Wisconsin Electric
POWER COMPANY
231 W Michigan, P.O. Box 2046, Milwaukee, WI 53201-2046
(414) 221-2345

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50-266/301

April 26, 1996

Director of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington, DC 20555

Ladies and Gentlemen:

In accordance with 10 C.F.R. Section 50.71, enclosed is the 1995 annual report to stockholders of Wisconsin Electric Power Company, which includes certified financial statements. Such annual report accompanies Wisconsin Electric's definitive information statement, which is being mailed to stockholders today.

Wisconsin Electric Power Company is the holder of Facility Operating License Nos. DPR-24 and DPR-27 issued by your Commission under Dockets 50-226 and 50-301, respectively.

Very truly yours,

Thomas H. Fehring
Assistant Secretary

KHE/sls

Enclosure

cc: Mr. Gerald Charnoff
Shaw, Pittman, Potts & Trowbridge
2300 N Street, N.W.
Washington, DC 20037

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Wisconsin Electric
POWER COMPANY

231 W Michigan, PO Box 2046, Milwaukee, WI 53201-2046 (414) 221-2345

April 26, 1996

Dear Stockholder:

Wisconsin Electric Power Company will hold its annual meeting of stockholders at 9:00 a.m. on Tuesday, May 21, 1996 at the Public Service Building Annex, 333 West Everett Street, Milwaukee, Wisconsin. We are not soliciting proxies for this meeting, as over 99% of Wisconsin Electric's voting stock is owned, and will be voted, by its parent company, Wisconsin Energy Corporation. If you wish, you may attend the meeting and vote your shares of preferred stock; however, it will be a short business meeting only.

On behalf of the directors and officers of Wisconsin Energy, I invite you to attend Wisconsin Energy's annual meeting to be held Wednesday, May 22, 1996 at 1:30 p.m. The Wisconsin Energy meeting will be held at the Bradley Center, 1001 North Fourth Street, in downtown Milwaukee. By attending this meeting, you will have the opportunity to meet many of the Wisconsin Electric officers and directors. Although you cannot vote your shares of Wisconsin Electric preferred stock at the Wisconsin Energy meeting, you should find the afternoon's activities to be worthwhile. You will be asked to register before entering the meeting.

The annual report to stockholders accompanies this information statement. If you have any questions about the material presented or would like a copy of the Wisconsin Energy Corporation summary annual report, please call our toll-free Stockholder Hotline at 1-800-558-9663.

Sincerely,

Richard A. Abdoo
Chairman of the Board
and Chief Executive Officer

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

April 26, 1996

To the Stockholders of Wisconsin Electric Power Company:

The Annual Meeting of Stockholders of Wisconsin Electric Power Company will be held at the Public Service Building Annex, 333 West Everett Street, Milwaukee, Wisconsin, on Tuesday, May 21, 1996, at 9:00 a.m., for the following purposes:

1. To elect a Board of Directors to hold office until the 1997 Annual Meeting of Stockholders;

2. To approve an amendment to the Restated Articles of Incorporation to change the name of the company to Wisconsin Energy Company effective with the consummation of the merger between Wisconsin Energy Corporation, Wisconsin Electric's parent company, and Northern States Power Company; and

3. To consider any other matters which may properly come before the meeting.

Stockholders of record at the close of business on March 21, 1996 will be entitled to vote at the meeting.

By Order of the Board of Directors

Ann Marie Brady
Corporate Secretary and
Vice President - External Affairs

Wisconsin Electric
POWER COMPANY

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

INFORMATION STATEMENT
and
ANNUAL REPORT TO STOCKHOLDERS

INFORMATION STATEMENT

This information statement is being furnished to stockholders beginning on or about April 26, 1996 in connection with the annual meeting of stockholders of Wisconsin Electric Power Company ("Wisconsin Electric" or "WE") to be held on May 21, 1996, at WE's Public Service Building Annex, 333 West Everett Street, Milwaukee, Wisconsin, and all adjournments of the meeting, for the purposes listed in the Notice of Annual Meeting of Stockholders. The WE annual report to stockholders accompanies this information statement.

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY. However, you may vote your shares of preferred stock at the meeting.

VOTING SECURITIES

As of March 21, 1996, WE had outstanding 44,498 shares of Six Per Cent. Preferred Stock; 260,000 shares of $100 par value 3.60% Serial Preferred Stock; and 33,289,327 shares of common stock. Each outstanding share of each class is entitled to one vote. Stockholders of record at the close of business on March 21, 1996 will be entitled to vote at the meeting. A majority of the votes entitled to be cast by the shares entitled to vote shall constitute a quorum.

All of WE's outstanding common stock, representing over 99% of its voting securities, is owned beneficially by its parent company, Wisconsin Energy Corporation ("Wisconsin Energy" or "WEC"). A list of stockholders of record entitled to vote at the meeting will be available for inspection by stockholders at WE's principal business office at 231 West Michigan Street, Milwaukee, Wisconsin, prior to and at the meeting.

RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANT

Price Waterhouse LLP has acted as independent public accountant for WE or its predecessor continuously since 1932, and was appointed by Wisconsin Energy's board of directors to serve as independent public accountant of WEC and its subsidiaries, including WE, during the current year. Representatives of the firm will not attend the annual meeting, but will be present at Wisconsin Energy's annual meeting on May 22, 1996 to make any statement they may consider appropriate and to respond to questions which may be directed to them.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors is responsible for overseeing the performance of WE. In 1995 the Board held nine meetings. The average attendance of all directors for Board and committee meetings was 97%.

Effective March 1, 1996, Director Remmel retired from the Board and the Board decreased the number of directors to nine. Also, Director Udell has indicated his intention to retire as a director effective with the end of his present term which expires at the 1996 Annual Meeting and the Board has approved a reduction in the size of the Board to eight members effective with this retirement.

WE has an Executive Committee, Compensation Committee and a Finance Committee; it does not have audit or nominating committees. The Executive Committee, which did not meet in 1995, may exercise all of the powers vested in the Board during periods between Board meetings except action regarding dividends or other distributions to stockholders, the filling of vacancies on the Board and other powers which by law may not be delegated to a committee.. Directors Abdoo, Grigg, Ahearne, Cornog, Johnson and Stratton are regular members of the Executive Committee; all other directors are alternate members. The Compensation Committee, which met five times in 1995, identifies through succession planning potential executive officers of WE and provides a competitive, performance-based executive and director compensation program that enables WE to attract and retain key individuals and to motivate them to achieve WE's short and long-term goals. Directors Ahearne, Bergstrom, Cornog and Udell are members of the Compensation Committee. The Finance Committee, which met six times in 1995, may take or authorize all necessary actions to effect financings, refinancings and refundings pursuant to financing plans approved by the Board of Directors, thus enhancing the Company's ability to act quickly with respect to certain financing matters when market conditions warrant. Through March 1, 1996, Directors Udell, Grigg and Remmel were members of the Finance Committee; effective with Mr. Remmel's retirement on March 1, 1996, Director Porter was appointed a member of the committee.

ELECTION OF DIRECTORS

At the 1996 annual meeting, there will be an election of eight directors to hold office for a term of one year and until they are reelected or until their respective successors are duly elected and qualified. Directors are elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. "Plurality" means that the individuals who receive the largest number of votes are elected as directors up to the maximum number of directors to be chosen in the election. Therefore, any shares not voted, whether by withheld authority, broker non-vote or otherwise, have no effect in the election of directors.

The nominees named below have consented to being nominated and to serve if elected. The Board of Directors does not expect that any of the nominees will become unavailable for any reason. If that should occur before the meeting, another nominee or nominees may be selected by the WE Board of Directors.

Biographical information regarding each nominee is shown below. Ages are shown as of December 31, 1995.

Information Concerning Nominees (For Terms Expiring in 1997)

RICHARD A. ABDOO. Age 51. Chairman of the Board, President and Chief Executive Officer of WEC since 1991. Chairman of the Board and Chief Executive Officer of Wisconsin Electric, WEC's principal subsidiary, since 1990. Executive Vice President of WEC from January 1990 to May 1991. Director of WEC since 1988. Director of Wisconsin Electric since 1989. Chairman of the Board and Chief Executive Officer of Wisconsin Natural Gas Company ("Wisconsin Natural" or "WN"), WEC's gas utility subsidiary which was merged into Wisconsin Electric effective January 1, 1996, from 1990 to 1995. Director of Wisconsin Natural from 1989 to 1995. Director of Marshall & Ilsley Corporation and United Wisconsin Services, Inc.

JOHN F. AHEARNE. Age 61. Director of the Sigma Xi Center for Sigma Xi, The Scientific Research Society, an organization that provides grants to graduate students and conducts national meetings on major scientific issues, since 1989. Adjunct Scholar of Resources for the Future, an economic research, non-profit institute, since 1993. Lecturer, Duke University, since 1995. Vice President and Senior Fellow of Resources for the Future from 1984 to 1993. Commissioner of the United States Nuclear Regulatory Commission from 1978 to 1983, serving as its Chairman from 1979 to 1981. Member, National Academy of Engineers. Director of WEC and Wisconsin Electric since 1994.

JOHN F. BERGSTROM. Age 49. President and Chief Executive Officer of Bergstrom Corporation since 1974; Bergstrom Corporation owns and operates numerous automobile dealerships, three hotels, a convention center and a real estate company. Director of WEC since 1987. Director of Wisconsin Electric since 1985. Director of First National Bank-Fox Valley, Kimberly-Clark Corporation, Midwest Express Holdings, Inc., Universal Foods Corporation and The Green Bay Packers, Inc.

ROBERT A. CORNOG. Age 56. Chairman of the Board, President and Chief Executive Officer of Snap-on Incorporated, a tool manufacturer, since 1991. President of Macwhyte Company, a maker of wire rope and a subsidiary of Amsted Industries, from 1981 to 1991. Director of WEC since 1993. Director of Wisconsin Electric since 1994. Director of Snap-on Incorporated and Johnson Controls, Inc.

RICHARD R. GRIGG. Age 47. Vice President of WEC and President and Chief Operating Officer of Wisconsin Electric since January 1995. President and Chief Operating Officer of Wisconsin Natural during 1995. Group Executive and Vice President of Wisconsin Electric from June to December 1994. Vice President of Wisconsin Electric from 1990 to 1994. Director of WEC since May 1995. Director of Wisconsin Electric since 1994. Director of Wisconsin Natural during 1995.

GENEVA B. JOHNSON. Age 66. Corporate Director. Former President and Chief Executive Officer of Family Service America, an organization representing private agencies in the United States and Canada that provide human service programs, from 1983 to 1994. Director of WEC and Wisconsin Electric since 1988. Director of Firstar Bank Milwaukee, N.A.

DAVID K. PORTER. Age 52. Senior Vice President of WE since 1989. Vice President of Wisconsin Natural from 1989 to 1995. Director of WE since 1989. Director of Wisconsin Natural from 1988 to 1995.

FREDERICK P. STRATTON, JR. Age 56. Chairman and Chief Executive Officer of Briggs & Stratton Corporation, a manufacturer of small gasoline engines, since 1986. Director of WEC since 1987. Director of Wisconsin Electric since 1986. Director of Briggs & Stratton Corporation, Banc One Corporation, Midwest Express Holdings, Inc. and Weyco Group, Inc.

PROPOSAL TO AMEND THE RESTATED ARTICLES OF INCORPORATION TO CHANGE THE NAME OF THE COMPANY

In view of recent changes in Wisconsin Electric's business as a result of the merger of Wisconsin Natural into WE and as contemplated in connection with the proposed merger transaction between WE's parent, Wisconsin Energy, and Northern States Power Company ("NSP"), anticipated to be consummated by January 1, 1997, subject to obtaining all requisite regulatory approvals, the Board is recommending for stockholder approval an amendment to the Restated Articles of Incorporation (the "Restated Articles") changing the name of Wisconsin Electric to "Wisconsin Energy Company," effective upon consummation of the WEC/NSP transaction. Changing Wisconsin Electric's name will not alter any of the rights of WE stockholders.

On January 1, 1996, the merger of WN into Wisconsin Electric was completed. Upon consummation of that merger, in addition to continuing to be engaged in its historical electric utility operations, WE also became engaged in the historical gas utility operations of WN, including the purchase, storage, distribution and sale of natural gas to retail customers and the transportation of customer-owned gas. In contemplation of the WN/WE merger, in 1994 WE stockholders approved an amendment to the then Restated Articles eliminating a reference to electric and steam operations so as to avoid an incomplete description of WE's business after consummation of that merger. The proposed name change amendment is a further step to publicly convey that WE's business involves more than electric operations.

In addition, upon consummation of the WEC/NSP merger transaction, Wisconsin Energy will be renamed Primergy Corporation. Given the availability of the "Wisconsin Energy" name upon completion of that transaction and its recognition within and without the State of Wisconsin, in their merger agreement, WEC and NSP agreed that upon consummation of the transaction Wisconsin Electric would begin operating under the name of Wisconsin Energy Company. Should the merger transaction between WEC and NSP not be consummated, WEC will not file the proposed amendment with the Wisconsin Department of Financial Institutions and it will therefore not become effective.

The proposed amendment to the Restated Articles is as follows (material to be deleted is shown in brackets [ ] and new material is shown in **bold face**):

"ARTICLE I. NAME

> The name of such corporation is [WISCONSIN ELECTRIC POWER COMPANY] **WISCONSIN ENERGY COMPANY**."

Approval of this proposal will require the affirmative vote of a majority of all the votes entitled to be cast on the proposal by the holders of the outstanding shares of WE's common stock, Six Per Cent. Preferred Stock and $100 par value 3.60% Serial Preferred Stock, voting together as one voting group. Abstentions and broker non-votes will have the same effect as votes cast against approval of the proposal. Since the WEC Board of Directors has indicated its intention to vote all of the outstanding shares of WE common stock for the proposal, approval of the proposal is assured.

OTHER MATTERS

The Board of Directors is not aware of any other matters which may properly come before the meeting. The WE Bylaws set forth the requirements that must be followed should a stockholder wish to propose any floor nominations for director or floor proposals at annual or special meetings of stockholders. In the case of annual meetings, the Bylaws state, among other things, that notice and certain other documentation must be provided to WE at least 70 days and not more than 100 days before the scheduled date of the annual meeting. No such notices have been received by WE.

COMPENSATION

Directors' Compensation

In order to more closely link directors' pay to performance and to align the Board's interests with stockholders, effective January 1, 1996, the Board determined that a portion of directors' fees will be paid in WEC common stock. Directors can elect to receive the fee in common stock or invest the fee in the WEC phantom common stock account under the Directors' Deferred Compensation Plan.

During 1995, each nonemployee director received an annual retainer fee of $18,000 (effective January 1, 1996, one-half of this fee shall be paid in WEC common stock and the other half is to be paid in cash) plus an attendance fee of $1,000 for each Board or committee meeting attended (effective January 1, 1996, the attendance fee was increased to $1,250 for each Board or committee meeting attended). In addition, a per diem fee of $1,000 for travel on company business is paid for each day on which a Board or committee meeting is not also held. Nonemployee directors are also paid $300 for each signed, written unanimous consent in lieu of a meeting. Non-employee chairs of the committees of the Board received a quarterly committee chair retainer of $1,250. Employee directors receive no directors' fees. Although certain WE directors also serve on WEC's board and compensation committee, only single fees are paid for meetings held by both boards or committees on the same day. In these cases, fees are allocated between WE and WEC based on services rendered.

Nonemployee directors may defer fees so long as they serve on the Board of WE and/or its affiliates pursuant to the Directors' Deferred Compensation Plan. Under the plan, fees may be deferred into an account which accrues interest semiannually at the prime rate or into a WEC phantom common stock account, the value of which will appreciate or depreciate based on the market performance of such stock, as well as through the accumulation of any reinvested dividends. Such deferral amounts are credited to such accounts in the name of each participating director on the books of WE, are unsecured and are payable only in cash following termination of the director's service to WE. Such amounts will be paid out of the general corporate assets or the trust described under "Retirement Plans" in this information statement.

Executive Officers' Compensation

The following table summarizes certain information concerning compensation awarded to, earned by or paid to WE's Chief Executive Officer and each of WE's other four most highly compensated executive officers (who are also the CEO and other most highly compensated officers of WEC) for services in all capacities to WEC and its subsidiaries, including WE, for the last three fiscal years. The amounts shown in this and all subsequent tables in this information statement are WEC consolidated compensation data. The portion of time devoted by each officer to WE in 1995, as determined by the percent of time each officer worked for WE versus the other affiliated companies, is as follows: Mr. Abdoo (81%), Mr. Grigg (93%), Mr. Remmel (70%), Mr. Brzezinski (53%) and Mr. Porter (90%).

Summary Compensation Table

Name and Principal Position at WE	Year	Annual Compensation: Salary ($)	Bonus ($)	Other Annual Compensation ($)	Long-Term Compensation Awards: Securities Underlying Options/SARs (#) (1)	All Other Compensation ($) (2)
Richard A. Abdoo						
Chairman of the Board and	1995	496,000	232,000	8,321	38,000	83,858
Chief Executive Officer	1994	450,000	222,396	0	25,000	15,970
	1993	450,000	122,000	0	22,500	15,170
Richard R. Grigg						
President and Chief	1995	237,500	63,788	3,084	19,000	42,125
Operating Officer	1994	168,333	46,667	0	6,500	11,000
	1993	147,833	25,000	0	6,500	8,000
Jerry G. Remmel						
Chief Financial Officer	1995	215,000	60,953	0	0	7,798
	1994	215,000	66,009	0	0	7,481
	1993	190,000	41,000	0	0	6,406
Francis Brzezinski						
Vice President-Business	1995	225,000	25,515	80,532 (3)	7,600	17,051
Development	1994	212,000	26,037	0	6,500	7,478
	1993	206,167	22,500	0	6,500	7,058
David K. Porter						
Senior Vice President	1995	190,000	46,170	0	7,600	21,766
	1994	190,000	58,333	0	3,000	6,695
	1993	185,000	20,000	0	6,500	6,242

(1) Grants of options were in combination with contingent dividend awards, as described in the table entitled "Long-Term Incentive Plans--Awards in Last Fiscal Year". No stock appreciation rights ("SARs") were awarded during any of the fiscal years indicated.

(2) All Other Compensation for 1995 for Messrs. Abdoo, Grigg, Remmel, Brzezinski and Porter, respectively, includes: (i) employer matching of contributions by each named executive into the MESP in the amount of $4,620 for each named executive officer, (ii) "make whole" payments under the Executive Deferred Compensation Plan with respect to matching in the MESP on deferred salary or salary received but not otherwise eligible for matching in the amounts of $10,260, $2,505, $1,830, $2,130 and $1,080, respectively, and (iii) the full dollar value of life insurance premiums in the amounts of $68,978, $35,000, $1,348, $10,301 and $16,066, respectively (for 1995, in order to provide the same benefit at reduced cost to WE, a split-dollar life insurance program was established to replace the previous term life insurance program; Mr. Remmel continued to participate in the term life program).

(3) Includes $41,893 for club memberships; the balance is for related tax gross-up payments.

Option/SAR Grants in Last Fiscal Year

Individual Grants (1)					Grant Date Value
Name	Number of Securities Underlying Options/SARs Granted(#)	Percent of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	Grant Date Present Value ($)(2)
Richard A. Abdoo	38,000	20.0%	30.188	12/19/05	184,680
Richard R. Grigg	19,000	10.0%	30.188	12/19/05	92,340
Jerry G. Remmel	0	N/A	N/A	N/A	N/A
Francis Brzezinski	7,600	4.0%	30.188	12/19/05	36,936
David K. Porter	7,600	4.0%	30.188	12/19/05	36,936

N/A = Not Applicable

(1) Consists of incentive and non-qualified stock options to purchase shares of WEC common stock granted pursuant to WEC's 1993 Omnibus Stock Incentive Plan ("OSIP") on December 20, 1995. These options were granted with an equal number of contingent dividend awards (as described in the table entitled "Long-Term Incentive Plans--Awards in Last Fiscal Year"), have exercise prices equal to the fair market value of the WEC shares on the date of grant and first become exercisable on December 20, 1999, at which time they become fully exercisable. Upon a "change in control" of WEC, as defined in the OSIP, or upon retirement, permanent total disability or death of the option holder, these options shall become immediately exercisable. The above executive officers who were granted stock options and contingent dividend awards on December 20, 1995 have agreed that the proposed merger with NSP will not be considered a change in control of WEC as to such grants. Each of the above executive officers receiving awards under the OSIP has also waived the applicability of the OSIP's change in control provisions to the proposed merger with NSP for outstanding options and contingent dividend awards granted prior to December 20, 1995. These options were granted for a term of ten years, subject to earlier termination in certain events related to termination of employment. In the discretion of the WEC compensation committee, the exercise price may be paid by delivery of already owned shares and tax withholding obligations related to exercise may be satisfied by withholding shares otherwise deliverable upon exercise, subject to certain conditions. Subject to the limitations of the OSIP, the WEC compensation committee has the power with the participant's consent to modify or waive the restrictions on vesting of these options, to amend these options and to grant extensions or to accelerate these options.

(2) The Black-Scholes option pricing model was used to determine the options' grant date present value. The assumptions used in the Black-Scholes equation are: market price of stock: $30.188; exercise price of option: $30.188; stock volatility: 0.12; annualized risk-free interest rate: 7.5%; exercise at the end of 10 year option term; and dividend yield: 5.02%. WEC's use of this model should not be construed as an endorsement of its accuracy. Whether the model's assumptions will prove to be accurate cannot be known at the date of grant. The ultimate value of the options, if any, will depend upon the future value of the WEC common stock, which cannot be forecast with reasonable accuracy, and the optionee's investment decisions.

No stock options other than those granted pursuant to the OSIP were outstanding in the last fiscal year. The earliest date outstanding options previously granted under the OSIP become exercisable is December 15, 1997. Consequently, no options were exercisable in 1995. The following table sets forth the number of options which were not exercisable and the value of such options based upon the difference between the exercise price and the market price of the underlying shares as of December 31, 1995.

Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-end Option SAR Values

Name	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options/SARs at Fiscal Year-End ($)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Richard A. Abdoo	0	85,500	0	185,031
Richard R. Grigg	0	32,000	0	54,206
Jerry G. Remmel	N/A	N/A	N/A	N/A
Francis Brzezinski	0	20,600	0	49,224
David K. Porter	0	17,100	0	35,882

N/A = Not Applicable

The following table further de :cribes the long-term incentive awards made during 1995:

Long Term Incentive Plans--Awards in Last Fiscal Year

Name	Number of Shares, Units or Other Rights (#)(1)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans
			Target ($ or #) (2)
Richard A. Abdoo	38,000	12/19/99	$237,310
Richard R. Grigg	19,000	12/19/99	$118,655
Jerry G. Remmel	0	N/A	N/A
Francis Brzezinski	7,600	12/19/99	$47,462
David K. Porter	7,600	12/19/99	$47,462

N/A = Not Applicable

(1) Consists of performance units awarded under the OSIP in combination with stock options (as described in the table entitled "Option/SAR Grants in Last Fiscal Year" above). These performance units, entirely in the form of contingent dividends, will be paid if total shareholder return (appreciation in the value of WEC common stock plus reinvested dividends) over a four year period ending December 19, 1999 equals or exceeds the median return earned by the companies included in the Peer Group Index in the "Performance Graphs" section of WEC's proxy statement for the 1996 WEC Annual Meeting, except that there will be no payout if WEC's total shareholder return is negative over the course of such period. If payable, each participant shall receive an amount equal to the actual dividends paid on WEC common stock for the period of December 20, 1995 through December 19, 1999 multiplied by the number of performance units awarded to such participant. Upon a "change in control" of WEC, as defined in the OSIP, this benefit shall immediately vest with all performance goals deemed fully achieved. As described in footnote 1 to the table entitled "Option/SAR Grants in Last Fiscal Year", WEC's proposed merger with NSP does not constitute a change in control under the OSIP with respect to any outstanding contingent dividends granted to the above executive officers.

(2) Assumes, for purposes of illustration only, 4% per year compound annual dividend increase based on the current quarterly dividend rate.

Severance Policy. Effective on April 28, 1995, the WEC board adopted a Senior Executive Severance Policy ("Severance Policy") providing for severance benefits to certain WE executive officers (including Messrs. Grigg, Brzezinski and Porter) and key employees. The Severance Policy was adopted to encourage such persons, whose expertise has been important to WE's success, to remain with WE during the WEC/NSP merger transition process. The Severance Policy provides for payment of severance to participants whose employment is terminated under certain circumstances (e.g., terminations by WE that are other than for cause, disability or retirement, terminations resulting from certain sales of a business by WE, and terminations resulting from reductions in participants' salaries, responsibilities or benefits) at any time before (i) the second anniversary of the effective time of the merger with NSP if the transaction is consummated or (ii) if the transaction is not consummated, April 28, 2000, unless further extended by the Board.

The severance benefits under the Severance Policy consist of: (i) three years' salary and annual incentive compensation; (ii) payment of the actuarial equivalent of the additional retirement benefits the participant would have earned if he or she had remained employed for three more years; (iii) continued medical, dental and life insurance coverage for three years; (iv) outplacement services or the use of office space and support; and (v) financial planning counseling.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Compensation Philosophy and Objectives. The Compensation Committee, which is composed entirely of independent non-employee directors, is responsible for making decisions regarding succession planning and executive compensation. The Committee, which functions as a combined Compensation Committee for WE and WEC, seeks to provide a competitive, performance-based executive compensation program that enables WE to attract and retain key individuals and motivate them to achieve WE's short and long-term goals. The Committee regularly re-examines its compensation philosophy to determine if the executive compensation package is effective in helping WE achieve its corporate objectives.

The Committee believes that a substantial portion of overall executive compensation should be at risk, dependent on achievement of individual and corporate goals that are aligned with the interests of WEC's and WE's stockholders and customers. As a result, compensation for executives will vary from year to year, based upon the level of achievement of operating, financial, safety, environmental stewardship, customer satisfaction and other performance goals. Superior performance will be rewarded with above-average compensation; below-average performance will yield below-average compensation.

The Committee employs a nationally recognized compensation consultant, Towers Perrin, to advise it on matters relating to the administration and design of WE's executive compensation program. The consultant provides the Committee with competitive information regarding compensation levels, practices and trends within the industry.

In determining competitive compensation for WE's officer positions, the Committee relies primarily on an analysis of compensation practices for the companies included in the industry peer group used to compare investment performance in WEC's proxy statement for the 1996 WEC Annual Meeting ("Peer Group"). The Committee relies secondarily on a broader analysis of compensation data from a survey of approximately 100 utilities conducted by the Edison Electric Institute ("EEI"). The Committee reviews both peer group specific and broader industry pay practices to be fully informed of industry compensation levels. The Committee does not mathematically average the data from the two analyses but, rather, considers them as separate reads of the external market.

As part of the Committee's efforts to continually re-examine its compensation philosophy, the Committee is presently modifying the peer group for 1996 compensation determinations to include a broader group of general industrial companies. In view of WEC's proposed merger with Northern States Power Company ("NSP") to form Primergy Corporation, the Committee is also considering present compensation practices for NSP executives and expected compensation levels for executives of Primergy Corporation.

Elements of Compensation. The 1995 compensation of WE's executives primarily consisted of three elements: base salary, annual incentive compensation and long-term incentive compensation. The Committee's basis for determining appropriate levels of executive compensation for 1995 for each of these elements is described below. Specific values of 1995 compensation for the Chief Executive Officer and each of WE's other four most highly compensated officers are included in the "Summary Compensation Table" provided in this information statement.

Base Salary. In determining appropriate executive base salaries, the Committee considered factors such as individual experience, performance and potential, changes in duties and responsibilities, economic conditions in the utility service areas, financial success of WEC (measured in terms of such factors as total shareholder return versus the Peer Group, earnings per share on WEC common stock and continuity of WEC's dividend payment), customer satisfaction, the outstanding reputation of WE's utility operations, competitiveness of utility service rates and impact of re-engineering and cost control achievements. In addition, the Committee reviewed executive compensation practices for comparable positions at companies within the Peer Group, as well as the broader group of utilities in the EEI database. The Committee weights these factors substantially equally. In general, base salaries are targeted at or near the 50th percentile of the Peer Group.

Annual Incentive Compensation. The Committee administers WEC's Short-Term Performance Plan ("STPP") which provides annual cash incentive opportunities to executive officers and key employees. The STPP is designed to promote the achievement of customer and shareholder-focused objectives of WEC and its subsidiaries, including WE, while recognizing individual and team performance of participants.

Annual incentive compensation awards are targeted at approximately the 50th percentile of industry pay practices. In 1995, target incentive awards were set for participants and ranged from 15% to 45% of base salary. Each executive is eligible to receive an award if pre-established corporate performance goals are met. Awards may be increased by up to 25% of targeted amounts or reduced to zero based on individual and team performance.

Performance goals for 1995 were 60% financial and 40% operational. Financial goals focused on achievement of target net income levels. Operational goals were related to total shareholder return versus WEC's Peer Group, safety of nuclear operations, achievement of operating income targets, customer satisfaction, revenue growth, and environmental stewardship.

Based on attainment of the above-named performance measures, the Committee granted awards under the STPP for 1995 ranging from 11% to 38% of base salary.

Long-Term Incentive Compensation. The Committee administers WEC's 1993 Omnibus Stock Incentive Plan ("OSIP"), a long-term incentive plan designed to link the interests of executives and key employees to long-term shareholder value. The OSIP allows WEC to grant stock options, stock appreciation rights, stock awards and performance units to participants. Equity interests in WEC common stock enable participants to share in the appreciation of the value of WEC common stock and provide an incentive for managing the continued performance and value of WE. Long-term incentive awards are targeted at the 90th percentile of the industry grant practices.

In view of the Committee's desire to provide long-term incentive compensation to a greater number of employees, the Committee increased the number of participants in the OSIP compared to last year. For 1995, awards in the form of stock options and performance dividend units were granted to each of six groups of OSIP participants. The stock option and performance unit grants ranged from 1,900 to 38,000 shares and related dividend performance units; the grant level was dependent on each participant's role in influencing the achievement of long-term performance goals.

The Committee believes that an important adjunct to the long-term incentive program is significant stock ownership by participants. Accordingly, as a condition of participating in the OSIP, the Committee has implemented stock ownership guidelines for participants.

Chief Executive Officer Compensation. Performance and compensation of the Chief Executive Officer are of particular importance to the Committee. Mr. Abdoo's performance was evaluated by the Committee and compensation was determined in accordance with the executive compensation policies described above.

A new procedure was instituted in 1995, whereby the Compensation Committee chairman requested that outside directors provide a written evaluation of the CEO's performance. A summary of the directors' feedback was discussed by Committee members as part of its compensation determinations and has been shared with the CEO.

With respect to base salary, in recognition of the leadership provided by the Chief Executive Officer in shaping and guiding a financially strong organization that is able to provide quality services to its customers at competitive prices, as well as his role in positioning WE to take advantage of a deregulated utility environment, and in consideration of competitive salary data, the Committee set Mr. Abdoo's consolidated base salary at \$496,000. Mr. Abdoo's base salary approximates the 50th percentile of the Peer Group.

With respect to annual incentive compensation for fiscal year 1995, the Compensation Committee awarded Mr. Abdoo the annual incentive award set forth in the "Bonus" column of the Summary Compensation Table. In this regard, the Committee established his 1995 STPP target award level at 45% of base salary. The Committee's evaluation of Mr. Abdoo's 1995 performance resulted in an award under the STPP of \$172,000 or 35% of base salary. The award was based upon the Company's actual performance versus the specific company-wide operational and financial performance goals cited above in the Annual Incentive Compensation section.

In determining Mr. Abdoo's 1995 STPP award, the Committee specifically noted several accomplishments by the CEO during 1995, including (i) WEC's continued strong financial reputation, noting that earnings per share of WEC common stock for 1995 were at record levels, (ii) the completion of the merger of WEC's electric and gas utilities which resulted in significant savings through the elimination of administrative overheads and other economies, (iii) the achievement of record earnings related to Wisconsin Natural, (iv) his leadership with respect to nuclear operations, noting that the exemplary operational performance of nuclear plant personnel earned a "1" rating from the Institute of Nuclear Power Operations for the first time in the life of the plant, (v) his leadership role in maintaining solid relationships with regulatory agencies, (vi) his strong support of environmental stewardship, noting that two of WE's environmental projects, involving purchase and protection of 14,000 acres of threatened rain forest in Belize and replacement of outdated, heavily-polluting boilers in Decin, Czech Republic with new, more-efficient equipment, were among only seven projects selected under the U. S. Initiative on Joint Implementation, a federal multi-agency group working to promote voluntary and cooperative partnerships leading to the implementation of projects that reduce, avoid or capture carbon dioxide emissions, (vii) the continued development of glass aggregate technology by WEC's subsidiary, Minergy Corp., (viii) his consistent support of equal opportunity, diversity and cross cultural sensitivity within WEC, and (ix) his leadership of management and represented employees in guiding them to implement productivity improvements that will enable WE to become the low-cost energy provider in the upper midwest region. Mr. Abdoo's award was principally determined by achievement of the company-wide goals and was adjusted based on individual performance. The Committee weighted the performance goals as cited above in the Annual Incentive Compensation section.

The Committee also approved a bonus of \$60,000 for Mr. Abdoo (included in the "Bonus" column of the Summary Compensation Table) in recognition of his successful negotiation of the proposed merger of WEC and NSP to form Primergy Corporation, as well as the CEO's visionary efforts to restructure the electric utility industry.

With respect to the OSIP, in keeping with the Compensation Committee's philosophy as stated above, Mr. Abdoo was awarded stock options and related dividend performance units in 1995 as set forth in the "Long-Term Compensation Awards" column of the Summary Compensation Table to specifically link a portion of his compensation to the achievement of WE's longer term goals. The award of dividend performance units will be paid if total shareholder return (appreciation in the value of WEC common stock plus reinvested dividends) over a four year period ending December 19, 1999 equals or exceeds the median return earned by the Peer Group, except that there will be no payout if WEC's total shareholder return is negative over the course of such period.

The Committee also applied subjective judgment in evaluating the relative importance of the factors which were the basis for determining each element of Mr. Abdoo's compensation to precisely determine his salary and awards.

Compliance With Tax Regulations Regarding Executive Compensation. Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public companies for compensation over $1 million paid to the corporation's chief executive officer and the other executive officers named in the Summary Compensation Table. Qualifying performance-based compensation will not be subject to the deduction limit if certain requirements are met. WE's executive compensation program, as presently constructed, is not likely to generate non-deductible compensation in excess of these limits. The Committee will continue to review these tax regulations as they apply to WE's executive compensation program. It is the Committee's intent to preserve the deductibility of executive compensation to the extent reasonably practicable and to the extent consistent with its other compensation objectives.

Respectfully submitted to WE's stockholders by the Compensation Committee of the Board of Directors.

Robert A. Cornog, Committee Chair
John F. Ahearne
John F. Bergstrom
Jon G. Udell

STOCK OWNERSHIP OF DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS

WE directors, nominees and executive officers as a group (18 persons) do not own any of WE's stock, but do own 91,516 shares of common stock of its parent company, Wisconsin Energy (less than 1% of total WEC common stock outstanding). The following table lists the beneficial ownership of WEC common stock (as well as the phantom common stock shares) of each director, nominee and executive officer named in the Summary Compensation Table below, as of February 29, 1996. Included are shares owned by each individual's spouse, minor children or any other relative sharing the same residence, as well as shares held in a fiduciary capacity or held in WEC's Stock Plus Investment Plan and Wisconsin Electric's Management Employee Savings Plan ("MESP").

Name	Number of Shares (1)	Name	Number of Shares (1)
Richard A. Abdoo	18,636	Geneva B. Johnson	2,569
John F. Ahearne	395	David K. Porter	9,576
John F. Bergstrom	5,098	Jerry G. Remmel	6,917
Francis Brzezinski	2,730	Frederick P. Stratton, Jr.	5,718
Robert A. Cornog	2,473	Jon G. Udell (2)	6,679
Richard R. Grigg	3,001		

(1) Share units held in the WEC phantom common stock account under WEC's Directors' Deferred Compensation Plan or Executive Deferred Compensation Plan are: Mr. Abdoo (3,040), Mr. Bergstrom (2,098), Mr. Brzezinski (754), Mr. Cornog (183), Mr. Grigg (106), Mrs. Johnson (287), Mr. Porter (186), and Mr. Stratton (418). Share units are intended to reflect the performance of WEC common stock and are payable in cash.

(2) Dr. Udell disclaims beneficial ownership of 2,803 of such shares.

Each person has sole voting and investment power as to all shares listed for such person (other than the phantom common stock share units indicated above) except that the following persons have shared voting and/or investment power as to the indicated number of shares so listed: Mr. Brzezinski (176), Mr. Stratton (3,300), Dr. Udell (2,803) and all directors and executive officers as a group (9,340).

Information on beneficially owned shares is based on data furnished by the specified persons and is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as required for purposes of this information statement. It is not necessarily to be construed as an admission of beneficial ownership for other purposes.

RETIREMENT PLANS

During 1995, WE maintained a retirement plan for management employees, including WE executive officers. The plan provided retirement income based on years of credited service and final average compensation for the 36 highest consecutive months. Retirement benefits were not subject to any deduction for Social Security or other offset, since they were computed using a step-rate formula which provided a Social Security integrated benefit based on percentages of the participant's final average compensation for up to 30 years of credited service with additional (lower) percentages of compensation in excess of 30 years, up to a maximum of 10 years. WE amended the retirement plan, generally effective as of January 1, 1996, to adopt a cash balance retirement formula, which bases a participant's defined benefit pension on the value of a hypothetical account balance. A participant's starting account balance equals the present value of the prior step-rate formula's life annuity benefit payable at age 65. The account balance is thereafter increased by annual additions equal to a percentage of pay, interest credits, and a one-time special transition credit. Those individuals who were participants in the plan on December 31, 1995 are in no event to receive any less than what would have been provided under the prior formula had it continued, if they terminate on or before January 1, 2011.

The following table shows the estimated life annuity annual pension benefits payable upon retirement to persons in various compensation and years-of-service classifications, during 1995, based on the prior plan formula before the change to the cash balance approach:

Pension Plan Table

	Years of Service					
Remuneration	15	20	25	30	35	40
$ 50,000	$ 11,077	$ 14,770	$ 18,462	$ 22,154	$ 24,281	$ 26,408
100,000	24,014	32,018	40,023	48,028	52,592	57,157
150,000	36,952	49,270	61,587	73,904	80,882	87,908
200,000	49,889	66,518	83,148	99,778	109,217	118,657
250,000	62,825	83,767	104,709	125,651	137,528	149,405
300,000	75,764	101,018	126,273	151,528	165,842	180,157
400,000	101,639	135,518	169,398	203,278	222,467	241,657
500,000	127,514	170,018	212,523	255,028	279,092	303,157
600,000	153,389	204,518	255,648	306,778	335,717	364,657
700,000	179,264	239,018	298,773	358,528	392,342	426,157
800,000	205,139	273,518	341,898	410,278	448,967	487,657
900,000	231,014	308,018	385,023	462,028	505,592	549,157

The compensation for the individuals listed in the Summary Compensation Table in the columns labeled "Salary" and "Bonus" is virtually equivalent to the compensation considered for purposes of the retirement plans and the various supplemental plans. Messrs. Abdoo, Grigg, Brzezinski and Porter currently have 20, 25, 6 and 26 credited years of service, respectively. Mr. Remmel retired effective March 1, 1996 with 40 years of credited service. The Supplemental Executive Retirement Plan (described below) provides designated participants a "make whole" benefit equal to any decrease in pension which may have resulted when the retirement plans adopted the step-rate formula. Such "make whole" benefit will be paid as a pension supplement out of the general corporate assets or the grantor trust described below.

Other Retirement Benefits. Designated elected officers of WE participate in the Supplemental Executive Retirement Plan ("SERP"). The SERP provides monthly supplemental pension benefits to participants, which will be paid out of corporate assets or the grantor trust described below as follows: (a) an amount equal to the difference between the actual pension benefit payable under the management employee retirement plan and what such pension benefit would be if calculated without regard to any limitation imposed by the Internal Revenue Code on pension benefits or covered compensation, (b) an amount calculated so as to provide participants with a supplemental lifetime annuity, estimated to amount to between 8% and 10% of final average compensation depending on which pension payment option is selected, and (c) an amount for certain participants equal to the difference between the actual pension benefit payable under the management employee retirement plan and what such pension benefit would be if calculated under the prior benefit formula in effect on December 31, 1988. Except for a "change in control" of WEC, as defined in the SERP, no such payments are made until after the participant's retirement or death.

WEC has entered into an agreement with Mr. Abdoo, who cannot accumulate by normal retirement age the maximum number of years of credited service under the management employee retirement plan. According to this agreement, Mr. Abdoo at retirement will receive supplemental retirement payments which will make his total retirement benefits at age 58 or older substantially the same as those payable to employees who are age 60 or older, who are in the same compensation bracket and who became plan participants at the age of 25. Mr. Abdoo's agreement, the SERP and the Executive Deferred Compensation Plan provide for a grantor trust to fund such agreement and plans and to provide for optional lump sum payments and, in the instance of a change in control, mandatory lump sum payouts without regard to whether the executive's employment has terminated. In each case, the interest rate benchmark formula for calculating the lump sum amount is the five-year U. S. Treasury Note yield as of the last business day of the month prior to date of payment. The WEC Amended Non-Qualified Trust has been established and funded for this purpose.

Mr. Abdoo's agreement, the SERP, the Executive Deferred Compensation Plan, the Directors' Deferred Compensation Plan and the Amended Non-Qualified Trust have each been amended to provide that WEC's proposed merger with NSP will not constitute a change in control under such agreement, plans and trust.

AVAILABILITY OF FORM 10-K

A copy (without exhibits) of WE's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 as filed with the Securities and Exchange Commission is available without charge to any stockholder of record or beneficial owner of WE common stock by writing to the corporate secretary, Ann Marie Brady, 231 West Michigan Street, P. O. Box 2046, Milwaukee, Wisconsin 53201.

WISCONSIN ELECTRIC POWER COMPANY

1995 ANNUAL REPORT TO STOCKHOLDERS

ACCOMPANYING INFORMATION STATEMENT

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BUSINESS

Wisconsin Electric Power Company ("WE" or the "Company") is an operating public utility incorporated in the State of Wisconsin in 1896. Effective January 1, 1996, Wisconsin Energy Corporation ("WEC"), WE's parent company, merged its natural gas utility subsidiary, Wisconsin Natural Gas Company ("WN"), into WE to form a single combined utility subsidiary. Where applicable, references to WE include WN prior to the merger. Additional information concerning the merger may be found in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "RESULTS OF OPERATIONS - Mergers" and in Note B - "Mergers" in the NOTES TO FINANCIAL STATEMENTS. WE's operations are conducted in three business segments, the primary operations of which are as follows:

Business Segment	**Operations**
Electric Operations	WE generates, transmits, distributes and sells electric energy in a territory of approximately 12,000 square miles with a population estimated at over 2,200,000 in southeastern (including the Milwaukee area), east central and northern Wisconsin and in the Upper Peninsula of Michigan.
Gas Operations	The WE gas operations ("WEGO") purchases, distributes and sells natural gas to retail customers and transports customer-owned gas in three distinct service areas in Wisconsin: west and south of the City of Milwaukee, the Appleton area and the Prairie du Chien area. The gas service territory, which has an estimated population of over 1,100,000, is largely within WE's electric service area.
Steam Operations	WE distributes and sells steam supplied by WE's Valley Power Plant to space heating and processing customers in downtown and near southside areas of Milwaukee.

For additional financial information about business segments, see Note L - "Information by Segments of Business" in the NOTES TO FINANCIAL STATEMENTS.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The amount of cash dividends declared on WE's Common Stock during the two most recent fiscal years are set forth below. Dividends were paid to WE's sole common stockholder, WEC.

	Quarter	Total Dividend *
1994	1	$ 36,325,000
	2	$ 38,208,667
	3	$ 38,208,667
	4	$ 38,208,667
1995	1	$ 38,208,667
	2	$ 40,455,444
	3	$ 40,455,444
	4	$ 40,455,444

* Includes dividends paid by WN in 1994 and 1995.

SELECTED FINANCIAL DATA

WISCONSIN ELECTRIC POWER COMPANY ***

SELECTED FINANCIAL DATA

Year Ended December 31	1995	1994	1993**	1992**	1991**
			(Thousands of Dollars)		
Earnings available for common stockholder	$ 239,465	$ 180,403*	$ 187,703	$ 170,034	$ 188,554
Operating revenues					
Electric	$1,437,480	$1,403,562	$1,347,844	$1,298,723	$1,292,809
Gas	318,262	324,349	331,301	283,699	273,803
Steam	14,742	14,281	14,090	13,093	12,986
Total operating revenues	$1,770,484	$1,742,192	$1,693,235	$1,595,515	$1,579,598
Total assets	$4,318,924	$4,202,193	$4,078,973	$3,623,838	$3,366,063
Long-term debt and preferred stock-redemption required	$1,325,169	$1,257,776	$1,274,476	$1,280,012	$1,171,017
Sales and Customers					
Electric					
Megawatt-hours sold	27,283,869	26,911,363	25,685,436	24,747,581	25,016,247
Customers (End of year)	955,616	944,855	932,285	919,466	907,871
Gas					
Therms delivered (Thousands)	886,729	811,219	809,348	772,036	767,071
Customers (End of year)	357,030	347,080	336,571	327,247	317,891
Steam					
Pounds sold (Millions)	2,532	2,395	2,376	2,284	2,282
Customers (End of year)	473	471	459	472	468

QUARTERLY FINANCIAL DATA

Three Months Ended	March 1995	March 1994	June 1995	June 1994
	(Thousands of Dollars)			
Total operating revenues	$ 471,122	$ 509,681	$ 405,093	$ 400,340
Operating income	84,572	43,436*	72,848	63,854
Earnings available for common stockholder	62,121	22,712*	51,249	42,885

Three Months Ended	September 1995	September 1994	December 1995	December 1994
Total operating revenues	$ 426,413	$ 400,512	$ 467,856	$ 431,659
Operating income	80,704	71,248	90,897	84,735
Earnings available for common stockholder	58,679	50,796	67,416	64,010

Quarterly results of operations are not directly comparable because of seasonal and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Earnings and dividends per share are not provided as all of WE's common stock is held by WEC.

* Includes nonrecurring $73.9 million charge in 1994 ($45 million net of tax) related to WE's Revitalization program.

** Restated to reflect the merger of Wisconsin Southern Gas Company, Inc. ("WSG") into Wisconsin Natural Gas Company ("WN") effective on January 1, 199[illegible].

*** Where applicable, prior year financial and statistical information has been restated to include WN at historical values.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Effective January 1, 1996, Wisconsin Energy Corporation ("WEC"), Wisconsin Electric Power Company's ("WE" or the "Company") parent company, merged its natural gas utility subsidiary, Wisconsin Natural Gas Company ("WN"), into WE to form a single combined utility subsidiary. Where applicable, references to WE include WN prior to the merger and financial and statistical information has been restated to include WN at historical values. Additional information concerning the merger may be found below under "RESULTS OF OPERATIONS - Mergers" and in Note B - "Mergers" in the NOTES TO FINANCIAL STATEMENTS.

As previously reported, WEC has entered into an agreement with Northern States Power Company, a Minnesota corporation ("NSP"), which provides for a strategic business combination involving the two companies in a "merger-of-equals" transaction. The future operations and financial position of WE will be significantly affected by the proposed merger. Consummation of the proposed merger is subject to a number of conditions, including obtaining all required regulatory approvals. Additional information concerning such agreement and proposed transaction may be found below under "RESULTS OF OPERATIONS - Mergers" and in Note B - "Mergers" in the NOTES TO FINANCIAL STATEMENTS (including unaudited pro forma financial information).

RESULTS OF OPERATIONS

Earnings

1995 Compared to 1994: Earnings Available for Common Stockholder ("Earnings") of WE increased to $239 million in 1995 compared to $180 million in 1994, an increase of 32.8%. Earnings during 1994 reflect a nonrecurring charge of approximately $73.9 million ($45 million net of tax) associated with the organizational restructuring program at WE.

The 1994 nonrecurring charge primarily included the costs of early retirement and severance packages which were elements of a revitalization program ("Revitalization") designed to better position the Company in a changing energy marketplace. The Company has recovered the 1994 nonrecurring charge in avoided labor costs that would have been charged to Other Operations and Maintenance expense during 1994 and 1995.

Excluding the Revitalization charge, 1995 Earnings were 6.2% greater than 1994 Earnings of $225 million. The increase in 1995 Earnings reflects 1.4% higher electric sales, 9.3% higher gas deliveries and a 3.1% decrease in Other Operation and Maintenance expenses. Electric sales grew primarily as a result of warmer summer weather during 1995. Gas deliveries increased due to increased deliveries to Interruptible and Transportation customers and to colder weather during the fourth quarter of 1995. Additional economic activity in WE's service area also contributed to the increase in electric sales and gas deliveries. The reduction in Other Operation and Maintenance expenses primarily reflects payroll-related savings and efficiencies gained through WE's Revitalization program.

1993 Through 1995: Earnings increased at a compound annual rate of 12.9% from $188 million in 1993 to $239 million in 1995. The increase in Earnings primarily resulted from corresponding growth in electric sales and therm deliveries and a decline in Other Operation and Maintenance expense.

Wisconsin Electric Revitalization

In response to increasing competitive pressures in the markets for electricity and natural gas, WE implemented Revitalization in 1994 to increase efficiencies and improve customer service by reengineering and restructuring the organization. The new structure consolidated many business functions and simplified work processes. See Note K - "Benefits Other Than Pensions" in the NOTES TO FINANCIAL STATEMENTS.

Mergers

Wisconsin Natural Gas Company: As part of Revitalization, WEC has merged WN into WE. The merger, which was effective January 1, 1996, is expected to improve customer service and reduce operating costs. The accounting treatment for this merger was similar to that which would result from a pooling of interests. Accordingly, WE's prior year financial and statistical information has been restated to include WN at historical values.

Wisconsin Southern Gas Company, Inc.: Effective January 1, 1994, WEC acquired Wisconsin Southern Gas Company, Inc. ("WSG") through a statutory merger of WSG into WN in which all of WSG's common stock was converted into common stock of WEC. WSG was a gas utility engaged in the purchase, distribution, transportation and sale of natural gas primarily in an area of southeastern Wisconsin which was contiguous to WN's service territory. WSG was merged into WN using the pooling of interests method of accounting. Accordingly, prior years' financial and statistical information was restated to include WSG at historical values.

Northern States Power Company: On April 28, 1995, WEC and NSP entered into an Agreement and Plan of Merger, which was amended and restated as of July 26, 1995 ("Merger Agreement"). The Merger Agreement provides for a strategic business combination involving WEC and NSP in a "merger-of-equals" transaction ("Transaction"). As a result, WEC will become a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended ("PUHCA"), and will change its name to Primergy Corporation ("Primergy"). Primergy will be the parent company of WE (which will be renamed Wisconsin Energy Company), of NSP (which, for regulatory reasons, will reincorporate in Wisconsin ("New NSP")), and of the other subsidiaries of WEC and NSP. In connection with the Transaction, Northern States Power Company, a Wisconsin corporation ("NSP-WI"), currently a utility subsidiary of NSP, will be merged into Wisconsin Energy Company. Prior to the merger of NSP-WI into Wisconsin Energy Company, New NSP will acquire from NSP-WI certain gas utility assets. The Transaction is intended to be tax free for income tax purposes and to be accounted for as a pooling of interests.

On September 13, 1995, stockholders of WEC and NSP voted to approve the Transaction. Under the provisions of the Merger Agreement, each share of WEC and NSP common stock will become 1.0 and 1.626 shares of Primergy common stock, respectively, following the proposed Transaction.

As a result of the Transaction, the Company anticipates cost savings of approximately $2 billion over a ten year period, net of transaction costs and costs to achieve the savings of approximately $30 million and $122 million, respectively. WE and NSP have proposed, in their filings with the numerous state jurisdictions to which they are subject, a reduction of approximately 1.5% in retail electric rates beginning on or about January 1997 (assuming that the Transaction is then consummated) and a rate freeze through the year 2000, subject to certain exceptions regarding matters beyond WE's or NSP's control. For the same periods and subject to the same types of exceptions, WE and NSP-WI have proposed a $4.2 million reduction in retail gas rates on an annualized basis in Wisconsin and Michigan and a rate freeze through the year 2000. Similarly, NSP anticipates proposing in 1996 a 1.25% rate reduction for retail gas customers in North Dakota and four and two year rate freezes in North Dakota and Minnesota, respectively, effective following consummation of the Transaction. Subject to the same types of exceptions noted above, WE and NSP have agreed to a freeze in their electric wholesale rates for a four year period subsequent to the Transaction. In December 1995, WEC and NSP entered into a settlement agreement with certain municipal Wisconsin intervenors that ended the latters' participation in the FERC and state merger proceedings. The settlement agreement, which provides for certain rate reductions on power sales and transmission services, is pending FERC action. The state filings include a request for deferred accounting treatment and rate recovery of costs incurred associated with the Transaction. As of December 31, 1995, WEC has deferred $8.1 million of costs associated with the Transaction as a component of Deferred Charges and Other Assets-Other.

The Merger Agreement is subject to various conditions including approval by all applicable regulatory authorities. In July 1995, WEC and NSP filed an application and supporting testimony with the FERC seeking approval of the Merger Agreement. In August 1995, WEC and NSP made similar filings with regulatory agencies in the states where WEC and NSP provide utility services and in which such filings are required. Applications for license amendments and approvals relating to the Merger Agreement were filed with the Nuclear Regulatory Commission

("NRC") in the fall of 1995. The FERC has put the merger application on an accelerated schedule, ordering the administrative law judge's initial decision by August 30, 1996 and briefs on exception by September 30, 1996. In March 1996, the Public Service Commission of Wisconsin ("PSCW") requested that the FERC broaden the scope of the merger application hearing to evaluate whether the proposed Transaction will impair effective state oversight of retail rates. The matter is pending. Not all of the regulatory agencies have established a timetable for their decision.

During 1995, WEC and NSP received a ruling from the Internal Revenue Service indicating that the proposed successive merger transactions defined in the Merger Agreement would not prevent the treatment of the Transaction as a tax-free reorganization under applicable tax law if each transaction independently so qualified. In 1996, WEC and NSP will file an application with the Securities and Exchange Commission ("SEC") for authority to form Primergy under the requirements of PUHCA as well as required notifications with the Federal Trade Commission and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Subject to obtaining all requisite approvals, WEC and NSP anticipate completing the Transaction by January 1, 1997.

The SEC may require, as a condition to its approval of the Transaction, that WEC and NSP divest their gas utility properties and possibly certain non-utility ventures within a reasonable time after the Transaction is consummated. In a few cases, the SEC has allowed the retention of such properties or deferred the question of divestiture for a substantial period of time. In those cases in which divestiture has taken place, the SEC has usually allowed enough time to complete the divestiture so as to allow the applicant to avoid a "fire sale" of the divested assets. WEC and NSP believe strong policy reasons and prior SEC decisions exist which support their retaining their existing gas utility properties and non-utility ventures, or, alternatively, which support deferring the question of divestiture for a substantial period of time; accordingly, WEC and NSP will request in their merger application with the SEC that WEC and NSP be allowed to retain, or, in the alternative, that the question of divestiture be deferred with respect to, WEC's and NSP's existing gas utility properties and non-utility ventures.

Regulatory authorities may also require the restructuring of transmission system operations or administration. WEC and NSP currently cannot determine if such restructuring will be required. In addition, Wisconsin State law limits the total assets of non-utility affiliates of Primergy, which could affect the amount of non-regulated operations.

Electric Revenues, Gross Margins and Sales

1995 Compared to 1994: Despite an annualized $16 million or 1.3% Wisconsin retail electric fuel adjustment rate decrease that became effective on August 4, 1994, total Electric Operating Revenues increased by 2.4% from $1,404 million in 1994 to $1,437 million in 1995 due to increased 1995 electric sales. The gross margin on Electric Operating Revenues (Electric Operating Revenues less Fuel and Purchased Power expenses) increased by 1.6% from $1,075 million in 1994 to $1,092 million in 1995. The gross margin grew because the increased electric sales were primarily to Residential and Small Commercial/Industrial customers who contribute higher margins to earnings than other customer classes.

Electric Gross Margin ($000)	1995	1994	% Change
Electric Operating Revenues	$1,437,480	$1,403,562	2.4
Fuel & Purchased Power	345,387	328,485	5.1
Gross Margin	$1,092,093	$1,075,077	1.6

Total electric sales, detailed below by customer class, increased by 1.4% to approximately 27,284,000 megawatt-hours in 1995 compared to 26,911,000 megawatt-hours in 1994. Electric sales were positively impacted by substantially warmer summer weather conditions during 1995, resulting in increased use of electricity for air conditioning and other cooling purposes. As measured by cooling degree days, the 1995 cooling season (June through August) was 27.7% warmer than the same period in 1994. During the summer of 1995, WE experienced eight days of electric peak demands greater than the previous record which had been set in June 1994. The increase in electric sales also reflects colder winter weather during the fourth quarter of 1995 and a moderate increase in economic activity in WE's service area.

Electric Sales (Megawatt-hours)	1995	1994	% Change
Residential	7,042,691	6,670,081	5.6
Small Commercial/Industrial	7,047,277	6,699,073	5.2
Large Commercial/Industrial	10,639,782	10,471,869	1.6
Other	1,550,937	1,603,741	(3.3)
Total Retail and Municipal	26,280,687	25,444,764	3.3
Resale-Utilities	1,003,182	1,466,599	(31.6)
Total Sales	27,283,869	26,911,363	1.4

The warmer 1995 summer weather increased sales primarily to Residential and Small Commercial/Industrial customers. These customers are more sensitive to weather variations than other customer classes. The average number of customers in the Residential and Small Commercial/Industrial customer classes grew by 1.3% and 1.8% or from 846,745 and 88,765, respectively, in 1994 to 857,924 and 90,386 in 1995.

Electric energy sales to the Empire and Tilden iron ore mines, WE's two largest customers, decreased by 0.5% to 2,296,000 megawatt-hours in 1995 compared to 2,308,000 megawatt-hours in 1994. Excluding the mines, sales to Large Commercial/Industrial customers increased 2.2%.

The 3.3% reduction in 1995 sales to the Other customer class is largely the result of reductions in sales to WPPI, WE's largest municipal power agency customer. WPPI has been reducing its purchases from WE subsequent to acquiring generating capacity in 1990, 1993 and 1996. Since that time, WPPI has expanded the use of its existing generating facilities and has installed additional capacity, further reducing its reliance on energy purchases from WE. These sales reductions did not have a significant effect on earnings.

The market for electric wholesale customers (included in the Other customer class) is increasingly competitive. WE is in the process of renegotiating or has renegotiated long-term power sales contracts with most of its municipal wholesale customers. While WE anticipates retaining most of these customers over the long-term, WE expects that municipal wholesale revenues will begin to decline starting in 1996 as a result of lower margins included in the renegotiated contracts. WE is actively seeking to obtain new municipal wholesale customers to increase sales in this customer class.

Resale of energy to other utilities declined 31.6% in 1995. This decline can in part be attributed to unplanned or longer than expected outages at two of WE's least cost generating facilities during 1995 and to increased retail customer load as a result of the warmer summer weather, both of which reduced the opportunity to sell electric energy to other utilities. Additionally, Upper Peninsula Power Company has permanently reduced the amount of energy that it is purchasing from WE for resale. These sales reductions did not have a significant effect on earnings.

1993 Through 1995: Total Electric Operating Revenues increased at a compound annual growth rate of 3.3% or from approximately $1,348 million in 1993 to $1,437 million in 1995 due to increased electric sales. Total electric sales grew from 25,685,000 megawatt-hours in 1993 to 27,284,000 megawatt-hours in 1995, a compound annual increase of 3.1%. These increases reflect, among other things, more favorable weather conditions in 1995 and a moderate increase in economic activity in WE's service area. The gross margin on Electric Operating Revenues increased at a compound annual rate of 3.0% from approximately $1,030 million in 1993 to $1,092 million in 1995.

This was due to increased electric sales to Residential and Small Commercial/Industrial customers who contribute higher margins to earnings than other customer classes.

From 1993 through 1995, sales to Residential and Small Commercial/Industrial customers increased at compound annual rates of 3.7% and 5.3% or from 6,551,000 and 6,358,000 megawatt-hours, respectively, in 1993 to 7,043,000 and 7,047,000 megawatt-hours in 1995. This increase was due primarily to warm summer weather in 1994 and 1995. The average number of Residential and Small Commercial/Industrial customers has increased at compound annual rates of 1.3% and 1.7%, respectively, during this period.

Large Commercial/Industrial sales increased from 9,771,000 megawatt-hours in 1993 to 10,640,000 megawatt-hours in 1995, a compound annual increase of 4.3% attributable in part to a five-week long mine strike during the third quarter of 1993 which reduced 1993 sales. WE's contracts with the mines require the payment of a demand charge regardless of power usage which partially offset the impact on 1993 revenues of lost sales. Sales to the mines represented 8.4%, 8.6% and 7.8% of total electric sales during 1995, 1994 and 1993, respectively.

For the three year period ending with 1995, sales to the Other customer class declined from 1,776,000 megawatt-hours in 1993 to 1,551,000 megawatt-hours in 1995, a compound annual decrease of 6.6% resulting from the decreased sales to WPPI noted above. Sales for Resale to other utilities declined from 1,229,000 megawatt-hours in 1993 to 1,003,000 megawatt-hours in 1995, a compound annual decrease of 9.7% resulting from the decreased opportunity sales and the reduction in purchases by Upper Peninsula Power Company described above.

In addition to the results of higher total electric sales, the compound annual increase in Electric Operating Revenues since 1993 includes the impacts of rate changes which were effective during 1993 and 1994 as shown below in "Rates and Regulatory Matters."

Gas Revenues, Gross Margins and Sales

1995 Compared to 1994: Despite an increase in 1995 total gas deliveries, total Gas Operating Revenues decreased by 1.9% or from $324 million in 1994 to $318 million in 1995 as a result of a reduction in the cost of gas which is recovered through the purchased gas adjustment clause. The gross margin on Gas Operating Revenues (Gas Operating Revenues less Cost of Gas Sold) increased by 3.7% or from $125 million in 1994 to $129 million in 1995. The gross margin grew because of increased therm sales to Residential and Commercial customers who contribute higher margins to earnings than other customer classes.

Gas Gross Margin ($000)	1995	1994	% Change
Gas Operating Revenues	$ 318,262	$ 324,349	(1.9)
Cost of Gas Sold	188,764	199,511	(5.4)
Gross Margin	$ 129,498	$ 124,838	3.7

Total natural gas therms delivered, detailed below by customer class, increased by 9.3% or from 811,219 thousand therms in 1994 to 886,729 thousand therms in 1995, due in part to the effects of weather. Colder weather during the fourth quarter of 1995 contributed to net increased deliveries for the year. As measured by heating degree days, the fourth quarter was 43.1% colder than the same period in 1994. The increase in therms delivered also reflects the warmer summer weather conditions noted above, which increased therm deliveries to electric peak generating stations described below, and a moderate increase in economic activity in WE's service area.

Therms Delivered - Thousands	1995	1994	% Change
Residential	345,140	323,913	6.6
Commercial/Industrial	207,358	199,206	4.1
Interruptible	50,646	47,467	6.7
Total Sales	603,144	570,586	5.7
Transported Customer Owned Gas	283,585	240,633	17.8
Total Gas Delivered	886,729	811,219	9.3

The colder fourth quarter of 1995 weather increased sales to Residential and Commercial customers. These customers are more sensitive to weather variations as a result of heating requirements than other customer classes. The average number of Residential and Commercial/Industrial customers increased by 3.3% and 2.7% or from 311,288 and 28,506, respectively, in 1994 to 321,643 and 29,287 in 1995.

During 1995, therm deliveries to Interruptible and Transportation customers increased by 6.7% and 17.8%, respectively. WE attributes these increases in part to increased electric generation peaking requirements of its Concord ("Concord") and Paris ("Paris") Generating Stations, especially given the warmer weather during the summer of 1995. All of the gas fired generating units at Concord and Paris were in operation by the end of the second quarter of 1995 while only the generating units at Concord were in operation by the end of the second quarter of 1994. Deliveries to the Concord and Paris peaking power plants are at rates approved by the PSCW.

WE transports gas for customers who purchase gas directly from other suppliers. Rates charged for transportation services are designed to recover the same margin as natural gas sold directly by WE.

WE arranges for its own gas supply under contracts with terms of various lengths. Changes in the cost of natural gas purchased at market prices are passed through to customers via WE's purchased gas adjustment clause.

1993 Through 1995: While total Gas Operating Revenues decreased at a compound annual rate of 2.0% or from $331 million in 1993 to $318 million in 1995, the gross margin on Gas Operating Revenues increased at a compound annual rate of 5.1% or from $117 million in 1993 to $129 million in 1995. Total therms delivered increased from 809,348 thousand therms in 1993 to 886,729 thousand therms in 1995, or at a compound annual rate of 4.7%. Despite an annualized $9 million or 3.3% rate increase that became effective September 2, 1993 and the increased therm deliveries, Gas Operating Revenues declined due to a reduction in the cost of gas which is passed through to customers via the purchased gas adjustment clause. Gross margin grew as a result of increased therm sales to Residential and Commercial customers who contribute higher margins to earnings than other customer classes. Total therm deliveries increased in part due to favorable weather conditions and moderate economic growth in WE's service territory from 1993 through 1995.

From 1993 through 1995, therm sales to Residential and Commercial/Industrial customers increased at compound annual rates of 3.5% and 1.2% or from 322,444 thousand and 202,549 thousand therms, respectively, in 1993 to 345,140 thousand and 207,358 thousand therms in 1995. The average number of Residential and Commercial/Industrial customers increased at compound annual rates of 3.1% and 2.5%, respectively, during this period. Therm deliveries to Interruptible and to Transportation customers increased at compound annual rates of 21.0% and 6.6% or from 34,608 thousand and 249,747 thousand therms, respectively, in 1993 to 50,646 thousand and 283,585 thousand therms in 1995. These gas deliveries increased in part due to the increased electric generation peaking requirements of Paris and Concord noted above. Therms of Transported Customer Owned Gas accounted for 32.0%, 29.7% and 30.9% of WE's total therms delivered during 1995, 1994 and 1993, respectively.

Operating Expenses

1995 Compared to 1994: Excluding Depreciation expense, total operating taxes and the nonrecurring 1994 Revitalization charge, total Operating Expenses decreased 0.9% in 1995, reflecting a reduction of approximately $16 million or 3.1% in Other Operation and Maintenance expenses attributable to payroll-related savings and efficiencies gained through WE's Revitalization program. Such reductions were partially offset by higher costs related to increased generation, the availability of Paris and unscheduled or longer than expected outages at two of WE's most efficient power plants.

Fuel expense increased by approximately $18 million or 6.2% while Purchased Power expense declined approximately $1 million or 1.9% in 1995. Fuel expense rose as a result of higher electric sales. Purchased Power expense fell as a result of decreased marginal generating costs at three of WE's fossil plants and the newly installed peaking capacity at Paris. Lower generating costs at the fossil plants were due to decreased per unit fuel costs and the benefits of Revitalization, allowing WE to substitute generation for power purchases. The addition of Paris in 1995 allowed WE to eliminate firm power purchase contracts that contained fixed demand charges. The unscheduled or longer than expected outages in 1995 noted above, however, offset most of the decrease in Purchased Power expense as WE purchased nonfirm replacement energy on the spot market.

Despite the increase in therm deliveries during 1995 noted above, Cost of Gas Sold decreased by approximately $11 million or 5.4% in 1995 as a result of a decrease in the average cost per therm sold.

From 1994 to 1995, total operating taxes increased $41 million or 41.4% due to lower taxable income in 1994 caused by the nonrecurring Revitalization charge. Deferred Income Taxes - Net increased $22 million or 88.7% primarily due to tax matters related to the timing of payments made in connection with WE's Revitalization program.

1993 Through 1995: Since 1993, total Operating Expenses excluding Depreciation expense, total operating taxes and the nonrecurring 1994 Revitalization charge have decreased at a compound annual rate of 2.1% or from $1,088 million in 1993 to $1,042 million in 1995. Other Operation and Maintenance expenses decreased from $555 million in 1993 to approximately $508 million in 1995, a compound annual decrease of 4.4% largely due to the Revitalization related work force reductions and efficiency gains referred to above as well as to lower expenditures made in connection with power plant renovation work as certain major maintenance programs were completed in 1994. These decreases have been partially offset by expenses associated with the implementation of Revitalization and increases in conservation-related expenses associated with improving the efficiency of customers' energy usage.

Fuel expense increased at a compound annual rate of 7.4% or from $263 million in 1993 to approximately $304 million in 1995, primarily due to increased electric sales. Purchased Power expense decreased at a compound annual rate of 12.7% or from $55 million in 1993 to approximately $42 million in 1995 due to the decreased marginal generating costs at three of WE's fossil plants noted above and to additional peak generating capacity placed in service at Concord and Paris in 1994 and 1995, respectively. A 6.1% compound annual decrease in the Cost of Gas Sold from $214 million in 1993 to approximately $189 million in 1995 is attributable to a decrease in the average cost per therm sold. Depreciation expense has increased at a compound annual rate of 4.9% from $167 million in 1993 to $184 million in 1995 as a result of higher depreciable plant balances. During this period, total operating income taxes and Deferred Income Taxes-Net have been affected by tax matters related to Revitalization as noted above and by a prior period reclassification between current and deferred income taxes.

Other Items

Other Interest Charges increased by $4 million between 1995 and 1994 and by approximately $4 million between 1994 and 1993, reflecting increased average short-term debt balances.

New Pronouncements: In 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets ("FAS 121"). FAS 121 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company will adopt FAS 121 prospectively in 1996. It is anticipated that adoption will not have a material effect on the Company's net income or financial position.

In February 1996, FASB released for comment an exposure draft of a Proposed Statement of Financial Accounting Standards ("FAS"), Accounting for Certain Liabilities Related to Closure or Removal of Long-Lived Assets. The proposed FAS, if issued, would require WE to recognize as a liability the present value of the estimated future total costs associated with closure or removal of certain long-lived assets and to correspondingly capitalize those costs. The capitalized costs would be depreciated to expense over the useful life of the asset. The proposed statement would become effective in 1997. This proposed FAS would apply to decommissioning costs for Point Beach Nuclear Plant ("Point Beach") and would result in WE recording a decommissioning liability and corresponding asset as required by the pronouncement. Currently, nuclear decommissioning costs are accrued as depreciation expense over the expected service lives of the two units at Point Beach based on an external sinking fund method. Any changes in depreciation expense due to differing assumptions between the proposed FAS and those currently required by the PSCW are not expected to be material and would most likely be deferrable and recoverable in rates. For additional information on the costs of decommissioning Point Beach, see Note F - "Nuclear Operations" in the NOTES TO FINANCIAL STATEMENTS.

Effects of Inflation: With expectations of low-to-moderate inflation, the Company does not believe the impact of inflation will have a material effect on its future results of operations.

Electric Sales and Gas Deliveries Outlook

Assuming moderate growth in the economy of its service territory and normal weather, WE presently anticipates total electric kilowatt-hour sales to grow at a compound annual rate of approximately 1.1% over the five-year period ending December 31, 2000. WE forecasts total therm deliveries of natural gas to grow at a compound annual rate of approximately 2.1% over the same five-year period. These forecasts are subject to a number of variables, including among others the economy, weather and the restructuring of the electric and gas utility industries, which may affect the actual growth in sales. These estimates do not reflect the operations of NSP, which will become a part of Primergy after consummation of the Transaction. See "RESULTS OF OPERATIONS - Mergers" above.

Rates and Regulatory Matters

The table below summarizes the projected annual revenue impact of recent rate changes authorized by regulatory commissions for the electric, natural gas and steam utilities of the Company based on the sales projections utilized by those commissions in setting rates. The PSCW regulates Wisconsin retail electric, steam and natural gas rates, while the FERC regulates wholesale power and electric transmission and gas transportation service rates. The Michigan Public Service Commission ("MPSC") regulates retail electric rates in Michigan. The PSCW has discontinued the practice of conducting annual rate case proceedings, replacing it with a new schedule which calls for future rate cases to be conducted once every two years.

In support of its goal to become the lowest-cost energy provider in the region and in light of the operating cost reductions expected from the reengineering process discussed above, WE did not seek an increase in rates for 1994 or 1995.

Service	Revenue Increase (Decrease)	Percent Change in Rates	Effective Date
	(Thousands)		
Retail electric, WI	$ (33,383)	(2.8)	01/01/96
Retail electric, MI	(1,128)	(3.3)	01/01/96
Retail gas	(8,298)	(2.6)	01/01/96
Steam heating	(790)	(5.1)	01/01/96
Fuel electric, WI	(16,179)*	(1.3)	08/04/94
Fuel electric, WI	(8,596)**	(0.9)	11/05/93
Retail gas	9,172	3.3	09/02/93
Retail electric, MI	1,366	4.3	07/09/93
Wholesale electric	6,000	10.6	06/09/93
Retail electric, WI	26,655	2.3	02/17/93
Steam heating	505	3.5	02/17/93

* The 8/4/94 fuel credit was eliminated 1/1/96 by PSCW Order.
** The 11/5/93 fuel credit was eliminated 1/1/94 by PSCW Order.

Under the Wisconsin retail electric fuel cost adjustment procedure, retail electric rates may be adjusted, on a prospective basis, if cumulative fuel and purchased power costs, when compared to the costs projected in the retail electric rate proceeding, deviate from a prescribed range and are expected to continue to be above or below that range. WE believes that it has the ability to maintain low fuel costs through efficient management of its power supply system and fuel procurement practices. Therefore, WE has proposed the elimination of the retail electric fuel cost adjustment procedure in its 1997 Test Year filing with the PSCW. On December 15, 1995, the MPSC approved the suspension of the Power Supply Cost Recovery Clause (fuel adjustment procedure) for a five-year period for Michigan retail electric customers. In the case of natural gas costs, differences between the test year estimate and the actual cost of purchased gas are accounted for through a purchased gas adjustment clause.

1996 Test Year: In a letter order dated September 11, 1995, the PSCW directed WE to implement rate decreases for Wisconsin retail electric, gas and steam customers of $33.383 million or 2.75%, $8.298 million or 2.6% and $0.790 million or 5.1%, respectively, on an annualized basis effective January 1, 1996. The decrease is based on a regulatory return on common equity of 11.3%, down from 12.3% authorized since 1993. Also effective January 1, 1996, the MPSC authorized WE to implement a rate decrease for Michigan non-mine retail electric customers of $1.128 million or 3.3% on an annualized basis.

1997 Test Year: On January 16, 1996, WE filed specific financial data with the PSCW related to the 1997 test year showing an $82.2 million revenue deficiency for its utility operations. The dollar impacts and percentage increases requested for Wisconsin retail electric, gas and steam customers are $77.0 million or 6.2%, $4.3 million or 1.4% and $0.9 million or 6.4%, respectively, on an annualized basis. On March 15, 1996, WE filed testimony and exhibits with the PSCW related to the 1997 test year. The PSCW had determined that it required a special full review of WE's rates for the 1997 test year in connection with consideration of the application for approval of the proposed merger of WEC and NSP.

Neither the 1996 nor 1997 Test Year changes reflect the proposed retail electric and gas rate reductions and freezes nor the wholesale rate reductions and freezes related to the proposed merger with NSP. See "RESULTS OF OPERATIONS - Mergers" above for a separate discussion of rate actions related to the proposed Transaction.

PSCW Electric Utility Industry Investigation: The PSCW has conducted an investigation into the electric utility industry in Wisconsin, particularly its institutional structure and regulatory regime, in order to evaluate what changes would be beneficial for Wisconsin. The PSCW stated that this investigation may result in profound and fundamental changes to the nature and regulation of the electric utility industry in Wisconsin. In January 1995, the PSCW established an advisory committee, including WE, to examine all aspects of the electric utility industry and to suggest which functions should be performed in a competitive market. The PSCW decided on December 12, 1995 the general direction of utility regulation in Wisconsin. This proposed restructuring of the industry would permit all consumers to choose their electricity provider by the year 2001 and it would establish a competitive generation business. The transmission and distribution functions would remain regulated. In a February 22, 1996 Report to the Wisconsin Legislature, the PSCW identified a 32 step workplan that it would follow for Electric Utility Restructuring in Wisconsin. In the plan, the PSCW indicated that during 1996 it will begin activities on 12 of these steps, some of which would seek changes in applicable administrative rules under its jurisdiction, including affiliated interest standards and quality of service standards. The PSCW expects to present an electric utility restructuring proposal to the Wisconsin State Legislature in 1997. In its February 22, 1996 report, the PSCW stated that the implementation timetable for its plan is subject to change depending on the pace of resolution of the specific restructuring steps and on external events.

PSCW Natural Gas Utility Industry Investigation: The PSCW also continued a generic investigation of the natural gas industry in Wisconsin and addressed the extent to which traditional regulation should be replaced with a different approach. In conjunction with this generic investigation, the PSCW staff is reviewing the use of the current purchased gas adjustment ("PGA") mechanism which is designed to pass on to gas customers increases or decreases in the cost of natural gas purchased for resale. A separate docket has been established to review the PGA. WE is participating in these PSCW investigations.

In June 1995, WE filed with the PSCW a proposal to replace the current PGA mechanism with a new market-based pricing mechanism. The proposed gas pricing mechanism would link gas commodity prices to market indices and incorporate all other gas supply costs such as transportation and storage, under a price cap. The price cap would be designed to provide balanced financial incentives and risks for WE based upon performance standards, while ensuring a reliable gas supply for consumers. In July 1995, the PSCW decided to analyze and review this proposal as part of the generic docket established to review the PGA. The matter is pending.

FERC Open Access Transmission NOPR: In March 1995, the FERC issued a Notice of Proposed Rulemaking ("NOPR") on Open Access Non-Discriminatory Transmission Services by Public Utilities. The NOPR's goal is to create a more competitive wholesale electric power market. In the proposed rulemaking, FERC would require all electric utilities that own or control transmission facilities to file non-discriminatory open access transmission tariffs available to wholesale sellers and buyers of electric energy, to take service under the tariffs for their own wholesale sales and purchases of electric energy and to provide utilities the opportunity to recover legitimate and verifiable stranded costs on the federal and state levels. WE advocates open access to transmission facilities as a necessary step in the competitive restructuring of the electric utility industry and does not believe that the issuance of a final rule by FERC will have a negative material impact on the Company's financial position or results of operations. WE expects FERC to finalize and issue its open access transmission rules in the second quarter of 1996.

Regulatory Accounting: WE operates under electric utility rates which are subject to the approval of the PSCW, MPSC and FERC, and natural gas and steam utility rates that are subject to the approval of the PSCW (see "Rates and Regulatory Matters" above). Such rates are designed to recover the cost of service and provide a reasonable return to investors. Developing competitive pressures in the utility industry may result in future utility rates which are based upon factors other than the traditional original cost of investment. In such a situation, continued deferral of certain regulatory asset and liability amounts on the utility's books may no longer be appropriate as allowed under Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation. At this time, WE is unable to predict whether any adjustments to regulatory assets and liabilities will occur in the future. See Note A - "Summary of Significant Accounting Policies" in the NOTES TO FINANCIAL STATEMENTS.

LIQUIDITY AND CAPITAL RESOURCES

Investing Activities

WE invested $1.035 billion in its businesses during the three years ended December 31, 1995. The investments made during this three-year period include construction expenditures for new or improved facilities totaling $855 million, purchases of nuclear fuel of approximately $70 million, net capitalized conservation expenditures of approximately $54 million and payments to an external trust for the eventual decommissioning of WE's Point Beach Nuclear Plant totaling $32 million.

Paris Generating Station: During 1995, WE placed in service four units, or approximately 300 megawatts of capacity, at its Paris Generating Station. This natural gas-fired combustion turbine facility, located near Union Grove, Wisconsin, is designed to meet peak demand requirements. Capital expenditures of $10 million, $54 million and $28 million were made during 1995, 1994 and 1993, respectively, for construction of this facility. The capital costs of the Paris facility will total approximately $105 million.

Concord Generating Station: During 1994, WE placed in service the last two units, or approximately 150 megawatts of capacity, at its Concord Generating Station. This four unit 300 megawatt natural gas-fired combustion turbine facility, located near Watertown, Wisconsin, is designed to meet peak demand requirements. The first two units were completed in 1993. Capital expenditures of $3 million, $6 million and $35 million were made during 1995, 1994 and 1993, respectively, for construction of this facility. The capital costs of the Concord facility will total approximately $107 million.

Port Washington Power Plant Renovation: Additionally during 1994, WE completed the $107 million renovation project at its Port Washington Power Plant. The renovation work, which began in September 1991, included the installation of additional emission control equipment. Expenditures totaling $12 million and $36 million were made during 1994 and 1993, respectively.

Cash Provided by Operating and Financing Activities

During the three years ended December 31, 1995, cash provided by operating activities totaled $1.252 billion. During this period, internal sources of funds, after the payment of dividends to WEC, provided approximately 84% of the Company's capital requirements.

Financing activities during the three-year period ended December 31, 1995 included the issuance of approximately $611 million of long-term debt, principally to refinance higher coupon debt and the purchase or redemption of approximately $71 million of preferred stock. No preferred stock was issued during this period. Additionally, during the three-year period ended December 31, 1995, the Company retired a total of $502 million of long-term debt and increased short-term debt by $28 million. Dividends on the Company's common stock were approximately $160 million, $151 million and $75 million during 1995, 1994 and 1993, respectively.

In December 1995, WE issued $100 million of unsecured One Hundred Year 6 7/8% Debentures due 2095. Proceeds of the issue were added to WE's general funds and were applied to the repayment of short-term borrowings.

In August 1995, WE called for optional redemption $98.35 million aggregate principal amount of fixed rate tax exempt bonds issued by three political jurisdictions on WE's behalf that were secured by issues of WE's First Mortgage Bonds with terms corresponding to the tax exempt bonds called for redemption. During September and October 1995, the three political jurisdictions issued $98.35 million aggregate principal amount of new tax exempt bonds on behalf of WE, collateralized by unsecured variable rate promissory notes issued by WE, maturing between March 1, 2006 and September 1, 2030, with terms corresponding to the respective issues of the refunding tax exempt bonds. The proceeds were used to finance the optional redemptions. The WE First Mortgage Bonds, which collateralized the redeemed tax exempt bonds, have been canceled.

During 1993, WE issued five new series of First Mortgage Bonds aggregating $350 million in principal amount, the proceeds of which were used to redeem $284.3 million principal amount of four outstanding series of First Mortgage Bonds and 626,500 shares of WE's 6.75% Series Preferred Stock. These refunding transactions are expected to result in significant savings over the lives of the new debt issues. Depending on market conditions and other factors, additional debt refundings may occur.

The Merger Agreement, entered into by WEC and NSP, provides for restrictions on certain transactions by both the Company and NSP, including the issuance of debt and equity securities. While WE does not currently plan to enter into transactions that would not comply with these restrictions, circumstances may arise to make such transactions necessary. Under such circumstances, NSP would need to agree to consent to any such change in the Merger Agreement.

Capital Structure

The Company's capitalization at December 31 was as follows:

	1995	1994
Common Equity	52.1%	50.4%
Preferred Stock	1.0	0.9
Long-Term Debt (including current maturities)	42.3	41.0
Short-Term Debt	4.6	7.7
	100.0%	100.0%

Compared to the utility industry in general, WE has maintained a relatively high ratio of common equity to total capitalization and low debt and preferred stock ratios. This conservative capital structure, along with strong bond ratings and internal cash generation has provided, and should continue to provide, the Company with access to the capital markets when necessary to finance the anticipated growth in the Company's utility business. WE currently has senior secured debt ratings of AA+ by Standard & Poor's Corporation ("S&P"), Duff & Phelps Inc. and Fitch Investors Service Inc. ("Fitch") and Aa2 by Moody's Investors Service ("Moody's").

Following announcement of the Transaction, on May 1, 1995 S&P reported that it was placing on CreditWatch with negative implications its AA+ senior secured debt and AA+ preferred stock ratings of WE. S&P stated that if the Transaction is completed, the likely credit rating for the senior secured debt of WE is expected to be AA or AA-. As part of its rating process, S&P intends to review the financial and operating plans of the merged utilities. Also on May 1, 1995, citing WE's continued operation as a separate utility subsidiary after the Transaction, its strength within its rating category and its strong capital structure, Moody's confirmed its Aa2 first mortgage bond rating of WE. On December 5, 1995, Fitch changed WE's credit trend from "stable" to "declining" based upon its analysis of cash flow trends versus its standards for an AA+ rating.

At year-end 1995, WE had approximately $109 million of unused lines of bank credit and $20 million of cash and cash equivalents.

Capital Requirements 1996-2000

The estimated capital requirements for WE for the years 1996-2000 are outlined in the table below. Compared to the Company's Annual Report on Form 10-K for the year ended December 31, 1994, the table below no longer reflects conservation expenditures. Effective January 1, 1995, WE began expensing conservation expenditures currently. Through 1995, capitalized conservation investments were amortized to Operating Expense over a ten-year amortization period. Effective January 1, 1996, WE began amortizing the remaining capitalized conservation investment to operating expense over a five-year amortization period.

The capital requirements table below does not reflect the impact of the proposed Transaction with NSP. See "RESULTS OF OPERATIONS - Mergers" above.

	1996	1997	1998	1999	2000
			(Millions of Dollars)		
Construction	$228	$189	$181	$183	$215
Bond Maturities and Refinancings	30	166	61	93	2
Changes in Fuel Inventories	3	13	4	(5)	11
Decommissioning Trust Payments	31	33	35	38	40
Total	$292	$401	$281	$309	$268

LS Power Generation Facility: In 1993, a competitive bidding process conducted by the PSCW resulted in the selection of a proposal submitted by an unaffiliated independent power producer, LSP-Whitewater L.P. ("LS Power"), to construct a generation facility to meet a portion of WE's anticipated increase in system supply needs. WE subsequently signed a long-term agreement to purchase electricity from the proposed facility. The agreement is contingent upon the facility being completed and placed into operation, which at this time is planned for mid-1997.

PSCW Advance Plan 7: In January 1994, a coordinated state-wide plan for meeting future electricity needs of Wisconsin customers was filed with the PSCW in the Advance Plan 7 Docket. In the Advance Plan process, WE, in conjunction with the other regulated electric utilities located in Wisconsin, files long-term forecasts of resource requirements, such as the need for generation and transmission facilities, along with plans to meet those requirements, including the use of energy management and conservation. The PSCW approved WE's Advance Plan 7 filing in December 1995.

In order to reliably meet its forecasted growth in demand, WE employs a least-cost integrated planning process which includes renovation of existing power plants, promotion of cost-effective conservation and load management options, development of renewable energy sources, purchases of power and construction of new company-owned generation facilities.

Investments in demand-side management programs have reduced and delayed the need to add new generating capacity but have not eliminated the need entirely. Purchases of power from other utilities and transmission system upgrades will also combine to help delay the need to install some new generating capacity in the future.

Finally, WE's Advance Plan 7 filing indicated a need for additional peaking capacity after the turn of the century, along with an anticipated need for additional intermediate-load capacity during the 2000 to 2010 time period. WE does not anticipate needing additional base load generation until after 2010.

The addition of new generating units requires approval of the PSCW following a two-stage bidding process, which could influence whether WE would construct such facilities or purchase the required power. The United States Environmental Protection Agency and the Wisconsin Department of Natural Resources ("DNR") also must approve new generating units. All generating facilities proposed by WE will meet or exceed the applicable federal and state environmental requirements.

Kimberly Cogeneration Facility: Prior to the 1993 selection of the LS Power generation facility by the PSCW, WE had proposed to construct its own 220 megawatt cogeneration facility in Kimberly, Wisconsin, which was intended to provide process steam to Repap Wisconsin, Inc. ("Repap") starting in mid-1994. In the PSCW Order, the WE project was selected as the second place conditional project if the LS Power project did not proceed. WE had made expenditures for the Kimberly facility of approximately $65.8 million associated with the procurement of three combustion turbines, one steam turbine and three heat recovery boilers in order to achieve the in-service dates as agreed to in a steam service contract with Repap.

The Company is currently reviewing its options regarding its Kimberly Cogeneration Facility equipment (the "Equipment"). The Equipment is of a technology of natural gas-fired combined cycle generation equipment that is marketed worldwide. The Company is investigating opportunities to sell the Equipment or to use it in another power project and is currently evaluating potential sales opportunities and/or power projects involving the Equipment. At this time, the Company does not believe that disposition of the Equipment will have a material adverse effect on its financial condition. However, there is a possibility that WE may need to recognize an impairment of the Equipment in the future should the projects noted above not occur and should no other viable sales opportunities and/or power projects involving the Equipment be identified.

Point Beach Unit 2 Steam Generators and Dry Cask Storage Facility: WE operates two 500 megawatt generating units at Point Beach. During 1995, Point Beach accounted for 26.9% of WE's net electric generation. The current operating licenses for the two units at Point Beach expire in 2010 and 2013 for Units 1 and 2, respectively.

In October 1992, WE filed an application with the PSCW for replacement of the Point Beach Unit 2 steam generators. As a result of degradation of some of the tubes within the Unit 2 steam generators, the unit has been operating at approximately 90% of its capacity since its return to service after its annual refueling outage in the fall of 1995. In February 1995, the PSCW deferred a decision on the replacement of the steam generators in part to gather more information during the fall 1995 refueling outage. An evaluation of information gathered during this outage was included in a Supplemental Environmental Impact Statement ("SEIS") prepared by the PSCW that shows the replacement of the Unit 2 steam generators to be the most cost-effective option when compared to all credible alternatives. Considering the rate of tube degradation in the steam generators, there is a likelihood that WE would not be able to restart Unit 2 following the fall 1996 outage without replacement of the steam generators. In its SEIS, the PSCW estimates that failure to replace the Unit 2 steam generators would cost WE customers up to $494 million over the next 25 years to replace lost generation when compared to the current estimated cost of replacement of $96 million.

In a related matter, WE received a Certificate of Authority from the PSCW in February 1995 to construct and operate an Independent Spent Fuel Storage Installation ("ISFSI"). The ISFSI will provide interim dry cask storage of spent fuel from Point Beach using a system that was certified by the NRC after a four-year technical review. Construction was completed in June 1995 with associated capital costs of $8.5 million. WE loaded the first cask with spent fuel in December 1995. On December 22, 1995, the Dane County Circuit Court ("Court") issued a decision vacating and remanding the February 1995 order of the PSCW on procedural grounds, stating that the Environmental Impact Statement prepared by the PSCW for this project was inadequate in two respects. Transfer of additional spent fuel to the ISFSI has been temporarily suspended by WE pending the PSCW's further action.

The PSCW has issued two SEIS's which address steam generator issues and the inadequacies found by the Court with the original Environmental Impact Statement for the ISFSI project. The PSCW held related hearings on these matters in February and March 1996. WE anticipates that the PSCW will issue a combined final order on replacement of the Unit 2 steam generators and the remanded dry cask storage matters in May 1996. Failure by the PSCW to approve the steam generator replacement and resolve the remanded issues could jeopardize the continued operation of Point Beach and materially affect WE's financial position and results of operations. WE would likely seek regulatory relief to minimize the replacement power costs resulting from lost generating capacity.

The ISFSI was necessary because the spent fuel pool inside the plant is nearly full. The dry storage facility will be used until the United States Department of Energy ("DOE") takes ownership of and removes the spent fuel. While WE as well as other operators of nuclear power facilities in the United States have a contract mandated by federal law that calls for the DOE to begin accepting fuel in 1998, the DOE is not in a position to meet its commitment. If this commitment is not met, WE will need to construct additional casks and will seek PSCW approval to do so.

Milwaukee County Power Plant: In December 1995, WE signed an agreement with Milwaukee County to purchase the Milwaukee County Power Plant located in Wauwatosa, Wisconsin. The 11 megawatt power plant provides steam, chilled water and electricity for the Milwaukee Regional Medical Center and several other large customers located on the Milwaukee County grounds. WE had previously obtained approval from the PSCW for the purchase of the electric generation and distribution facilities and acquired them in December 1995 with a capital expenditure of $7 million. WE will integrate the electric facilities into its current electric utility operations. In February 1996, WE filed an application with the PSCW for a Certificate of Authority to acquire and place in operation the steam production and distribution facilities. Capital costs for the steam facilities will be $20 million. WE anticipates PSCW approval of the acquisition by mid-1996 and will integrate the steam facilities into its current steam utility operations. In conjunction with the steam facility acquisition anticipated in mid-1996, WEC will acquire and operate the chilled water facility as a non-regulated business. Purchase of the steam and chilled water portions of the plant is contingent upon PSCW approval to acquire the steam facilities and upon the five major customers signing ten-year steam and chilled water service agreements.

Capital Resources

During the five-year period ending December 31, 2000, WE expects internal sources of funds from operations, after dividends to WEC, to provide about 87% of the utility capital requirements. The remaining utility cash requirements are expected to be met through short-term borrowings and the issuance of intermediate or long-term debt. The specific form, amount and timing of debt securities which may be issued have not yet been determined and will depend, to a large extent, on market conditions and other factors. The anticipated capital resources during this period do not reflect the impact of the proposed merger with NSP. See "RESULTS OF OPERATIONS - Mergers" above.

Environmental Issues

Clean Air Act: The 1990 Amendments to the Clean Air Act mandate significant nation-wide reductions in SO_2 and NO_x emissions to address acid rain and ground level ozone control requirements.

In 1994, WE completed the installation of continuous emission monitors at all of its facilities and installed low NO_x burners on one boiler at its Oak Creek Power Plant and two boilers at its Valley Power Plant. These actions, along with the burning of low sulfur coal and the installation of low NO_x burners on other boilers at Oak Creek and Valley Power Plants in early 1995, meet the requirements that became effective January 1, 1995. To date, approximately $45.3 million has been spent on compliance with the 1990 amendments to the Clean Air Act.

WE elected to voluntarily bring the Valley and Port Washington Power Plants under jurisdiction of the NO_x and SO_2 requirements of the Clean Air Act amendments of 1990, five years earlier than mandated. This was possible because these units meet the more stringent phase II emissions standards today.

WE projects a surplus of SO_2 emission allowances and is seeking additional allowances available as a result of energy conservation programs. As an integral component of its least-cost plan, WE is active in SO_2 allowance trading. Revenue from the sale of allowances is being used to offset future potential rate increases.

Additional fuel switching and the installation of NO_x controls at various power plants will be required to meet the second phase of reduction requirements that become effective January 1, 2000. These costs, along with additional operating expenses, are not expected to exceed $40.3 million based on today's costs.

Manufactured Gas Plant Sites: WE's natural gas business unit is investigating the remediation of a number of former manufactured gas plant ("MGP") sites. Operations at these MGP sites ceased over 40 years ago. Limited remediation activities occurred at a number of these sites during the 1980's, with removal of waste materials known to be present at that time. In 1995, WE presented a plan to investigate and further remediate sites to the DNR. During 1995, WE conducted site investigations at four sites and partial remediation activities were conducted at one site. Approximately $1.6 million has been spent through December 31, 1995 for such activities. Remediation costs to be incurred through the year 2000 have been estimated to be $12 million, but the total costs are uncertain pending the results of further site specific investigations and the selection of site specific remedial actions. In its September 11, 1995 letter order, the PSCW allowed WE to defer MGP site remediation costs with final rate treatment of such costs to be determined in future rate cases. As of December 31, 1995, WE has recorded an accrued liability of $1.6 million for MGP site remediation and a related deferred regulatory asset of $3.2 million. WE expects to accrue additional MGP site remediation liabilities during 1996 as site specific investigations are completed and site specific remedial actions are identified. WE will seek rate recovery for these costs and does not anticipate that there will be a material adverse effect on its net income or financial position.

Ash Landfill Sites: WE aggressively seeks environmentally acceptable, beneficial uses of its combustion byproducts. However, ash materials have been, and to some degree, continue to be disposed in company-owned, licensed landfills. Some early designed and constructed landfills may allow the release of low levels of constituents resulting in the need for various levels of remediation. Where WE has become aware of these conditions, efforts have been expended to define the nature and extent of any release, and work has been performed to address these conditions. These costs are included in the environmental operating and maintenance costs of WE.

WISCONSIN ELECTRIC POWER COMPANY

INCOME STATEMENT

Year Ended December 31

	1995	1994	1993
		(Thousands of Dollars)	
Operating Revenues			
Electric	$1,437,480	$1,403,562	$1,347,844
Gas	318,262	324,349	331,301
Steam	14,742	14,281	14,090
Total Operating Revenues	1,770,484	1,742,192	1,693,235
Operating Expenses			
Fuel (Note F)	303,553	285,862	263,385
Purchased power	41,834	42,623	54,880
Cost of gas sold	188,764	199,511	214,132
Other operation expenses	395,242	399,011	399,135
Maintenance	112,400	124,602	156,085
Revitalization (Note K)	-	73,900	-
Depreciation (Note C)	183,876	177,614	167,066
Taxes other than income taxes	74,765	76,035	74,653
Federal income tax (Note D)	119,939	104,725	74,463
State income tax (Note D)	28,405	24,756	15,530
Deferred income taxes - net (Note D)	(2,833)	(25,095)	13,096
Investment tax credit - net (Note D)	(4,482)	(4,625)	(4,626)
Total Operating Expenses	1,441,463	1,478,919	1,427,799
Operating Income	329,021	263,273	265,436
Other Income and Deductions			
Interest income	12,850	11,715	13,753
Allowance for other funds used during construction (Note E)	3,650	4,985	8,457
Miscellaneous - net	5,677	10,727	9,568
Federal income tax (Note D)	(535)	(1,504)	(1,832)
State income tax (Note D)	(370)	(589)	(832)
Total Other Income and Deductions	21,272	25,334	29,114
Income Before Interest Charges	350,293	288,607	294,550
Interest Charges			
Long-term debt	99,727	102,059	103,262
Other interest	11,960	7,610	3,945
Allowance for borrowed funds used during construction (Note E)	(2,062)	(2,816)	(4,737)
Total Interest Charges	109,625	106,853	102,470
Net Income	240,668	181,754	192,080
Preferred Stock Dividend Requirement	1,203	1,351	4,377
Earnings Available for Common Stockholder	$ 239,465	$ 180,403	$ 187,703

Note: Earnings and dividends per share of common stock are not applicable because all of the company's common stock is owned by Wisconsin Energy Corporation.

The notes are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY

STATEMENT OF CASH FLOWS

Year Ended December 31

	1995	1994	1993
		(Thousands of Dollars)	
Operating Activities			
Net income	$240,668	$181,754	$192,080
Reconciliation to cash			
Depreciation	183,876	177,614	167,066
Revitalization - net	(5,404)	43,860	-
Nuclear fuel expense - amortization	22,324	21,437	21,366
Conservation expense - amortization	21,870	20,910	15,254
Debt premium, discount & expense - amortization	12,652	14,368	13,617
Deferred income taxes - net	(2,833)	(25,095)	13,096
Investment tax credit - net	(4,482)	(4,625)	(4,626)
Allowance for other funds used during construction	(3,650)	(4,985)	(8,457)
Change in - Accounts receivable	(32,639)	7,684	(17,952)
Inventories	5,233	11,455	(11,186)
Accounts payable	16,650	(20,683)	7,864
Other current assets	(4,068)	(9,878)	1,039
Other current liabilities	17,097	9,980	19,273
Other	(29,204)	(13,123)	(5,606)
Cash Provided by Operating Activities	438,090	410,673	402,828
Investing Activities			
Construction expenditures	(248,867)	(271,448)	(334,932)
Allowance for borrowed funds used during construction	(2,062)	(2,816)	(4,737)
Nuclear fuel	(23,454)	(26,351)	(20,016)
Nuclear decommissioning trust	(10,861)	(10,138)	(11,371)
Conservation investments - net	2,130	(20,823)	(35,252)
Other	(4,511)	(10,205)	612
Cash Used in Investing Activities	(287,625)	(341,781)	(405,696)
Financing Activities			
Sale of long-term debt	217,453	32,474	361,049
Retirement of long-term debt	(134,172)	(35,069)	(332,862)
Change in short-term debt	(91,811)	49,294	71,004
Stockholder capital contribution	30,000	30,000	10,000
Retirement of preferred stock	-	(5,250)	(65,504)
Dividends on stock - common	(159,576)	(150,951)	(74,771)
- preferred	(1,203)	(1,381)	(4,729)
Other	-	-	135
Cash Used in Financing Activities	(139,309)	(80,883)	(35,678)
Change in Cash and Cash Equivalents	$ 11,156	$(11,991)	$(38,546)
Supplemental information disclosures			
Cash Paid For			
Interest (net of amount capitalized)	$ 99,352	$ 93,383	$ 85,299
Income taxes	149,224	148,552	101,216

The notes are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY

BALANCE SHEET
December 31

ASSETS

	1995	1994
	(Thousands of Dollars)	
Utility Plant		
Electric	$4,531,404	$4,304,925
Gas	489,739	467,732
Steam	40,078	40,103
	5,061,221	4,812,760
Accumulated provision for depreciation	(2,288,080)	(2,134,469)
	2,773,141	2,678,291
Construction work in progress	78,153	205,835
Nuclear fuel - net (Note F)	59,260	56,606
Net Utility Plant	2,910,554	2,940,732
Other Property and Investments		
Nuclear decommissioning trust fund (Note F)	275,125	226,805
Conservation investments	115,523	138,489
Other	36,979	32,974
Total Other Property and Investments	427,627	398,268
Current Assets		
Cash and cash equivalents	19,550	8,394
Accounts receivable, net of allowance for doubtful accounts - $13,400 and $12,078	144,476	111,837
Accrued utility revenues	140,201	128,107
Fossil fuel (at average cost)	83,366	88,587
Materials and supplies (at average cost)	70,347	70,359
Prepayments	55,147	61,160
Other assets	4,637	6,650
Total Current Assets	517,724	475,094
Deferred Charges and Other Assets		
Accumulated deferred income taxes (Note D)	136,581	137,931
Deferred regulatory assets (Note A)	193,757	197,103
Other	132,681	53,065
Total Deferred Charges and Other Assets	463,019	388,099
Total Assets	$4,318,924	$4,202,193

The notes are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY

BALANCE SHEET
December 31

CAPITALIZATION and LIABILITIES

	1995	1994
	(Thousands of Dollars)	
Capitalization (See Capitalization Statement)		
Common stock equity	$1,696,565	$1,586,676
Preferred stock	30,451	30,451
Long-term debt (Note H)	1,325,169	1,257,776
Total Capitalization	3,052,185	2,874,903
Current Liabilities		
Long-term debt due currently (Note H)	51,419	32,136
Notes payable (Note I)	150,694	242,505
Accounts payable	107,115	90,465
Payroll and vacation accrued	26,699	26,507
Taxes accrued - income and other	18,378	20,589
Interest accrued	21,617	23,254
Other	48,762	28,009
Total Current Liabilities	424,684	463,465
Deferred Credits and Other Liabilities		
Accumulated deferred income taxes (Note D)	479,828	472,746
Accumulated deferred investment tax credits	89,672	94,154
Deferred regulatory liabilities (Note A)	167,483	171,599
Other	105,072	125,326
Total Deferred Credits and Other Liabilities	842,055	863,825
Commitments and Contingencies (Note N)		
Total Capitalization and Liabilities	$4,318,924	$4,202,193

The notes are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY
CAPITALIZATION STATEMENT
December 31

	1995	1994
	(Thousands of Dollars)	
Common Stock Equity (See Common Stock Equity Statement)		
Common stock - $10 par value; authorized 65,000,000 shares; outstanding - 33,289,327 shares	$ 332,893	$ 332,893
Other paid in capital	280,689	250,689
Retained earnings	1,082,983	1,003,094
Total Common Stock Equity	1,696,565	1,586,676
Preferred Stock - Cumulative		
Six Per Cent. Preferred Stock - $100 par value; authorized 45,000 shares; outstanding - 44,508 shares	4,451	4,451
Serial preferred stock - $100 par value; authorized 2,286,500 and 2,360,000 shares; outstanding - 3.60% Series - 260,000 shares	26,000	26,000
Total Preferred Stock (Note G)	30,451	30,451
Long-Term Debt		
First mortgage bonds		
Series — Due		
5-5/8% — 1995	-	10,000
4-1/2% — 1996	30,000	30,000
5-7/8% — 1997	130,000	130,000
6-5/8% — 1997	10,000	10,000
5-1/8% — 1998	60,000	60,000
6.10 % — 1999-2008	-	25,000
6.25 % — 1999-2008	-	1,000
6-1/2% — 1999	40,000	40,000
6-5/8% — 1999	51,000	51,000
6.45 % — 2004	-	12,000
7-1/4% — 2004	140,000	140,000
6.45 % — 2006	-	4,000
6.50 % — 2007-2009	-	10,000
9-3/4% — 2015	-	46,350
7-1/8% — 2016	100,000	100,000
6.85 % — 2021	9,000	9,000
7-3/4% — 2023	100,000	100,000
7.05 % — 2024	60,000	60,000
9-1/8% — 2024	3,443	3,443
8-3/8% — 2026	100,000	100,000
7.70 % — 2027	200,000	200,000
	1,033,443	1,141,793
Debentures (unsecured)		
6-1/8% — 1997	25,000	25,000
10-1/4% — 1998	-	2,290
9.47% — 2006	7,000	7,000
8-1/4% — 2022	25,000	25,000
6-7/8% — 2095	100,000	-
Notes (unsecured)		
Variable rate due 2006	1,000	-
Variable rate due 2015	17,350	-
Variable rate due 2016	67,000	67,000
Variable rate due 2030	80,000	-
Obligations under capital lease (Note F)	43,924	43,696
Unamortized discount - net	(23,129)	(21,867)
Long-term debt due currently	(51,419)	(32,136)
Total Long-Term Debt (Note H)	1,325,169	1,257,776
Total Capitalization	[illegible] 185	$2,874,903

The notes are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY

COMMON STOCK EQUITY STATEMENT

	Common Stock Shares	Common Stock $10 Par Value	Other Paid In Capital	Retained Earnings	Total
			(Thousands of Dollars)		
Balance - December 31, 1992	33,289,327	$332,893	$213,409	$ 861,092	$1,407,394
Net income				192,080	192,080
Cash dividends					
Common stock				(74,771)	(74,771)
Preferred stock				(4,729)	(4,729)
Purchase of preferred stock (Note G)			(2,854)		(2,854)
Stockholder capital contribution			10,000		10,000
Other			134	245	379
Balance - December 31, 1993	33,289,327	332,893	220,689	973,917	1,527,499
Net income				181,754	181,754
Cash dividends					
Common stock				(150,951)	(150,951)
Preferred stock				(1,381)	(1,381)
Stockholder capital contribution			30,000		30,000
Other				(245)	(245)
Balance - December 31, 1994	33,289,327	332,893	250,689	1,003,094	1,586,676
Net income				240,668	240,668
Cash dividends					
Common stock				(159,576)	(159,576)
Preferred stock				(1,203)	(1,203)
Stockholder capital contribution			30,000		30,000
Balance - December 31, 1995	33,289,327	$332,893	$280,689	$1,082,983	$1,696,565

The notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

A - Summary of Significant Accounting Policies

General: The accounting records of Wisconsin Electric Power Company ("WE" or the "Company") are kept as prescribed by the Federal Energy Regulatory Commission ("FERC"), modified for requirements of the Public Service Commission of Wisconsin ("PSCW").

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenues: Utility revenues are recognized on the accrual basis and include estimated amounts for service rendered but not billed.

Fuel: The cost of fuel is expensed in the period consumed.

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

Deferred Regulatory Assets and Liabilities: Pursuant to Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, WE capitalizes, as deferred regulatory assets, incurred costs which are expected to be recovered in future utility rates. WE also records, as deferred regulatory liabilities, the current recovery in utility rates of costs which are expected to be paid in the future. A significant portion of WE's deferred regulatory assets and liabilities relate to the amounts recorded due to the adoption of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ("FAS 109"). (See Note D.)

Statement of Cash Flows: Cash and cash equivalents include marketable debt securities acquired three months or less from maturity.

Conservation Investments: WE directs a variety of demand-side management programs to help foster energy conservation by its customers. As authorized by the PSCW, WE capitalized certain conservation program costs prior to 1995. Utility rates approved by the PSCW provide for a current return on these conservation investments. Through 1995, conservation investments were charged to operating expense over a ten-year amortization period. Beginning in 1996, the capitalized conservation balance will be charged to operating expense on a straight line basis over a five-year amortization period.

New Pronouncements: In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets ("FAS 121"). FAS 121 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company will adopt FAS 121 prospectively in 1996. It is anticipated that adoption will not have a material effect on net income or financial position.

B - Mergers

Wisconsin Natural Gas Company: Effective January 1, 1996, Wisconsin Energy Corporation ("WEC"), WE's parent company, merged its natural gas utility subsidiary, Wisconsin Natural Gas Company ("WN") into WE. The accounting treatment for this merger was similar to that which would result from a pooling of interests. The Company's prior years' financial information has been restated to include WN at historical values. Where applicable, references to WE include WN prior to their merger.

Wisconsin Southern Gas Company, Inc.: Effective January 1, 1994, WEC acquired all of the outstanding common stock of Wisconsin Southern Gas Company, Inc. ("WSG") through a statutory merger of WSG into WN in which all of WSG's common stock was converted into common stock of WEC. WSG was a gas utility engaged in the purchase, distribution, transportation and sale of natural gas primarily in a section of southeastern Wisconsin which was contiguous to WN's service territory. WSG was merged into WN using the pooling of interests method of accounting. Accordingly, prior years' financial and statistical information was restated to include WSG at historical values.

Northern States Power Company: On April 28, 1995, WEC and Northern States Power Company, a Minnesota corporation ("NSP"), entered into an Agreement and Plan of Merger, which was amended and restated as of July 26, 1995 ("Merger Agreement"). The Merger Agreement provides for a strategic business combination involving WEC and NSP in a "merger-of-equals" transaction ("Transaction"). As a result, WEC will become a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended, and will change its name to Primergy Corporation ("Primergy"). Primergy will be the parent company of WE (which will be renamed Wisconsin Energy Company), of NSP (which, for regulatory reasons, will reincorporate in Wisconsin ("New NSP")), and of the other subsidiaries of WEC and NSP. The Transaction is intended to be tax-free for income tax purposes and to be accounted for as a pooling of interests. On September 13, 1995, stockholders of WEC and NSP voted to approve the Transaction. The Merger Agreement is subject to various conditions, including the approval of various regulatory agencies. Subject to obtaining all requisite approvals, WEC and NSP anticipate completing the Transaction by January 1, 1997.

In connection with the Transaction, Northern States Power Company, a Wisconsin corporation ("NSP-WI"), currently a subsidiary of NSP, will be merged into Wisconsin Energy Company. Prior to the merger of NSP-WI into Wisconsin Energy Company, New NSP will acquire from NSP-WI certain gas utility assets in LaCrosse and Hudson, Wisconsin with a net historical cost at December 31, 1995 of approximately $19.3 million.

The following summarized Wisconsin Energy Company unaudited pro forma financial information combines historical balance sheet and income statement information of WE and NSP-WI to give effect to the Transaction, including the transfer of the gas assets from NSP-WI to New NSP, and should be read in conjunction with the historical financial statements and related notes thereto of WE and NSP-WI. The unaudited pro forma income statement information does not reflect adjustments for 1995 revenues of $28.9 million and related expenses associated with the transfer of the gas assets from NSP-WI to New NSP. A $136.6 million pro forma adjustment has been made to conform the presentation of noncurrent deferred income taxes in the summarized unaudited pro forma combined balance sheet information as a net liability. The allocation between WEC and NSP and their customers of the estimated cost savings resulting from the Transaction, net of costs incurred to achieve such savings, will be subject to regulatory review and approval. None of the estimated cost savings, the costs to achieve such savings, nor transaction costs are reflected in the unaudited pro forma financial information. All other financial statement presentation and accounting policy differences are immaterial and have not been adjusted in the unaudited pro forma financial information.

The unaudited pro forma balance sheet information gives effect to the Transaction as if it had occurred at December 31, 1995. The unaudited pro forma income statement information gives effect to the Transaction as if it had occurred at January 1, 1995. The following information is not necessarily indicative of the financial position or operating results that would have occurred had the Transaction been consummated on the date or at the beginning of the period for which the Transaction is being given effect nor is it necessarily indicative of future operating results or financial position.

Wisconsin Energy Company: *	WE (As Reported)	NSP-WI (As Reported)	Unaudited Pro Forma Combined**
	(Millions of Dollars)		
As of December 31, 1995:			
Utility plant-net	$ 2,911	$ 652	$ 3,544
Current assets	518	86	620
Other assets	890	53	807
Total Assets	$ 4,319	$ 791	$ 4,971
Common stockholder's equity	$ 1,697	$ 318	$ 2,015
Preferred stock and premium	30	-	30
Long-term debt	1,325	214	1,539
Total Capitalization	3,052	532	3,584
Current liabilities	425	102	527
Other liabilities	842	157	860
Total Equity & Liabilities	$ 4,319	$ 791	$ 4,971
For the Year Ended December 31, 1995:			
Utility Operating Revenues	$ 1,770	$ 459	$ 2,229
Utility Operating Income	$ 329	$ 56	$ 385
Net Income, after Preferred Dividend Requirements	$ 239	$ 39	$ 278

* In connection with the Merger Agreement, WE will be renamed Wisconsin Energy Company.

** Includes a pro forma adjustment for the transfer of selected gas assets from NSP-WI to New NSP and a $136.6 million pro forma adjustment to conform the presentation of noncurrent deferred taxes as a net liability.

Note: Earnings per share of common stock are not applicable because all of the Wisconsin Energy Company common stock will be owned by Primergy.

C - Depreciation

Depreciation expense is accrued at straight line rates over the estimated useful lives of the assets. These rates are certified by the PSCW and include estimates for salvage and removal costs. Depreciation as a percent of average depreciable utility plant was 3.8% in 1995 and 3.9% in 1994 and 1993. Nuclear plant decommissioning is accrued as depreciation expense (see Note F).

D - Income Taxes

Comprehensive interperiod income tax allocation is used for federal and state temporary 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.

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

	1995	1994	1993
	(Thousands of Dollars)		
Current tax expense	$149,249	$131,574	$ 92,657
Investment tax credit-net	(4,482)	(4,625)	(4,626)
Deferred tax expense	(2,833)	(25,095)	13,096
Total Tax Expense	$141,934	$101,854	$101,127
Income Before Income Taxes and Preferred Dividend	$382,602	$283,608	$293,207
Expected tax at federal statutory rate	$133,911	$ 99,263	$102,622
State income tax net of federal tax reduction	18,943	14,087	12,078
Investment tax credit restored	(4,482)	(4,625)	(5,241)
Other (no item over 5% of expected tax)	(6,438)	(6,871)	(8,332)
Total Tax Expense	$141,934	$101,854	$101,127

FAS 109 requires the recording of deferred assets and liabilities to recognize the expected future tax consequences of events that have been reflected in the Company's financial statements or tax returns and the adjustment of deferred tax balances to reflect tax rate changes. Following is a summary of deferred income taxes under FAS 109:

	December 31	
	1995	1994
	(Thousands of Dollars)	
Deferred Income Tax Assets		
Decommissioning trust	$ 43,759	$ 42,685
Construction advances	43,052	40,839
Other	49,770	54,407
Total Deferred Income Tax Assets	$136,581	$137,931
Deferred Income Tax Liabilities		
Property related	$445,878	$428,044
Conservation investments	25,775	27,564
Other	8,175	17,138
Total Deferred Income Tax Liabilities	$479,828	$472,746

WE also has recorded the following deferred regulatory assets and liabilities representing the future expected impact of deferred taxes on utility revenues:

	December 31	
	1995	1994
	(Thousands of Dollars)	
Deferred Regulatory Assets	$155,944	$158,912
Deferred Regulatory Liabilities	163,676	171,549

E - Allowance for Funds Used During Construction ("AFUDC")

AFUDC is included in utility plant accounts and represents the cost of borrowed funds used during plant construction and a 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.

Utility rates approved by the PSCW provide for a current return on investment for selected long-term projects included in construction work in progress ("CWIP"). AFUDC was capitalized on the remaining CWIP at a rate of 10.83% in 1995, 1994 and 1993, as approved by the PSCW.

F - Nuclear Operations

Point Beach Nuclear Plant: WE operates two 500 megawatt generating units at its Point Beach Nuclear Plant ("Point Beach"). During 1995, Point Beach accounted for 26.9% of WE's net electric generation. The current operating licenses for the two units at Point Beach expire in 2010 and 2013 for Units 1 and 2, respectively.

WE has filed an application with the PSCW for replacement of the Point Beach Unit 2 steam generators. As a result of degradation of some of the tubes within the Unit 2 steam generators, the unit has been operating at approximately 90% of its capacity since its return to service after its annual refueling outage in the fall of 1995. Considering the rate of tube degradation in the steam generators, there is a likelihood that WE would not be able to restart Unit 2 following the fall 1996 outage without replacement of the steam generators.

In a related matter, WE completed construction of an Independent Spent Fuel Storage Installation ("ISFSI") in June 1995. The ISFSI will provide interim dry cask storage of spent fuel from Point Beach, which is necessary because the spent fuel pool inside the plant is nearly full. WE loaded the first cask with spent fuel in December 1995. On December 22, 1995, the Dane County Circuit Court ("Court") issued a decision vacating and remanding the February 1995 PSCW approval of the ISFSI on procedural grounds, stating that the Environmental Impact Statement prepared by the PSCW for this project was inadequate in two respects. Transfer of additional spent fuel to the ISFSI has been temporarily suspended by WE pending the PSCW's further action.

The PSCW has issued two Supplemental Environmental Impact Statements which address steam generator issues and the inadequacies found by the Court with the original Environmental Impact Statement for the ISFSI project. The PSCW held related hearings on these matters in February and March 1996. WE anticipates that the PSCW will issue a combined final order on the replacement of the Unit 2 steam generators and the remanded dry cask storage matters in May 1996. Failure by the PSCW to approve steam generator replacement and resolve the remanded issues could jeopardize the continued operation of Point Beach and materially affect WE's financial position and results of operations. WE would likely seek regulatory relief to minimize the replacement power costs resulting from lost generating capacity.

Nuclear Fuel: WE has a nuclear fuel leasing arrangement with Wisconsin Electric Fuel Trust ("Trust"), which is treated as a capital lease. 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 WE or the Trust terminates the lease, the Trust would recover its unamortized cost of nuclear fuel from WE. Under the lease terms, WE is in effect the ultimate guarantor of the Trust's commercial paper and line of credit borrowings financing the investment in nuclear fuel.

Provided below is a summary of nuclear fuel investment at December 31 and interest expense for the respective years on the nuclear fuel lease:

	1995	1994	1993
	(Thousands of Dollars)		
Nuclear Fuel			
Under capital lease	$ 89,840	$ 89,705	
Accumulated provision for amortization	(50,532)	(50,983)	
In process/stock	19,952	17,884	
Total Nuclear Fuel	$ 59,260	$ 56,606	
Interest Expense on Nuclear Fuel Lease	$ 2,401	$ 1,896	$ 1,697

The future minimum lease payments under the capital lease and the present value of the net minimum lease payments as of December 31, 1995 are as follows:

	(Thousands of Dollars)
1996	$ 22,446
1997	14,747
1998	6,960
1999	2,443
2000	490
Total Minimum Lease Payments	47,086
Less: Interest	(3,162)
Present Value of Net Minimum Lease Payments	$ 43,924

The estimated cost of disposal of spent fuel based on a contract with the U.S. Department of Energy ("DOE") is included in nuclear fuel expense. The Energy Policy Act of 1992 establishes a Uranium Enrichment Decontamination and Decommissioning Fund ("D&D Fund") for the DOE's nuclear fuel enrichment facilities. Deposits to the D&D Fund are derived in part from special assessments to utilities. As of December 31, 1995, WE has on its books a remaining estimated liability equal to the projected special assessments of $29.5 million. A corresponding deferred regulatory asset will be amortized to nuclear fuel expense and included in utility rates over the next 12 years.

Nuclear Insurance: The Price-Anderson Act ("Act") provides an aggregate limitation of $8.9 billion on public liability claims arising out of a nuclear incident. WE has $200 million of liability insurance from commercial sources. The Act also establishes an industry-wide retrospective rating plan under which nuclear reactor owners could be assessed up to $79 million per reactor (WE owns two), but not more than $10 million in any one year for each reactor, in the event of a nuclear incident.

An industry-wide insurance program, with an aggregate limit of $200 million, has been established to cover radiation injury claims of nuclear workers first employed after 1987. If claims in excess of the available funds develop, WE could be assessed a maximum of approximately $3.0 million per reactor.

WE has property damage, decontamination and decommissioning insurance totaling $1.5 billion for loss from damage at Point Beach with Nuclear Mutual Limited ("NML") and Nuclear Electric Insurance Limited ("NEIL"). Under the NML and NEIL policies, WE has a potential maximum retrospective premium liability per loss of $5.6 million and $9.8 million, respectively.

WE also maintains additional insurance with NEIL covering extra expenses of obtaining replacement power during a prolonged accidental outage (in excess of 21 weeks) at Point Beach. This insurance coverage provides weekly indemnities of $3.5 million per unit for outages during the first year, declining to 80% of the amounts during the second and third years. Under the policy, WE's maximum retrospective premium liability is approximately $7.7 million.

It should not be assumed that, in the event of a major nuclear incident, any insurance or statutory limitation of liability would protect WE from material adverse impact.

Nuclear Decommissioning: Subject to approval by the PSCW of the Point Beach Unit 2 steam generator replacements and resolution of the remanded ISFSI matters described above, WE expects to operate the two units at Point Beach to the expiration of their current operating licenses. The estimated cost to decommission the plant in

1995 dollars is $356 million based upon a site specific decommissioning cost study completed in 1994. Assuming plant shutdown at the expiration of the current operating licenses, prompt dismantlement and annual escalation of costs at specific inflation factors established by the PSCW, it is projected that approximately $1.6 billion will be spent over a twenty-year period, beginning in 2010, to decommission the plant.

Nuclear decommissioning costs are accrued as depreciation expense over the expected service lives of the two units based upon an external sinking fund method. In 1996, WE has increased its funding levels based on a site specific estimate as required by the PSCW. It is expected that the annual payments to the Nuclear Decommissioning Trust Fund ("Fund") along with the earnings on the Fund will provide sufficient funds at the time of decommissioning. WE believes it is probable that any shortfall in funding would be recoverable in utility rates.

As required by Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities ("FAS 115"), WE's debt and equity security investments in the Fund are classified as available for sale. Gains and losses on the Fund were determined on the basis of specific identification; net unrealized holding gains on the Fund were recorded as part of accumulated provision for depreciation.

Following is a summary of decommissioning costs and earnings charged to depreciation expense and the Fund balance included in accumulated provision for depreciation at December 31. The Fund balance is stated at fair value:

	1995	1994	1993
	(Thousands of Dollars)		
Decommissioning costs	$ 3,456	$ 3,456	$ 3,456
Earnings	7,405	6,682	7,915
Depreciation Expense	$ 10,861	$ 10,138	$ 11,371
Total costs accrued to date	$235,420	$224,559	
Unrealized gain	39,705	2,246	
Accumulated Provision for Depreciation	$275,125	$226,805	

G - Preferred Stock

Serial Preferred Stock authorized but unissued is cumulative, $25 par value, 5,000,000 shares.

In the event of default in the payment of preferred dividends, no dividends or other distributions may be paid on the Company's common stock.

The 3.60% Series Preferred Stock is redeemable in whole or in part at the option of WE at $101 per share plus any accrued dividends.

In 1994, WE called for redemption all of its 52,500 outstanding shares of 6.75% Series Preferred Stock at a redemption price of par. In 1993, WE called for redemption 626,500 shares at a purchase price of $104.05 per share plus accrued dividends to the redemption date.

H - Long-Term Debt

The maturities and sinking fund requirements through 2000 for the aggregate amount of long-term debt outstanding (excluding obligations under capital lease, see Note F) at December 31, 1995 are shown below:

	(Thousands of Dollars)
1996	$ 30,000
1997	165,700
1998	60,700
1999	91,700
2000	700

Sinking fund requirements for the years 1996 through 2000, included in the table above, are $2.8 million. Substantially all utility plant is subject to the applicable mortgage.

Long-term debt premium or discount and expense of issuance are amortized by the straight line method over the lives of the debt issues and included as interest expense. Unamortized amounts pertaining to reacquired debt are written off currently, when acquired for sinking fund purposes, or amortized in accordance with PSCW orders, when acquired for early retirement.

The fair value of the Company's long-term debt was $1.5 billion and $1.2 billion at December 31, 1995 and 1994, respectively. The fair value of the first mortgage bonds and debentures is estimated based upon the market value of the same or similar issues. Book value approximates fair value for the Company's unsecured notes. The fair value of WE's obligations under capital lease is the market value of the Wisconsin Electric Fuel Trust's commercial paper.

In September and October 1995, WE issued $98.35 million of unsecured variable rate promissory notes maturing between March 1, 2006 and September 1, 2030. These notes were issued as a revenue and collateral source for an equal principal amount of tax exempt Refunding Revenue Bonds issued on WE's behalf to refund $98.35 million of previously issued tax exempt bonds called for optional redemption that were secured by WE's First Mortgage Bonds.

In December 1995, WE issued $100 million of unsecured One Hundred Year 6 7/8% Debentures due 2095. Proceeds of the issue were added to WE's general funds and were applied to the repayment of short-term borrowings.

At December 31, 1995, the interest rate for the $67 million variable rate note due 2016 was 5.00% and the interest rate for the $98.35 million variable rate notes due 2006-2030 was 5.10%.

I - Notes Payable

Short-term notes payable balances and their corresponding weighted average interest rates consist of:

	December 31			
	1995		1994	
	Balance	Interest Rate	Balance	Interest Rate
	(Thousands of Dollars)			
Banks	$100,885	5.78%	$ 87,399	6.03%
Commercial paper	49,809	5.88%	155,106	6.04%
	$150,694		$242,505	

Unused lines of credit for short-term borrowing amounted to $108.6 million at December 31, 1995. In support of various informal lines of credit from banks, the Company has agreed to maintain unrestricted compensating balances or to pay commitment fees; neither the compensating balances nor the commitment fees are significant.

J - Pension Plans

Effective in 1993, the PSCW adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions ("FAS 87"), for ratemaking.

WE has several defined benefit noncontributory pension plans covering all eligible employees. Pension benefits are based on years of service and the employee's compensation. The majority of the plans' assets are equity securities; other assets include corporate and government bonds and real estate. The plans are funded to meet the requirements of the Employee Retirement Income Security Act of 1974.

In the opinion of the Company, current pension trust assets and amounts which are expected to be paid to the trusts in the future will be adequate to meet future pension payment obligations to current and future retirees.

Pension Cost calculated per FAS 87	1995	1994	1993
	(Thousands of Dollars)		
Components of Net Periodic Pension Cost, Year Ended December 31 -			
Cost of pension benefits earned by employees	$ 8,985	$ 10,933	$ 10,842
Interest cost on projected benefit obligation	41,586	38,736	36,335
Actual (return) loss on plan assets	(136,243)	7,634	(43,226)
Net amortization and deferral	88,493	(52,180)	1,067
Total pension cost calculated under FAS 87	$ 2,821	$ 5,123	$ 5,018
Actuarial Present Value of Accumulated Benefit Obligation, at December 31 -			
Vested benefits-employees' right to receive benefit no longer contingent upon continued employment	$543,371	$427,847	
Nonvested benefits-employees' right to receive benefit contingent upon continued employment	12,651	9,963	
Total obligation	$556,022	$437,810	
Funded Status of Plans: Pension Assets and Obligations at December 31 -			
Pension assets at fair market value	$637,529	$527,182	
Projected benefit obligation at present value	(584,785)	(513,166)	
Unrecognized transition asset	(22,034)	(24,628)	
Unrecognized prior service cost	23,194	19,567	
Unrecognized net gain	(54,780)	(17,569)	
Projected status of plans	$ (876)	$ (8,614)	
Rates used for calculations (%) -			
Discount rate-interest rate used to adjust for the time value of money	7.25	8.25	7.5
Assumed rate of increase in compensation levels	4.75	5.0	5.0
Expected long-term rate of return on pension assets	9.0	9.0	9.0

K - Benefits Other Than Pensions

Postretirement Benefits: Effective in 1993, the Company adopted prospectively Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions ("FAS

106") and elected the 20 year option for amortization of the previously unrecognized accumulated postretirement benefit obligation. The PSCW has issued an order recognizing FAS 106 for ratemaking; therefore adoption has no material impact on net income.

WE sponsors defined benefit postretirement plans that cover both salaried and nonsalaried employees who retire at age 55 or older with at least 10 years of credited service. The postretirement medical plan provides coverage to retirees and their dependents. Retirees contribute to the medical plan. The group life insurance benefit is based on employee compensation and is reduced upon retirement.

Employees' Benefit Trusts ("Trusts") are used to fund a major portion of postretirement benefits. The funding policy for the Trusts is to maximize tax deductibility. The majority of the Trusts' assets are mutual funds.

Postretirement Benefit Cost calculated per FAS 106	1995	1994	1993
	(Thousands of Dollars)		
Components of Net Periodic Postretirement Benefit Cost, Year Ended December 31 -			
Cost of postretirement benefits earned by employees	$ 2,276	$ 2,653	$ 3,105
Interest cost on projected benefit obligation	10,458	10,148	10,395
Actual return on plan assets	(12,598)	(3,893)	(2,388)
Net amortization and deferral	13,951	5,648	5,082
Total postretirement benefit cost calculated under FAS 106	$ 14,087	$ 14,556	$ 16,194
Funded Status of Plans: Postretirement Obligations and Assets at December 31 -			
Accumulated Postretirement Benefit Obligation at December 31 -			
Retirees	$(92,746)	$(83,670)	
Fully eligible active plan participants	(10,304)	(7,223)	
Other active plan participants	(41,732)	(37,255)	
Total obligation	(144,782)	(128,148)	
Postretirement assets at fair market value	45,086	37,919	
Accumulated postretirement benefit obligation in excess of plan assets	(99,696)	(90,229)	
Unrecognized transition obligation	83,268	90,302	
Unrecognized prior service cost	(1,279)	(1,169)	
Unrecognized net gain	(6,102)	(16,484)	
Accrued Postretirement Benefit Obligation	$(23,809)	$(17,580)	

Postretirement Benefit Cost calculated per FAS 106 (cont'd)	1995	1994	1993
	(Thousands of Dollars)		
Rates used for calculations (%) -			
Discount rate-interest rate used to adjust for the time value of money	7.25	8.25	7.5
Assumed rate of increase in compensation levels	4.75	5.0	5.0
Expected long-term rate of return on postretirement assets	9.0	9.0	9.0
Health care cost trend rate	11.0 declining to 5.0 in year 2002		

Changes in health care cost trend rates will affect the amounts reported. For example, a 1% increase in rates would increase the accumulated postretirement benefit obligation as of December 31, 1995 by $9.5 million and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by $1 million.

Revitalization: In the first quarter of 1994, WE recorded a $73.9 million charge related to its revitalization program. This charge included $37.5 million for Early Retirement Incentive Packages ("ERIP") and $25 million for Severance Packages ("SP"). These plans were used to reduce employee staffing levels. ERIP provided for a monthly income supplement ("ERIP supplement"), medical benefits and waiver of an early retirement pension reduction. The SP included a severance payment, medical/dental insurance, outplacement services, personal financial planning and tuition support. Availability of these plans to various bargaining units was based upon agreements made between WE and the bargaining units. These plans were available to most management employees but not to elected officers.

Under ERIP, 403 employees elected to retire in 1994. Under SP, 651 and 75 employees enrolled in 1994 and 1995, respectively. ERIP supplement costs are paid from pension plan trusts and medical/dental benefits from employee benefit trusts. Remaining ERIP and SP costs are paid from general corporate funds. The ultimate timing of cash flows for ERIP supplement costs depends upon the funding limitations of WE's pension plans. With the exception of ERIP supplement costs, approximately $35.4 million have been paid against the revitalization liability through December 31, 1995, and a liability of $0.9 million remains outstanding at December 31, 1995.

L - Information By Segments of Business

WE is a public utility incorporated in the State of Wisconsin. The Company's principal business segments include electric, gas and steam utility operations. The electric utility generates, transmits, distributes and sells electric energy in southeastern (including metropolitan Milwaukee), east central and northern Wisconsin and in the Upper Peninsula of Michigan. The gas utility purchases, distributes and sells natural gas to retail customers and transports customer-owned gas in three service areas in southeastern, east central and western Wisconsin that are largely within the electric service area. The steam utility produces, distributes and sells steam to space heating and processing customers in downtown and the near south side of Milwaukee. The following summarizes the business segments of the Company:

Year ended December 31	1995	1994	1993
	(Thousands of Dollars)		
Electric Operations			
Operating revenues	$1,437,480	$1,403,562	$1,347,844
Operating income before income taxes	419,271	329,216	329,727
Depreciation	164,789	159,414	149,646
Construction expenditures	223,723	244,718	305,467
Gas Operations			
Operating revenues	318,262	324,349	331,301
Operating income before income taxes	47,022	30,993	31,025
Depreciation	17,722	16,856	16,235
Construction expenditures	24,851	25,481	24,419
Steam Operations			
Operating revenues	14,742	14,281	14,090
Operating income before income taxes	3,757	2,825	3,147
Depreciation	1,365	1,344	1,185
Construction expenditures	206	1,213	4,940
Total			
Operating revenues	1,770,484	1,742,192	1,693,235
Operating income before income taxes	470,050	363,034	363,899
Depreciation	183,876	177,614	167,066
Construction expenditures (including non-utility)	248,867	271,448	334,932
At December 31			
Net Identifiable Assets			
Electric	$3,901,611	$3,797,755	$3,665,493
Gas	386,864	376,344	385,390
Steam	25,214	25,315	25,119
Non-utility	5,235	2,779	2,971
Total Assets	$4,318,924	$4,202,193	$4,078,973

M - Transactions with Associated Companies

Managerial, financial, accounting, legal, data processing and other services may be rendered between associated companies and are billed in accordance with service agreements approved by the PSCW. The Company received from WEC stockholder capital contributions of $30 million in 1995 and 1994, and $10 million in 1993.

N - Commitments and Contingencies

Kimberly Cogeneration Facility: In 1993, a competitive bidding process conducted by the PSCW resulted in selection of a proposal submitted by an unaffiliated independent power producer, LSP-Whitewater L.P. ("LS Power"), to construct a generation facility to meet a portion of WE's anticipated increase in system supply needs. WE subsequently signed a long-term agreement to purchase electricity from the proposed facility. The agreement is contingent upon the facility being completed and going into operation, which at this time is planned for mid-1997.

Prior to the 1993 selection of the LS Power generation facility by the PSCW, WE had proposed to construct its own 220 megawatt cogeneration facility in Kimberly, Wisconsin, which was intended to provide process steam to Repap Wisconsin, Inc. ("Repap") starting in mid-1994. In the PSCW Order, the WE project was selected as the second place conditional project if the LS Power project did not proceed. WE had made expenditures for the Kimberly facility of approximately $65.8 million associated with the procurement of three combustion turbines, one steam turbine and three heat recovery boilers in order to achieve the in-service dates as agreed to in a steam service contract with Repap.

The Company is currently reviewing other options for use or sale of its Kimberly Cogeneration Facility equipment (the "Equipment"). The Equipment is of a technology of natural gas-fired combined cycle generation equipment that is marketed worldwide. The Company is investigating opportunities to sell the Equipment or to use it in another power project and is currently evaluating potential sales opportunities and/or power projects involving the Equipment. At this time, the Company does not believe that disposition of the Equipment will have a material adverse effect on its financial condition. However, there is a possibility that WE may need to recognize an impairment of the Equipment in the future should the projects noted above not occur and should no other viable sales opportunities and/or power projects involving the Equipment be identified.

Manufactured Gas Plant Sites: WE's natural gas business unit is investigating the remediation of a number of former manufactured gas plant ("MGP") sites. Operations at these MGP sites ceased over 40 years ago. Limited remediation activities occurred at a number of these sites during the 1980's, with removal of waste materials known to be present at that time. In 1995, WE presented a plan to investigate and remediate sites to the Wisconsin Department of Natural Resources ("DNR"). During 1995, WE conducted site investigations at four sites and partial remediation activities were conducted at one site. Approximately $1.6 million has been spent through December 31, 1995 for such activities. Remediation costs to be incurred through the year 2000 have been estimated to be $12 million, but the total costs are uncertain pending the results of further site specific investigations and the selection of site specific remedial actions. In a September 11, 1995 letter order, the PSCW allowed WE to defer MGP site remediation costs with final rate treatment of such costs to be determined in future rate cases. As of December 31, 1995, WE has recorded an accrued liability of $1.6 million for MGP site remediation and a related deferred regulatory asset of $3.2 million. WE expects to accrue additional MGP site remediation liabilities during 1996 as site specific investigations are completed and site specific remedial actions are identified. WE will seek rate recovery for these costs and does not anticipate that there will be a material adverse effect on its net income or financial position.

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 - "LIQUIDITY AND CAPITAL RESOURCES - Capital Requirements 1996-2000."

DIRECTORS

The information under "Election of Directors" in Wisconsin Electric's definitive Information Statement dated April 26, 1996, attached hereto, is incorporated herein by reference.

EXECUTIVE OFFICERS

(Figures in brackets indicate age and years of service with Wisconsin Electric Power Company as of December 31, 1995.)

RICHARD A. ABDOO [51, 20]
Chairman of the Board
& Chief Executive Officer

RICHARD R. GRIGG [47, 25]
President & Chief Operating Officer

DAVID K. PORTER [52, 26]
Senior Vice President

CALVIN H. BAKER [52, 4]
Vice President-Finance
& Chief Financial Officer

ANN MARIE BRADY [43, 7]
Secretary & Vice President-External Affairs

FRANCIS BRZEZINSKI [44, 6]
Vice President-Business Development

CHARLES T. GOVIN, JR. [49, 16]
Vice President-Gas Operations

KRISTINE M. KRAUSE [41, 17]
Vice President-Fossil Operations

ROBERT E. LINK [44, 21]
Vice President-Nuclear Power

KRISTINE A. RAPPE [39, 13]
Vice President-Customer Services

ANNE K. KLISURICH [48, 23]
Controller

100 East Wisconsin Avenue
Suite 1500
Milwaukee, WI 53202

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Price Waterhouse LLP

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 capitalization statement and the related statements of income, of common stock equity and of cash flows present fairly, in all material respects, the financial position of Wisconsin Electric Power Company at December 31, 1995 and 1994, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

January 31, 1996