds Held by Trustees	1,694	4,272
Current Assets		
Cash	5,086	1,364
Temporary cash investments	38,450	400
Accounts receivable (Note F)	43,324	48,148
Accrued utility revenues	67,800	53,682
Accounts receivable from subsidiary companies (Note G)	-	5
Notes receivable from subsidiary companies (Note G)	3,211	29,104
Fossil fuel (at average cost)	83,329	99,729
Materials and supplies (at average cost)	38,312	41,696
Prepayments and other assets	5,420	5,874
Total Current Assets	284,932	280,002
Deferred Charges and Other Assets	33,955	21,832
	$1,984,531	$1,914,614

The notes on pages 9 through 15 are an integral part of the financial tatements.

WISCONSIN ELECTRIC POWER COMPANY

BALANCE SHEET

DECEMBER 31

LIABILITIES

	1981	1980
	(Thousands of Dollars)	
Capitalization (See Capitalization Statement)		
Common Stock Equity (Note H)	$ 690,186	$ 628,707
Preferred Stock - Redemption Not Required (Note I)	160,451	160,451
Preferred Stock - Redemption Required (Note J)	25,000	25,000
Long Term Debt (Note K)	689,320	750,410
Total Capitalization	1,564,957	1,564,568
Current Liabilities		
Long term debt due currently (Note K)	59,119	2,137
Notes payable to banks (Note L)	14,983	14,983
Commercial paper (Note L)	-	55,061
Accounts payable	62,202	55,118
Accounts payable to subsidiary companies (Note G)	580	250
Payroll and vacation accrued	12,096	9,940
Taxes accrued - income and other	66,082	22,817
Interest accrued	18,082	15,927
Customer deposits	1,566	1,633
Other	5,884	5,707
Total Current Liabilities	240,594	183,573
Deferred Credits and Other Liabilities		
Accumulated deferred investment tax credits	107,694	95,686
Nuclear fuel costs accrued	30,578	29,369
Unamortized accrued utility revenues	13,662	16,395
Other	5,230	8,089
Total Deferred Credits and Other Liabilities	157,164	149,539
Contributions in Aid of Construction	21,816	16,934
Commitments and Contingencies (Note M)		
	$1,984,531	$1,914,614

The notes on pages 9 through 15 are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY

CAPITALIZATION STATEMENT

DECEMBER 31

	1981	1980
	(Thousands of Dollars)	
COMMON STOCK EQUITY (Note H)		
Common Stock ($10 par value; authorized 41,000,000 shares; issued 21,154,973 and 20,067,779 shares)	$ 211,550	$ 200,678
Premium on Capital Stock	170,374	155,986
Retained Earnings	283,598	248,649
Undistributed Subsidiary Earnings	24,664	23,394
Total Common Stock Equity	690,186	628,707
PREFERRED STOCK - Cumulative		
Six Per Cent. Preferred Stock - $100 par value; authorized 45,000 shares; 44,508 shares issued	4,451	4,451
Serial Preferred Stock - $25 par value; authorized 5,000,000 shares; unissued	-	-
Serial Preferred Stock - $100 par value; authorized 2,360,000 shares		
3.60% Series - 260,000 shares issued	26,000	26,000
8.90% Series - 400,000 shares issued	40,000	40,000
7.75% Series - 300,000 shares issued	30,000	30,000
8.80% Series - 600,000 shares issued	60,000	60,000
Total Preferred Stock - Redemption Not Required (Note I)	160,451	160,451
10.875% Series - 250,000 shares issued, redeemable at par	25,000	25,000
Total Preferred Stock - Redemption Required (Note J)	25,000	25,000
LONG TERM DEBT (Note K)		
First Mortgage Bonds		
Series / Due		
Wisconsin Electric Power Company		
3-1/4% 1982	9,119	9,220
10.20% 1982	50,000	50,000
3-1/8% 1984	15,065	15,275
3-7/8% 1986	21,420	21,778
13-3/4% 1986	80,000	80,000
11.40% 1987	70,000	70,000
4-1/8% 1988	22,426	22,789
5 % 1990	26,701	26,756
5-7/8% 1996	28,014	28,041
6-7/8% 1997	37,907	37,959
6-7/8% 1998	33,698	33,771
6.10% 1999-2008	25,000	25,000
6.25% 1999-2008	1,000	1,000
7-1/4% 1999	38,986	38,988
8-3/8% 1999	39,550	39,552
6.45% 2004	12,000	12,000
8-3/4% 2006	60,000	60,000
6.45% 2006	4,000	4,000
6.50% 2007-2009	10,000	10,000
8-7/8% 2008	80,000	80,000
Former Wisconsin Michigan Power Company (merged with company in 1977)		
3-5/8% 1981	-	2,137
3-1/8% 1984	2,112	2,112
4-3/4% 1991	3,620	3,623
4-1/2% 1993	5,049	5,049
5-7/8% 1996	9,241	9,251
6-1/2% 1997	11,512	11,539
6-5/8% 1998	9,832	9,877
8-1/2% 1999	11,756	11,772
	718,008	721,489
Debentures (Unsecured) Wisconsin Electric Power Company - 7% Series due 1993	31,942	32,767
Unamortized Discount - net	(1,511)	(1,709)
Long Term Debt Due Currently	(59,119)	(2,137)
Total Long Term Debt	689,320	750,410
Total Capitalization	$1,564,957	$1,564,568

The notes on pages 9 through 15 are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY

NOTES TO 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 the 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 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 $33,116,000 in 1981, $27,828,000 in 1980 and $16,550,000 in 1979. This includes charges of $30,442,000 in 1981, $25,551,000 in 1980 and $15,000,000 in 1979 for the portion of nuclear fuel which was leased.

During 1980 the company entered into a new nuclear fuel leasing arrangement with Wisconsin Electric Fuel Trust and placed $66,501,000 of nuclear fuel thereunder. The lease provides the company with lower financing costs as compared to the prior lease which has been phased out. The new lease as described below is accounted for in a manner similar to that for the prior lease. The lease on any batch of fuel terminates upon removal from the reactor or covers a period up to a maximum of 60 months. The company has agreed to pay the lessor for the unamortized cost of nuclear fuel in the event the lease is terminated which can be done by the company on five days' notice. Rental payments are made quarterly based on the burn-up rate of the fuel plus the lessor's cost of commercial paper, the cost of a back-up line of bank credit and a management fee. The company is obligated to pay additional rental in an amount sufficient to enable the lessor to repay maturing commercial paper of the lessor in connection with the lease transaction if the lessor is unable to meet those obligations out of the proceeds of normal rental payments and other borrowings.

The nuclear fuel leases have been treated as operating leases in the financial statements and by the PSCW in determining revenue requirements. The value of the leased fuel is not included in the company's rate base. Had the leases been accounted for as capital leases, expenses before income taxes and indeterminate effects of corresponding ratemaking treatment would have been increased $3,787,000 in 1981 and $1,857,000 in 1980 and decreased $599,000 in 1979, 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 amount of $53,241,000 in 1981 and $55,568,000 in 1980.

B - Pension Plans

Several noncontributory pension plans cover all eligible employes. Normal employe pension cost is accrued and funded currently. Unfunded prior service liability is amortized over periods from ten to thirty years. Pension expense was $10,383,000 in 1981, $8,120,000 in 1980 and $6,767,000 in 1979.

A comparison of accumulated plan benefits and plan net assets available for benefits is shown below.

	December 31	
	1981	1980
	(Thousands of Dollars)	
Actuarial present value of accumulated plan benefits:		
Vested benefits	$124,568	$110,324
Nonvested benefits	7,059	5,201
	$131,627	$115,525
Net plan assets	$125,295	$120,020

The weighted average rate of return used in determining the actuarial present value of accumulated plan benefits was 7.0%.

C - Depreciation

Depreciation expense is accrued at straight line rates certified by the 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 the 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).

Straight line depreciation as a percent of average depreciable utility plant was 3.6% in 1981, 3.5% in 1980 and 3.7% in 1979.

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.

	1981	1980	1979
	(Thousands of Dollars)		
Current tax expense	$ 45,342	$ 4,087	$ 15,288
Investment tax credit adjustments - net	14,453	30,728	26,822
Deferred taxes charged to depreciation expense	28,061	21,044	15,914
Total tax expense	$ 87,856	$ 55,859	$ 58,024
Income before income taxes	$193,358	$138,347	$140,556
Expected tax at federal statutory rate	$ 88,945	$ 63,640	$ 64,656
Allowance for funds used during construction	(3,088)	(6,287)	(6,302)
Equity in earnings of subsidiaries	(1,775)	(2,451)	(3,679)
State income tax net of federal tax reduction	7,476	4,508	4,588
Investment tax credit restored	(4,698)	(3,733)	(2,820)
Other (no item over 5% of expected tax)	996	182	1,581
Total tax expense	$ 87,856	$ 55,859	$ 58,024

The aggregate amount of deferred income taxes included in the accumulated provision for depreciation at December 31 was $188,879,000 in 1981 and $154,164,000 in 1980.

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 has been limited by the PSCW to capitalizing AFDC only on construction work in progress exceeding 10% of its net investment rate base. Revenues granted by the PSCW in rate orders include the equivalent of a return on investment in construction work in progress below this limit. AFDC was capitalized in 1981, 1980 and 1979 at a rate of 7% approved by the PSCW.

F - Accounts Receivable

Accounts receivable are shown on the balance sheet after deducting an accumulated provision for doubtful accounts in the amount of $1,428,000 for 1981 and $1,134,000 for 1980. Uncollectible account write-offs net of recoveries were $2,865,000 in 1981, $2,244,000 in 1980 and $1,852,000 in 1979.

G - Transactions with Subsidiary Companies

In December 1981 the company contributed capital of $15,000,000 to Wisconsin Natural; this amount is classified as an investment in 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 purchased gas in the amount of $11,854,000 in 1981, $21,558,000 in 1980 and $24,554,000 in 1979 from Wisconsin Natural for electric generation at rates approved by the 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.

H - Common Stock and Premium on Capital Stock

Under the Automatic Dividend Reinvestment and Stock Purchase Plan, sales of common stock were 838,605 shares in 1981, 727,076 shares in 1980 and 426,901 shares in 1979. Proceeds from the sales were $19,199,000 in 1981, $15,551,000 in 1980 and $10,173,000 in 1979. Sales of common stock under the Tax Reduction Act Stock Ownership Plan (TRASOP) were 248,589 shares in 1981, 254,983 shares in 1980 and 185,072 shares in 1979. Proceeds from the TRASOP sales were $6,061,000 in 1981, $6,216,000 in 1980 and $4,691,000 in 1979. 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 - Preferred Stock - Redemption Not Required

The Serial Preferred Stock is redeemable in whole or in part at the option of the company at the following redemption prices plus any accrued dividends.

Series	Redemption Price Per Share
3.60%	$101
8.90%	$104 to December 1, 1985 and $101 thereafter
7.75%	$104 to November 1, 1986 and $101 thereafter
8.80%	$108.80 to January 1, 1984; $105.87 to January, 1989; $102.94 to January 1, 1994 and $101 thereafter

J - Preferred Stock - Redemption Required

In 1980 the company issued 250,000 shares of Serial Preferred Stock, 10.875% Series. The redemption at $100 par value of 6,250 shares is required annually on each September 1, from 1990 through 2009, with redemption of the remaining shares required on September 1, 2010. In addition to the mandatory redemption, the company may at its option redeem the stock at $110.50 to September 1, 1982 and at declining amounts thereafter to $100 after September 1, 2009. In the event of default in the payment of dividends or in the mandatory redemption requirements, no dividends or other distribution shall be declared on junior stock. In addition, no dividends shall be declared on any preferred stock class and series except ratably on all preferred shares according to their respective dividend rates.

K - Long Term Debt

The maturities and sinking fund requirements through 1986 for the aggregate amount of long term debt outstanding at December 31, 1981 are shown below. Of the annual sinking fund requirements, $3,690,000 may be satisfied by certifying additional mortgaged property.

	Maturities	Sinking Fund
1982	$59,119,000	$ 5,845,000
1983	-	5,720,000
1984	16,733,000	32,387,000
1985	-	55,490,000
1986	20,636,000	55,189,000

Future sinking fund requirements have been anticipated by advance purchases of bonds to the extent of $2,458,000 and certification of property in the amount of $3,690,000. Sinking fund requirements for 1982 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

Unused lines of credit for short term borrowing amounted to $104,350,000 at December 31, 1981. 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, 1981 as well as $350,000 of non-interest bearing certificates of deposit included in temporary cash investments represent compensating balances.

M - Commitments and Contingencies

Construction expenditures for 1982 through 1986 are estimated to be $863 million. Estimated construction expenditures for this five year period include $112 million for completion of the 580-megawatt Unit 2 coal-fired generating station at the Pleasant Prairie Power Plant and $47 million for the 25% share in the 380-megawatt Edgewate Unit 5 coal-fired generating station which is being constructed by Wisconsin Power and Light Company. At December 31, 1981 construction work in progress includes $28,409,000 of company-financed expenditures relating to Edgewater Unit 5.

In January 1982 the PSCW issued a final electric service rate order for the year 1982 to provide additional revenue of $63,109,000. The order also directed the company immediately to write off $5,000,000 of its investment in Pleasant Prairie Power Plant Unit 1, representing certain additional construction costs incurred to place Unit 1 in operation by June 30, 1980. The PSCW deemed this expenditure imprudently incurred and also directed a refund to customers of approximately $900,000 of revenues held subject to refund pending determination of the prudence of certain Unit 1 construction costs. The PSCW found that the costs of construction of Pleasant Prairie Unit 1 were otherwise prudently incurred and that the remaining portion of the annual revenue requirement of $16,573,000 attributable to such costs was no longer subject to refund. Management believes the additional construction costs incurred were prudent and should be recognized for rate-making purposes. The PSCW has denied a request by the company for a rehearing on this matter. The company intends to seek judicial review of this matter and, accordingly, the $5,000,000 write-off has not been reflected in the 1981 financial statements, and no refund to customers has been planned.

The Wisconsin Court of Appeals has upheld the PSCW's 1979 rate order providing for the inclusion of nuclear fuel costs in the company's automatic fuel adjustment tariff and the collection of monies to cover future decommissioning costs for Point Beach Nuclear Plant. This decision reverses an earlier Circuit Court decision which had resulted in the PSCW establishing a limitation on the amount of nuclear fuel costs which could be recovered through the fuel adjustment tariff. In light of the Court of Appeals decision, the PSCW has removed this limitation. The Wisconsin Supreme Court has declined a petition of an intervening party to review the Court of Appeals decision.

In 1979 the company wrote off its share ($2.3 million after income tax effect) of certain capitalized expenditures related to the discontinued Koshkonong nuclear plant project. The write-off ordered by the PSCW reduced 1979 earnings by $0.12 a share. In late 1979 the Brown County Circuit Court found that such expenditures were prudently made and were not to be charged to the stockholders and, therefore, reversed and remanded the order to the PSCW for modification. The Wisconsin Court of Appeals reversed the Circuit Court order in December 1981. The company and other participating utilities have filed a petition with the Wisconsin Supreme Court to review the Court of Appeals decision.

WISCONSIN ELECTRIC POWER COMPANY

DIRECTORS

Frederick M. Belmore	*Charles S. McNeer
Russell W. Britt	*Donald K. Mundt
Sol Burstein	*John P. Reeve
Richard L. Johnson	*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
Richard A. Abdoo	Vice President - Corporate Planning
John H. McLean	Vice President - Customer Relations
Russell A. Niles	Vice President - Division Operations
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
John H. Goetsch	Secretary
Jerry G. Remmel	Treasurer
Richard R. Piltz	Controller
Carlyle W. Fay	Assistant Vice President
John W. Fleissner	Assistant Secretary
Dawn L. Freitag	Assistant Secretary
Gordon A. Willis	Assistant Treasurer

GENERAL OFFICES

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