



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

February 15, 1983

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

Dear Mr. Saltzman:

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

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

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

1. Annual certified financial statements for year 1982.
2. Certified Cash Flow Projection for year 1983 with narrative statement.

Sincerely,

Treasurer

J. G. Remmel/bjk

Attach.

MOO1

Income Statement • Year ended December 31

	(Thousands of Dollars)		
	1982	1981	1980
Operating Revenues			
Electric	\$ 974,788	\$ 869,977	\$ 761,051
Gas	317,225	273,065	237,932
Steam	10,897	9,341	8,162
Total Operating Revenues	1,302,910	1,152,383	1,007,145
Operating Expenses			
Fuel (Note A)	261,992	256,045	215,604
Purchased power	37,310	30,509	63,203
Gas purchased for resale	253,070	224,051	190,598
Other operation expenses (Note B)	200,091	172,120	158,426
Maintenance	103,805	85,664	78,095
Taxes other than income taxes	49,099	44,576	35,249
Depreciation (Note C)			
Straight line	85,010	78,600	68,849
Deferred income taxes (Note D)	17,027	29,192	22,081
Federal income tax (Note D)	72,464	33,676	1,316
Investment tax credit adjustments—net (Note D)	10,557	15,581	32,024
State income tax (Note D)	15,404	9,601	2,623
Total Operating Expenses	1,105,829	980,215	868,068
Operating Income	197,081	172,168	139,077
Other Income and Deductions			
Interest income	9,305	7,156	3,897
Allowance for other funds used during construction (Note E)	4,588	3,155	5,330
Miscellaneous—net (Note M)	(7,196)	(151)	(190)
Federal income tax (Note D)	(811)	(2,852)	(2,274)
State income tax (Note D)	(208)	(515)	(378)
Total Other Income and Deductions	5,678	6,793	6,385
Income Before Interest Charges	202,759	178,961	145,462
Interest Charges			
Long term debt	64,341	65,344	52,304
Allowance for borrowed funds used during construction (Note E)	(2,812)	(3,557)	(8,338)
Other	9,585	11,672	19,008
Total Interest Charges	71,114	73,459	62,974
Net Income	131,645	105,502	82,488
Preferred Stock Dividend Requirement	15,087	15,087	13,520
Earnings Available for Common Stockholders	\$ 116,558	\$ 90,415	\$ 68,968
Average Number of Shares of Common Stock Outstanding (Thousands)*	32,402	30,894	29,314
Earnings Per Share of Common Stock*	\$3.60	\$2.93	\$2.35

*The amounts for 1981 and 1980 have been restated to reflect the July 1982 3-for-2 common stock split.

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

Statement of Changes in Financial Position • Year ended December 31

	(Thousands of Dollars)		
	1982	1981	1980
Financial Resources Provided			
Operations			
Net income	\$131,645	\$105,502	\$ 82,488
Depreciation — straight line	85,010	78,600	68,849
— deferred income taxes	17,027	29,192	22,081
Accumulated deferred investment tax credits	8,442	12,954	27,331
Nuclear fuel expense	11,165	7,573	8,431
Amortization of precertification expenditures	9,137	8,358	5,906
Write-off of additional construction costs	5,000	—	—
Allowance for funds used during construction	(7,400)	(6,712)	(13,668)
Total from operations	260,026	235,467	201,418
Common stock	30,152	25,260	21,767
Preferred stock	—	—	24,906
Long term debt	6,904	—	148,970
Sale of nuclear fuel	27,112	23,042	66,501
Release of construction funds held by trustees	1,641	2,578	20,633
Normalization of income taxes — precertification expenditures	(3,363)	(4,141)	9,939
Contributions and advances in aid of construction	3,741	3,282	4,369
Deferred charges/credits and other	1,416	(8,197)	4,638
	\$327,629	\$277,291	\$503,141
Financial Resources Used			
Construction expenditures	\$139,621	\$154,814	\$294,102
Nuclear fuel	22,617	32,813	31,260
Dividends	76,521	69,262	61,763
Retirement of long term debt	60,425	3,675	15,107
Reduction of short term borrowings	14,983	55,062	58,978
Construction funds held by trustees	6,927	—	—
Increase (decrease) in working capital (other than short term borrowings and long term debt due currently)	6,539	(38,335)	41,931
	\$327,629	\$277,291	\$503,141
Increase (Decrease) in Components of Working Capital			
Cash and temporary cash investments	\$(28,894)	\$39,027	\$(10,877)
Accounts receivable and accrued utility revenues	1,588	14,078	22,482
Fossil fuel	21,626	(16,283)	40,550
Accounts payable and accrued liabilities	10,439	(70,892)	(19,630)
Other	1,780	(4,265)	9,406
	\$ 6,539	\$(38,335)	\$ 41,931

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

Balance Sheet • December 31

	(Thousands of Dollars)	
Assets	1982	1981
Utility Plant		
Electric	\$2,155,979	\$2,114,435
Gas	219,091	206,838
Steam	19,259	18,483
	2,394,329	2,339,756
Accumulated provision for depreciation	(1,001,867)	(913,402)
	1,392,462	1,426,354
Construction work in progress	332,271	266,546
Nuclear fuel (Note A)	46,300	46,976
Net Utility Plant	1,771,033	1,739,876
Nonutility Property	8,999	7,899
Accumulated provision for depreciation	(2,037)	(1,006)
Net Nonutility Property	6,962	6,893
Construction Funds Held by Trustees	6,976	1,694
Current Assets		
Cash	7,210	5,374
Temporary cash investments	8,170	38,900
Accounts receivable (Note F)	54,533	52,443
Accrued utility revenues	106,845	107,347
Fossil fuel (at average cost)	105,072	83,446
Materials and supplies (at average cost)	42,007	40,349
Prepayments and other assets	5,700	5,572
Total Current Assets	329,531	333,431
Deferred Charges and Other Assets	16,796	34,176
	\$2,131,298	\$2,116,070

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

(Thousands of Dollars)		
Liabilities	1982	1981
Capitalization (See Capitalization Statement)		
Common Stock Equity (Note G)	\$ 775,173	\$ 690,186
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)	737,720	732,631
Total Capitalization	1,698,344	1,608,268
Current Liabilities		
Long term debt due currently (Note J)	—	59,119
Notes payable to banks (Note K)	4,999	19,982
Accounts payable	93,390	98,366
Payroll and vacation accrued	15,977	13,410
Taxes accrued—income and other	74,252	72,176
Interest accrued	24,398	19,195
Other	7,524	22,833
Total Current Liabilities	220,540	305,081
Deferred Credits and Other Liabilities		
Accumulated deferred investment tax credits	122,281	113,839
Nuclear fuel costs accrued	30,891	30,578
Unamortized accrued utility revenues	16,889	21,111
Other	7,139	5,656
Total Deferred Credits and Other Liabilities	177,200	171,184
Contributions in Aid of Construction	35,214	31,537
Commitments and Contingencies (Note M)		
	\$2,131,298	\$2,116,070

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

Capitalization Statement • December 31

(Thousands of Dollars)

	1982	1981
Common Stock Equity* (Note G)		
Common Stock (\$10 par value; authorized 41,000,000 shares; 33,216,164 and 31,732,460 shares issued)	\$ 332,162	\$ 317,325
Premium on Capital Stock	79,914	64,599
Retained Earnings	363,097	308,262
Total Common Stock Equity	775,173	690,186
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	1982	1981
Wisconsin Electric Power Company		
3¼%—1982	\$ —	\$ 9,119
10.20%—1982	—	50,000
3½%—1984	16,848	17,177
3¾%—1986	21,207	21,420
13¾%—1986	80,000	80,000
11.40%—1987	70,000	70,000
4½%—1988	22,191	22,426
5%—1990	26,701	26,701
4¾%—1991	3,620	3,620
4½%—1993	5,016	5,049
5½%—1996	37,188	37,255
6½%—1997	11,507	11,512
6¾%—1997	37,790	37,907
6½%—1998	\$ 9,822	\$ 9,832
6¾%—1998	33,621	33,698
6.10%—1999-2008	25,000	25,000
6.25%—1999-2008	1,000	1,000
7¼%—1999	38,973	38,986
8½%—1999	39,537	39,550
8½%—1999	11,729	11,756
6.45%—2004	12,000	12,000
8¼%—2006	59,990	60,000
6.45%—2006	4,000	4,000
6.50%—2007-2009	10,000	10,000
8½%—2008	80,000	80,000
	657,740	718,008
Wisconsin Natural Gas Company		
4¾%—1986	3,631	3,631
4¾%—1987	4,478	4,479
4¾%—1990	6,488	6,513
6¾%—1992	9,312	9,324
8¼%—1994	9,598	9,611
8¾%—1996	9,738	9,776
	43,245	43,334
700,985	761,342	
Debentures (Unsecured)		
Wisconsin Electric Power Company—7% Series due 1993	31,165	31,942
Note (Unsecured)		
Wisconsin Electric Power Company—7¼% due 1985	7,000	—
Unamortized Discount—net	(1,430)	(1,534)
Long Term Debt Due Currently	—	(59,119)
Total Long Term Debt	737,720	732,631
Total Capitalization	\$1,698,344	\$1,608,268

*The amounts for 1981 have been restated to reflect the July 1982 3-for-2 common stock split.
The notes on pages 24 through 28 are an integral part of the financial statements.

Retained Earnings Statement • Year ended December 31

	(Thousands of Dollars)		
	1982	1981	1980
Balance, January 1	\$308,262	\$272,043	\$251,488
Additions			
Net income	131,645	105,502	82,488
	439,907	377,545	333,976
Deductions			
Dividends—Cash			
Preferred stock	15,087	15,087	13,294
Common stock—\$1.902, \$1.76 and \$1.657 per share*	61,434	54,175	48,469
	76,521	69,262	61,763
Cost of issuing capital stock	289	21	170
	76,810	69,283	61,933
Balance, December 31	\$363,097	\$308,262	\$272,043

*The amounts for 1981 and 1980 have been restated to reflect the July 1982 3-for-2 common stock split.
The notes on pages 24 through 28 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.

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 \$39,895,000 in 1982, \$33,092,000 in 1981, and \$27,800,000 in 1980. This includes charges of \$36,948,000 in 1982, \$30,442,000 in 1981, and \$25,551,000 in 1980 relating to the company's nuclear fuel leasing arrangement with Wisconsin Electric Fuel Trust (Trust). The nuclear fuel is leased for a period of 60 months or until the removal of the fuel from the reactor, if earlier. Lease payments include charges for the cost of fuel burned, financing costs and a management fee. In the event the company or the Trust terminates the lease, the Trust would recover its unamortized cost of nuclear fuel from the company. Under the lease terms, the company is in effect the ultimate guarantor of the Trust's commercial paper and line of credit borrowings financing the investment in nuclear fuel.

The nuclear fuel lease has been treated as an operating lease 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 lease been accounted for as a capital lease, 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 \$53,036,000 in 1982, and \$53,241,000 in 1981.

B • Pension Plans

Several noncontributory pension plans cover all eligible employees. Normal employee pension cost is accrued and funded currently. Unfunded prior service liability is amortized over periods from ten to thirty years. Pension expense was \$15,113,000 in 1982, \$11,414,000 in 1981, and \$9,015,000 in 1980.

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

	December 31		
(Thousands of Dollars)	1982	1981	1980
Actuarial present value of accumulated plan benefits			
Vested benefits	\$150,067	\$135,817	\$120,307
Nonvested benefits	10,050	7,554	5,567
	\$160,117	\$143,371	\$125,874
Net plan assets	\$182,083	\$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 3.8% in 1982 and 3.6% in 1981 and 1980.

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)	1982	1981	1980
Current tax expense	\$ 88,887	\$ 46,644	\$ 6,591
Investment tax credit adjustments—net	10,557	15,581	32,024
Deferred taxes charged to depreciation expense	17,027	29,192	22,081
Total tax expense	\$116,471	\$ 91,417	\$ 60,696
Income before income taxes	\$248,116	\$196,919	\$143,184
Expected tax at federal statutory rate	\$114,133	\$ 90,583	\$ 65,865
Allowance for funds used during construction	(3,404)	(3,088)	(6,287)
State income tax net of federal tax reduction	10,800	7,785	4,894
Investment tax credit restored	(5,561)	(4,952)	(3,940)
Other (no item over 5% of expected tax)	503	1,089	164
Total tax expense	\$116,471	\$ 91,417	\$ 60,696

The aggregate amount of deferred income taxes included in the accumulated provision for depreciation at December 31 was \$223,265,000 in 1982 and \$199,314,000 in 1981.

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 12.5% of its net investment rate base in 1982 and 10% of its net investment rate base in 1981 and 1980. 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 1982, 1981 and 1980 at a rate of 7% approved by the PSCW.

Notes to Financial Statements continued**F • Accounts Receivable**

Accounts receivable are shown on the balance sheet after deducting an accumulated provision for doubtful accounts in the amount of \$2,571,000 for 1982 and \$1,683,000 for 1981. Uncollectible account write-offs net of recoveries were \$5,281,000 in 1982, \$3,451,000 in 1981, and \$2,897,000 in 1980.

G • Common Stock and Premium on Capital Stock

In July 1982 the company executed a 3-for-2 stock split and issued 10,808,826 additional common shares pursuant thereto. The par value of the common stock was not changed as a result of the stock split, and accordingly common stock was increased and premium on common stock was decreased \$108,088,000. In addition, \$131,000 was paid to stockholders in lieu of fractional shares equivalent to 6,192 full shares.

Sales of common stock under the company's Automatic Dividend Reinvestment and Stock Purchase Plan (ADRSP) and Tax Reduction Act Stock Ownership Plan (TRASOP) are summarized below.

	1982	1981	1980
Shares issued (restated for 3-for-2 stock split)			
ADRSP	1,291,091	1,257,908	1,090,614
TRASOP	198,805	372,883	382,475
Proceeds from sales			
ADRSP	\$25,820,000	\$19,199,000	\$15,551,000
TRASOP	\$ 4,332,000	\$ 6,061,000	\$ 6,216,000

Proceeds from sales over the \$10 par value of common stock sold are reflected as premium on capital stock.

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%	\$103.80 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 \$110.13 to September 1, 1983 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 1987 for the aggregate amount of long term debt outstanding at December 31, 1982 are shown below. Of the annual sinking fund requirements, \$3,990,000 may be satisfied by certifying additional mortgaged property.

1983	\$ 6,190,000
1984	49,571,000
1985	55,960,000
1986	79,926,000
1987	33,432,000

Future sinking fund requirements have been anticipated by advance purchases of bonds to the extent of \$2,404,000 and certification of property in the amount of \$3,990,000. Sinking fund requirements for 1983 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 \$103,350,000 at December 31, 1982. 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, 1982 as well as \$350,000 of non-interest bearing certificates of deposit included in temporary cash investments represent compensating balances.

L • Information by Segments of Business

Year Ended December 31	1982	1981	1980
(Thousands of Dollars)			
Electric Operations			
Revenue from unaffiliated customers	\$ 974,788	\$ 869,977	\$ 761,051
Intersegment sales	108	129	181
Operating revenues	974,896	870,106	761,232
Operating income before income taxes	285,690	244,166	181,138
Depreciation—straight line	76,225	70,239	60,992
Construction expenditures	121,471	140,899	276,929
Gas Operations			
Revenue from unaffiliated customers	317,225	273,065	237,932
Intersegment sales	10,476	11,878	21,588
Operating revenues	327,701	284,943	259,520
Operating income before income taxes	24,268	14,272	14,794
Depreciation—straight line	8,207	7,802	7,311
Construction expenditures	16,713	13,250	16,240
Steam Operations			
Operating revenues (unaffiliated)	10,897	9,341	8,162
Operating income before income taxes	2,575	1,780	1,189
Depreciation—straight line	578	559	546
Construction expenditures	1,405	665	760
Consolidated			
Operating revenues (excluding intersegment sales eliminated in consolidation)	1,302,910	1,152,383	1,007,145
Operating income before income taxes	312,533	260,218	197,121
Depreciation—straight line	85,010	78,600	68,849
Construction expenditures (including nonutility)	139,621	154,814	294,102
At December 31			
Net Identifiable Assets			
Electric	\$1,906,446	\$1,899,843	\$1,820,679
Gas	204,763	196,843	190,555
Steam and nonutility	20,089	19,384	19,007
Total Consolidated Assets	\$2,131,298	\$2,116,070	\$2,030,241

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, 1982, construction work in progress includes \$41,136,000 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 April 1982 American Can Company (American Can) commenced an action against the company in U.S. District Court seeking unspecified damages for alleged breaches by the company of an Agreement dated January 16, 1975, providing for the purchase and use by the company of a fuel derived from refuse. The complaint was amended on May 5, 1982 to specify damages of \$41,500,000. On May 18, 1982 the company filed a counterclaim against American Can for damages in excess of \$20,000,000. Although the result of litigation cannot be predicted with certainty, the

company does not believe the ultimate outcome of this litigation will have a material adverse impact on the company's financial statements.

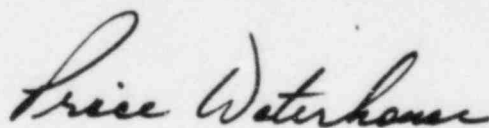
In January 1982 the PSCW issued an order directing the company to write off \$5,000,000 of its investment in Pleasant Prairie Power Plant Unit 1, representing certain additional construction costs incurred to place Unit 1 in operation by June 30, 1980. The PSCW deemed this expenditure imprudently incurred and directed a refund to customers of approximately \$900,000 of related revenues previously held subject to refund. The PSCW denied the company's request for a rehearing on this matter and in March 1982 the company wrote off the \$5,000,000 of construction costs and made provision for the ordered refund of revenues. Subsequently, the Milwaukee County Circuit Court dismissed the company's petition for review and reversal of the PSCW order in this matter. An appeal of the Circuit Court's order has been filed and in July the Circuit Court granted the company's motion to relieve it from the refund obligation pending outcome of the appeal. Management believes the additional construction costs incurred were prudent and should be recognized for rate-making purposes.

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. 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 Circuit Court order, which had been reversed by a 1981 Wisconsin Court of Appeals decision, has been upheld by a November 1982 decision of the Wisconsin Supreme Court. The company has not restored the write-off to income pending the outcome of the PSCW proceedings to reconsider recovery of the expenditures from ratepayers.

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, 1982 and 1981, 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, 1982, 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.

A handwritten signature in cursive script, reading "Price Waterhouse".

Milwaukee, Wisconsin
January 27, 1983

WISCONSIN ELECTRIC POWER COMPANY

1983 Internal Cash Flow Projection
for Point Beach Nuclear Power Station
(Dollars in Millions)

	Actual 1982	Projected 1983
Net Income After Taxes	\$132	\$146
Less Dividends Paid	(77)	(81)
Retained Earnings	55	65
Adjustments:		
Depreciation and Amortization	85	112
Deferred Income Taxes and Investment Tax Credits (Less TRASOP)	25	24
Allowance for Funds Used During Construction	(7)	(15)
Total Adjustments	103	121
Internal Cash Flow	<u>\$158</u>	<u>\$186</u>
Average Quarterly Cash Flow*	<u>\$39.50</u>	<u>\$46.50</u>
Percentage Ownership in all Operating Nuclear Units	Unit No. 1 Unit No. 2	100% 100%
Maximum Total Contingent Liability	\$20 million	

*If it becomes necessary to curtail capital expenditures to ensure meeting a retrospective premium call, we would anticipate reducing construction activities to the extent necessary.

CERTIFICATION:

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

Dated

Feb. 15, 1983

By

J. Hemmel
Treasurer