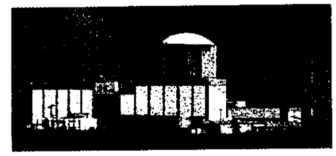
NRC-01-044

NMC
Committed to Nuclear Excellence

Kewaunee Nuclear Power Plant
N490, State Highway 42
Kewaunee, WI 54216-9511
920-388-2560

Operated by
Nuclear Management Company, LLC



April 20, 2001

10 CFR 50.71(b)

U. S. Nuclear Regulatory Commission
Attention: Document Control Desk
Washington, D.C. 20555

Ladies/Gentlemen:

DOCKET 50-305
OPERATING LICENSE DPR-43
KEWAUNEE NUCLEAR POWER PLANT
<u>ANNUAL FINANCIAL REPORTS</u>

Please find enclosed one copy of the 2000 Annual Financial Reports for WPS Resources Corporation, Alliant Energy Corporation, and Madison Gas and Electric Company. The enclosed reports are submitted in accordance with the requirements of 10 CFR 50.71(b).

Sincerely,

for Kyle A. Hoops
Manager-Kewaunee Plant

SLC

Attach.

cc - US NRC - Region III (w/o attach.)
NRC Senior Resident Inspector (w/o attach.)

M004

Madison Gas and Electric Company 2000 Annual Report

MGE®

About the Cover

MGE keeps pace with its growing communities by Investing in Reliability. *(See page 4)*

MGE promotes energy efficiency and helps firms grow by Investing in Customers. *(See page 6)*

Investing in Community ensures a good quality of life and sustains growth. *(See page 8)*

Investing in Innovation improves efficiency and stimulates economic growth. *(See page 10)*

Madison Gas and Electric Company

MGE is an investor-owned public utility headquartered in Madison, WI. The company generates, transmits and distributes electricity to more than 126,000 customers in a 250-square-mile area of Dane County.

MGE also transports and distributes natural gas to nearly 114,000 customers in 1,325 square miles of service territory in seven counties. MGE has served the Madison area since 1896.

Madison Gas and Electric Company

Year at a Glance

(In thousands, except per-share amounts)

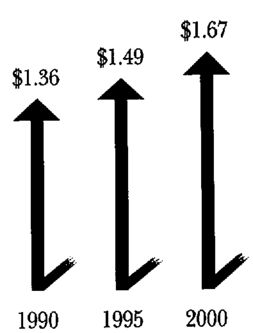
	2000	1999	Change
Operating Revenues	$ 324,108	$ 274,034	18.3%
Net Income	$ 27,355	$ 23,746	15.2%
Total Assets (year-end)	$ 571,604	$ 495,510	15.4%
Electric Sales (kwh)	3,268,077	3,224,040	1.4%
Gas Deliveries (therms)	213,829	196,478	8.8%
Basic and Diluted Earnings Per Share	$ 1.67	$ 1.48	12.8%
Dividends Paid Per Share	$ 1.32	$ 1.31	0.8%
Book Value Per Share	$ 12.05	$ 11.49	4.9%
Closing Stock Price (Dec. 31)	$ 22.625	$ 20.125	12.4%
Return on Common Stock Equity	14.1%	12.9%	9.3%
Dividend Payout Ratio	79%	88%	(10.2%)

MGE

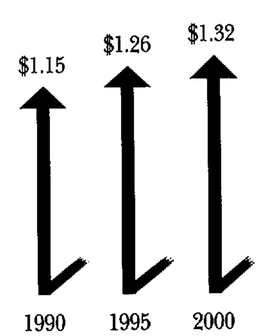
Investing for Growth

2000 Highlights

Earnings Growth
Earnings Per Share



Dividend Growth
Dividends Paid Per Share



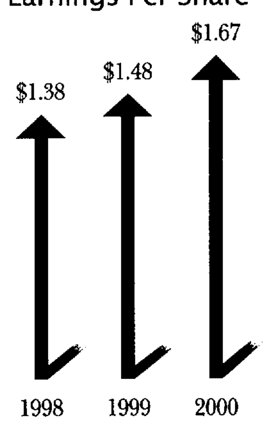
To Our Shareholders

Investing for Growth. MGE fuels economic growth and builds shareholder value by investing in reliability, customers, communities and innovation.

Record Earnings. MGE produced record earnings of $1.67 per share in 2000, up nearly 13% over 1999 *(see below)*. We achieved outstanding results by:

- Investing in new electric and natural gas facilities that provide reliable service for customers – and earned a return of $1.5 million* *(after tax)* for investors.
- Saving $1.1 million *(after tax)* on pension costs due to strong performance of our plan assets.
- Improving efficiency and controlling costs at existing facilities.
- Purchasing natural gas below the benchmark set by state regulators, which saved customers money and achieved a performance-based return of $0.7 million *(after tax)* for our investors.

Earnings Per Share



Dividend Achiever. MGE is one of only 320 companies in the nation that raised dividends each year over the last decade, according to the *2000 Handbook of Dividend Achievers.* More than 10,000 companies actively traded in the United States were evaluated to identify the dividend achievers.

Your board of directors increased the quarterly dividend paid on MGE common stock to 33.08¢ per share. MGE has increased dividends for 21 consecutive years and paid cash dividends each year since 1909.

The PSCW approved a higher rate of return on equity *(12.9%)* starting Jan. 1, 2001. This will help maintain MGE's financial integrity and strong credit rating – and ensure a fair return for our investors.

Vibrant Economy. Diversified, steady growth distinguishes our service area as one of the strongest economies in the nation. Significant projects under way or planned in the near future include: 1) nearly $500 million of new facilities in downtown Madison and 2) more than $590 million in new construction at the University of Wisconsin-Madison. MGE installed a new gas pipeline to meet this unprecedented growth.

Electric Reliability. MGE is a vocal advocate for building the infrastructure needed to meet consumers' needs. We are taking action to avoid the rolling blackouts and high electric prices that have plagued California.

In June 2000, MGE energized an 83-megawatt (MW) gas-fired power plant. This new unit helped ensure we had ample capacity – even when customer demand reached a record peak of 664 MW on Aug. 31, 2000.

MGE signed long-term contracts to buy 100 MW of electricity starting in 2002 and another 75 MW of power starting in 2004. We are also working with the State of Wisconsin and the University of Wisconsin-Madison on plans for a $170 million cogeneration plant on campus. Environmental groups praised our plan to build one of the cleanest, most efficient power plants in the state.

The PSCW approved a rate increase for 2001 that allows us to continue investing in electric reliability for customers and strengthening our gas delivery system.

Transmission Assets. MGE is one of many utilities that transferred transmission facilities to the American Transmission Co. (ATC) effective Jan. 1, 2001. In return, MGE has an equity interest in the ATC. This allows our investors to continue earning a return on transmission assets. The ATC oversees transmission lines across the state to ensure fair access to the system at fair prices. It also offers growth potential that would not have been possible for each individual utility. Under MGE's leadership, Wisconsin passed groundbreaking legislation that led to creation of the ATC.

Natural Gas. Our area experienced its second-coldest December in recent history, resulting in higher gas prices and higher customer demand for natural gas. We did not profit from the unusually high gas prices. However, the higher volume of gas delivered to customers contributed to our bottom line.

Environmental Leader. MGE is one of the first Wisconsin companies to participate in a voluntary Environmental Cooperation Program with the state's Department of Natural Resources (DNR). This gives us flexibility as we work with the DNR to maintain superior environmental performance at the Blount Generating Station in Madison.

Our wind energy program received national recognition for exceeding environmental and consumer protection standards – and achieving the highest percentage of customer participation of any utility in the nation.

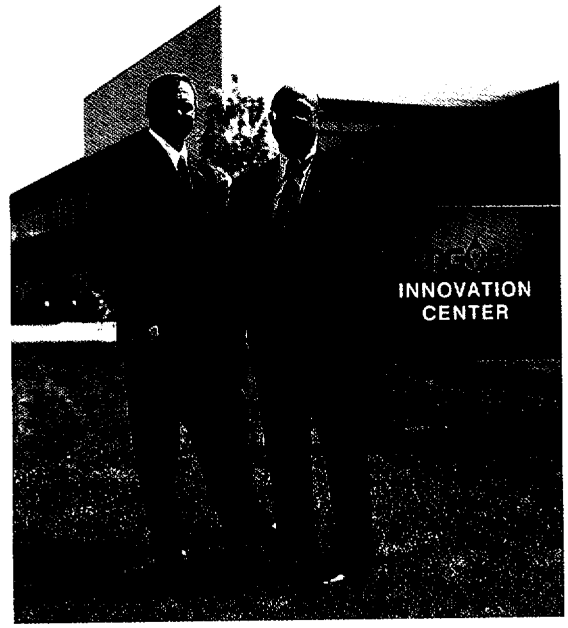
Strategic Investments. We committed $500,000 to more than double the size of the MGE Innovation Center at the University Research Park in Madison. High-tech and biotech entrepreneurs are ready to lease space when the new facility opens in spring 2001.

MGE provides seed capital for new technology firms that show great potential for growth and profits. Two biotech firms – that we helped get started – achieved new milestones in 2000:

- Third Wave Technologies added 65,000 square feet to its Madison headquarters. The company issued its initial public offering in February 2001.
- PanVera Corp. built its 52,000-square-foot headquarters and announced it will continue growing here after a San Diego-based biotech firm acquires it in 2001.

MGE's strategic investments help grow our economy – and support future earnings growth for our investors.

Directors and Officers. During the past year, your board of directors elected Donna K. Sollenberger, president and CEO of the University of Wisconsin Hospitals and Clinics, to our board. The board also elected Terry A. Hanson to vice president and chief financial officer; Scott A. Neitzel to vice president – business development and fuels; and Jeffrey C. Newman to vice president and treasurer.



Gary J. Wolter *President and CEO* *David C. Mebane* *Chairman*

Sustaining Growth. MGE invests in reliability, customers, communities and innovation to sustain a robust economy and grow earnings for our loyal investors. Thank you for your confidence in MGE.

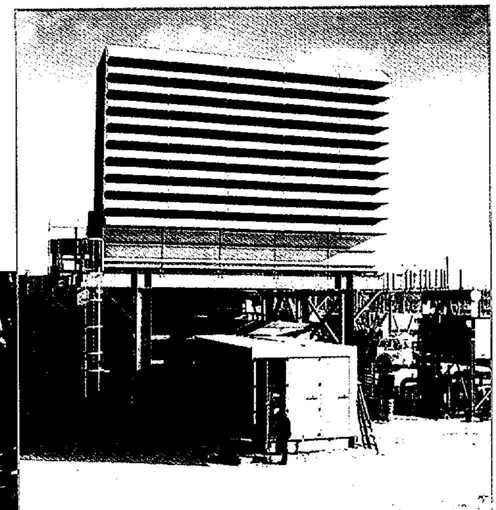
David C. Mebane

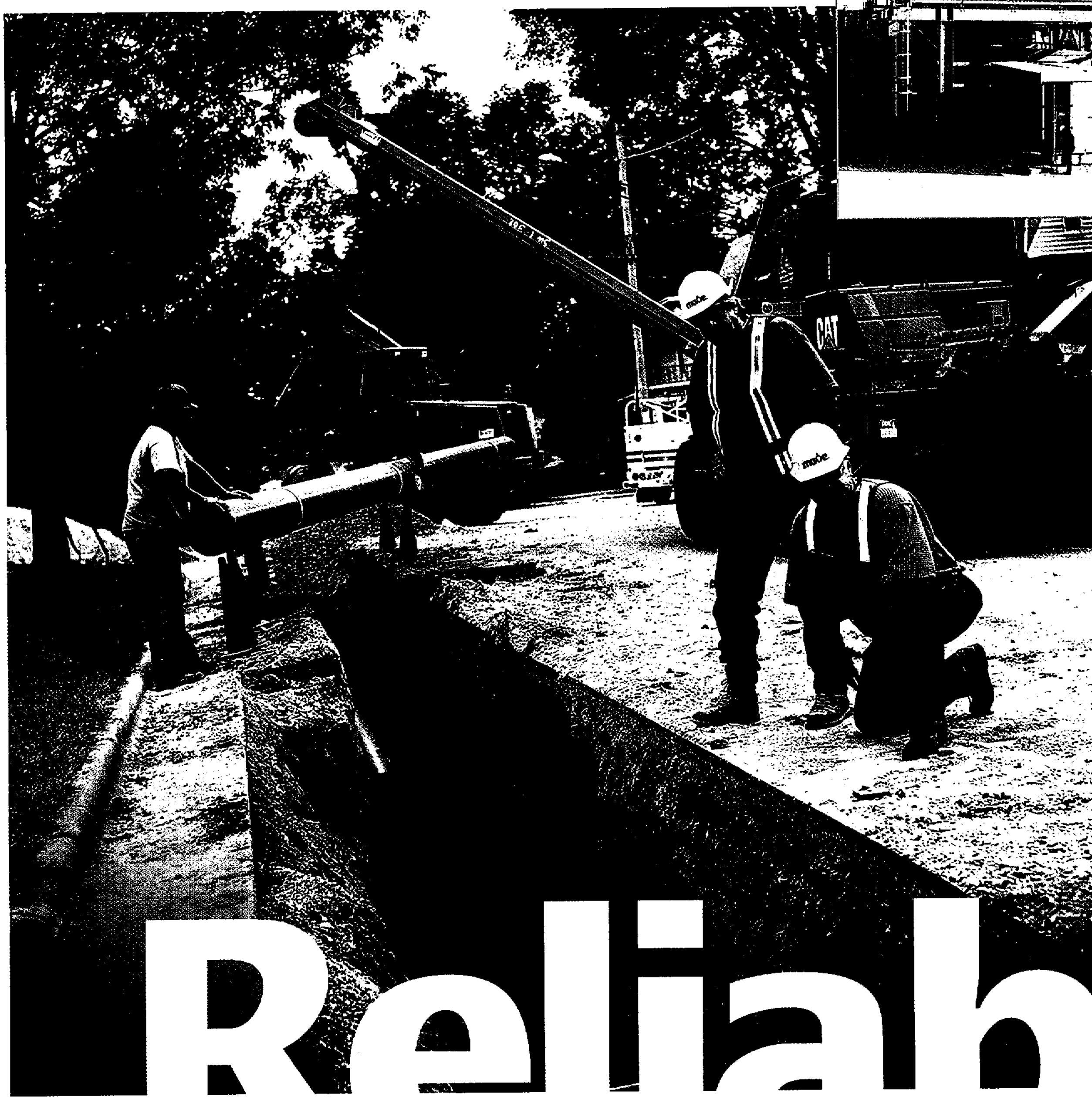
David C. Mebane
Chairman

Gary J. Wolter

Gary J. Wolter
President and Chief Executive Officer

MGE's 83-megawatt gas-fired power plant was ready in June 2000 to help meet customers' electric needs during peak times.





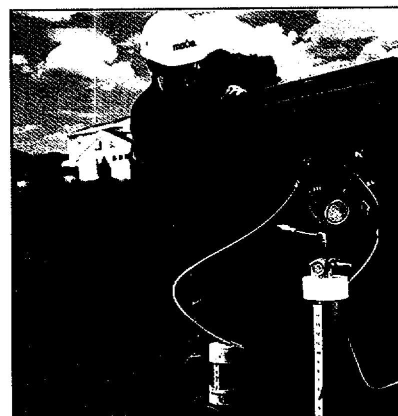
MGE Manager of Gas Systems Engineering Steve Stehling (kneeling) and MGE Working Foreman Dave Peterson (standing) inspect a new natural gas main. It boosts capacity for rapid growth in downtown Madison and on the University of Wisconsin campus.

GROWING Economy

MGE serves one of the most vibrant economies in the nation. A diverse mix of businesses and manufacturing in Dane County – combined with government and education – provides a virtually recession-proof economy. Dane County added more than 59,000 people over the past decade, making it one of the fastest-growing areas in Wisconsin.

INSTALLING New Generation

Since 1997, MGE has invested more than $141 million in assets that meet customers' electric needs, improve reliability and earn a return for investors. New electric assets include: 1) a 17-turbine wind energy farm, 2) backup generators at more than 40 customers' sites and 3) an 83-megawatt (MW) gas-fired power plant brought on line in June 2000.



MGE Engineer Juli Wagner checks a neighborhood transformer as a silicone solution is pumped through underground electric lines. This new technology helps protect the lines from moisture, improving reliability for up to 20 more years.

MGE proposes building a cogeneration plant on the University of Wisconsin-Madison campus. The 90- to 100-MW unit is scheduled for completion by 2004. MGE and the university plan to operate the plant jointly. The campus will gain steam heat and cooling capacity that is critical for its long-term building plan. MGE customers will benefit from more electric generation in the heart of its service area.

ADDING Natural Gas Capacity

MGE recently completed its largest gas construction project in Madison in 20 years. A new 3.7-mile gas main supports growth in Madison's downtown and university campus areas. Crews also installed a new gas main across Interstate 90/94. It improves reliability for businesses and homes on Madison's far east side. Since 1997, MGE has invested nearly $23 million in natural gas projects to meet growing demand and improve reliability.

MGE experienced exceptional growth in new residential gas services for its third consecutive year. In 2000, new residential gas installations were 10% higher than 1999 and up nearly 24% compared to 1998.

An MGE Shared Savings loan helped Pat Mackesey (right), president of Badgerland Meat & Provisions, install energy-efficient refrigeration equipment and expand production.

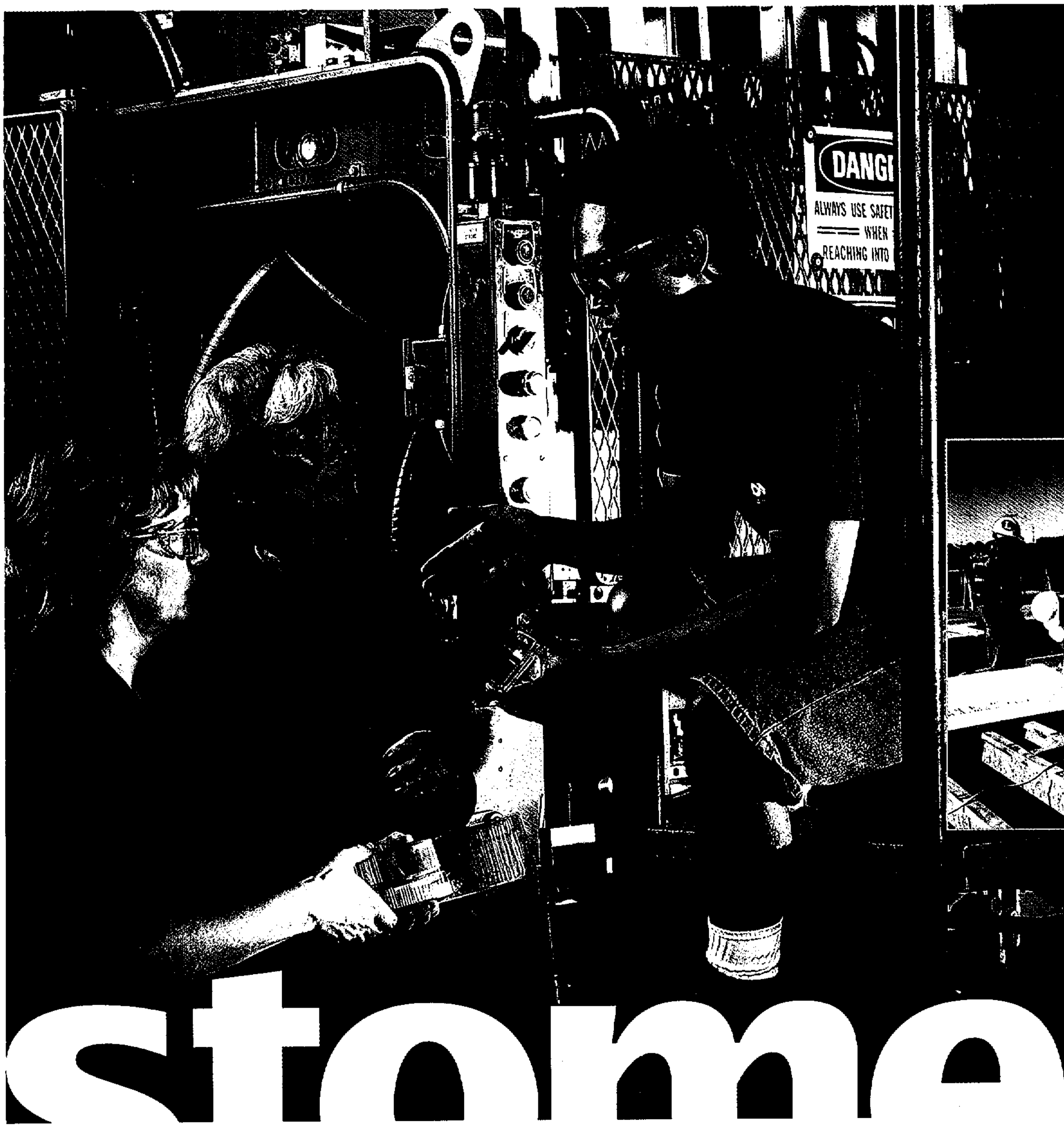
SAVING Energy and Cutting Costs

MGE offers energy-saving advice to help businesses improve efficiency, cut costs and increase comfort. Since 1993, more than 180 firms – ranging from small restaurants to large manufacturing plants – have invested more than $13 million in improvements using MGE's Shared Savings loans. The loans are paid back through energy savings. High-efficiency equipment financed through this program has saved an estimated 1.2 million therms of natural gas and nearly 6.7 million kilowatt-hours of electricity since 1993.

PREPARING Workers for Manufacturing

MGE teamed up with key partners to promote career opportunities in manufacturing – and create a pool of skilled workers for Dane County firms. MGE and eight Dane County manufacturers helped launch the Manufacturing Advanced Pre-employment Skills (MAPS) program. These firms offer a wide range of manufacturing jobs – from plastics molding at Placon Corporation to food production at Oscar Mayer and printing at Webcrafters.

MAPS offers intensive training that focuses on skills needed in manufacturing today. Students also tour participating firms to see which type of work they would prefer. Businesses can reduce costly turnover by hiring students who complete the MAPS training. MGE helps manufacturers stay competitive and grow to sustain a diverse, healthy economy.

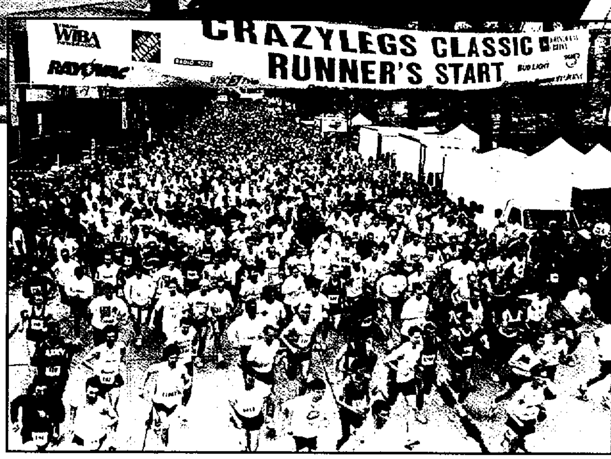


Below: LaFollette High School's Building Trades Teacher Steve Munson (front left) helps students build an energy-efficient home that was made possible with funding and expertise from MGE.

Placon Corporation Manufacturing Manager Joanne Reinhold (left) and Machine Operator Saksay Sonekiao (right), discuss the skills workers need with MGE Economic Development Director Phyllis Wilhelm.

TEACHING Energy-Efficient Construction

LaFollette High School students gained hands-on experience building a high-efficiency home – thanks to an MGE initiative and $200,000 in seed money. MGE will recover its investment when the house is sold. Any gain from the sale will be used for a building trades scholarship at Madison Area Technical College. This innovative program promotes energy efficiency and helps increase the skilled-trades labor pool in MGE's growing communities.



Courtesy of Empire Photography

Above: MGE Lineman Troy Shawback hangs a banner at the starting line of the Crazylegs Classic in Madison. More than 11,800 participants raised money for the University of Wisconsin's athletic department in 2000.

STRENGTHENING Communities

MGE cares about the people and communities it serves. MGE's tradition of giving time and money helps strengthen communities and support a growing economy.

- Since 1985, the MGE Energy Fund has helped thousands of needy families pay their heating bills each year. MGE, employees and customers donated more than $125,000 to the Energy Fund last year.
- MGE received a Partnership Award from the American Red Cross for long-standing support of the agency's programs.
- United Way presented MGE and its unions with a Top Ten in Total Giving Award for donating nearly $157,000 from the company, its employees and retirees.
- Since 1976, MGE's Felber Scholarship Program has awarded more than $975,000 to students.

MGE also supports the Salvation Army, Second Harvest Foodbank of Southern Wisconsin and many other agencies that deliver vital services and provide a critical safety net in the community.

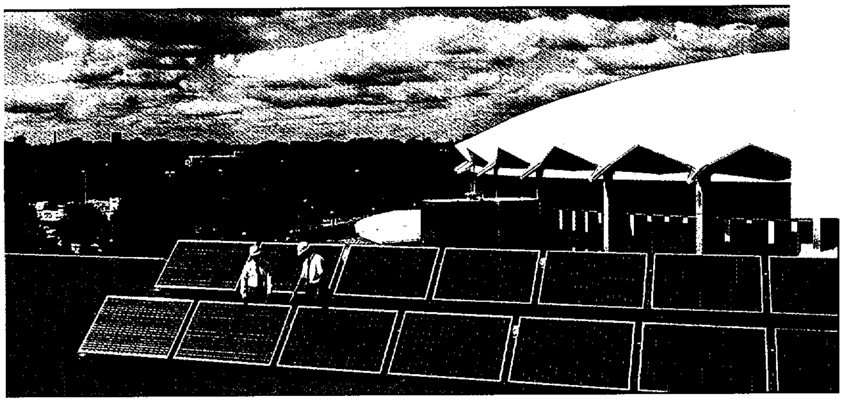
Below: MGE President and CEO Gary Wolter co-chaired Project Home's 10th Annual Celebrity Paint-A-Thon in Dane County.

Above: MGE employees Paula Tomashek, senior tax analyst, and Jim Jenson, community education coordinator, grill food for a Salvation Army dinner.

MAKING Time for Others

MGE takes time to make people's lives a little better. Last year:

- MGE volunteers fed the hungry, picked up litter along highways, painted homes and raised money for the March of Dimes and other worthy causes.
- Employees used MGE trucks to hang banners for special events and string lights to brighten the holidays.
- MGE reserved a helicopter for the Make-A-Wish Foundation so a three-year-old boy could visit his hometown before a bone marrow transplant.



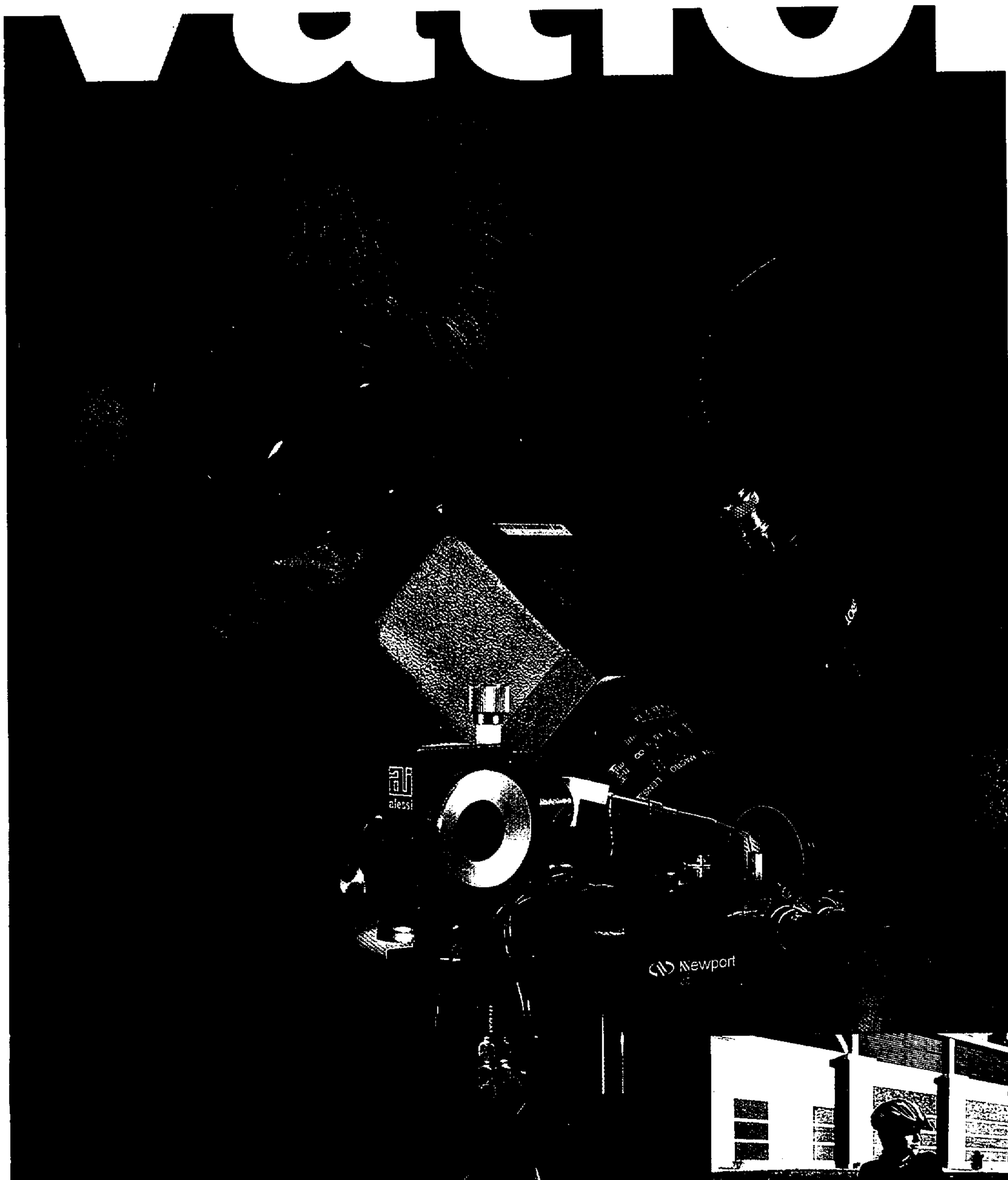
TESTING Photovoltaic Panels

After launching a successful wind-power program in 1999, MGE looked to the sun for renewable energy. Photovoltaic panels were installed at two locations, including the Dane County Arena *(above)*. Electricity produced at these sites feeds directly into MGE's grid. Sixteen panels on the Arena can produce enough power for two homes, depending on the sunlight. More test sites will be added in 2001. MGE has a waiting list of customers who want to buy "green" power.

STIMULATING High-Tech Business Growth

The MGE Innovation Center has nurtured more than 40 technology firms since 1989. Two of those firms built corporate headquarters in the University Research Park in Madison last year: 1) PanVera Corp., a biotechnology firm, invested $6.3 million in a 52,000-square-foot facility and 2) Tetrionics, Inc., a pharmaceutical firm, built a $4 million, 26,000-square-foot facility. MGE committed $500,000 for a 50,000-square-foot addition to the Innovation Center. It will open in spring 2001.

MGE also helped create a $30 million venture capital fund that will provide early-stage financing for technology firms. The flourishing technology sector added about $3.5 billion to Dane County's economy in 2000 – and contributes to steady growth in MGE's gas and electric sales.



UPGRADING Blount

A $5.2 million upgrade at Blount Generating Station in Madison reduces environmental impacts and improves efficiency. The changes:

- Control runoff.
- Decrease coal dust and fly ash particles in the air.
- Modernize equipment to improve efficiency.

The most visible change is a 34-foot-high wall that helps control wind turbulence in the coal yard. It also improves the plant's appearance in this downtown neighborhood.

Alfalight Project Engineer Eric Stiers inspects a high-power diode laser that will allow fiber-optic lines to handle more data at faster speeds. MGE invested in this firm when it graduated from the MGE Innovation Center into a 20,000-square-foot manufacturing plant in Madison.

Responsibility for Financial Statements

The management of Madison Gas and Electric Company (MGE) is responsible for preparing and presenting the financial information in this Annual Report. The following financial statements have been prepared in accordance with generally accepted accounting principles consistently applied. They reflect management's best estimates and informed judgments, as required.

To fulfill these responsibilities, management has developed and maintains a comprehensive system of internal operating, accounting and financial controls. These controls provide reasonable assurance that MGE's assets are safeguarded, transactions are properly recorded and the resulting financial statements are reliable. An internal audit function helps management monitor the effectiveness of these controls.

The Report of Independent Accountants on the financial statements by PricewaterhouseCoopers LLP appears below. The responsibility of the independent accountants is limited to the audit of the financial statements presented and the expression of an opinion as to their fairness.

The Board of Directors oversees MGE's financial situation through its monthly review of operations and financial condition and its selection of the independent accountants.

The Audit Committee is comprised of all Board members who are not MGE employees or officers. The Audit Committee meets periodically with the independent accountants and MGE's internal audit manager to review accounting, auditing and financial matters and in executive session without management present. Pertinent items discussed at the meetings are reviewed with the full Board of Directors.

Gary J. Wolter

Gary J. Wolter
President and Chief Executive Officer

Terry A. Hanson

Terry A. Hanson
Vice President and Chief Financial Officer

Report of Independent Accountants

To the Board of Directors and Shareholders
of Madison Gas and Electric Company:

In our opinion, the accompanying consolidated balance sheets and statements of capitalization and the related consolidated statements of income, common equity and cash flows present fairly, in all material respects, the financial position of Madison Gas and Electric Company and subsidiaries (the Company) at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, which appear on pages 20 through 35, in conformity with accounting principles generally accepted in the United States of America. 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 auditing standards generally accepted in the United States of America, 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 our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
February 7, 2001

General

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of Madison Gas and Electric Company's (MGE) consolidated results of operations and financial condition. This discussion should be read in conjunction with the consolidated financial statements and notes.

This report, and certain other MGE public documents, contain forward-looking statements that reflect management's current assumptions and estimates of future performance and economic conditions – especially as they relate to future revenues, expenses, financial resources and regulatory matters. These forward-looking statements are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. MGE cautions investors that forward-looking statements are subject to known and unknown risks and uncertainties that may cause MGE's actual results to differ materially from those projected, expressed or implied. Some of those risks and uncertainties include:

- Economic and market conditions in MGE's service territory;
- Magnitude and timing of capital expenditures;
- Regulatory environment *(including restructuring the electric utility industry in Wisconsin)*; and
- Availability and cost of power supplies.

Results of Operations

Earnings Overview

In 2000, MGE produced record earnings of $27.4 million, or $1.67 per share. Electric operating income was up $5.9 million due to increased sales and new generating facilities that earn a return for investors. An 8.8% increase in total gas deliveries added $1.7 million to gas operating income. Two other factors contributed significantly to higher net income: 1) performance-based natural gas incentives, which added $0.7 million *(after tax)* and 2) pension costs, which were down $1.1 million *(after tax)* due to strong performance in MGE's plan assets.

Earnings Per Share

In 1999, MGE produced earnings of $23.7 million, or $1.48 per share. Revenues and net operating income were up nearly 10% in 1999 versus 1998, due to: 1) a 5.1% electric rate increase effective in January and 2) an increase in gas margin due to higher deliveries in 1999.

In 1998, MGE achieved earnings of $22.2 million, or $1.38 per share, despite one of the warmest heating seasons on record. MGE minimized the impact of weather on earnings by: 1) controlling costs, 2) selling its remaining assets in National Energy Management, L.L.C. (NEM) and 3) implementing risk management strategies to limit the loss of gas revenue due to abnormally warm weather.

Electric Sales and Revenues

Electric retail sales increased 2.5% for the 12 months ending Dec. 31, 2000, despite cooler-than-normal summer temperatures.

Electric revenues increased $17.2 million, or 9.3%, primarily due to:

- A 5.5% electric rate increase effective Jan. 1, 2000, combined with customer growth and greater use per customer *($14.5 million)*, *(See Footnote No. 7 – Rate Matters)*; and
- Increased revenues associated with MGE's new electric generating assets: an 83-megawatt (MW) natural gas-fired combustion turbine *($2.5 million)* and wind energy and customer backup generation *($0.7 million)*.

In 1999, MGE had a fourth quarter electric fuel surcharge *(described below)*, which was not in effect for 2000.

Electric Sales (Megawatt Hours)	2000	1999	% Change
Residential	780,446	770,153	1.3
Commercial	1,577,165	1,524,641	3.4
Industrial	319,394	315,238	1.3
Other	307,263	301,147	2.0
Total Retail	2,984,268	2,911,179	2.5
Resale – Utilities	283,809	312,861	(9.3)
Total Sales	3,268,077	3,224,040	1.4

In 1999, electric retail sales increased 2.1% and sales for resale rose 306.9%. The sharp rise in sales for resale occurred when MGE started selling 30 MW of firm capacity to Wisconsin Public Power Inc. in March 1999 *(See Footnote No. 9 – Commitments)*.

Electric revenues in 1999 increased $16.4 million, or 9.7%, primarily due to:

- A 5.1% electric rate increase effective in January 1999, combined with customer growth and greater use per customer *($12.8 million)*;
- A 3.6% interim electric fuel surcharge in effect during the fourth quarter *($1.8 million)*, *(See Footnote No. 7 – Rate Matters)*; and
- Higher sales for resale compared to 1998.

Gas Sales and Revenues

In 2000, total retail gas therms delivered by MGE rose 12.1%. Extremely cold December weather drove up total heating degree days 6.8% *(the number of degrees that the mean daily temperature is below 65 degrees Fahrenheit)* compared to 1999. The Madison area experienced its second-coldest December in recent history, with an average temperature of 11.4 degrees Fahrenheit for the month. This resulted in higher customer demand for natural gas. The higher volume of gas delivered to customers contributed to our bottom line. We did not profit from unusually high gas prices. The Public Service Commission of Wisconsin (PSCW) requires utilities to pass along to customers the price paid for gas – whether it goes up or down.

Gas revenues were up $32.9 million, or 37.3%, in 2000 due to: 1) increased deliveries, 2) higher gas costs that were passed on to customers through the Purchased Gas Adjustment Clause (PGA) and 3) an increase of $1.2 million in other gas revenues from MGE's gas cost incentive mechanism (GCIM). The table below shows total gas deliveries by customer class.

Therms Delivered *(In thousands)*	2000	1999	% Change
Residential	90,446	81,219	11.4
Commercial and Industrial	78,190	69,246	12.9
Total Retail System	168,636	150,465	12.1
Transport	45,193	46,013	(1.8)
Total Gas Deliveries	213,829	196,478	8.8

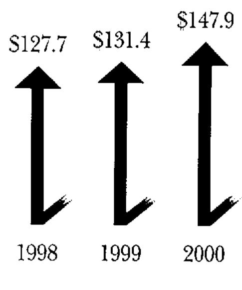
In 1999, total retail gas therms delivered by MGE rose 4.9% over the prior year. Total heating degree days were up 10.4% compared to 1998. Gas revenues were up $7.9 million, or 9.8%, in 1999 due to: 1) increased deliveries and 2) higher gas costs that were passed on to customers through the PGA.

Electric Fuel and Purchased Power Costs

During 2000, fuel costs for electric generation rose $4.0 million, or 12.2%. MGE customers set a record for peak demand *(664 MW)* on Aug. 31.

The Kewaunee Nuclear Power Plant (Kewaunee) was out of service for scheduled maintenance and refueling for approximately six weeks in 2000. To meet customer demand during this time, MGE relied on other generating units with higher fuel costs. MGE also had new generating assets come on line in 2000, which in turn contributed to higher fuel costs.

Electric Margin
in millions



Purchased power costs decreased $3.2 million, or 14.6%, in 2000. This was primarily because MGE added new generation in 2000 *(previously described)* and the company relied more on purchased power in 1999 during unexpected outages at the coal-fired Columbia Energy Center (Columbia).

Electric margins *(revenues less fuel and purchased power expenses)* were up $16.5 million, or 12.6%, due to: 1) a 5.5% electric rate increase and growth in retail sales stemming from an increase in customers and usage per customer *($14.5 million)* and 2) revenue from a new generating asset, which went into service in June *($3.5 million)*. Some of the increase in the electric margin was partially offset by increased operations and maintenance expenses related to the Kewaunee outage.

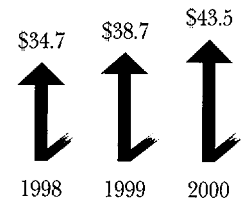
In 1999, purchased power costs increased $12.6 million, or 130.7%, from the prior year. MGE paid more for purchased power when Columbia was out of service and during summer peak demand. Electric margins were up $3.7 million, or 2.9%, due to the electric rate increases previously described and higher sales for resale.

Natural Gas Costs

In 2000, natural gas costs rose $28.1 million, or 56.9%, due to a 12.1% increase in retail sales and significantly higher wellhead prices. Natural gas prices *(cost/therm)* increased more than 60.0% in 2000 compared to 1999. These higher gas costs were passed on to MGE customers through the PGA. Gas margins *(revenues less gas purchased)* increased $4.8 million, or 12.3%, in 2000 primarily as a result of: 1) higher retail deliveries, 2) a $1.0 million gain for recovering certain regulatory gas assets and 3) a $1.2 million increase in other gas revenues related to MGE's GCIM.

In 1999, natural gas costs increased $3.9 million, or 8.7%, because retail deliveries were up 4.9%. Gas margins rose $4.0 million, or 11.4%, in 1999. Contributing factors included: 1) a rise in retail deliveries and 2) a 0.7% rate increase effective in January 1999.

Gas Margin
in millions



Other Operating Expenses

Electric: In 2000, electric operating expense rose $2.9 million, or 6.1%, primarily due to higher: 1) operating cost at Kewaunee *($0.9 million)*, 2) expense for outside services *($0.8 million)* and 3) transmission wheeling cost for purchased power *($0.7 million)*. Several transmission contracts covered a full year in 2000 compared to a partial year in 1999.

In 1999, electric operating expense increased $2.3 million, or 4.9%, primarily due to payroll and benefits of $1.3 million and transmission wheeling expenses of $1.0 million.

Gas: In 2000, gas operating expense rose $1.3 million, or 7.0%, due to higher distribution costs and other general expenses.

In 1999, gas operating expense rose approximately $0.9 million, or 5.5%, due to higher administrative and general expenses.

Maintenance Expense – Electric: In 2000, electric maintenance expense rose $5.2 million, or 44.1%, due to costs related to the Kewaunee outage *($3.0 million)*, additional maintenance at Blount *($0.9 million)*, one of MGE's combustion turbines *($0.5 million)* and Columbia *($0.2 million)*.

In 1999, electric maintenance expense was down $1.8 million, or 13.6%, primarily because of lower costs at Kewaunee. Kewaunee completed 1999 with 100.0% availability.

Depreciation: In 2000, depreciation expense decreased slightly. Certain utility plant assets became fully depreciated in 2000, offsetting the impact on depreciation of utility plant additions.

In 1999, depreciation expense increased $2.0 million, or 5.9%. Electric depreciation expense totaling $1.7 million resulted from increased plant additions and decommissioning depreciation expense.

Other General Taxes: The increase *($0.9 million, or 9.4%, over 1999)* in other general taxes reflects a higher utility license fee tax, which is based on operating revenues.

Income Taxes: Effective income tax rates were generally consistent over the three-year period. Increases in income tax provision *($3.1 million and $1.5 million in 2000 and 1999, respectively)* are due to progressively higher operating income.

Interest Expense: In 2000, total interest increased $2.1 million, or 17.3%. Compared to 1999, MGE had higher levels of short-term debt and the interest on $35.0 million in new long-term debt *($20.0 million issued on May 4, 2000, and $15.0 million issued on Sept. 20, 2000)*.

In 1999, interest on long-term debt increased $1.3 million, or 12.4%. In September 1998, MGE issued $30.0 million in unsecured debt, which was outstanding throughout 1999.

Other Nonoperating Items

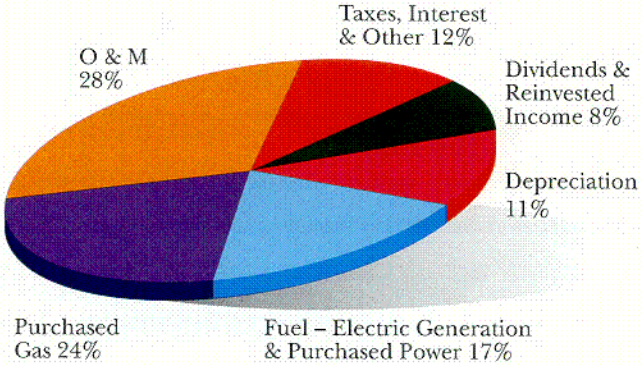
In 2000, other income decreased $1.9 million, or 64.5%. MGE donated $1.8 million to the MGE Foundation and the MGE Innovation Center. These donations provide substantial benefits to the community and MGE's service territory. In 1999, there was a gain in other income related to MGE's gas marketing subsidiaries *(See Footnote No. 8 – Gas Marketing Subsidiaries)* that was not experienced in 2000. This also contributed to the decrease in other income. Earnings on the decommissioning fund were up $0.4 million in 2000.

In 1999, MGE wrote off $0.5 million in a related acquisition adjustment for a gas division. These two items helped offset some of the decrease in 2000.

In 1999, MGE earned $3.1 million on its decommissioning trust. These earnings are included in other income and depreciation expense. MGE also resolved certain contingencies in the amount of $1.0 million *(after tax)* related to its gas marketing subsidiaries. In 1996, MGE wrote down its investment in both gas marketing subsidiaries Great Lakes Energy Corp. (GLENCO) and American Energy Management, Inc. (AEM), to reflect its current value. These outstanding contingencies included: 1) expired lighting warranties and outstanding accounts payable for AEM and 2) one-time benefits on some outstanding legal and tax issues for GLENCO and AEM.

In 1998, MGE sold its remaining assets in NEM for $1.8 million. NEM was formed in January 1997 as a joint venture between MGE's gas marketing subsidiaries and National Gas and Electric L.P. Earnings on the decommissioning trusts totaled $1.8 million in 1998. This amount is included in other income and depreciation expense.

2000 Revenue Distribution



Year 2000

MGE did not experience any latent Year 2000 issues – and does not expect any further expenditures.

Electric and Gas Operations Outlook

MGE anticipates electric and gas sales will grow at a compounded rate of 1.0% to 2.0% through December 2005. MGE expects to maintain a competitive advantage because of its:

- Vibrant service territory, which is well-insulated against economic downturns.
- Competitive distribution costs, low percentage of industrial customers and lower risk of stranded investments.
- Size and agility, which allow employees to respond quickly and offer more flexibility as customers' needs change.

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MGE will sell its ownership interest *(17.8%)* in Kewaunee in the fall of 2001. This will help eliminate the risk of future stranded investment. The capacity lost from Kewaunee will be replaced with purchased power contracts.

The PSCW currently regulates MGE for both its electric and gas operations. The PSCW has focused on improving the infrastructure needed in Wisconsin to provide reliable service to consumers. MGE invests in new facilities to meet its customers' needs and advocates statewide solutions that will keep pace with the growing demand for energy.

MGE and the University of Wisconsin (UW) propose building a $170.0 million natural gas-fired cogeneration plant to help meet future needs of the UW and MGE customers. This facility will produce steam heat and chilled-water air conditioning for the UW and up to 100 MW of electricity to help meet growing customer demand in the Madison area. MGE will own the electric-generating portion of the plant. MGE and the UW plan to jointly operate and maintain the plant. The unit is expected to start operating in 2004.

MGE has secured an option to own a portion of the coal-fired base load generation included in Wisconsin Energy Corp.'s (WEC) modified "Power the Future" proposal. The proposal includes three 600-MW coal-fired units of new generation. MGE's option secures ownership of 50 MW in each unit for a total of 150 MW. If WEC's proposal is approved and MGE exercises its option, MGE's expected investment over the next 10 years would range from $150.0 million – $175.0 million.

Kewaunee Nuclear Power Plant

Kewaunee is jointly owned by MGE, Wisconsin Public Service Corp. (WPSC) and Alliant Energy Corp. Kewaunee has been operated since 1974 by WPSC. The plant's license will expire in 2013.

On April 7, 1998, WPSC received state regulatory approval to replace two steam generators at Kewaunee. The replacement work, which will take approximately 60 days, is scheduled for fall 2001. The project will cost approximately $120.0 million. MGE will not be responsible for any portion of this cost due to a change in ownership described below.

On Sept. 29, 1998, MGE finalized an agreement to sell its share of Kewaunee to WPSC. MGE is expected to transfer its ownership interest in Kewaunee in the fall of 2001. MGE will receive a cash payment from WPSC for Kewaunee upon closing *(date plant shuts down for steam generator replacement)*.

The payment will be comprised of MGE's share of Kewaunee's book value *(currently $8.9 million)* plus the book value of other assets related to Kewaunee. MGE believes it can secure electric capacity and energy more cost-effectively from other sources and eliminate the risk of future stranded costs. On May 18, 2000, MGE and WPSC received state regulatory approval to transfer MGE's ownership share in Kewaunee to WPSC, subject to the terms of the agreement described above.

MGE has an option under the sale agreement to buy electric capacity and energy *(up to 90 MW)* at a fixed price from WPSC for two years after the sale closes.

As part of the sale agreement, MGE's decommissioning liability and the related trust fund assets are assumed by WPSC at closing. In exchange for this assumption, MGE is required to continue funding the decommissioning trusts through 2002. MGE expects to fully recover its decommissioning costs for Kewaunee in future rates.

On April 22, 2000, Kewaunee shut down for its scheduled spring refueling outage. The plant had operated continuously *(511 days)* since startup after the 1998 refueling outage. On June 2, 2000, the plant returned to service from its planned maintenance and refueling outage. Inspection of the plant's two steam generators showed that tubes repaired in previous outages were holding up well. A major overhaul was also performed on the main electrical generator. The next shutdown for refueling and maintenance is scheduled for fall 2001. Kewaunee ended 2000 with 206 days of continuous operation since startup from the last refueling outage.

The Kewaunee co-owners have requested approval from state regulators to defer all anticipated operating and capital costs related to the replacement of the steam generators of Kewaunee in 2001. In addition, MGE is negotiating with the co-owners to share only the costs required to keep Kewaunee on line until the steam generator replacement starts.

Liquidity and Capital Resources

Cash Provided by Operating Activities

In 2000, cash provided by operating activities decreased $12.6 million, or 20.8%, compared to last year. This is primarily due to a $24.5 million increase in current assets *(excluding cash and cash equivalents)* compared to 1999. Record-high gas costs forced average utility bills up about 40.0% during the last quarter of 2000. Higher accounts receivable *($10.2 million)* and unbilled revenues *($14.7 million)* contributed to the increase in MGE's current assets. Current liabilities increased $9.6 million in 2000 compared to 1999, somewhat offsetting the increase in current assets.

In 1999, cash provided by operating activities decreased $10.2 million, or 14.5%, primarily due to a decrease in net working capital.

Capital Requirements and Investing Activities

In 2000, MGE's cash used for investing activities increased $23.0 million, or 37.2%, due to increased plant additions of $22.6 million *(mostly related to purchasing the 83-MW gas-fired combustion turbine previously described)*.

MGE's liquidity is primarily affected by its construction requirements. Capital expenditures in 2000 totaled $73.6 million, which included: 1) purchasing an 83-MW natural gas-fired combustion turbine *($31.3 million)*, which started operating in June, 2) MGE-owned customer backup generators *($5.1 million)*, 3) a gas pipeline expansion project *($2.1 million)*, 4) improvements at MGE's Blount Generating Station (Blount) *($1.2 million)* and 5) nitrogen oxide (NO_X) emissions equipment at the jointly owned Columbia plant *($2.5 million)*. The remaining capital expenditures were related to normal system upgrades.

It is anticipated 2001 capital expenditures will be $44.6 million, which will include improvements at the Blount plant. These improvements comply with new legislation or help maintain the reliability of MGE's system.

Capital expenditures for the years 2002 through 2005 will average an estimated $45.0 million per year *(including the UW cogeneration project previously described)*. The table below shows capital expenditures and nuclear fuel estimates for 2001, actuals for 2000 and the three-year average for 1997 to 1999.

MGE used internally generated funds and short-term debt to satisfy most of its capital requirements. For larger capital investments, MGE issued additional long-term debt and common stock.

In 1999, MGE's cash used for investing activities increased $21.0 million, or 51.5%, also due to new plant additions. MGE's capital requirements in 1999 included $13.0 million for a wind project, $10.0 million in distributed generation and $3.0 million for improvements at Blount.

Financing Activities and Capitalization Matters

In 2000, cash provided by financing activities increased $43.2 million from 1999. MGE had several large capital investments in 2000, which required the issuance of long-term debt *($35.0 million)* and short-term debt *($28.3 million)*. MGE raised $9.0 million through the issuance of common stock for its Dividend Reinvestment and Direct Stock Purchase Plan (Plan).

In 1999, cash used for financing activities decreased $20.8 million, or 84.6%. MGE added short-term debt totaling $15.8 million. In December 1999, MGE started issuing new shares of common stock for the Plan to improve cash flow and capitalization ratios.

MGE's First Mortgage Bonds are currently rated Aa2 by Moody's Investors Service, Inc. (Moody's) and AA by Standard & Poor's Corp. (S&P). MGE's Medium-Term Notes are rated Aa3 by Moody's and AA- by S&P. MGE's dealer-issued commercial paper carries the highest ratings assigned by Moody's and S&P.

Capital Expenditures (Including Nuclear Fuel)

For the years ended December 31: *(In thousands)*	2001 Estimated		2000		Annual Average 1997 – 1999	
Electric						
Production	$13,328	29.9%	$46,325	62.9%	$14,135	36.7%
Transmission	—	—	2,868	3.9	2,229	5.8
Distribution and General	16,759	37.5	12,506	17.0	10,095	26.2
Nuclear Fuel	2,616	5.9	2,640	3.6	1,544	4.0
Total Electric	32,703	73.3	64,339	87.4	28,003	72.7
Gas	9,176	20.6	7,669	10.4	7,734	20.1
Common	2,721	6.1	1,598	2.2	2,761	7.2
Total	$44,600	100.0%	$73,606	100.0%	$38,498	100.0%

Business and Regulatory Environment

American Transmission Company LLC (ATC)

Based on a commitment made in June 2000, MGE transferred to ATC on Jan. 1, 2001, its electric transmission facilities with a net book value of $43.6 million. ATC is a joint venture authorized by Reliability 2000 legislation in Wisconsin *(1999 Wis. Act 9)* to independently own and operate the transmission system in Wisconsin. ATC provides equal and fair access to Wisconsin's transmission system to all joint-venture partners. All of Wisconsin's investor-owned utilities have contributed their transmission facilities to ATC. In addition, several Wisconsin municipal utilities, retail electric cooperatives and power supply agencies are participating by contributing cash and/or transferring transmission assets.

In exchange for its transmission plant and related regulatory deferred taxes and deferred investment tax credits, MGE received an approximate 6.0% interest in ATC. In 2001, each member of the ATC will be subject to an independent audit of its contributed transmission assets in order to finalize initial ownership interests.

MGE will account for its investment in ATC on the equity method of accounting.

ATC is regulated by the Federal Energy Regulatory Commission (FERC). MGE expects to receive a return on its investment in ATC approximately equal to the return it would have earned by retaining its transmission facilities.

In 2001, MGE started paying a network service fee for using the ATC transmission system. MGE's transmission assets will be recovered in rates for 2001 and 2002, since the impact of joining ATC was unknown at the time MGE's rates were set. However, the difference between the revenue requirement associated with the contributed transmission assets and the network service fees payable to the ATC will be deferred subject to regulatory treatment.

Industry Restructuring in Wisconsin

Wisconsin has focused on building the infrastructure needed to provide reliable electric service to customers. State regulators realize a competitive market won't work if there is a supply shortage. The PSCW will decide when it is appropriate for retail competition to proceed in the electric industry. MGE cannot predict what impact future PSCW actions may have on its future financial condition, cash flows and results of operations. However, MGE believes it is well-positioned to compete.

Restructuring the electric industry could affect MGE's ability to continue establishing certain regulatory asset and liability amounts allowed under Financial Accounting Standard (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." MGE is unable to predict whether any adjustments to regulatory assets and liabilities will occur in the future. However, the PSCW recognizes the need to allow recovery for commitments made under prior regulation.

Gas Cost Incentive Mechanism (GCIM)

Under MGE's GCIM, if actual gas commodity costs are above or below a benchmark set by the PSCW, then MGE's gas sales service customers and shareholders share equally in any increased costs or savings up to $1.5 million. Any costs or savings that exceed $1.5 million will be passed on to gas sales service customers. The PSCW allows MGE to resell gas pipeline capacity reserved to meet peak demands, but not needed every day to serve customers. Revenues from capacity release that exceed or fall short of PSCW targeted levels are shared equally. In 2000, MGE shareholders gained approximately $0.9 million in gas commodity incentives and $0.3 million in capacity release incentives over 1999.

New Accounting Pronouncements

In June 2000, the Financial Accounting Standards Board (FASB) issued FAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities, An Amendment of FAS No. 133." This standard includes several amendments to FAS No. 133 and is effective for all fiscal years beginning after June 15, 2000. MGE adopted FAS No. 133 and FAS No. 138 as of Jan. 1, 2001.

The new standard requires that all derivative instruments be reported on the balance sheet at their fair values. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement. It also requires MGE to formally document, designate and assess the effectiveness of transactions that receive hedge accounting. For derivative instruments classified as fair-value hedges, the changes in the fair value of the derivative instrument will be offset on the income statement by the changes in the fair value of the hedged item. For derivative instruments classified as cash-value hedges, the effective portion of the hedge is reported in other comprehensive income until it is cleared to earnings. The ineffective portion of all hedges would be recognized through current earnings. For derivative instruments not classified as a hedge, the change in the fair value of the derivative will be recorded each period in current earnings.

MGE adopted FAS No. 133 on Jan. 1, 2001. There was no material effect on net income from adopting this new standard or making the transition adjustment.

The determination of the impact of FAS No. 133 is based on current interpretations of this statement, including interpretations of the Derivatives Implementation Group of the FASB. Final guidance, when issued, may affect MGE's implementation of FAS No. 133.

In September 2000, the FASB issued FAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a Replacement of FASB Statement No. 125." FAS No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of FAS No. 125's provisions without reconsideration. The standard provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Those standards are based on consistent application of a financial-components approach that focuses on control. The standard is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001, and should be applied prospectively. At Dec. 31, 2000, MGE did not anticipate entering into any transactions that would be subject to FAS No. 140.

Inflation

The current financial statements report operating results in terms of historical cost, but they do not evaluate the impact of inflation. Since utilities can depreciate only the historical cost of utility plant, there may not be adequate cash flows from existing plant to replace this investment. Under PSCW rate treatment, projected operating costs – including the impacts of inflation – are recovered in revenues.

Environmental Issues

On Jan. 1, 2000, Phase II of the 1990 Federal Clean Air Act amendments took effect, setting new emission limits for sulfur dioxides and NO_X. MGE's generating units were modified well in advance to meet year 2000 NO_X requirements. Early modifications at Blount allow MGE to postpone meeting more stringent NO_X requirements at this plant until 2007.

On Oct. 27, 1998, the Environmental Protection Agency (EPA) issued final rules requiring more NO_X emission reductions from utilities located in southern Wisconsin. However, a successful legal challenge resulted in excluding Wisconsin from this rule and returning the issue to the EPA on March 3, 2000, for further action. On Jan. 8, 2001, former EPA Administrator Carol Browner signed a proposed rule that would exclude Wisconsin *(and MGE)* from further NO_X emission reductions required by the original rule. The proposed rule must still be finalized. If it is determined that Wisconsin is subject to the original rule, MGE will likely need to evaluate emission control options to bring the Blount plant into compliance. These controls would likely increase capital, operating and maintenance expenses.

On Dec. 14, 2000, the EPA announced it would create rules to limit the amount of mercury emitted by coal and oil-fired electric-steam generating facilities. EPA plans to have the proposed rules published no later than Dec. 15, 2003, and final regulations published no later than Dec. 15, 2004. The Wisconsin Department of Natural Resources (DNR) is also evaluating its rules to limit mercury emissions from coal-fired boilers. If either of these regulations are issued, they may require MGE to evaluate emission control options for its Blount facility in order to comply. These controls would likely increase capital, operating and maintenance expenses.

MGE is one of the first Wisconsin companies to participate in a voluntary Environmental Cooperation Program with the DNR. This gives MGE flexibility as it works with the DNR to maintain superior environmental performance at the Blount plant.

In December 2000, Columbia *(in which MGE has an ownership interest)* received a Request for Information from the EPA to evaluate compliance with the Clean Air Act. Alliant Energy, the plant operator, submitted a response to the EPA on approximately Jan. 15, 2001. Management does not believe this will have a significant impact on the financial statements.

MGE is listed as a potentially responsible party for two sites that the EPA has placed on the national priorities Superfund list: 1) the Refuse Hideaway Landfill in Middleton, Wisconsin, where MGE disposed of fly ash sludge and general office waste from 1980 to 1984 and 2) the Lenz Oil site in Lemont, Illinois, which was used for storing and processing waste oil for several years. These sites require cleanup under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). A group of companies is currently negotiating with the EPA on the cleanup of these two sites.

MGE, a potentially responsible party, is also negotiating with the City of Madison for cleanup costs at the Demetral Landfill. MGE used this site for coal ash disposal from 1954–1959.

Management believes its share of the final cleanup costs for all sites will not result in any materially adverse effects on MGE's operations, cash flows or financial position. Insurance may cover a portion of the cleanup costs. Management believes that the cleanup costs not covered by insurance will be recovered in current and future rates. MGE estimates its future expense to clean up these sites could range from $250,000 to $550,000. At Dec. 31, 2000, MGE accrued a $250,000 liability on its balance sheet for this matter.

Consolidated Statements of Income

For the years ended December 31 *(In thousands, except per-share amounts)*	2000	1999	1998
Operating Revenues			
Electric	$203,176	$185,955	$169,563
Gas	120,932	88,079	80,189
Total Operating Revenues	324,108	274,034	249,752
Operating Expenses			
Fuel for electric generation	36,338	32,388	32,289
Purchased power	18,963	22,198	9,624
Natural gas purchased	77,482	49,395	45,458
Other operations	72,015	67,471	64,231
Maintenance	18,532	13,304	15,167
Depreciation and amortization	35,081	35,154	33,185
Other general taxes	10,180	9,306	9,263
Income tax provision	15,416	12,268	10,723
Total Operating Expenses	284,007	241,484	219,940
Net Operating Income	40,101	32,550	29,812
AFUDC – equity funds	343	302	122
Other income, net	1,040	2,933	3,151
Income Before Interest Expense	41,484	35,785	33,085
Interest Expense			
Interest on long-term debt	12,622	11,500	10,234
Other interest	1,683	694	687
AFUDC – borrowed funds	(176)	(155)	(66)
Net Interest Expense	14,129	12,039	10,855
Net Income	$ 27,355	$ 23,746	$ 22,230
Earnings Per Share of Common Stock (basic and diluted)	$ 1.67	$ 1.48	$ 1.38
Average Shares Outstanding	16,382	16,084	16,080

The accompanying notes are an integral part of the above statements.

Consolidated Statements of Cash Flows

For the years ended December 31 *(In thousands)*	2000	1999	1998
Operating Activities			
Net income	$ 27,355	$ 23,746	$ 22,230
Items not affecting cash:			
Depreciation and amortization	35,081	35,154	33,185
Deferred income taxes	(1,074)	(708)	(1,229)
Amortization of nuclear fuel	2,194	2,638	2,321
Amortization of investment tax credits	(727)	(739)	(747)
AFUDC – equity	(343)	(302)	(122)
Other items	(825)	(1,430)	(2,066)
Changes in working capital, excluding cash equivalents, sinking funds, maturities and short-term debt:			
(Increase)/decrease in current assets	(27,019)	(2,512)	3,577
Increase in current liabilities	12,911	3,354	1,283
Other noncurrent items, net	221	1,142	12,093
Cash Provided by Operating Activities	47,774	60,343	70,525
Investing Activities			
Additions to utility plant and nuclear fuel	(73,606)	(50,988)	(30,829)
AFUDC – borrowed funds	(176)	(155)	(66)
Increase in nuclear decommissioning fund	(11,059)	(10,692)	(9,910)
Cash Used for Investing Activities	(84,841)	(61,835)	(40,805)
Financing Activities			
Issuance of common stock	8,964	1,678	—
Cash dividends on common stock	(21,588)	(21,038)	(20,878)
Increase in long-term debt	35,000	—	30,000
Maturity/redemption of long-term debt	(11,200)	(200)	(200)
Increase/(decrease) in short-term debt	28,250	15,750	(33,500)
Cash Provided by/(Used) for Financing Activities	39,426	(3,810)	(24,578)
Change in Cash and Equivalents	2,359	(5,302)	5,142
Cash and equivalents at beginning of period	1,948	7,250	2,108
Cash and equivalents at end of period	$ 4,307	$ 1,948	$ 7,250

The accompanying notes are an integral part of the above statements.

Consolidated Balance Sheets

At December 31 *(In thousands)*	2000	1999
Assets		
Utility Plant (at original cost, in service)		
Electric	$ 622,209	$ 554,392
Gas	197,093	190,137
Gross Plant in Service	819,302	744,529
Less accumulated provision for depreciation	(510,381)	(484,428)
Net Plant in Service	308,921	260,101
Construction work in progress	22,863	31,134
Nuclear decommissioning fund	102,891	97,056
Nuclear fuel, net	6,979	6,534
Total Utility Plant	441,654	394,825
Other Property and Investments	3,988	3,591
Current Assets		
Cash and cash equivalents	4,307	1,948
Accounts receivable, less reserves of $2,071 and $1,391, respectively	38,161	27,913
Unbilled revenue	27,900	13,167
Materials and supplies, at lower of average cost or market	7,735	6,149
Fossil fuel, at lower of average cost or market	3,872	4,061
Stored natural gas, at lower of average cost or market	9,785	10,039
Prepaid taxes	7,539	6,802
Other prepayments	1,221	1,063
Total Current Assets	100,520	71,142
Deferred Charges	25,442	25,952
Total Assets	$ 571,604	$ 495,510
Capitalization and Liabilities		
Capitalization (see statement)	$ 383,749	$ 334,285
Current Liabilities		
Long-term debt due within one year	200	11,200
Short-term debt – commercial paper	44,000	15,750
Accounts payable	28,792	19,553
Accrued taxes	2,550	891
Accrued interest	3,162	2,770
Accrued payroll-related items	4,968	4,064
Other	3,565	2,848
Total Current Liabilities	87,237	57,076
Other Credits		
Deferred income taxes	43,321	42,981
Investment tax credit – deferred	8,472	9,199
Regulatory liability – FAS No. 109	21,532	22,875
Other regulatory liabilities	4,985	5,078
Other deferred liabilities	22,308	24,016
Total Other Credits	100,618	104,149
Total Liabilities	187,855	161,225
Total Capitalization and Liabilities	$ 571,604	$ 495,510

The accompanying notes are an integral part of the above statements.

Consolidated Statements of Capitalization

At December 31 *(In thousands)*	2000	1999
Common Equity		
Common stock – par value $1 per share:		
Authorized 50,000,000 shares		
Outstanding 16,618,729 shares and 16,161,305 shares, respectively	$ 16,619	$ 16,161
Additional paid-in capital	122,661	114,155
Retained earnings	62,112	56,345
Accumulated other comprehensive income/(loss)	(1,080)	(975)
Total Common Shareholders' Equity	200,312	185,686
Redeemable Preferred Stock, cumulative,		
$25 par value, 1,175,000 authorized, but unissued	—	—
First Mortgage Bonds		
6½%, 2006 Series:		
Pollution Control Revenue Bonds	6,075	6,275
8.50%, 2022 Series	40,000	40,000
6.75%, 2027A Series:		
Industrial Development Revenue Bonds	28,000	28,000
6.70%, 2027B Series:		
Industrial Development Revenue Bonds	19,300	19,300
7.70%, 2028 Series	21,200	21,200
First Mortgage Bonds Outstanding	114,575	114,775
Unamortized discount and premium on bonds, net	(938)	(976)
Long-term debt sinking fund requirements	(200)	(200)
Total First Mortgage Bonds	113,437	113,599
Other Long-Term Debt		
Variable rate, due 2002	20,000	—
6.91%, due 2004	5,000	5,000
7.49%, due 2007	15,000	—
6.02%, due 2008	30,000	30,000
Total Long-Term Debt	183,437	148,599
Total Capitalization	$383,749	$334,285

The accompanying notes are an integral part of the above statements.

Consolidated Statements of Common Equity

(In thousands, except per-share amounts)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Comprehensive Income
1998					
Beginning balance – Dec. 31, 1997	$16,080	$112,558	$ 52,285	$ —	$ —
Net income	—	—	22,230	—	22,230
Other comprehensive income/(loss)	—	—	—	—	—
Total comprehensive income					$ 22,230
Common stock dividends ($1.30 per share)	—	—	(20,878)	—	
Ending balance – Dec. 31, 1998	$16,080	$112,558	$ 53,637	$ —	
1999					
Net income	$ —	$ —	$ 23,746	$ —	$ 23,746
Other comprehensive income/(loss): Minimum pension liability adjustment (net of $654 tax)	—	—	—	(975)	(975)
Total comprehensive income					$ 22,771
Common stock dividends ($1.31 per share)	—	—	(21,038)	—	
Common stock issued	81	1,597	—	—	
Ending balance – Dec. 31, 1999	$16,161	$114,155	$ 56,345	$ (975)	
2000					
Net income	$ —	$ —	$ 27,355	$ —	$ 27,355
Other comprehensive income/(loss): Minimum pension liability adjustment (net of $70 tax)	—	—	—	(105)	(105)
Total comprehensive income					$ 27,250
Common stock dividends ($1.32 per share)	—	—	(21,588)	—	
Common stock issued	458	8,506	—	—	
Ending balance – Dec. 31, 2000	$16,619	$122,661	$ 62,112	$(1,080)	

The accompanying notes are an integral part of the above statements.

Dec. 31, 2000, 1999 and 1998

1. Summary of Significant Accounting Policies

a. General

Madison Gas and Electric Company (MGE) is an investor-owned public utility headquartered in Madison, Wisconsin. MGE generates, transmits and distributes electricity to more than 126,000 customers in a 250-square-mile area of Dane County. MGE also transports and distributes natural gas to nearly 114,000 customers in 1,325 square miles of service territory in seven south-central counties in Wisconsin.

The consolidated financial statements reflect the application of certain accounting policies described in this note. Certain 1999 balances have been reclassified to conform to the 2000 presentation. The financial statements include the accounts of MGE and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

In order to prepare consolidated financial statements in conformity with generally accepted accounting principles, management must make estimates and assumptions that affect the following: 1) reported amounts of assets and liabilities at the dates of the financial statements, 2) reported amounts of revenues and expenses during the reported periods and 3) disclosure of contingencies. Actual results could differ from management's estimates.

b. Revenues

Revenues are recorded based on services rendered or energy delivered to customers. MGE accrues a monthly estimate for unbilled revenue. Gas revenues are subject to an adjustment clause related to periodic changes in the cost of gas. In November 1999, MGE started operating under the new gas cost incentive mechanism (GCIM). Under the GCIM, if actual gas commodity costs are above or below a benchmark set by state regulators, MGE gas sales service customers and shareholders share equally in the higher costs or savings up to $1.5 million. Any costs or savings that exceed $1.5 million will be passed on to the gas sales service customers.

c. Nuclear Fuel

The cost of nuclear fuel used for electric generation is amortized to fuel expense and recovered in rates based on the units of production method for generating electricity at the Kewaunee Nuclear Power Plant (Kewaunee).

These costs include a provision for estimated future disposal costs of spent nuclear fuel. MGE currently pays disposal fees to the Department of Energy based on net nuclear generation. MGE has recovered through rates its known fuel disposal liability for past nuclear generation.

The 1992 National Energy Policy Act requires all utilities that have used federal enrichment facilities to pay a special assessment for decontaminating and decommissioning these facilities. This special assessment is based on past enrichment. MGE has accrued in other regulatory liabilities and deferred in deferred charges an estimated $1.6 million for its portion of the special assessment. MGE believes any additional costs will be recovered in future rates.

d. Utility Plant

Utility plant is stated at the original cost of construction, which includes: indirect costs consisting of payroll taxes, pensions, postretirement benefits, other fringe benefits, administrative and general costs and an allowance for funds used during construction (AFUDC).

AFUDC represents the approximate cost of debt and equity capital devoted to plant under construction. MGE presently capitalizes AFUDC at a rate of 10.58% on 50.0% of average construction work in progress. The AFUDC rate approximates MGE's cost of capital. The portion of the allowance that applies to: 1) borrowed funds is presented in the Consolidated Statements of Income as a reduction of interest expense and 2) equity funds is presented as other income. Although the allowance does not represent current cash income, it is recovered under the ratemaking process over the service lives of the related properties.

e. Depreciation

Provisions at composite straight-line depreciation rates – excluding decommissioning costs – approximate the following percentages for the cost of depreciable property:

- Electric – 3.2% in 2000 and 3.6% in 1999 and 1998.
- Gas – 3.4% in 2000, 1999 and 1998.

Depreciation rates are approved by the Public Service Commission of Wisconsin (PSCW) and are generally based on the estimated economic lives of property.

Nuclear decommissioning costs are being accrued to an end-of-service life of 2002 for Kewaunee. These costs are currently recovered from customers in rates and are deposited in external trusts. For 2000, the decommissioning costs recovered in rates were $8.1 million.

Decommissioning costs are recovered through depreciation expense with a corresponding liability in accumulated depreciation. Net earnings on the trusts are included in other income. It is expected that the decommissioning contributions to the trusts – along with earnings on the trusts – will provide sufficient funds for decommissioning the plant. It is assumed the long-term, after-tax earnings on the assets held by the trusts are 5.6%.

As required by Statement of Financial Accounting Standards (FAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," MGE's debt and equity security investments in the trusts are classified as available for sale. Gains and losses on the trusts were determined based on specific

identification. Net unrealized holding gains on the trusts were recorded as part of accumulated provision for depreciation.

As of Dec. 31, 2000, the decommissioning trusts totaled $102.9 million – its pre-tax fair market value. Realized earnings on the trusts were $3.5 million, $3.1 million and $1.8 million for the years ended Dec. 31, 2000, 1999 and 1998, respectively. Unrealized earnings of the trusts totaled $28.0 million, $33.3 million and $26.0 million at Dec. 31, 2000, 1999 and 1998, respectively.

MGE's share of Kewaunee decommissioning costs is an estimated $93.1 million in current dollars based on a site-specific study performed in 1992 using immediate dismantlement as the method of decommissioning. This study assumed decommissioning costs would inflate at an average rate of 6.0% per year. MGE's decommissioning liability is limited to the current fund balances plus all decommissioning contributions through 2002. This is based on the agreement that allows MGE to sell its share of Kewaunee to Wisconsin Public Service Corp. (WPSC). Physical decommissioning is expected to occur from 2014 through 2021. Additional expenses will likely be incurred from 2022 through 2039 to store spent nuclear fuel at the plant site.

f. Regulatory Matters

Pursuant to FAS No. 71 "Accounting for the Effects of Certain Types of Regulation," MGE capitalizes *(as deferred charges)* incurred costs that are expected to be recovered in future electric and natural gas rates. MGE also records *(as other credits)* obligations to customers to refund previously collected revenue or to spend revenue collected from customers on future costs.

Restructuring the electric industry could affect MGE's ability to continue establishing certain regulatory asset and liability amounts allowed under FAS No. 71. MGE is unable to predict whether any adjustments to regulatory assets and liabilities will occur in the future. However, the PSCW recognizes the need to allow recovery for commitments made under prior regulation. MGE's regulatory and deferred assets and liabilities consisted of the following as of Dec. 31:

(In thousands)	2000 Assets	2000 Liabilities	1999 Assets	1999 Liabilities
Demand-side management	$ 3,910	$ 1,345	$ 5,879	$ 1,487
Decommissioning and decontamination	1,584	1,584	1,955	1,787
Environmental costs	592	—	656	—
Regulatory liability – FAS No. 109	—	21,532	—	22,875
Other	1,604	2,056	2,255	1,804
Total Regulatory Assets/Liabilities	7,690	26,517	10,745	27,953
Pension and deferred comp assets/liabilities	$ 4,938	$15,426	$ 3,121	$14,001
Unamortized debt expense	5,038	—	5,064	—
Customer advances for construction	—	4,325	—	4,109
Other deferred items	7,776	2,557	7,022	5,906
Subtotal Deferred Assets/Liabilities	17,752	22,308	15,207	24,016
Total	$25,442	$48,825	$25,952	$51,969

MGE contracted with WPSC to build an 83-megawatt (MW) natural gas-fired combustion turbine near Marinette, Wisconsin. MGE received a return component on this asset in rate order Docket No. 3270-UR-109. The revenue for this asset was deferred until the unit came on line in June 2000. This allowed MGE to match the revenues with the expenses. MGE recorded revenues of $1.7 million on this asset in 2000. The cost of the unit *($31.3 million)* was added to MGE's utility plant balances in 2000.

g. Statement of Cash Flows

MGE considers cash equivalents to be those investments that are highly liquid with original maturity dates of less than three months.

Supplementary noncash investing items and cash paid for interest and income taxes for the years ended Dec. 31 were as follows:

(In thousands)	2000	1999	1998
Interest paid, net of amount capitalized	$13,822	$12,053	$10,227
Income taxes paid, net	$16,078	$15,857	$14,188
Noncash investing item	$ —	$ 5,301	$ —

h. Comprehensive Income

Comprehensive income includes all changes in equity during a period, except those resulting from investments by and distributions to shareholders. Comprehensive income is reflected in the Consolidated Statements of Common Equity.

i. Hedge Accounting

Hedge accounting is applied only if the derivative reduces the risk of the underlying hedged item and is designated at inception as a hedge, with respect to the hedged item. If a derivative instrument ceased to meet the criteria for deferral, any gains or losses were recognized in income.

j. New Accounting Pronouncements

In June 2000, the Financial Accounting Standards Board (FASB) issued FAS No. 138 "Accounting for Certain Derivative

Instruments and Certain Hedging Activities, An Amendment of FAS No. 133." This standard includes several amendments to FAS No. 133 and is effective for fiscal years beginning after June 15, 2000. MGE adopted FAS No. 133 and FAS No. 138 as of Jan. 1, 2001.

The new standard requires that all derivative instruments be reported on the balance sheet at their fair values. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement. It also requires MGE to formally document, designate and assess the effectiveness of transactions that receive hedge accounting. For derivative instruments classified as fair-value hedges, the changes in the fair value of the derivative instrument will be offset on the income statement by the changes in the fair value of the hedged item. For derivative instruments classified as cash-value hedges, the effective portion of the hedge is reported in other comprehensive income until it is cleared to earnings. The ineffective portion of all hedges would be recognized through current earnings. For derivative instruments not classified as a hedge, the change in the fair value of the derivative will be recorded each period in current earnings.

MGE adopted FAS No. 133 on Jan. 1, 2001. There was no material effect on net income from adopting this new standard or making the transition adjustment.

The determination of the impact of FAS No. 133 is based on current interpretations of this statement, including interpretations of the Derivatives Implementation Group of the FASB. Final guidance, when issued, may affect MGE's implementation of FAS No. 133.

In September 2000, the FASB issued FAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a Replacement of FASB Statement No. 125." FAS No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of FAS No. 125's provisions without reconsideration. The standard provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Those standards are based on consistent application of a financial-components approach that focuses on control. The standard is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001, and should be applied prospectively. At Dec. 31, 2000, MGE did not anticipate entering into any transactions that would be subject to FAS No. 140.

2. Joint Plant Ownership

MGE and two other utilities jointly own two electric generating facilities, which account for 54.0% of MGE's net generating capability – 325 MW. Power from these facilities is shared in proportion to each company's ownership interest. MGE owns:

- 22.0% *(232 MW)* of the coal-fired Columbia Energy Center (Columbia), which is operated by Alliant Energy Corp.
- 17.8% *(93 MW)* of Kewaunee, which is operated by WPSC.

On Sept. 29, 1998, MGE finalized an agreement to sell its share of Kewaunee to WPSC. MGE is expected to transfer its ownership interest in Kewaunee in the fall of 2001. MGE will receive a cash payment from WPSC for Kewaunee upon closing *(date plant shuts down for steam generator replacement)*. The payment will be comprised of MGE's share of Kewaunee's book value *(currently $8.9 million)* plus the book value of other assets related to Kewaunee. MGE's decommissioning liability will be limited to the current value of the trust assets balance until the sale closes, plus all decommissioning collections through 2002. MGE believes it can secure electric capacity and energy more cost-effectively from other sources and eliminate the risk of future stranded costs. This agreement, approved by state regulators in 2000, will close when the plant shuts down for steam generator replacement. The work, which will take approximately 60 days, is scheduled for fall 2001.

Each owner provides its own financing and reflects its respective portion of facilities and operating costs in its financial statements. MGE's interest in these facilities, included in its gross utility plant in service, and the related accumulated depreciation reserves at Dec. 31 were as follows:

	Columbia		Kewaunee	
(In thousands)	2000	1999	2000	1999
Utility plant	$ 91,993	$ 86,875	$ 59,484	$ 58,835
Accumulated depreciation	(55,877)	(53,417)	(50,621)	(46,462)
Net Plant	$ 36,116	$ 33,458	$ 8,863	$ 12,373

3. Income Taxes

Total income taxes in the Consolidated Statements of Income are as follows:

(In thousands)	2000	1999	1998
Income taxes charged to operations	$15,416	$12,268	$10,723
Income taxes charged to other income	336	1,608	2,384
Total Income Taxes	$15,752	$13,876	$13,107

Total income taxes consist of the following provision *(benefit)* components for the years ended Dec. 31:

(In thousands)	2000	1999	1998
Currently payable			
Federal	$14,280	$11,772	$11,832
State	3,273	3,551	3,251
Net-deferred			
Federal	(878)	(476)	(1,092)
State	(196)	(232)	(137)
Amortized investment tax credits	(727)	(739)	(747)
Total Income Taxes	$15,752	$13,876	$13,107

Deferred income taxes are provided to reflect the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not. A valuation allowance is recorded for those benefits which do not meet the more-likely-than-not criterion. Investment tax credits from regulated operations are amortized over related property service lives.

The differences between the federal statutory income tax rate and MGE's effective rate are as follows:

	2000	1999	1998
Statutory federal income tax rate	35.0%	35.0%	35.0%
Amortized investment tax credits	(1.7)	(2.0)	(2.1)
State income taxes, net of federal benefit	5.0	5.7	5.7
Valuation allowance	(1.1)	(0.3)	(0.4)
Renewable electricity production credit	(0.9)	(0.5)	—
Other, individually insignificant	0.2	(1.0)	(1.1)
Effective Income Tax Rate	36.5%	36.9%	37.1%

The significant components of deferred tax liabilities *(assets)* that appear on the Consolidated Balance Sheets as of Dec. 31 are as follows:

(In thousands)	2000	1999
Property-related	$ 57,564	$ 56,869
Bond transactions	1,720	1,803
Energy conservation	1,030	1,757
Pension expense	2,282	1,598
Other	1,002	556
Gross deferred income tax liabilities	63,598	62,583
Accrued expenses	(4,513)	(3,836)
Retirement benefits, other than pension	(2,107)	(1,929)
Other	(1,986)	(1,813)
Deferred tax regulatory account	(12,042)	(12,873)
Gross deferred income tax assets	(20,648)	(20,451)
Less valuation allowance	371	849
Net deferred income tax assets	(20,277)	(19,602)
Deferred Income Taxes	$ 43,321	$ 42,981

The valuation allowance reduces MGE's deferred tax assets to estimated realizable value. The deferred tax assets for which a valuation allowance is necessary arise primarily from state tax carryforward losses. In 2000, MGE reduced the valuation allowance applied against these state tax carryforward losses based upon management's estimate that, more likely than not, these deferred tax assets will be realized. The remaining valuation allowance at Dec. 31, 2000, is necessary due to the uncertainty of future income estimates.

For tax purposes, as of Dec. 31, 2000, MGE had approximately $14.0 million of state tax net operating loss deductions that expire in 2013, if unused.

Excess deferred income taxes result from past taxes provided at rates higher than current rates. The regulatory liability-FAS No. 109 associated with these excess deferred income taxes and investment tax credit-deferred was $21.5 million and $22.9 million at Dec. 31, 2000 and 1999, respectively.

4. Pension Plans

MGE maintains qualified and nonqualified pension plans. MGE also provides health care and life insurance benefits for its retired employees. The table on page 29 provides a reconciliation of benefit obligations, plan assets and funded status of the plans.

The funded status information reported on page 29 includes a nonqualified pension plan and a postretirement plan with accumulated benefit obligations in excess of the fair value of assets. The projected benefit obligation, accumulated benefit obligation and fair value of assets for a nonqualified

pension plan were $7.6 million, $7.2 million and $0, respectively, at Dec. 31, 2000, and $6.9 million, $6.6 million and $0 respectively, at Dec. 31, 1999. Similarly, the accumulated benefit obligation and fair value of assets for a postretirement plan were $18.3 million and $7.0 million at Dec. 31, 2000, and $15.6 million and $6.4 million at Dec. 31, 1999.

MGE has elected to recognize the cost of its transition obligation *(the accumulated postretirement benefit obligation as of Jan. 1, 1993)* by amortizing it on a straight-line basis over 20 years.

MGE maintains two defined contribution 401(k) benefit plans for its employees. MGE's costs of the 401(k) plans were $0.6 million in 2000, $0.5 million in 1999 and $0.5 million in 1998.

Sensitivity of Retiree Welfare Results: The assumed health care cost percentage was 7.0% as of Dec. 31, 2000. Assumed health care trend rates, which have a significant effect on the amounts reported for health care plans, have been declining as shown in the table on page 30. The following table shows how an assumed 1.0% increase or 1.0% decrease in health care cost trends could impact postretirement benefits in 2000 dollars.

(In thousands)	1.0% Increase	1.0% Decrease
Effect on:		
– total service and interest cost components	$ 369	$ (294)
– postretirement benefit obligation	$3,103	$(2,513)

MGE reports comprehensive income in accordance with FAS No. 130, "Reporting Comprehensive Income." Comprehensive income includes the minimum pension liability adjustment, net of tax, for a nonqualified pension plan and is reflected in the Consolidated Statements of Common Equity.

	Pension Benefits		Postretirement Benefits	
(In thousands)	2000	1999	2000	1999
Change in Benefit Obligation				
Net benefit obligation at beginning of year	$ 81,675	$ 81,548	$ 16,244	$16,432
Service cost	2,350	2,020	612	648
Interest cost	6,424	5,868	1,317	1,177
Plan participants' contributions	—	—	157	134
Plan amendments	1,696	3,244	—	—
Actuarial (gain)/loss	2,432	(8,390)	1,430	(1,654)
Gross benefits paid	(2,892)	(2,615)	(809)	(493)
Net benefit obligation at end of year	$ 91,685	$ 81,675	$ 18,951	$16,244
Change in Plan Assets				
Fair value of plan assets at beginning of year	$ 99,767	$ 81,118	$ 7,023	$ 5,493
Actual return on plan assets	1,263	19,370	227	929
Employer contributions	368	1,894	1,002	960
Plan participants' contributions	—	—	156	134
Gross benefits paid	(2,892)	(2,615)	(809)	(493)
Fair value of plan assets at end of year	$ 98,506	$ 99,767	$ 7,599	$ 7,023
Funded status at end of year	$ 6,821	$ 18,092	$(11,352)	$ (9,221)
Unrecognized net actuarial gain	(12,976)	(24,385)	(2,493)	(4,466)
Unrecognized prior service cost	5,142	3,889	1,541	1,731
Unrecognized net transition obligation	1,479	1,583	5,210	5,644
Net amount recognized at end of year	$ 466	$ (821)	$ (7,094)	$ (6,312)
Amounts recognized in the balance sheet consist of:				
Prepaid benefit cost	$ 4,938	$ 3,121	$ 80	$ 67
Accrued benefit liability	(4,472)	(3,942)	(7,174)	(6,379)
Additional minimum liability	(2,756)	(2,697)	—	—
Intangible asset	951	1,068	—	—
Accumulated other comprehensive income	1,805	1,629	—	—
Net amount recognized at end of year	$ 466	$ (821)	$ (7,094)	$ (6,312)

(In thousands)	Pension Benefits 2000	1999	1998	Postretirement Benefits 2000	1999	1998
Components of Net Periodic Benefit Cost						
Service cost	$ 2,350	$ 2,020	$ 1,655	$ 612	$ 648	$ 510
Interest cost	6,424	5,868	4,750	1,317	1,177	1,035
Expected return on assets	(9,355)	(7,597)	(6,580)	(655)	(513)	(434)
Amortization of:						
Transition obligation (asset)	104	104	(39)	434	434	434
Prior service cost	442	352	143	190	190	190
Actuarial (gain) loss	(883)	89	(28)	(114)	(19)	(132)
Regulatory effect based on phase-in	112	113	103	—	—	—
Net periodic benefit cost	$ (806)	$ 949	$ 4	$1,784	$1,917	$1,603
Weighted-average Assumptions as of Dec. 31						
Discount rate	7.50%	7.50%	6.75%	7.50%	7.50%	6.75%
Expected return on plan assets	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%
Rate of compensation increase	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Health care cost trend on covered charges	N/A	N/A	N/A	7.00%[1]	8.00%[1]	9.00%[1]

[1] *Decreasing gradually to 5.0% in 2003 and remaining constant thereafter.*

5. Fair Value of Financial Instruments

At Dec. 31, 2000 and 1999, the carrying amount of cash, cash equivalents and outstanding commercial paper approximates fair market value due to the short maturity of those investments and obligations. MGE's nuclear decommissioning trusts are recorded at fair market value.

The estimated fair market value of MGE's long-term debt and interest rate swap agreements are based on quoted market prices at Dec. 31. The estimated fair market value of MGE's financial instruments are as follows:

(In thousands)	2000 Carrying Amount	2000 Fair Value	1999 Carrying Amount	1999 Fair Value
Assets				
Cash and cash equivalents	$ 4,307	$ 4,307	$ 1,948	$ 1,948
Decommissioning fund	$102,891	$102,891	$ 97,056	$ 97,056
Liabilities				
Short-term debt	$ 44,000	$ 44,000	$ 15,750	$ 15,750
Long-term debt	$184,575	$187,527	$160,775	$157,852
Other long-term debt (swap agreements)	$ —	$ (194)	$ —	$ (13)

Cash, cash equivalents and customer accounts receivable are the financial instruments that potentially subject MGE to concentrations of credit risk. MGE places its cash and cash equivalents with high credit-quality financial institutions. MGE has limited concentrations of credit risk from customer accounts receivable because of the large number of customers and strong economy in its service territory.

MGE has interest rate swap agreements with commercial banks totaling $5.0 million for 2000 and $16.0 million for 1999, with effective interest rates of 6.3% and 5.1%, respectively. These agreements have a fixed rate and are backed by MGE's commercial paper. MGE believes counterparties to the agreements will meet their obligations based on their high credit ratings.

In February 2000, MGE entered into a nonexchange-traded heating degree day (HDD) put option covering March 2000 and November 2000 through March 2001. MGE uses weather derivatives to reduce the impact of weather volatility on its gas margin. MGE does not use weather derivatives for trading or speculative purposes. MGE accounts for these weather derivatives in accordance with EITF 99-2, "Accounting for Weather Derivatives," which uses the intrinsic value method.

The premium cost is amortized over the expected HDD of the contract and any gains or losses are recorded in other income. Nonperformance of counterparties to these weather derivatives could expose MGE to credit loss. However, MGE enters into transactions only with companies that meet or exceed strict credit guidelines. MGE considers it has minimal risk for counterparty default. No gain or loss has been recognized on this weather derivative.

MGE purchased nonexchange-traded financial put options to reduce the impact on customers if winter gas prices drop below the price MGE paid for its gas in storage. MGE typically injects gas into storage in the summer and draws it out during the winter months. The put options have contract terms of January and February 2001. Under MGE's natural gas risk management program approved by the PSCW, the cost of these put options *(as well as the gains or losses realized)* will be recovered under the purchased gas adjustment clause, and will not affect net income. These financial put options had no fair market value at Dec. 31, 2000.

6. Capitalization Matters

a. Common Stock

Beginning in December 1999, MGE switched from buying shares on the open market to issuing new shares for its Dividend Reinvestment and Direct Stock Purchase Plan (Plan). Issuing new shares – rather than buying shares on the open market – helps improve cash flow and strengthen MGE's capital structure.

In 2000, a total of 458,000 new shares of common stock were issued under the Plan. The $9.0 million proceeds were allocated to common stock and amounts received in excess of par value.

In 1999, a total of 81,000 new shares of common stock were issued under the Plan. The proceeds were allocated to common stock and amounts received in excess of par value.

b. Preferred Stock

MGE has authorized but not issued 1,175,000 shares of $25 par value redeemable preferred stock, cumulative, at Dec. 31, 2000 and 1999.

c. First Mortgage Bonds and Other Long-Term Debt

MGE's utility plant is subject to the lien of its First Mortgage Bonds.

On May 4, 2000, MGE issued $20.0 million of unsecured, variable-rate Medium-Term Notes (MTN) maturing on May 3, 2002. Interest on these notes will be paid quarterly on the third Wednesday of March, June, September and December. The variable rate, based on the three-month London Interbank Offering Rate (LIBOR) plus 13.0 basis points, was 6.67% as of Dec. 31, 2000. The proceeds were used to finance the 83-MW natural gas-fired combustion turbine that MGE purchased from WPSC.

On Sept. 20, 2000, MGE issued $15.0 million of unsecured MTN at a rate of 7.49%. Interest on these notes will be paid semiannually on March 1 and Sept. 1 until the notes mature on Sept. 20, 2007. The proceeds were used to retire the $11.0 million, 6.01% debt issue that matured in November.

Long-term debt maturities, including mandatory sinking fund requirements relating to the 6½%, 2006 Series, First Mortgage Bonds are:

(In thousands)	Amount	Debt Issue
2001	$ 200	—
2002	20,200	VAR%, MTN
2003	500	—
2004	6,000	6.91%, SWAP
2005	2,000	—

d. Notes Payable to Banks, Commercial Paper and Lines of Credit

For short-term borrowings, MGE generally issues commercial paper *(at the prevailing discount rate when issued)* that is supported by unused bank lines of credit. Through negotiations with several banks, MGE has $55.0 million in bank lines of credit.

Information concerning short-term borrowings for the past three years is shown below:

(In thousands)	2000	1999	1998
As of December 31:			
Available lines of credit	$55,000	$40,000	$45,000
Commercial paper outstanding	$44,000	$15,750	$ —
Weighted-average interest rate	6.73%	6.44%	0.00%
During the year:			
Maximum short-term borrowings	$44,000	$15,750	$33,500
Average short-term borrowings	$17,117	$ 1,899	$ 9,223
Weighted-average interest rate	6.07%	5.68%	5.70%

7. Rate Matters

In January 2001, the PSCW authorized: 1) an electric rate increase of $7.5 million, or 3.9%, to cover rising fuel costs and increased system demands, 2) a natural gas rate increase of $3.4 million, or 2.7%, for improving the gas delivery system and 3) a return on common stock equity of 12.9%. MGE's next rate case period is expected to begin Jan. 1, 2003. MGE has a limited reopener in its current rate case to reflect items that may significantly impact rates for 2002. MGE's reopener will reflect the full-year impact of the disposition of Kewaunee and also address implementing a proposed automated meter reading system.

MGE contracted with WPSC to build and operate an 83-MW natural gas-fired combustion turbine near Marinette, Wisconsin. MGE received rate recovery for this asset and related operating and maintenance expenses. Associated revenues collected in 1999 *($1.7 million)* and the first five months of 2000 *($0.8 million)* were deferred until the unit went on line in June 2000. MGE recognized the collection of these deferred revenues *($2.5 million)* starting in June 2000.

In January 2000, the PSCW approved an electric rate increase of $9.7 million, or 5.5%, to cover: rising fuel costs, repair costs at Kewaunee and additional backup generator costs. These rates were in effect through 2000. In MGE's previous rate case, it was assumed that Kewaunee ownership – and related costs – would have transferred to WPSC in spring 2000 *(when steam generators were scheduled to be replaced)*. Delays in manufacturing the steam generators postponed this work until fall 2001.

In January 1999, the PSCW authorized an electric rate increase of $8.4 million, or 5.1%, and a natural gas rate increase of $0.7 million, or 0.7%. These rates were based on a 12.2% authorized return on common stock equity.

In August 1999, the PSCW approved a temporary retail electric rate surcharge of 3.6%, on average. This surcharge, which ended Dec. 31, 1999, covered higher fuel and purchased power costs caused by extended outages at the Columbia plant, which MGE owns jointly with Alliant Energy and WPSC.

8. Gas Marketing Subsidiaries

After selling its interest in a gas marketing joint venture in Dec. 1998, MGE favorably resolved various contingencies in 2000 and 1999, including: warranty claims, accounts payable and legal and tax issues related to its former investment. The after-tax benefit was approximately $0.3 million and $1.0 million in 2000 and 1999, respectively.

9. Commitments

Coal Contracts: MGE has no coal contracts that contain demand obligations for Blount Generating Station (Blount). Fuel procurement for MGE's jointly owned Columbia plant is handled by Alliant Energy, the operating company. If any demand obligations must be paid under these contracts, management believes these would be considered costs of service and recoverable in rates.

Purchased Power Contracts: MGE has several purchased power contracts to help meet future electric supply requirements. As of Dec. 31, 2000, MGE's total commitments for energy and purchased power contracts for capacity are estimated to be $6.3 million in 2001, $10.9 million in 2002, $14.7 million in 2003 and $11.0 million in 2004 and 2005. Management expects to recover these costs in future customer rates.

In March 1999, MGE entered into an agreement with Commonwealth Edison to purchase 60 MW of firm capacity and energy for approximately $10.2 million *(which includes about $0.5 million for securing firm transmission to deliver firm capacity and energy to MGE's system)*. In March 1999, MGE also agreed to sell 30 MW of the 60 MW to Wisconsin Public Power, Inc., for approximately $4.8 million, plus any applicable taxes.

Purchased Gas Contracts: MGE has natural gas transportation contracts that provide for the availability of firm pipeline capacity under which it must make fixed monthly payments. The pricing component of the fixed monthly payment for these contracts is established, but may be subject to change by the Federal Energy Regulatory Commission (FERC). These payments are estimated to be: $16.2 million in 2001, $14.2 million in 2002, $12.6 million in 2003, $11.8 million in 2004 and $9.8 million in 2005. Management expects to recover these costs in future customer rates.

Environmental: On Jan. 1, 2000, Phase II of the 1990 Federal Clean Air Act amendments took effect, setting new emission limits for sulfur dioxides and nitrogen oxide (NO_X). MGE's generating units were modified well in advance to meet year 2000 NO_X requirements. Early modifications at Blount allow MGE to postpone meeting more stringent NO_X requirements at this plant until 2007.

On Oct. 27, 1998, the Environmental Protection Agency (EPA) issued final rules requiring more NO_X emission reductions from utilities located in southern Wisconsin. However, a successful legal challenge resulted in excluding Wisconsin from this rule and returning the issue to the EPA on March 3, 2000, for further action. On Jan. 8, 2001, former EPA Administrator Carol Browner signed a proposed rule that would exclude Wisconsin *(and MGE)* from further NO_X emission reductions required by the original rule. The proposed rule must still be finalized. If it is determined Wisconsin is subject to the original rule, MGE will likely need to evaluate emission control options to bring the Blount plant into compliance. These controls would likely increase capital, operating and maintenance expenses.

On Dec. 14, 2000, the EPA announced it would create rules to limit the amount of mercury emitted by coal and oil-fired electric-steam generating facilities. EPA plans to have the proposed rules published no later than Dec. 15, 2003, and final regulations published no later than Dec. 15, 2004. The Wisconsin Department of Natural Resources (DNR) is also evaluating its rules to limit mercury emissions from coal-fired boilers. If either of these regulations are issued, they may require MGE to evaluate emission control options for its Blount facility in order to comply. These controls would likely increase capital, operating and maintenance expenses.

MGE is one of the first Wisconsin companies to participate in a voluntary Environmental Cooperation Program with the DNR. This gives MGE flexibility as it works with the DNR to maintain superior environmental performance at the Blount plant.

In December 2000, Columbia *(in which MGE has an ownership interest)* received a Request for Information from the EPA to evaluate compliance with the Clean Air Act. Alliant Energy, the plant operator, submitted a response to the EPA on approximately Jan. 15, 2001. Management does not believe this will have a significant impact on the financial statements.

MGE is listed as a potentially responsible party for two sites that the EPA has placed on the national priorities Superfund list: 1) the Refuse Hideaway Landfill in Middleton, Wisconsin, where MGE disposed of fly ash sludge and general office waste from 1980 to 1984 and 2) the Lenz Oil site in Lemont, Illinois, which was used for storing and processing waste oil for several years. These sites require cleanup under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). A group of companies is currently negotiating with the EPA on the cleanup of these two sites.

MGE, a potentially responsible party, is also negotiating with the City of Madison for cleanup costs at the Demetral Landfill. MGE used this site for coal ash disposal from 1954–1959.

Management believes its share of the final cleanup costs for all sites will not result in any materially adverse effects on MGE's operations, cash flows or financial position. Insurance may cover a portion of the cleanup costs. Management believes that the cleanup costs not covered by insurance will be recovered in current and future rates. MGE estimates its future expense to clean up these sites could range from $250,000 to $550,000. At Dec. 31, 2000, MGE accrued a $250,000 liability on its balance sheet for this matter.

10. American Transmission Company LLC

Based on a commitment made in June 2000, MGE transferred to ATC on Jan. 1, 2001, its electric transmission facilities with a net book value of $43.6 million. ATC is a joint venture authorized by Reliability 2000 legislation in Wisconsin *(1999 Wis. Act 9)* to independently own and operate the transmission system in Wisconsin. ATC provides equal and fair access to Wisconsin's transmission system to all joint-venture partners. All of Wisconsin's investor-owned utilities have contributed their transmission facilities to ATC. In addition, several Wisconsin municipal utilities, retail electric cooperatives and power supply agencies are participating by contributing cash and/or transferring transmission assets.

In exchange for its transmission plant and related regulatory deferred taxes and deferred investment tax credits, MGE received an approximate 6.0% interest in ATC. In 2001, each member of the ATC will be subject to an independent audit of its contributed transmission assets in order to finalize initial ownership interests.

MGE will account for its investment in ATC on the equity method of accounting.

ATC is regulated by the Federal Energy Regulatory Commission (FERC). MGE expects to receive a return on its investment in ATC approximately equal to the return it would have earned by retaining its transmission facilities.

In 2001, MGE started paying a network service fee for using the ATC transmission system. MGE's transmission assets will be recovered in rates for 2001 and 2002, since the impact of joining ATC was unknown at the time MGE's rates were set. However, the difference between the revenue requirement associated with the contributed transmission assets and the network service fees payable to the ATC will be deferred subject to regulatory treatment.

11. Segments of Business

MGE has two main business segments – electric and gas – which are both regulated. The electric business generates, transmits and distributes electricity. The gas business transports and distributes natural gas. The following table shows key information about MGE's electric and gas operations, including the distribution of net assets for the years ended Dec. 31.

(In thousands)

	2000	1999	1998
Electric Operations			
Total revenues	$203,176	$185,955	$169,563
Operation and maintenance expenses	124,101	115,204	102,006
Depreciation and amortization	29,137	29,319	27,586
Other general taxes	8,296	7,622	7,378
Pre-tax Operating Income	$ 41,642	$ 33,810	$ 32,593
Income tax provision	11,534	9,599	8,883
Net Operating Income	$ 30,108	$ 24,211	$ 23,710
Electric Construction and Nuclear Fuel Expenditures	$ 65,312	$ 44,297	$ 25,970
Gas Operations			
Operating revenues	$120,932	$ 88,079	$ 80,189
Revenues from sales to electric utility	6,106	7,352	6,362
Total Revenues	127,038	95,431	86,551
Operation and maintenance expenses	105,335	76,904	71,125
Depreciation and amortization	5,944	5,835	5,599
Other general taxes	1,884	1,684	1,885
Pre-tax Operating Income	13,875	11,008	7,942
Income tax provision	3,882	2,669	1,840
Net Operating Income	$ 9,993	$ 8,339	$ 6,102
Gas Construction Expenditures	$ 8,294	$ 6,691	$ 4,859
Assets (year-end)			
Electric	$395,622	$342,130	$311,563
Gas	123,486	114,881	111,762
Assets not allocated	52,496	38,499	42,940
Total	$571,604	$495,510	$466,265

12. Quarterly Summary of Operations (unaudited)

(In thousands, except per-share amounts)	Quarters Ended March 31	June 30	Sept. 30	Dec. 31
2000				
Operating Revenues:				
Electric	$46,904	$48,161	$59,563	$48,548
Gas	37,639	15,994	12,398	54,901
Total	84,543	64,155	71,961	103,449
Operating Expenses	72,136	59,043	59,964	92,864
Net Operating Income	12,407	5,112	11,997	10,585
Interest and Other	2,297	2,733	3,551	4,165
Net Income	$10,110	$ 2,379	$ 8,446	$ 6,420
Earnings Per Common Share	62.0¢	15.0¢	51.0¢	39.0¢
Dividends Per Common Share	32.8¢	32.8¢	33.1¢	33.1¢
1999				
Operating Revenues:				
Electric	$41,194	$44,409	$55,439	$44,913
Gas	38,340	12,753	9,036	27,950
Total	79,534	57,162	64,475	72,863
Operating Expenses	67,758	53,603	56,349	63,774
Net Operating Income	11,776	3,559	8,126	9,089
Interest and Other	2,720	1,079	2,097	2,908
Net Income	$ 9,056	$ 2,480	$ 6,029	$ 6,181
Earnings Per Common Share	56.0¢	15.0¢	38.0¢	38.0¢
Dividends Per Common Share	32.6¢	32.6¢	32.8¢	32.8¢

Notes:

(1) The quarterly results of operations within a year are not comparable because of seasonal and other factors.

(2) The sum of earnings per share of common stock for any four quarters may vary slightly from the earnings per share of common stock for the equivalent 12-month period due to rounding.

Summary of Selected Financial and Operating Data

	2000	1999	1998	1997	1996	1990
Electric						
Operating Revenues ($000s)						
Residential	$ 69,007	$ 64,756	$ 58,654	$ 55,506	$ 53,971	$ 49,338
Commercial power and lighting	96,146	88,713	82,359	79,004	74,291	72,984
Industrial power and lighting	13,126	12,205	11,572	11,261	10,095	7,464
Street and highway lighting and public authorities	14,760	13,796	14,005	14,808	13,236	8,848
Other utilities	6,917	7,164	1,866	1,566	466	1,238
Miscellaneous	3,220	(679)	1,107	978	688	621
Total Operating Revenues	$ 203,176	$ 185,955	$ 169,563	$ 163,123	$ 152,747	$ 140,493
Kilowatt-hour Sales (000s)						
Residential	780,446	770,153	750,831	720,576	725,471	628,129
Commercial power and lighting	1,577,165	1,524,641	1,481,315	1,420,347	1,381,043	1,289,042
Industrial power and lighting	319,394	315,238	306,022	307,485	289,903	157,691
Street and highway lighting and public authorities	307,263	301,147	312,684	332,995	305,962	192,528
Other utilities	283,809	312,861	76,889	64,914	26,815	11,585
Total Sales	3,268,077	3,224,040	2,927,741	2,846,317	2,729,194	2,278,975
Average Number of Customers						
Residential	109,162	108,654	106,709	105,787	104,778	97,063
Commercial power and lighting	16,844	16,764	16,428	16,144	15,841	14,402
Industrial power and lighting	69	75	75	76	74	79
Street and highway lighting and public authorities	72	72	51	52	53	50
Other utilities	8	8	6	5	5	2
Total Average Customers	126,155	125,573	123,269	122,064	120,751	111,596
Gas						
Operating Revenues ($000s)						
Residential	$ 68,843	$ 51,953	$ 46,604	$ 55,652	$ 57,486	$ 44,913
Commercial	44,895	30,770	27,115	37,530	36,917	28,487
Industrial	2,619	1,819	3,592	1,582	1,105	1,599
Best efforts (includes interruptible boiler fuel)	—	—	—	2,554	3,849	4,621
Gas transport, net	2,842	3,061	2,573	2,035	2,360	397
Miscellaneous	1,733	476	305	2,172	(1,173)	58
Total Operating Revenues	$ 120,932	$ 88,079	$ 80,189	$ 101,525	$ 100,544	$ 80,075
Therms Sold and Transported (000s)						
Residential	90,446	81,219	75,283	87,664	96,062	72,080
Commercial	73,318	64,461	57,842	75,822	79,381	59,337
Industrial	4,872	4,785	10,267	5,057	2,653	3,461
Best efforts (includes interruptible boiler fuel)	—	—	—	6,838	11,689	14,492
Gas transport, net	45,193	46,013	40,926	40,947	37,707	6,424
Total Sold and Transported	213,829	196,478	184,318	216,328	227,492	155,794
Average Number of Customers						
Residential	100,786	98,690	95,988	93,847	91,918	76,103
Commercial	12,779	12,556	12,255	12,104	11,799	9,547
Industrial	61	60	61	69	76	70
Best efforts (includes interruptible boiler fuel)	—	—	—	21	52	45
Total Average Customers	113,626	111,306	108,304	106,041	103,845	85,765

Summary of Selected Financial and Operating Data

(In thousands, except per-share amounts)	2000	1999	1998	1997	1996	1990
Income, Earnings and Dividends						
Net income	$ 27,355	$ 23,746	$ 22,230	$ 22,523	$ 6,427	$ 22,029
Earnings on common stock	$ 27,355	$ 23,746	$ 22,230	$ 22,523	$ 6,427	$ 21,488
Earnings per average common share	$ 1.67	$ 1.48	$ 1.38	$ 1.40	$ 0.40	$ 1.36
Cash dividends paid per common share	$ 1.318	$ 1.308	$ 1.298	$ 1.286	$ 1.273	$ 1.148
Assets						
Electric	$395,622	$342,130	$311,563	$313,855	$315,022	$331,609
Gas	$123,486	$114,881	$111,762	$118,339	$116,723	$104,270
Assets not allocated	$ 52,496	$ 38,499	$ 42,940	$ 39,596	$ 52,424	$ 14,455
Total	$571,604	$495,510	$466,265	$471,790	$484,169	$450,334
Internal Generation of Cash						
Total cash used for construction expenditures and nuclear fuel	$ 73,606	$ 50,988	$ 30,829	$ 21,635	$ 21,906	$ 22,955
Percent generated internally	54.0%	76.4%	103.1%	137.5%	101.6%	127.7%
Long-term Debt and Redeemable Preferred Stock, Net	$183,437	$148,599	$159,761	$129,923	$128,886	$141,813
Capitalization Ratios						
Common shareholders' equity	46.8%	51.4%	53.3%	52.5%	53.0%	53.5%
Redeemable preferred stock	—	—	—	—	—	1.9
Long-term debt (includes current maturities)	42.9	44.2	46.7	37.8	38.2	43.9
Short-term debt	10.3	4.4	—	9.7	8.8	0.7
Common Stock Data						
Per share – Close	$ 22⅝	$ 20⅛	$ 22¾	$ 23	$ 20¼	$ 14⅞
– Book value	$ 12.05	$ 11.49	$ 11.34	$ 11.25	$ 11.14	$ 10.62
Shares (000s) – Outstanding	16,619	16,161	16,080	16,080	16,080	16,020
– Authorized	50,000	50,000	50,000	50,000	50,000	14,000
Interest Coverages						
Pre-tax	3.95	3.92	4.00	4.21	2.73	3.38
After-tax	2.88	2.91	3.02	3.09	1.58	2.53
Sources of Energy Generated and Purchased Power						
Coal	55.7%	49.1%	60.8%	63.2%	63.4%	59.6%
Nuclear	19.7	23.3	21.4	14.2	19.6	29.0
Purchased Power	19.4	22.2	12.1	17.7	14.9	10.0
Gas	3.9	4.9	5.2	4.5	1.8	0.9
Other	1.3	0.5	0.5	0.4	0.3	0.6
Cooling Degree Days (Normal – 601)	535	637	654	410	408	629
Heating Degree Days (Normal – 7,383)	7,156	6,701	6,069	7,522	8,124	6,688

Board of Directors

Jean M. Biddick
Retired Chief Executive Officer
Neesvig's Inc.
Wholesale meat company
Age 74
Director since 1982

Richard E. Blaney
Retired President
Richard Blaney Seeds Inc.
Age 64
Director since 1974

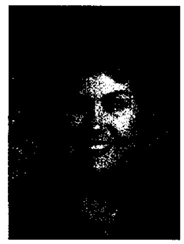
F. Curtis Hastings
President
J. H. Findorff & Son, Inc.
Commercial and industrial
general contractors
Age 55
Director since 1999

David C. Mebane
Chairman of the Board
Madison Gas and Electric Co.
Age 67
Director since 1984

Regina M. Millner
President
The RMillner Co., S.C.
Attorney, analyst,
broker and consultant
Age 56
Director since 1996

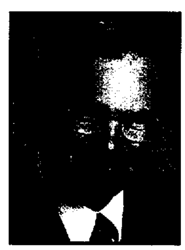
Frederic E. Mohs
Partner
Mohs, MacDonald, Widder
& Paradise, Attorneys at Law
Age 63
Director since 1975

John R. Nevin
Executive Director, Grainger Center
for Supply Chain Management,
and Professor, School of Business,
University of Wisconsin-Madison
Age 57
Director since 1998



Donna K. Sollenberger
President and CEO
University of Wisconsin
Hospitals and Clinics
Age 51
Director since 2000

H. Lee Swanson
Chairman of the Board,
Chief Executive Officer and Director
State Bank of Cross Plains
Age 62
Director since 1988



Gary J. Wolter
President and Chief Executive Officer
Madison Gas and Electric Co.
Age 46
Director since 2000

Audit Committee
Directors Biddick, Blaney, Hastings, Millner, Mohs, Nevin, Sollenberger and Swanson.

Compensation Committee
Directors Biddick, Blaney and Mohs.

Executive Committee
Directors Biddick, Blaney, Mebane, Mohs, Swanson and Wolter.

Personnel Committee
Directors Hastings, Mebane, Millner, Mohs, Nevin, Sollenberger, Swanson and Wolter.

Note: Ages as of Jan. 1, 2001.

Officers of the Company

David C. Mebane
Chairman of the Board
Age 67
Years of Service, 23

Gary J. Wolter
President and Chief Executive Officer
Age 46
Years of Service, 16

Mark C. Williamson
Executive Vice President
and Chief Strategic Officer
Age 47
Years of Service, 14

Ronald L. Semmann
Executive Vice President
Age 65
Years of Service, 3

Lynn K. Hobbie
Senior Vice President
Age 42
Years of Service, 15

Thomas R. Krull
Group Vice President
Age 51
Years of Service, 28

James G. Bidlingmaier
Vice President - Administration
and Chief Information Officer
Age 54
Years of Service, 28

Mark A. Frankel
Vice President, General Counsel
and Secretary
Age 52
Years of Service, 1

Terry A. Hanson
Vice President and
Chief Financial Officer
Age 49
Years of Service, 19

Scott A. Neitzel
Vice President - Business
Development and Fuels
Age 40
Years of Service, 3

Jeffrey C. Newman
Vice President and Treasurer
Age 38
Years of Service, 16

Peter J. Waldron
Vice President - Power Supply
Age 43
Years of Service, 20

Gregory A. Bollom
Assistant Vice President -
Electric Marketing
Age 40
Years of Service, 18

Joseph P. Pellitteri
Assistant Vice President -
Human Resources
Age 52
Years of Service, 1

John M. Yogerst
Assistant Vice President -
Gas Operations
Age 43
Years of Service, 20

Note: Ages, years of service and positions as of Jan. 1, 2001.

Shareholder Information

2001 Annual Shareholder Meeting

Tuesday, May 22, 2001
Marriott Madison West
1313 John Q. Hammons Drive
Greenway Center
Middleton, WI

Stock Listing

- MGE stock trades on the Nasdaq National Stock Market under the ticker symbol MDSN.
- MGE stock listing in newspapers: MadsnGas or MadGE.

Shareholder Services

We welcome calls from shareholders.
Please notify us promptly if:

- A stock certificate is lost or stolen.
- A dividend check or statement is not received within 10 days of the scheduled payment date.
- Your name or address changes.

Reports Available

More financial information is available upon request or on the company's Web site, including:

- Form 10-K *(filed with the Securities and Exchange Commission).*
- A Statistical Supplement to this annual report.

Dividend Reinvestment and Direct Stock Purchase Plan

MGE's Dividend Reinvestment and Direct Stock Purchase Plan allows investors to:

- Buy MGE stock directly from the company.
- Reinvest dividends or receive cash payments.
- Deposit MGE certificates for safekeeping.

2001 Dividend Payment Dates

Quarterly dividends on MGE common stock are expected to be paid on:

- March 15
- June 15
- September 15
- December 15

The record date for dividend payments is the first day of the payment month.

Transfer Agent & Registrar

Continental Stock Transfer & Trust Co.
2 Broadway, 19th Floor
New York, NY 10004

For Assistance

Contact MGE Shareholder Services by phone, mail or e-mail.

Madison Area:	(608) 252-4744
Continental U.S.:	1-800-356-6423
Business Office:	(608) 252-7000 8:00 a.m. to 4:30 p.m. *(Central Time)* Monday through Friday
Mailing Address:	MGE Shareholder Services Post Office Box 1231 Madison, WI 53701-1231
MGE Location:	133 South Blair Street Madison, WI 53703
E-mail:	shareservices@mge.com
Web Address:	www.mge.com

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MGE www.mge.com

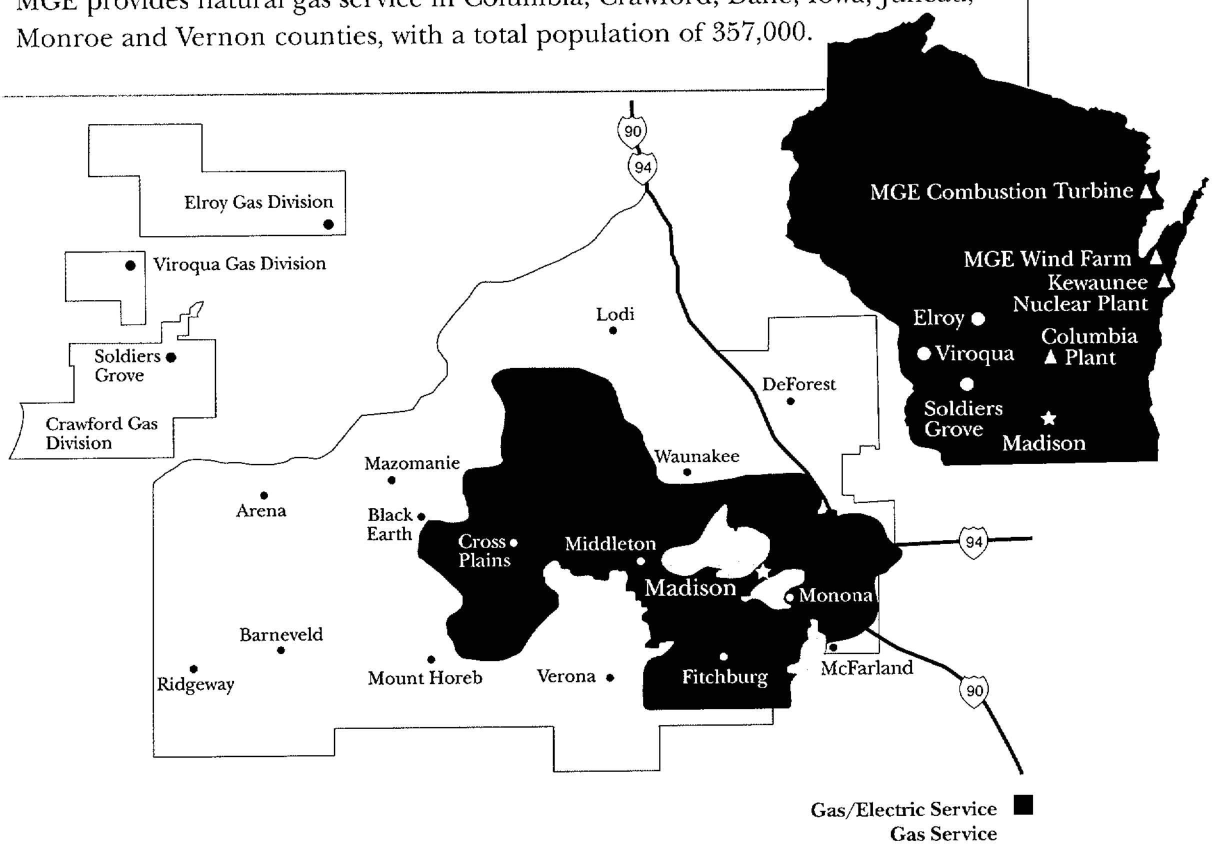
The Area We Serve

Electric Service

MGE provides electric service in Madison, Monona, Fitchburg, Middleton, Cross Plains and other Dane County communities, with a total population of 268,000. Generating facilities include the Blount Generating Station and several combustion turbines at Madison, the Columbia Energy Center at Portage, a natural gas combustion turbine at Marinette and the Kewaunee Nuclear Power Plant and MGE Wind Farm in Kewaunee County.

Natural Gas Service

MGE provides natural gas service in Columbia, Crawford, Dane, Iowa, Juneau, Monroe and Vernon counties, with a total population of 357,000.



P.O. Box 1231
Madison, WI 53701-1231
www.mge.com

Boundless Energy

Annual Report 2000

WPS Resources Corporation

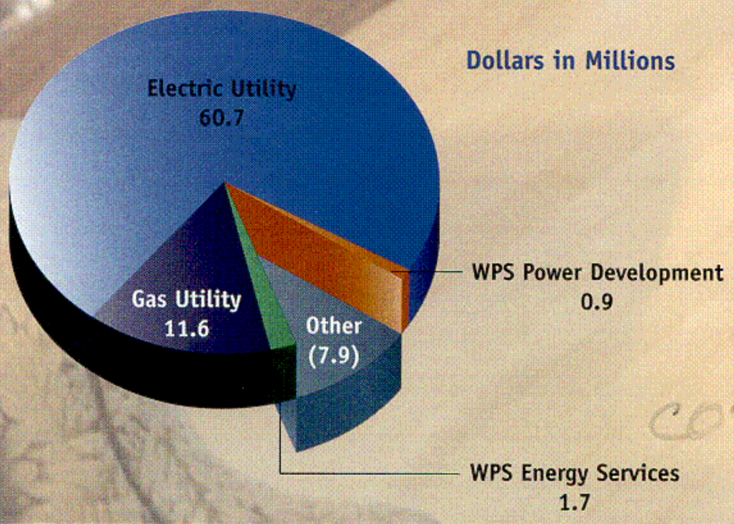
Highlights

Year Ended December 31	2000	1999	Percent Change
Consolidated revenues – utility (Thousands)	$ 888,305	$773,992	14.8
Consolidated revenues – nonregulated (Thousands)	1,063,269	324,548	227.6
Net income (Thousands)	66,993	59,565	12.5
Basic and diluted earnings per average share of common stock	$ 2.53	$ 2.24	12.9
Dividend paid per share	2.04	2.00	2.0
Book value per share	20.55	20.03	2.6
Common stock price at year end	$36.8125	$25.125	46.5
Shares outstanding at year end	26,514,649	26,851,045	(1.3)
Total assets	$2,816,142	$1,816,548	55.0

Net Cash Flow Summary

Year Ended December 31 (Millions)	2000	1999	1998
Total sources			
Net operating excluding dividends	$141	$115	$110
Net financing	108	211	64
Total	$249	$326	$174
Total uses			
Net investing	$192	$270	$124
Common dividends	54	53	51
Total	$246	$323	$175

Earnings By Segment



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Boundless Energy

At a Glance

WPS Resources Corporation

WPS Resources Corporation is a holding company based in Green Bay, Wisconsin. System companies provide products and services in both regulated and nonregulated energy markets.

Wisconsin Public Service Corporation | Upper Peninsula Power Company | WPS Resources Capital Corporation

WPS Energy Services, Inc. | WPS Power Development, Inc.

Wisconsin Public Service Corporation

Business

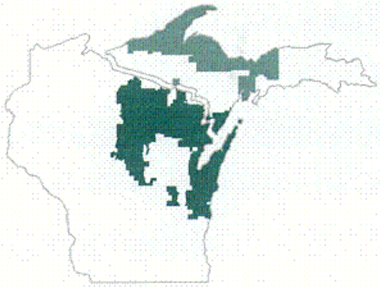
- Regulated electric and natural gas utility.
- Operates in an 11,000 square mile area of northeastern and central Wisconsin and an adjacent portion of Upper Michigan (see map on left below).
- 2,568 employees.

Market

- Serves 395,125 electric and 235,470 natural gas customers.
- Provides electric and natural gas products and services to residential, farm, commercial, and industrial customers. Also provides electric power to wholesale customers.
- Electric operations accounted for 69% and gas operations accounted for 31% of 2000 revenues.
- Electric revenues are comprised of 89% retail sales and 11% wholesale sales.
- Wisconsin customers accounted for 95% and Michigan customers accounted for 5% of 2000 revenues.

Facilities

- Electric generating capacity based on 2000 summer capacity was 1,957 megawatts, including share of jointly-owned facilities.
- Electric property includes 20,038 miles of electric distribution lines. On January 1, 2001, 1,563 miles of electric transmission lines were transferred to American Transmission Company LLC in exchange for an equity interest.
- Gas property includes 5,454 miles of gas main and 66 gate and city regulator stations.



Upper Peninsula Power Company

Business

- Regulated electric utility.
- Operates in 4,500 square miles of primarily rural countryside covering 10 of the 15 counties in the Upper Peninsula of Michigan (see map on left below).
- 165 employees.

Market

- Serves 50,304 electric customers in 99 communities.
- Provides electric energy to 32 wholesale customers.
- Main industries served are forest products, tourism, and small manufacturing.
- Electric revenues are comprised of 91% retail sales and 9% wholesale sales.

Facilities

- Electric generating capacity based on 2000 summer capacity was 95 megawatts.
- Electric property includes 806 miles of electric transmission lines and 2,764 miles of electric distribution lines.

WPS Resources Capital Corporation

Business

An intermediate holding company for the nonregulated subsidiaries.

WPS Energy Services, Inc.

Business

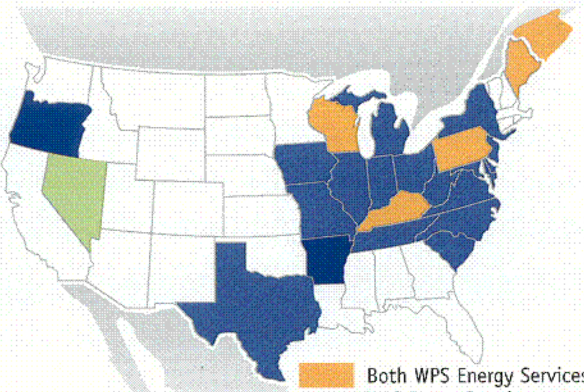
- Diversified nonregulated energy supply and services company.
- Principal operations in Illinois, Maine, Michigan, Ohio, and Wisconsin (see map on right below).
- Provides wholesale products on a nationwide basis.
- 88 employees.

Market

- Operates in the retail and wholesale nonregulated energy marketplace.
- Emphasis is on serving commercial, industrial, and wholesale customers in the northeast quadrant of the United States.

Products and Services

- Provides individualized energy supply options and strategies that allow customers to manage energy needs while capitalizing on opportunities resulting from deregulation.
- Provides natural gas, electric, and alternate fuel products, real-time energy management services, energy utilization consulting, and project management.
- Patented DENet® computer technology allows customers to continuously monitor and actively manage their energy usage.



Both WPS Energy Services, Inc. and WPS Power Development, Inc.

Expect to close on Nevada facilities in 2001.

WPS Power Development, Inc.

Business

- Develops, owns, and operates various forms of nonregulated electric generation facilities.
- Manages a synthetic fuel operation.
- Provides electric power generation services.
- 163 employees.

Market

- Nationwide (see map on right below).
- Significant focus on northeast quadrant of the United States.

Products and Services

- Acquisition and investment analysis, project development, engineering and management services, and operations and maintenance services.
- Areas of expertise include cogeneration, distributed generation, generation from renewables, and generation plant repowering projects.

Facilities

- Owns two-thirds interest in a 53-megawatt coal-fired merchant steam plant located in Cassville, Wisconsin.
- Owns 92 megawatts of hydro and diesel generation assets in the State of Maine and in New Brunswick, Canada.
- Owns 490 megawatts of primarily coal-fired generation assets in Pennsylvania.
- Two-thirds owner and operator of a synthetic fuel operation located in Kentucky.
- Owns landfill and wood waste gas generating facilities in Wisconsin and steam boilers in other states.
- In October, announced proposed acquisition of 545 megawatts of gas and diesel generation facilities located near Reno, Nevada. Expect to close on these facilities in 2001.

C04

Boundless

Energy

Dear Fellow Shareholders,

Boundless Energy! That's what it takes to be a winner in today's energy marketplace, and WPS Resources Corporation has the energy to succeed. The energy of outstanding employees allows us to capture opportunities and overcome obstacles. It propels us and is responsible for giving us one of our best years ever. We're working hard to ensure value for you, our shareholders, and I believe we're delivering value. Let me tell you how.

A Quick Review of 2000

In January, we surmounted the Y2K obstacle without incident.

By May, our Wisconsin utility completed construction of an 83-megawatt gas-fired combustion turbine and announced a merger with Wisconsin Fuel and Light Company. Our nonregulated energy services company acquired the business of an energy marketer in Madison, Wisconsin, and we began an electric supply venture with a Michigan firm.

Gas servicing by our Wisconsin utility was transitioned to a new mode of operation and "WPS At Your Service" was started. We completed Phase 1 of our automated meter reading project and received approval from the Public Service Commission of Wisconsin to begin Phase 2, which will bring automated meter reading to all of our Wisconsin customers.

The replacement steam generators for our nuclear plant were fabricated and arrived on site in December after a long voyage across the Atlantic from Italy.

Our nonregulated power development subsidiary acquired a second power plant in Pennsylvania and announced an agreement to acquire a plant in Nevada.

We announced our support for development of a competitive generation market, joined the Midwest Independent System Operator, joined the American Transmission Company, and continued creation of Nuclear Management Company, LLC.

Our e-business activities advanced. We opened a new energy information web site in spring. Our web site received an award, and we took an investment position in a dot.com energy services provider.

So, we are accomplishing things; now let's take a look at the results.

A Closer Look

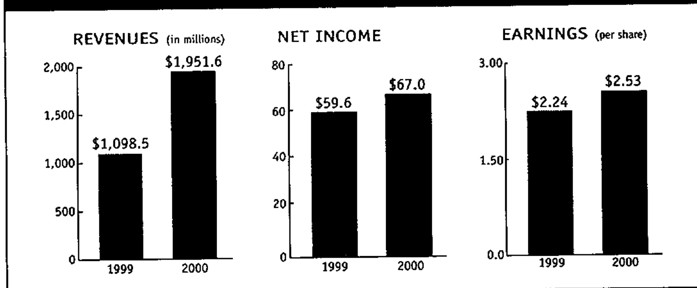
Two of our goals during 2000 were for our nonregulated subsidiaries to become profitable and for WPS Energy Services, Inc. and WPS Power Development, Inc., two of our nonregulated subsidiaries, to contribute 10 percent to our earnings in 2000. I'm happy to report that our nonregulated subsidiaries have been profitable this year and that WPS Energy Services and WPS Power Development were able to contribute 11 cents to earnings per share, which is about 4 percent of earnings.

Boundless Energy

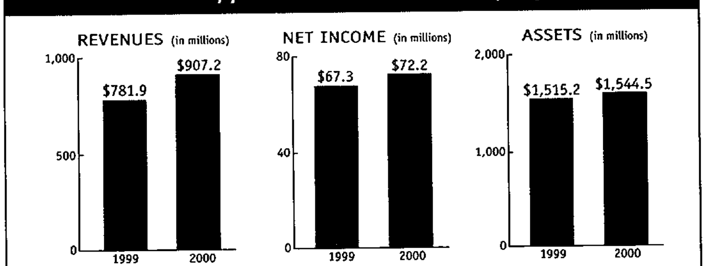
An Overview

Our financial performance continues to improve.

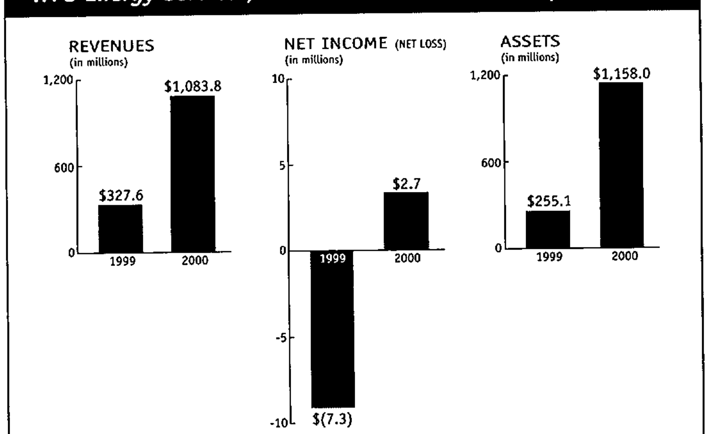
WPS Resources Corporation



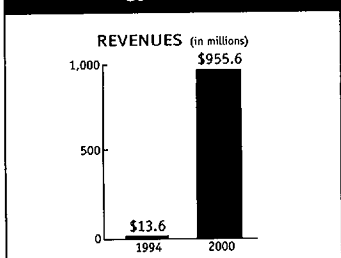
UTILITY OPERATIONS
Wisconsin Public Service Corporation and Upper Peninsula Power Company



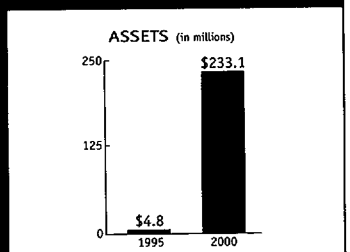
NONREGULATED SUBSIDIARIES
WPS Energy Services, Inc. and WPS Power Development, Inc.



WPS Energy Services, Inc.



WPS Power Development, Inc.



The investments we've made in our nonregulated facilities over the last few years are now yielding returns. In 1999, we acquired generating assets in Maine and Pennsylvania to capture the synergies between energy marketing and power generating in the newly opened markets of the Northeast.

Our assets in Maine have been operating smoothly and, in 2001, we were awarded 100 percent of the standard offer as an electricity supplier in northern Maine for the next three years. As a result, any consumer of electricity in northern Maine who does not select an "alternate" energy supplier will receive their electricity from us for the next three years.

Our coal-fired generation assets in Pennsylvania have also been operating. We accomplished more maintenance upgrades in 2000 than planned to bring the facilities up to our standards. By biting the bullet in 2000 and digging deep to complete additional maintenance this year, we're expecting to achieve greater availability of the facilities in 2001, which will have a direct effect on next year's earnings.

We've moved our synthetic fuel operation from Alabama to Kentucky where we've operated successfully since July. This facility is generating more tax credits than we can use, so we're actively looking for a partner to allow us to maximize the benefits of that operation.

In September, we completed our purchase of the 30-megawatt Westwood generation plant in Pennsylvania, bringing our total generating capacity in that state to 460 megawatts. We're burning waste anthracite coal and using a circulating fluidized bed combustion technology at this plant. Our knowledgable staff continues to be successful at winning bids to purchase plants that have market potential and extracting greater value from them.

Another of our goals for 2000 was to achieve our authorized return of 12.1 percent at Wisconsin Public Service Corporation, our regulated electric and natural gas utility. I'm proud to say we've accomplished this goal.

In 2000, we announced a dividend increase for our shareholders, representing the 42nd consecutive year we've made such an announcement. We feel it is extremely important for us to continue to pay a healthy dividend to our shareholders, and we'll continue to strive to do so.

We're also on our way to reducing our dividend payout ratio to our goal of 70 percent by 2003. We're doing it by increasing our net income, which means greater growth for our company. In fact, we increased our net income by 13 percent in 2000, which exceeded our stated goal of 8 to 10 percent annually. We've put a strategy in place that we believe will enable us to accomplish this goal for several years.

The Strategy and Energy to Sustain Us

The changing face of the energy industry brings opportunities. It's our job to balance those opportunites with the risks they create. We're using financial instruments to reduce risks and volatility, and we have the discipline required to concentrate on the physical and customer elements of niche markets.

In July, we signed a merger agreement with Wisconsin Fuel and Light, which serves nearly 50,000 natural gas customers in Wausau and Manitowoc, Wisconsin—areas in which our Wisconsin utility already serves electric customers. We expect to take advantage of the overlapping service territories to eliminate redundancies and provide savings for our customers and long-term value for our shareholders. We hope to close this transaction by April.

In August, we announced the transfer of operating authority for our Kewaunee Nuclear Power Plant to Nuclear Management Company, LLC. This new company is responsible for operating and maintaining five—and soon to be six—plants under its jurisdiction, with a focus on enhancing safety, reliability, and operational performance. We're positioning Kewaunee as a competitively viable plant for the long-term through formation of Nuclear Management Company and replacement of the steam generators planned for the fall of 2001. We're now evaluating the benefits of license renewal, and we'll purchase an additional 17.8 percent share of the plant during 2001, increasing our ownership from 41.2 percent to 59 percent.

In January of this year, we transferred our electric transmission assets in Wisconsin to the newly formed American Transmission Company and became part owner of that company. This allows our investment in those assets to remain intact while offering the benefits of a larger, regionally coordinated transmission grid.

Our strategic direction includes preparing for the day when customer choice comes to our regulated territories. At the same time, we're growing through the synergies that evolve from putting our nonregulated assets to work to support our nonregulated market growth.

Our initial expansion efforts were to secure market share in natural gas markets. Now, as deregulation occurs, our efforts are expanding to deregulated electric markets. We're focusing on the northeast quadrant of the United States. But this doesn't preclude us from participating in other markets as change occurs. We're evaluating opportunities that come our way and weighing their potential.

An example is the October announcement of our proposed acquisition of 545 megawatts of gas and diesel generation facilities located near Reno, Nevada. This asset offers opportunities for us, including geographic diversification, while expanding our technology portfolio and fuel mix. We're expecting to close on this transaction in 2001.

A Competitive Generation Market

Our long-term strategy includes remaining in generation markets. As a result, we support and encourage the development of a competitive generation market in Wisconsin. A competitive generation market will protect our customers from high bills as the electric industry restructures nationwide. Our customers will be assured of continuing service, quality service levels, and price protection. We support and promote a competitive electric generation market by encouraging independent power producers to enter the market in Wisconsin. Increased competition can bring the benefits of low rates and increased reliability.

We cannot allow Wisconsin to get into a situation like California, where the state was introduced to retail competition before the market was ready. We want to be ready when that day comes, and we want the customer protected.

California has experienced tremendous problems with deregulation because its energy infrastructure is inadequate for the increasing demand for energy in the state, and customers were thrown into the market without being protected from escalating energy prices. Other states have successfully embraced deregulation by putting in place long-term contracts that shield customers from rising prices. They've added independent system operators and encouraged independent power producers. This has achieved savings for customers.

We believe creating a competitive generation market in Wisconsin is the proper course for the future. A competitive market will result in innovative, reliable, and less-costly energy for our customers. It will also set the stage for customer choice in the future.

Balancing Opportunities and Risks

We must continue to balance the new opportunities available to us and the risks associated with a changing industry. We are embracing technology to aid us in this effort. In October we announced an investment in SmartEnergy, an alternative energy service provider. Together, we'll explore ways of leveraging SmartEnergy's state-of-the-art Internet-based technology platform. We plan to combine the technology platform and marketing acumen of SmartEnergy with our knowledge and expertise in the utility and energy market. We'll be learning from a technology company with an

"It's our job to balance opportunities with the risks they create."

energy focus. The growth of the Internet and technology, as well as the changing expectations of customers, dictates that we participate in the emerging digital marketplace. We know customers' expectations change, and we want to continue to be a leader in customer satisfaction.

Our Internet site is receiving recognition. In May we received a number one ranking for our web site from Energy E-Comm.com, a firm that specializes in evaluating energy and utility web sites. Their commentary indicated that, "The WPSR site is a powerful site with lots of on-line features and choices for the consumer—preferred billing date application, sign up for service, consolidated account billing capability, budget billing, to name a few. And all over a secure server." If you haven't visited our web site, check it out at www.wpsr.com. You'll find a wealth of information on our company.

Financial Goals for 2001

- Continue our earnings growth at 8 to 10 percent on an annualized basis.
- Achieve in the range of 10 to 15 percent of our earnings from WPS Energy Services and WPS Power Development.
- Continue our moderate growth in the annual dividend paid and achieve a payout ratio of 70 percent within 2 years.

One of our major corporate strategies is to maintain a strong financial condition in order to have maximum flexibility for future business initiatives. We're proud of the fact that Wisconsin Public Service is the only electric utility in the nation to be ranked AA+ by Standard & Poor's and Aa1 by Moody's. We intend to use our financial strength and high equity levels to support planned growth at our regulated and nonregulated subsidiaries.

Our goal is to increase earnings between 8 and 10 percent on an annualized basis going forward. For a company our size and because we have room to add more leverage to our capital structure, it doesn't take large new project investments to realize significant earnings growth.

To support our focus on growing earnings, we're compensating our officers through incentive pay plans that require them to meet certain operational and profitability targets, and a portion of our officers' and directors' compensation is also provided via stock options. These compensation policies are helping to align the interests of our officers and directors with those of our shareholders, and we're continually evaluating the plans to ensure this.

The Changing Face of Leadership

The membership on our Board of Directors is once again changing. On February 1, 2001, Clarence Fisher retired both from his position as President and Chief Executive Officer for our electric utility, Upper Peninsula Power Company, and from his seat on our Board. As a condition of our merger with Wisconsin Fuel and Light, our Board will appoint someone designated by Wisconsin Fuel and Light to the Board when our merger closes.

This year will also bring a new face to our senior leadership team in the form of a new Chief Financial Officer. Dan Bittner, our current Senior Vice President and Chief Financial Officer, plans to retire on March 31 after more than 35 years of dedicated service. I want to thank Dan for his caring leadership and countless contributions through the years.

The True Energy Enthusiasts

Our skilled and enthusiastic employees are continuing to perform with boundless energy even as they face the uncertainty that deregulation, mergers, and change brings. They're bringing value to our customers and shareholders by their willingness to exceed expectations. They're taking advantage of opportunities both here at work and through outside endeavors designed to enhance their skills. They're evolving their thinking from that of a regulated monopoly to a competitive company. And, they're doing this while embracing diversity—diversity of thought, diversity of action, and diversity of people. Their actions promise to make us an even stronger company in the future.

But, that said, none of the exciting things we're involved in would be possible without you, our shareholders. Thank you for your investment and your confidence in us. We'll do everything possible to protect that investment and ensure that it continues to grow for you. We're a group of talented and hardworking people who are dedicated to living up to your trust and your faith in our abilities—a responsibility we take very seriously.

Sincerely,

Larry L. Weyers
Chairman, President, and
Chief Executive Officer

February 21, 2001

"WPS Resources isn't a big energy company. In fact, we're achieving superb successes precisely because we're not the biggest."

Boundless Energy!

Boundless energy is an enthusiasm for the world around us. It's a fresh look at the possibilities. It's a willingness to seize opportunity and give it your all.

WPS Resources is a boundless energy company. We're exceeding the bounds of the traditional energy business in ways no one imagined a few years ago—with unregulated subsidiaries, unbundled products, and unconventional ideas. More and more, our subsidiaries are crossing the bounds of our home state, Wisconsin, to build new business. And with the boundless energy of our employees, we're bringing award-winning satisfaction to our customers, our shareholders, and our communities.

Pictured above: The energy must be nonstop. Customers like Hinterland Brewery and Restaurant in Green Bay, Wisconsin, rely on us to keep the fires burning.

We're Exceeding the Bounds for Our Customers.

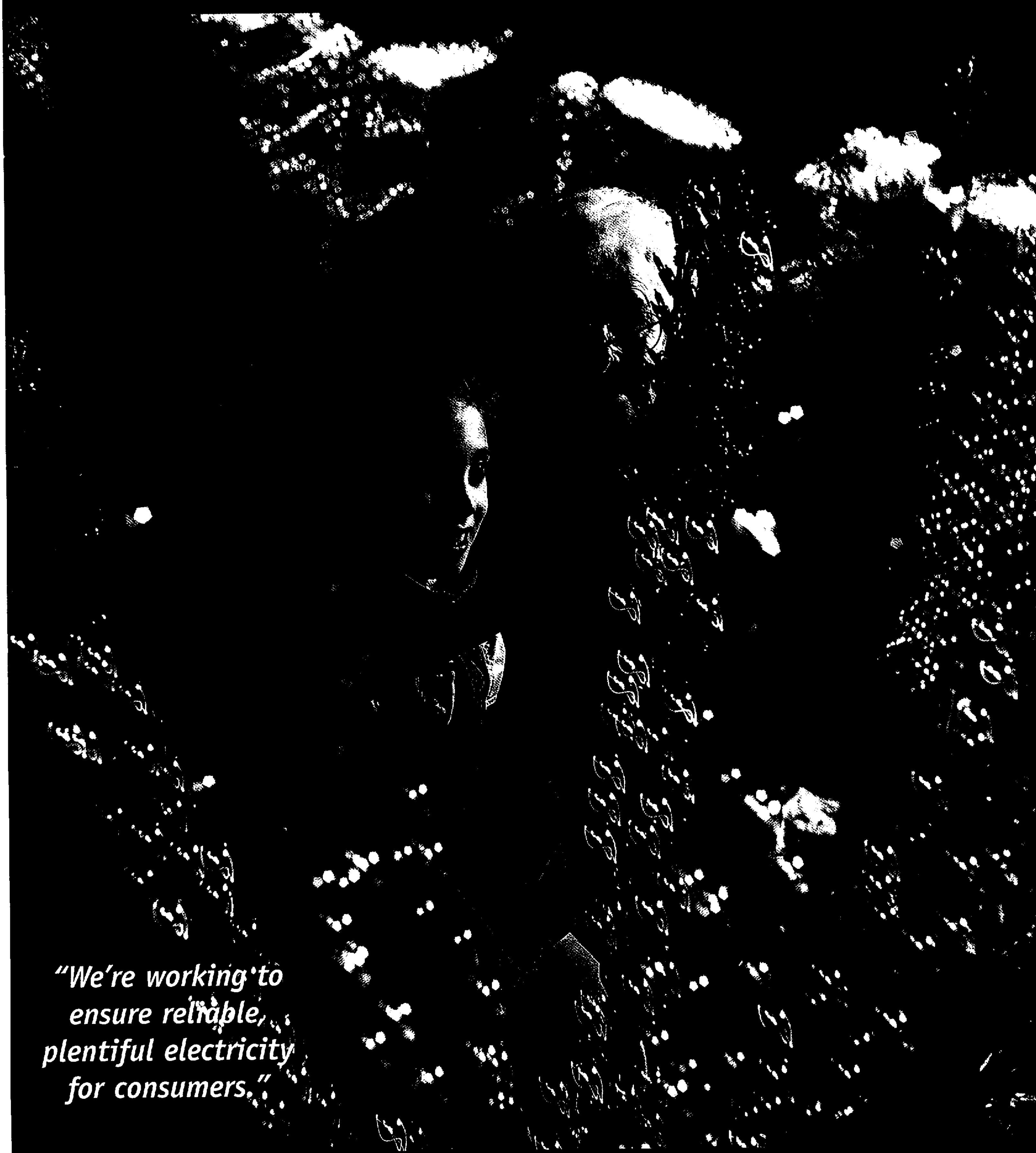
WPS Resources isn't a big energy company. In fact, our subsidiaries are achieving superb successes precisely because we're not the biggest. We're finding our niche in the unique energy needs of our customers. And we're doing it with knowledge, technology, and speed that exceeds that of our larger competitors.

WPS Resources' strategy for the future is to provide customer solutions by influencing the energy environment on our customers' behalf and using innovative technology. This same strategy is testing the bounds of what might be expected from a 100-year-old energy company.

Dan Verbanac, Senior Vice President of WPS Energy Services, and Ruqaiyah Stanley-Lolles, Vice President, ensure that our trading floor keeps up with energy traveling at the speed of light.

Boundless

Energy



"What WPS Resources does best is generate energy and get it where it needs to go."

We're Stretching the Boundaries of the Energy Environment.

WPS Resources is watching the deregulating energy industries in places like California and Pennsylvania and learning from their difficulties. We're taking the lead to make sound changes in the energy environment for our customers.

Wisconsin Public Service, our largest regulated subsidiary, is working to ensure reliable, plentiful electricity for consumers before deregulation occurs in Wisconsin. Public Service believes in building new transmission where it's needed and entrusting the transmission system to objective operators like the American Transmission Company. Public Service and other Midwest utilities are moving their nuclear operations to the independent Nuclear Management Company, where economies of scale can continue to provide the safest, most economical, and reliable source of nuclear power.

Together, all of our energy subsidiaries are encouraging the building of new electric generation. In Wisconsin, WPS Resources is encouraging and supporting new generation that is financed and built by independent power producers, driven by the needs of the market.

In states from Maine to Ohio, WPS Energy Services, Inc. and WPS Power Development, Inc., our nonregulated energy subsidiaries, are earning respect from legislators and regulators during discussions about deregulation. The reputation our employees have for hard work and knowing how to generate power economically is giving us an edge in new markets. In Maine's deregulated energy market, for example, WPS Energy Services is a market leader, supplying nearly all of Northern Maine with reliable electricity.

The changes we are pursuing will provide the energy solutions customers need for the future. It's what "boundless energy" is all about.

We're Taking Leaps with Technology.

What WPS Resources does best is generate energy and get it where it needs to go—to our customers. WPS Power Development is focusing on the generation side, investing in projects like the Tracy/Pinon Power Station in Northern Nevada. WPS Power Development is purchasing this facility from Sierra Pacific Resources. When we take ownership, we'll manage this asset to maximize its value for our new customers in Nevada.

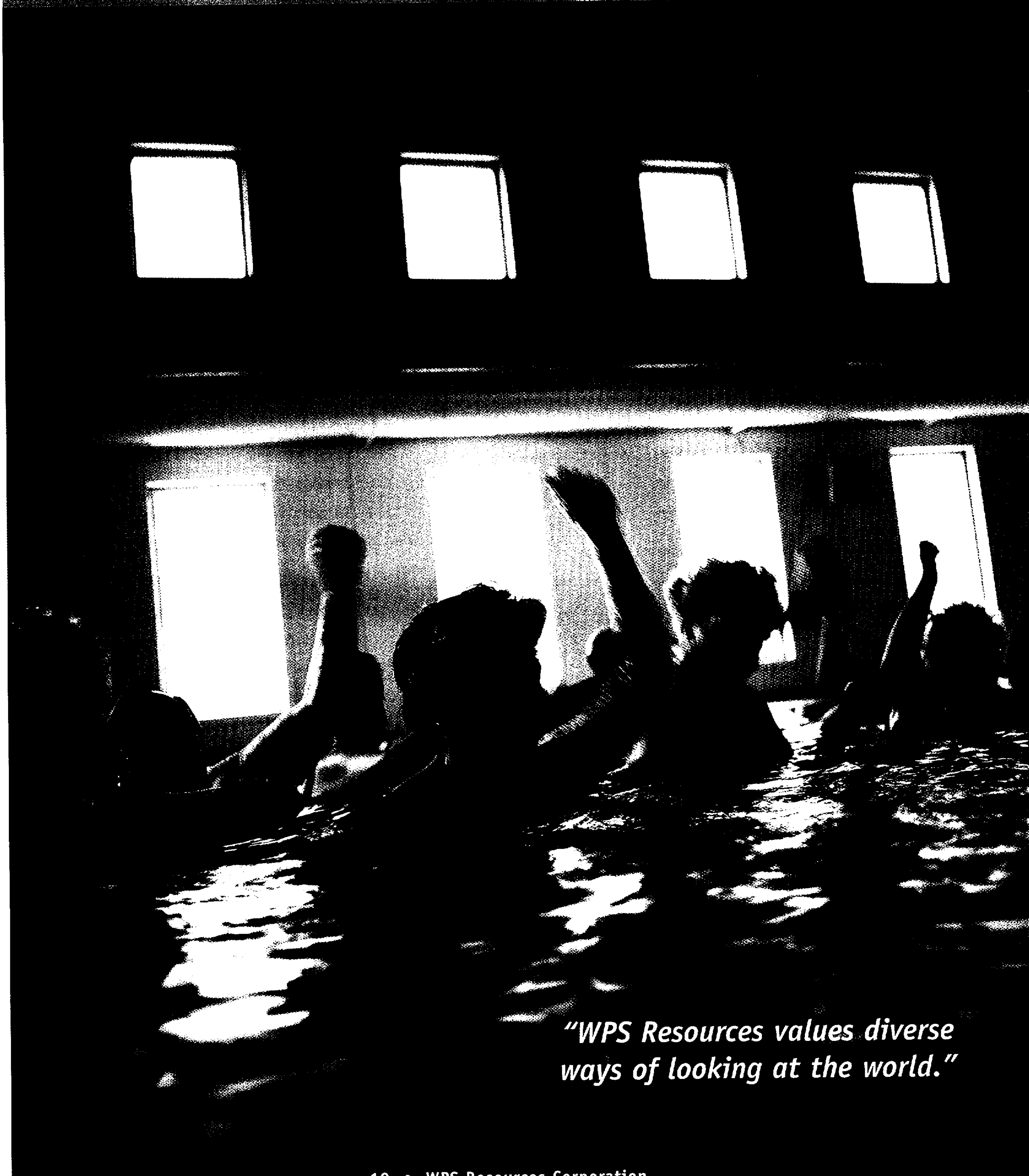
Keep in mind that by "managing this asset," we mean more than just operating the facility. We mean rebuilding parts of the plant to increase efficiency. We mean using technology to the greatest extent possible—and serving a region desperately in need of reliable power.

Our expansion has taken us to several states. We're using Internet communication and technology to erase the miles between them. With the Internet and our own DENet® technology, we have the ability to control our electric generators in Maine, Pennsylvania, and Wisconsin—all from one location. We're using these tools to monitor our synthetic fuel projects, to look at what's taking place in our steam plants. We have real-time information.

WPS Energy Services uses the Internet to buy and sell energy on the open market. And in states where energy markets are opening to customer choice, WPS Energy Services' customers are using our web site as a quick and easy way to make their choice.

Pictured at left: The WPS Garden of Lights at the Green Bay Botanical Garden is a boundless array of delights on a cold, dark winter night.

The light of a child's mind is brighter than any glow electricity can produce. Barth Wolf, WPS Resources' Secretary and Manager – Legal Services, spends time at Tank Elementary School in Green Bay, Wisconsin, fostering that light.



"WPS Resources values diverse ways of looking at the world."

"Wherever we go, whatever we do, WPS Resources' employees carry the core values of our company with them."

On the regulated side, Wisconsin Public Service is in the midst of converting all customers' meters to automated meter reading technology. By year-end 2000, the utility automated about 100,000 of its 600,000 meters. Meters can be read at any time, outages can be detected immediately, and more information is available to help Public Service and customers better understand and manage energy use.

In today's world, satisfying customers means being innovative, fast, and flexible. With technology at our side, our employees provide value in many ways.

We're Helping Our Communities in Big Ways (and Small Ones).

Wherever we go, whatever we do, WPS Resources' employees carry the core values of our company with them. Because of our strong work ethic and responsibility to the communities we serve, our commitment doesn't stop when we walk out the door at the end of the day.

We Believe in the Boundless Possibilities in Our Children.

Kids are the future. So as we look ahead, we make them a big part of our support for the communities we serve. Our employees and retirees help them learn to live safely with electricity, help them read in the classroom, and encourage their community stewardship.

We know they're our employees and our customers of tomorrow.

We Find Energy in Diversity.

Our employees provide value to our communities with their unique skills and interests. Likewise, WPS Resources values the diversity we discover in the communities where we live—diversity in background, abilities, and attitudes.

In 2000, WPS Resources took great strides in learning more about the uniqueness of our communities and customers and how we can provide value. As we gain new customers whose primary language is not English, our customer representatives with similar backgrounds are here to help meet their energy needs. And as our company moves into new areas, we learn how we can best satisfy new customers.

We Also Get Energy from Renewable Resources.

The sun and wind are boundless energy resources. We are engaging these resources now so the world of tomorrow has confidence in renewable energy.

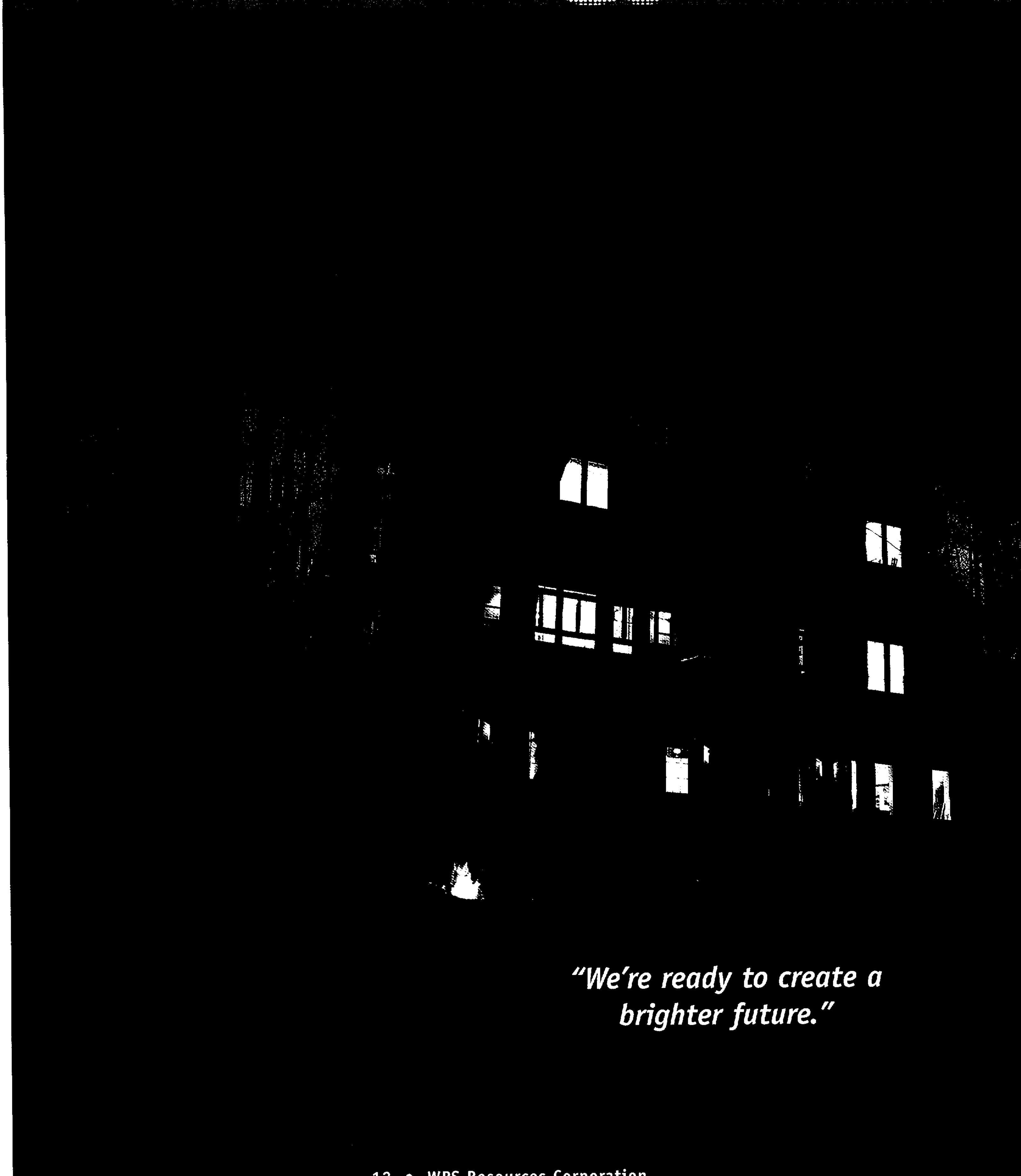
College students at the University of Wisconsin-Green Bay, for example, will know firsthand about the power of the sun. Wisconsin Public Service is helping this learning institution integrate 23 kilowatts of photovoltaic, or solar, generation into a new classroom building on campus. The walls, roof, and windows of the building will use the sun to generate electricity for the building. It'll be the largest photovoltaic installation in Wisconsin and the largest building-integrated system in the Midwest. It's a test site for future uses of this boundless technology.

Meanwhile, WPS Community Foundation, our nonprofit charitable foundation, is bringing the sun to high school students through our SolarWise® for Schools program. Each year, three schools served by Wisconsin Public Service receive solar-electric systems for their rooftops. With the electricity generated from these systems, the schools reduce their electric bills—but more importantly, the students see for themselves how the sun creates useful

Pictured at left: We know how much energy our customers use and how they use it. But we want to know them better than that. We're taking time to understand our customers' lifetime needs and values.

FSG Energy Services (a division of WPS Energy Services in Ohio) joined forces with the Girl Scouts of America in 2000 to promote literacy. FSG Vice President Betty Merlina shared the value of reading in this wide-reaching program.

Boundless
Energy



"We're ready to create a brighter future."

"Satisfying our customers' energy needs and making a difference in their communities makes us a valuable energy provider."

energy. We provide an entire renewable electric curriculum for the schools, and teachers and students alike become lasting fans of renewable energy while competing in our annual Solar Olympics at the University of Wisconsin-Green Bay.

At WPS Resources, we know that if we put our faith in our communities, our children, and our employees, we're bound to make a difference.

We're Making Leaps and Bounds for Our Shareholders.

Satisfying our customers' energy needs and making a difference in their communities makes us a valuable energy provider. By creating value, WPS Resources is successful financially. And when we're successful, we generate the returns you, our shareholders, expect from us. Our record earnings in 2000 are one example, along with a stock price appreciation of more than 46 percent.

We're Making a Big Deal of It.

To grow, WPS Resources' subsidiaries—particularly WPS Energy Services and WPS Power Development—have had to take calculated risks. It's necessary in the new boundless energy world. And now, beginning in 2000, those risks are paying off, providing the returns to reward you for your faith in us.

Our nonregulated companies are selling a lot of natural gas—more than 226 billion cubic feet in 2000. That's a big part of our strategy, because as we continue to sell, expand, and fine-tune our gas business, we're laying the base for future electric business with our gas customers. We have strong gas systems, processes, and people in place, and we continue to make improvements.

We're working hard to expand into the nation's electric markets as they open up. In November 2000, for example, residents of the City of Cleveland, Ohio—who in the past purchased energy from their local investor-owned utility—voted to switch the "standard offer provider" of their generation supply. This group is now aggregating local customers into buying groups for purchasing power. The city's supplier of choice? WPS Energy Services!

In 2001, you can expect to see continued progress by WPS Power Development to increase generation capabilities. These projects will continue to exemplify the possibilities of boundless energy. Take, for instance, our purchase of the Westwood Generating Station in Joliett, Pennsylvania, in 2000—a 30-megawatt plant that burns waste coal material and crushed limestone. Or consider the generation agreement WPS Power Development made in 2000 to construct 50 megawatts of combustion turbine cogeneration in Wisconsin, with long-term electric and steam sales contracts.

You can also expect to see growth in our regulated utilities, such as the merger between Wisconsin Public Service and Wisconsin Fuel and Light taking place in April 2001.

All of These Elements Are Bound Together.

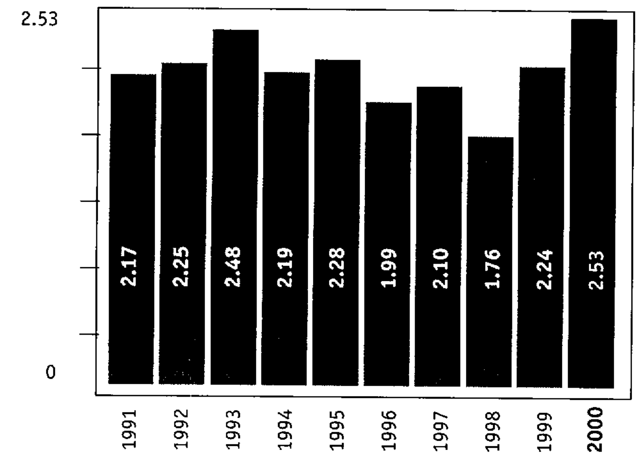
Our projects, our focus on customers, and the boundless energy of our employees in the communities we serve—all of these are tied together for the success WPS Resources plans to achieve. Each is a critical piece of the company we are today.

Knowing our strategy for the future and how to put our boundless energy to work, we're ready to create a brighter future.

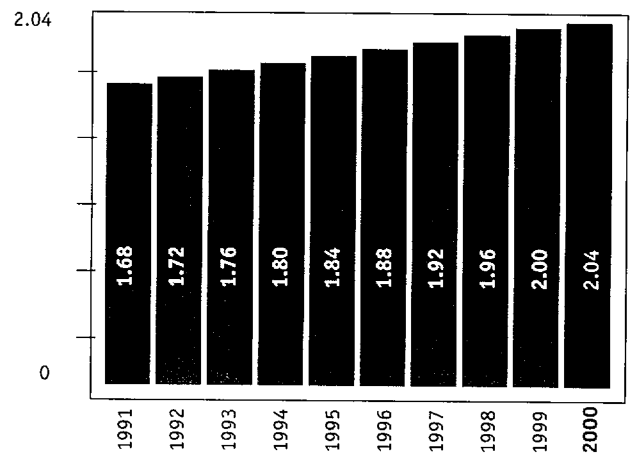
Pictured at left: Our companies are growing by bringing natural gas service to new areas, and they're using technology to make distant areas seem closer.

The comfort we provide to customers and the warmth we share with our communities translates into value for our shareholders.

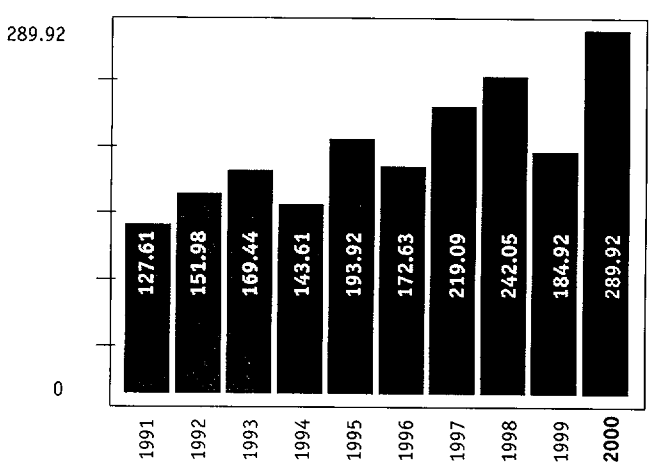
Earnings per Share in dollars • 1991-2000



Dividend per Share in dollars • 1991-2000



Cumulative Total Return* in dollars • 1991-2000



* Assumes $100 investment in common stock at year-end 1990 and all dividends reinvested quarterly. Cumulative total return for the ten-year period is equilavent to an average annual return of 11.23%.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. You can identify these statements by the fact that they do not relate strictly to historical or current facts and often include words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," and other similar words. Although we believe we have been prudent in our plans and assumptions, there can be no assurance that indicated results will be realized. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated.

Forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise. We recommend that you consult any further disclosures we make on related subjects in our 10-Q, 8-K, and 10-K reports to the Securities and Exchange Commission.

The following is a cautionary list of risks and uncertainties that may affect the assumptions which form the basis of forward-looking statements relevant to our business. These factors, and other factors not listed here, could cause actual results to differ materially from those contained in forward-looking statements.

- General economic, business, and regulatory conditions
- Legislative and regulatory initiatives regarding deregulation and restructuring of the utility industry which could affect costs and investment recovery
- State and federal rate regulation
- Growth and competition and the extent and timing of new business development in the markets of subsidiary companies
- The performance of projects undertaken by subsidiary companies
- Business combinations among our competitors and customers
- Energy supply and demand
- Financial market conditions, including availability, terms, and use of capital
- Nuclear and environmental issues
- Weather and other natural phenomena
- Commodity price and interest rate risk

Ospreys, a threatened species, often nest on utility structures. To provide a safer option, Wisconsin Public Service builds special nesting platforms near its facilities—and away from hazards.

Results of Operations

WPS Resources Corporation is a holding company. Our wholly-owned subsidiaries include two regulated utilities, Wisconsin Public Service Corporation and Upper Peninsula Power Company. Another wholly-owned subsidiary, WPS Resources Capital Corporation, is a holding company for our nonregulated businesses including WPS Energy Services, Inc. and WPS Power Development, Inc.

2000 Compared with 1999

WPS Resources Corporation Overview

WPS Resources' 2000 and 1999 results of operations are shown in the following chart:

WPS Resources' Results *(Millions, except share amounts)*	**2000**	1999	Change
Consolidated operating revenues	**$1,951.6**	$1,098.3	78%
Net income	**67.0**	59.6	12%
Basic and diluted earnings per share	**$2.53**	$2.24	13%

The substantial revenue growth was largely due to increased gas and electric sales at WPS Energy Services and increased sales at WPS Power Development as we acquire additional customers and expand into new markets. Part of the increase in revenues was a result of the record high unit cost of natural gas experienced in 2000. Gas cost per therm was 43% higher in 2000 than in 1999. The high unit cost of gas is reflected in both revenues and cost of sales, thus having little impact on margin.

The increase in net income and earnings per share was the result of higher electric and gas utility margins and increases in WPS Energy Services' electric and gas margins. Additionally, a higher margin on operating activities along with additional tax credits received at WPS Power Development contributed to higher income. Partially offsetting these factors were increases in operating and interest expenses, coupled with costs associated with an electric energy contract entered into by WPS Resources as a hedge against potential summer energy price spikes.

Overview of Utility Operations

Utility operations include the electric utility operations at Wisconsin Public Service and Upper Peninsula Power, and the gas utility operations at Wisconsin Public Service. Net income from electric utility operations was $60.7 million in 2000 compared with $56.1 million in 1999. Net income from gas utility operations was $11.6 million in 2000 and $11.2 million in 1999. The primary reasons for higher utility net income were a Wisconsin retail electric rate increase and increased gas sales volumes as the result of winter weather that was 8% colder in 2000 than in 1999.

Electric Utility Operations

The consolidated electric utility margin represents electric revenue less cost of sales exclusive of intercompany transactions. Our consolidated electric utility margin increased $29.7 million, or 8%, primarily due to a 4.6% Wisconsin retail electric rate increase at Wisconsin Public Service which became effective on January 1, 2000. This rate increase was primarily intended to recover additional fuel and purchased power costs for the year. The 2000 electric rate increase also took into account the expected gain on the sale of utility assets which is discussed under "Other Electric and Gas Utility Expenses/Income."

Electric Utility Results *(Thousands)*	**2000**	1999	1998
Revenues	**$623,786**	$582,471	$543,260
Fuel and purchased power	**198,980**	187,399	167,256
Margin	**$424,806**	$395,072	$376,004
Sales in kilowatt-hours	**12,565,011**	12,503,487	12,172,432

Although our consolidated kilowatt-hour sales were only slightly up, partially due to a 31% cooler summer in 2000 than in 1999, consolidated revenues increased 7% due to the Wisconsin retail electric rate increase at Wisconsin Public Service.

Our consolidated fuel expense increased $15.7 million, or 14%, due to increased production at Wisconsin Public Service's fossil-fueled and combustion turbine generation plants. In addition, the average cost of generation at the combustion turbine plants increased 90% largely as a result of a higher unit cost of natural gas. Generation costs at the Kewaunee Nuclear Power Plant decreased 14% in 2000 due to its scheduled outage for refueling and maintenance in the second quarter of 2000. A similar outage did not occur in 1999. The Kewaunee plant was off-line beginning April 22, 2000 and returned to power on June 2, 2000. During the scheduled outage, nuclear generation was replaced with additional fossil fuel and combustion turbine generation and additional purchased power. Wisconsin Public Service is the operator and 41.2% owner of the Kewaunee plant. Our consolidated purchased power expense decreased $4.1 million, however, largely due to a 5% decrease in the cost per kilowatt-hour of power purchases made by Wisconsin Public Service in 2000 compared with 1999.

The Public Service Commission of Wisconsin allows Wisconsin Public Service the opportunity to adjust prospectively the amount billed to Wisconsin retail customers for fuel and purchased power if costs fall outside a specified range. Wisconsin Public Service is required to file an application to adjust rates either higher or lower when costs are plus or minus 2% from forecasted costs on an annualized basis. Annual 2000 fuel costs were within this 2% window and, accordingly, no adjustment was initiated.

Gas Utility Operations

The consolidated gas utility margin represents gas revenues less purchases exclusive of intercompany transactions. The gas utility margin at Wisconsin Public Service increased $5.4 million, or 7%, in 2000 due to an increase in therm sales.

Gas Utility Results

(Thousands)	**2000**	1999	1998
Revenues	**$264,519**	$191,521	$165,111
Purchased costs	**185,143**	117,582	104,608
Margin	**$ 79,376**	$ 73,939	$ 60,503
Sales in therms	**701,094**	662,615	608,029

Winter weather was a factor for Wisconsin Public Service's gas operations in 2000. Weather was 8% colder in 2000 than in 1999; however, weather was 2% warmer than normal in 2000. Wisconsin Public Service's gas revenues increased $73.0 million, or 38%, as the result of a 43% increase in the average unit cost of natural gas coupled with a 6% increase in overall therm sales.

Wisconsin Public Service's gas purchase costs increased $67.6 million, or 57%. This increase resulted from a higher average unit cost of natural gas and higher gas volumes purchased of 10%. The higher unit cost of natural gas is reflected in both revenues and gas purchases, thus having little impact on margin.

Under current regulatory practice, the Public Service Commission of Wisconsin and the Michigan Public Service Commission allow Wisconsin Public Service to pass changes in the cost of gas on to customers through a purchased gas adjustment clause.

Other Electric and Gas Utility Expenses/Income

Utility operation and maintenance expenses increased $22.3 million. Electric utility operation and maintenance expenses increased $18.4 million primarily due to costs associated with the scheduled outage and other maintenance activities at the Kewaunee plant.

Higher earnings of $6.2 million on the Kewaunee plant's nuclear decommissioning fund resulted in increased other income at Wisconsin Public Service in 2000. Due to regulatory practices, this higher income was offset by increased depreciation and decommissioning expense. Other income at Wisconsin Public Service also included a gain of $3.8 million on the sale of a combustion turbine which Wisconsin Public Service constructed for another Wisconsin utility. The Public Service Commission of Wisconsin considered this gain in the Wisconsin retail electric rate adjustment which was effective January 1, 2000.

Overview of Nonutility and Nonregulated Operations

Nonutility operations refer to the activities of Wisconsin Public Service and Upper Peninsula Power which do not fall under utility regulation. Nonregulated operations consist of the gas, electric, and other sales at WPS Energy Services, a diversified energy supply and services company and the operations of WPS Power Development, an electric generation asset development company. Nonregulated operations also include those of WPS Resources and WPS Resources Capital as holding companies and other nonregulated companies.

WPS Energy Services' net income improved to $1.7 million in 2000 compared with a loss of $3.5 million in 1999. Income at WPS Power Development also improved. WPS Power Development's net income was $0.9 million in 2000 compared with a loss of $3.8 million in 1999.

Other nonutility and nonregulated operations experienced a loss of $7.9 million in 2000 compared with a loss of $0.5 million in 1999. The increased loss was primarily due to additional interest expense, increased operating expenses, and a cost of $3.8 million for an electric energy contract entered into by WPS Resources in 2000 as a hedge against potential summer energy price spikes.

Overview of WPS Energy Services

WPS Energy Services' principal business involves nonregulated gas sales. Revenues at WPS Energy Services grew to $955.6 million in 2000 compared with $292.2 million in 1999, an increase of 227%. This increase was the result of additional gas and electric sales volumes coupled with a higher unit cost of natural gas. The higher unit cost of gas is also reflected in cost of sales, thus having little impact on margin. Income increased $5.2 million in 2000 due to a larger increase in electric and gas margins than in the related other operating expenses.

WPS Energy Services' Margins

The consolidated nonregulated gas margin represents nonregulated gas revenues less nonregulated gas cost of sales exclusive of intercompany transactions. The nonregulated gas margin at WPS Energy Services increased $6.7 million largely due to increased sales volumes.

WPS Energy Services' Gas Results

(Thousands)	**2000**	1999	1998
Nonregulated gas revenues	**$919,448**	$288,020	$330,046
Nonregulated gas cost of sales	**908,103**	283,409	326,060
Margin	**$ 11,345**	$ 4,611	$ 3,986

Gas revenues at WPS Energy Services more than tripled in 2000 compared with 1999. This increase was due to sales volumes that doubled as the result of additional sales in the wholesale market and general business growth. In addition, a large portion of the increase was due to a higher unit cost of natural gas in 2000.

WPS Energy Services' gas cost of sales tripled due to additional gas purchases coupled with a higher unit cost of natural gas.

Each year Wisconsin Public Service sponsors Trees for Tomorrow workshops about forestry, water, and wildlife. Young people gain wisdom in the fresh-air classrooms of the Northwoods.

Electric margins at WPS Energy Services increased $4.2 million in 2000. Electric revenues at WPS Energy Services were $33.8 million in 2000 and $3.4 million in 1999. This increase in revenue resulted from additional electric sales in Pennsylvania and Maine associated with the WPS Power Development assets that were acquired in the second and fourth quarters of 1999. Electric purchases increased $26.2 million due to additional sales volumes.

WPS Energy Services' Other Expenses

Other operating expenses at WPS Energy Services increased $4.2 million, or 42%, primarily due to greater payroll and other operational costs associated with business expansion.

Overview of WPS Power Development

Income at WPS Power Development was $0.9 million in 2000 compared with a loss of $3.8 million in 1999. The increase in income was primarily due to a higher margin on operating activities and additional tax credits. Partially offsetting these factors were higher operating and interest expenses.

Tax credits at WPS Power Development increased approximately $16.7 million in 2000. A portion of these tax credits, subject to the limitations of the alternative minimum tax provisions, were used to reduce our current income tax liability. Approximately $11 million of these tax credits have been carried forward to reduce our tax liability in future years.

A large portion of the tax credits at WPS Power Development relate to the operations of the ECO #12 synthetic fuel operation. Production at ECO #12 was higher than anticipated in 2000 despite the physical relocation of the project from Alabama to Kentucky during 2000. ECO #12 was taken out of operation in April 2000 to prepare for relocation, and WPS Power Development began operation of the facilities in the new location on September 1, 2000. In order to receive optimum benefits from this project, WPS Power Development intends to sell part of its interest in ECO #12. This action has been slowed due to issues currently being raised by the Internal Revenue Service with respect to synthetic fuel projects in general. The current plans call for a closer match of the facility's production level with our ability to use the tax credits that are available for the current year until a sale of a portion of the project is finalized.

In addition, WPS Power Development reversed $0.9 million of previously recorded losses in the first quarter of 2000 as a result of an equity contribution to the ECO #12 synthetic fuel project by the minority owner. Prior to this transaction, WPS Power Development had been recording 100% of the operating losses of this project because the minority owner's equity had been reduced to zero; however, it was only allocated 66.7% of the tax credits. Through an agreement with the minority owner, WPS Power Development is receiving 100% of the tax credits and operating results from the project until the minority owner is able to contribute further capital to fund its share of the operating costs.

WPS Power Development's Margin on Operating Activities and Other Expenses

WPS Power Development experienced an increase of $17.2 million in its margin on operating activities in 2000. This increase was largely due to the operation of the electric generation facilities acquired in Maine and Canada in the second quarter of 1999 and those in Pennsylvania in the fourth quarter of 1999. Other operating expenses at WPS Power Development increased $27.2 million in 2000 due to maintenance and higher production costs at its generation plants in Pennsylvania. Costs associated with the investigation and start-up of new projects at WPS Power Development also increased in 2000. Higher interest expense of $6.3 million in 2000 was largely due to nonrecourse debt put in place to finance the plant acquisitions.

Additional costs at the Sunbury generation plant in Pennsylvania lowered results at WPS Power Development, particularly in the fourth quarter of 2000. This included higher production costs, higher maintenance costs (both planned and accelerated), and increased costs of replacement power while the plant was undergoing maintenance. The decision was made to move some maintenance scheduled in future years into 2000 to coincide with other plant downtime. The accelerated maintenance at the Sunbury plant should enhance availability in 2001 and future years.

1999 Compared with 1998

WPS Resources Corporation Overview

WPS Resources' 1999 and 1998 results of operations are shown in the following chart:

WPS Resources' Results

(Millions, except share amounts)	1999	1998	Change
Consolidated operating revenues	$1,098.5	$1,063.7	3%
Net income	59.6	46.6	28%
Basic and diluted earnings per share	$2.24	$1.76	27%

The primary reasons for the higher earnings were increased sales volumes at Wisconsin Public Service coupled with the implementation of new Wisconsin retail electric and gas rates and the elimination of net trading losses at WPS Energy Services.

Overview of Utility Operations

Net income from electric utility operations was $56.1 million in 1999 and $50.5 million in 1998. Net income from gas utility operations was $11.2 million in 1999 and $5.9 million in 1998. The primary reasons for higher utility net income were increased sales volumes coupled with the implementation of new Wisconsin retail electric and gas rates.

Electric Utility Operations

Our consolidated electric utility margin increased $19.1 million. This increase was due to increased sales volumes at Wisconsin Public Service coupled with the January 15, 1999 implementation of new Wisconsin retail electric rates. The Public Service Commission of Wisconsin authorized a 6.3% increase in electric rates.

Our consolidated electric utility revenues increased $39.2 million primarily due to the electric rate increase at Wisconsin Public Service. A 3% increase in overall kilowatt-hour sales at Wisconsin Public Service also contributed to higher electric revenues. Included in 1998 electric revenues, but not in 1999 electric revenues, were surcharge revenues at Wisconsin Public Service of $3.8 million related to the recovery of the deferred costs for the Kewaunee plant's 1997 steam generator repairs.

Our consolidated fuel expense increased $3.0 million as a result of increased generation requirements at Wisconsin Public Service's combustion turbine and nuclear generation plants in 1999. Partially offsetting this factor was a decrease in production at Wisconsin Public Service's coal-fired generation plants as a result of both scheduled and unscheduled maintenance activities.

Our consolidated purchased power requirements increased $17.2 million primarily due to additional purchase requirements at both Wisconsin Public Service and Upper Peninsula Power in 1999. Purchase requirements increased 20% at Wisconsin Public Service due to the lack of production at its coal-fired generation plants during the time they were off-line for maintenance in 1999. In addition, the cost of purchases was 13% higher in 1999 than in 1998.

Annual 1999 fuel costs at December 31, 1999 were within the 2% fuel window authorized by the Public Service Commission of Wisconsin and, accordingly, no adjustment was made to electric rates for 1999 fuel costs.

Gas Utility Operations

The consolidated gas utility margin represents gas revenues less purchases exclusive of intercompany transactions. The gas utility margin at Wisconsin Public Service increased $13.4 million in 1999. This increase was primarily due to the implementation of a Public Service Commission of Wisconsin rate order which authorized a 5.1% increase in Wisconsin retail gas rates and to an increase in therm sales.

Wisconsin Public Service's gas operating revenues increased $26.4 million. This increase was due to the implementation of new Wisconsin retail gas rates and a 9% increase in overall therm sales as a result of colder weather in 1999. Although the winter weather was 11% colder in 1999 than in 1998, it was still 8% warmer than normal.

Gas utility revenues in 1998 were reduced by $7.5 million for refunds from ANR Pipeline Company which were passed on to Wisconsin Public Service's customers. Gas purchase costs in 1998 were likewise reduced as this $7.5 million refund was credited to gas expense.

Wisconsin Public Service's gas purchase costs increased $13.0 million due to increased sales and to a higher unit cost of natural gas.

Other Electric and Gas Utility Expenses/Income

Other utility operating expenses at Wisconsin Public Service increased $12.6 million primarily due to higher customer service expenses of $5.1 million related to conservation expenditures, and higher pension costs of $3.4 million due to a change in the assumptions used to calculate this expense. Also contributing to increased operating expenses were higher medical benefit expenses of $1.2 million and higher electric distribution expenses of $1.2 million.

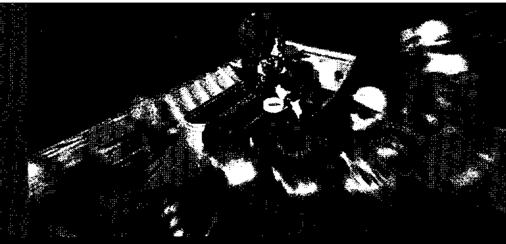
Maintenance expense at Wisconsin Public Service increased $7.2 million primarily due to additional costs of $8.0 million at its coal-fired generation plants and $1.6 million at its other power generation plants for both scheduled and unscheduled maintenance activities. Offsetting these costs was a decrease in maintenance expense of $8.5 million at the Kewaunee plant. A scheduled refueling outage at the Kewaunee plant in 1998 caused 1998 nuclear maintenance expenses to be higher. In addition, $3.8 million in deferred costs for the Kewaunee plant's 1997 steam generator repairs were recognized in 1998. Maintenance of overhead distribution lines increased $4.7 million in 1999 due to additional tree trimming, line clearance, and storm damage repairs.

Overview of Nonutility and Nonregulated Operations

WPS Energy Services experienced a loss of $3.5 million in 1999 compared with a loss of $6.9 million in 1998. Losses at WPS Power Development were $3.8 million in 1999 and $2.4 million in 1998. Although margins on nonregulated energy sales continued to grow, losses were experienced due to operating expenses associated with new facilities, market expansion, and the pursuit of additional projects. Nonutility operations in 1999 included a one-time special dividend of $0.5 million. This special dividend was related to a land sale from an investment held at Wisconsin Public Service. Nonregulated earnings in 1998 included a one-time dividend of $2.0 million received by WPS Resources from a venture capital investment.

Overview of WPS Energy Services, Inc.

Revenues at WPS Energy Services were $292.2 million in 1999 compared with $351.3 million in 1998, a decrease of 17%. The revenue decrease was attributable to a combination of lower overall natural gas prices experienced in 1999, and a deliberate change in the wholesale product mix. WPS Energy Services experienced an improvement in operating results, reducing net losses by 49% in



At Trees for Tomorrow, students learn how it feels to be stewards of the environment. Here, eggs are collected from spawning walleye and brought to a hatchery.

1999. The primary reason for the decrease in losses was the elimination of trading losses that occurred in 1998. WPS Energy Services implemented a deliberate shift in focus within its trading unit to emphasize capturing present opportunities in the market rather than taking a position in anticipation of a future market movement. While not without risk, this lower-risk approach did yield gains in 1999. WPS Energy Services also experienced an increase in total gas margin due to improved gas procurement operations and processes, and an increased emphasis on creation of wholesale products providing greater value, thus higher margin, to customers in the wholesale marketplace. Partially offsetting these factors was a one-time pretax write-down of $0.7 million related to an investment in a gas production field.

WPS Energy Services' Margins

Gas margins at WPS Energy Services increased $0.6 million in 1999. Gas revenues decreased $42.0 million and gas cost of sales decreased $42.6 million as the result of lower overall natural gas market prices and an increased emphasis on higher quality and lower-risk wholesale products rather than a large volume of wholesale transactions with lower margins. Improvements in gas procurement processes also contributed to lower cost of sales.

Electric margins remained fairly stable. Electric revenues decreased $17.1 million as the result of WPS Energy Services' efforts to focus participation in the wholesale electric markets where transactions were based on physical generation assets controlled by an affiliate of WPS Resources.

WPS Energy Services' Other Expenses

Other operating expenses at WPS Energy Services increased $1.0 million primarily due to costs of $0.7 million associated with entering into expanded retail customer-choice programs. Improved processes and strategies emphasizing reduced risk at WPS Energy Services resulted in a gas trading gain in 1999 compared with gas trading losses of $4.9 million in 1998. Essentially no electric trading losses were experienced in 1999 compared with a $1.2 million loss in 1998.

Overview of WPS Power Development

The increase in losses in 1999 at WPS Power Development was primarily due to additional costs incurred for the development and operation of newly acquired facilities and the evaluation of new projects.

WPS Power Development experienced an increase of $9.5 million in its margin on operating generation facilities in 1999. This increase was due to the operation of the electric generation assets acquired in Maine and Canada on June 8, 1999, and in Pennsylvania on November 1, 1999. Other operating expenses at WPS Power Development increased $10.5 million largely due to operating expenses related to the electric generation assets acquired during 1999. Higher operating expenses at the ECO #12 synthetic fuel operation also contributed to the increase. Partially offsetting increased expenses at ECO #12 was the benefit of tax credits received for these operations. Although ECO #12 experienced problems with materials and customers in the early part of 1999, these problems were resolved and sales increased significantly. Additional costs related to the pursuit and development of new projects also contributed to higher operating expenses at WPS Power Development in 1999.

Overview of Other Nonutility and Nonregulated Operations

A one-time dividend of $0.5 million was received by Wisconsin Public Service in 1999 related to a land sale from an investment. This dividend represented a one cent per share increase to earnings for 1999.

A one-time dividend of $2.0 million was received by WPS Resources in 1998 from a venture capital investment. This dividend represented a four cents per share increase in earnings for 1998.

Balance Sheet

2000 Compared With 1999

As the result of WPS Energy Services marking to market its energy contracts and gas in storage in 2000, our balance sheet grew by approximately $660 million. The mark-to-market accounting is reflected in both assets and liabilities from risk management activities and the gas in storage inventory account.

Customer and other receivables increased $185.5 million as the result of additional sales volumes at both WPS Energy Services and Wisconsin Public Service. The higher unit cost of natural gas experienced, especially in December of 2000, also contributed to the increased receivables balance. Likewise, accounts payable increased $230.9 million largely due to the additional sales volumes and the higher unit cost of natural gas.

Long-term debt increased $76.1 million as the result of WPS Power Development obtaining nonrecourse financing related to the Sunbury generation plant in the second quarter of 2000. Commercial paper increased $39.7 million largely to finance capital needs.

Financial Condition

Investments and Financing

Special common stock dividends of $50.0 million were paid by Wisconsin Public Service to WPS Resources in 2000. Equity infusions of $75.0 million were made by WPS Resources to Wisconsin Public Service in 2000. The special dividends and equity infusions allowed Wisconsin Public Service's average equity capitalization and its capitalization ratio for ratemaking to remain near target levels as established by the Public Service Commission of Wisconsin in its 1999 rate order.

Cash requirements exceeded internally generated funds by $107.5 million in 2000. Short-term borrowings through commercial paper increased $39.7 million. Long-term debt increased $76.1 million mainly due to the issuance of $83.7 million of nonrecourse debt related to the Sunbury generation plant. The Sunbury plant was originally financed with short-term debt. Our pretax interest coverage, including nonrecourse debt, was 2.27 times for the 12 months ended December 31, 2000. See the table below for WPS Resources' credit ratings.

Credit Ratings	Standard & Poor's	Moody's
WPS Resources Corporation		
Senior unsecured debt	AA	Aa3
Commercial paper	A1+	P1
Trust preferred securities	A+	aa3
Wisconsin Public Service Corporation		
Bonds	AA+	Aa1
Preferred stock	AA	aa2
Commercial paper	A1+	P1

We normally use internally-generated funds and short-term borrowing to satisfy most of our capital requirements. We seek nonrecourse debt for funding nonregulated acquisitions. We may periodically issue additional long-term debt and common stock to reduce short-term debt, maintain desired capitalization ratios, and fund future growth.

The specific forms of financing, amounts, and timing will depend on the availability of projects, market conditions, and other factors.

In October 1999, we filed a shelf registration with the Securities and Exchange Commission which allowed the issuance of $400.0 million in the aggregate of public long-term debt and common stock. Long-term debt of $150.0 million has been issued under the shelf registration. Wisconsin Public Service has a shelf registration which provides $52.0 million of remaining debt financing capacity. During 2000, we repurchased $10.5 million of common stock for our stock option plan and other corporate purposes including our employee stock ownership plan. Effective January 2001, we began issuing new shares of common stock for our Stock Investment Plan and for some of our stock-based employee benefit plans.

Wisconsin Public Service makes large investments in capital assets. Construction expenditures for Wisconsin Public Service are expected to be approximately $486 million in the aggregate for the 2001 through 2003 period. This includes expenditures for replacement of the Kewaunee plant's steam generators. In addition, other capital requirements for Wisconsin Public Service for the three-year period include contributions of approximately $7.8 million to the Kewaunee plant's decommissioning trust fund.

Upper Peninsula Power is expected to incur construction expenditures of about $52 million in the aggregate for the period 2001 through 2003, primarily for electric distribution improvements and repairs at hydro facilities.

In April 2000, Sunbury Generation, LLC, a subsidiary of WPS Power Development, obtained $83.7 million of nonrecourse financing which is secured by the Sunbury generation plant. Sunbury Holdings, LLC, a subsidiary of WPS Power Development, financed its purchase of CinCap VI, LLC with internally generated funds from WPS Resources.

We anticipate issuing additional debt and equity financing in 2001 as shown in the table at the bottom of this page.

Specific forms of financing, amounts, and timing may change due to the availability of projects, market conditions, and other factors.

Electric Reliability

WPS Resources purchased a 50-megawatt fixed-price physical electric energy contract for the months of June, July, and August of 2000. The contract allowed for the purchase of electricity at a fixed price, and the sale of that electricity at a floating or market-based price shortly before delivery. The contract was intended for earnings protection against summer energy price spikes in the event of a loss of generation units. The summer of 2000 was extremely mild, and we did not experience any of the anticipated energy price spikes. As a result, WPS Resources incurred a cost of $3.8 million under the electric energy contract.

Regulatory

On December 21, 2000, Wisconsin Public Service received an order from the Public Service Commission of Wisconsin authorizing a 5.4% increase in retail electric rates and a 1.5% increase in retail gas rates for 2001 and 2002. A 12.1% return on equity was approved. The new rates were implemented on January 1, 2001. The Public Service Commission of Wisconsin did not approve a 2002 rate reopener but

Financing Schedule

By	Timeframe	Form of Financing	Amount
Nonregulated	Second quarter	Variable rate tax exempt bonds	$ 20 - $ 28 million
WPS Resources	Second/third quarter	Common stock	$ 50 - $100 million
Wisconsin Public Service	Third quarter	Fading lien bonds	$100 - $150 million
WPS Resources	Third/fourth quarter	Unsecured debt	$100 - $150 million

The WPS Chorus breaks out in song to help community groups in Green Bay, Wisconsin, celebrate the seasons. The chorus, formed in 1985, performs 35 to 45 free concerts each year.

acknowledged that pursuant to statutes, Wisconsin Public Service may request a reopener at any time.

On October 13, 2000, Upper Peninsula Power filed an application for a $5.7 million rate increase with the Michigan Public Service Commission. A final rate order should be issued in 2001. Upper Peninsula Power has not experienced a rate increase since 1994.

Merger With Wisconsin Fuel and Light Company

On July 13, 2000, we signed a merger agreement with Wisconsin Fuel and Light Company. Under the agreement, Wisconsin Fuel and Light shareholders will receive 1.73 shares of WPS Resources' common stock for each share of Wisconsin Fuel and Light's common stock. The exchange ratio will be adjusted if, at the time of closing the transaction, the market price of WPS Resources' common stock exceeds $33.96 per share or is less than $27.79 per share. The market price is defined as the average of the closing price of WPS Resources' common stock during the ten trading days ending three days immediately preceding the effective date of the merger. The merger remains subject to (i) approval by the Public Service Commission of Wisconsin; (ii) receipt of an opinion of counsel that the exchange of stock qualifies as a tax-free transaction; and (iii) the satisfaction of various other conditions.

A majority of the outstanding preferred shareholders of Wisconsin Public Service approved the merger, allowing Wisconsin Fuel and Light to merge into Wisconsin Public Service. A majority of the Wisconsin Fuel and Light shareholders approved the merger in November of 2000. The merger will be accounted for under the purchase method of accounting and is expected to be completed in April of 2001.

Acquisition of Generation Facilities

Sunbury Holdings, LLC, a subsidiary of WPS Power Development, purchased CinCap VI, LLC on September 1, 2000. CinCap VI is the owner of the 30-megawatt Westwood generation facility located in Pennsylvania. As of January 1, 2001, CinCap VI, LLC changed its name to WPS Westwood Generation, LLC.

On October 27, 2000, Sierra Pacific Power Company agreed to sell its Tracy/Pinon Power Station located near Reno, Nevada to WPS Power Development. The 545-megawatt facility consists of several natural gas and oil-fired generation units and includes a coal gasification project that had been co-funded by the United States Department of Energy. The arrangement includes a temporary purchase power agreement to sell the power generated by Tracy/Pinon to Sierra Pacific. The purchase price of $249.8 million is subject to taxes and other adjustments at closing. Closing is expected to occur some time in 2001. We expect to finance a portion of this purchase with nonrecourse debt.

WPS Power Development reached an agreement to build and operate a 50-megawatt electric cogeneration facility in Combined Locks, Wisconsin. The facility will provide electricity to wholesale customers through WPS Energy Services. Construction of the facility is expected to begin in the second quarter of 2001 with completion by the end of 2001.

Trends

Regulatory Standards

Wisconsin Public Service and Upper Peninsula Power follow Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," and their financial statements reflect the effects of the different ratemaking principles followed by the various jurisdictions regulating each utility. For Wisconsin Public Service these include the Public Service Commission of Wisconsin, 90% of revenues; the Michigan Public Service Commission, 2% of revenues; and the Federal Energy Regulatory Commission, 8% of revenues. In addition, the Kewaunee plant is regulated by the Nuclear Regulatory Commission. Environmental matters are primarily governed by the United States Environmental Protection Agency and the Wisconsin Department of Natural Resources.

Impact of New Accounting Standard

We adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," on January 1, 2001. This statement requires derivative instruments to be recorded at their fair value as assets or liabilities on the balance sheet. Changes in the derivative's fair value are to be recognized currently in earnings unless specific hedge accounting criteria are met.

We concluded that the majority of contracts at our utility subsidiaries and at WPS Power Development for the purchase, sale, and storage of natural gas, electricity, coal, and nuclear fuel do not meet the definition of a derivative as defined under Statement No. 133. The majority of such contracts, therefore, are not subject to the accounting requirements of Statement No. 133. Wisconsin Public Service entered into a limited number of commodity contracts that meet the definition of a derivative. We believe that any gains or losses resulting from the settlement of these contracts will be collected from, or refunded to, retail customers. Derivative assets and liabilities that are recorded as a result of these derivative contracts will be offset with corresponding regulatory assets and liabilities. A limited number of other derivative contracts were designated as fair value hedges. Future changes in the fair value of these derivative contracts will be recognized in earnings with offsetting changes in the value of the hedged item also recorded in earnings. At

January 1, 2001, Wisconsin Public Service recorded a derivative asset and an offsetting regulatory liability of approximately $17 million. The cumulative effect on income was not significant.

WPS Energy Services uses derivative financial and commodity instruments to reduce market risk associated with changing prices of natural gas and electricity sold to customers at firm prices. WPS Energy Services also utilizes derivatives to manage market risk associated with anticipated energy purchases as well as trading activities. Primarily as a result of a change in strategic focus that resulted in a shift in customer mix, WPS Energy Services, in applying Emerging Issues Task Force Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," concluded in the first quarter of 2000 that its energy contracts were trading contracts. Accordingly, WPS Energy Services recorded its energy contracts at fair value on the balance sheet, with changes in fair value recognized in earnings. Because WPS Energy Services marks to market its energy trading contracts in accordance with Issue 98-10 and does not anticipate designating any derivative contracts as hedges for accounting purposes, the adoption of Statement No. 133 is not expected to have a material impact at WPS Energy Services.

Electric Utility Restructuring – Wisconsin

Electric reliability continues to be the primary issue for the Public Service Commission of Wisconsin. In 1999, Wisconsin enacted the Reliability 2000 Act which addressed asset cap relief provisions, the transfer of transmission assets into a state-wide transmission company, targets for retail electric sales from renewable resources, and ratepayer funding of public benefits spending. The priorities of the Public Service Commission of Wisconsin in 2000 included:

- a market power study;
- formation of American Transmission Company LLC;
- utility membership in Midwest Independent System Operator;
- the proposed transmission line between Weston, Wisconsin and Duluth, Minnesota; and
- ratepayer financing of public benefit spending and transferring responsibility for conservation, load management, and public benefits to the Wisconsin Department of Administration.

Market Power Study

A consultant performed a market power analysis of Wisconsin's and the Upper Peninsula of Michigan's electric markets for the Public Service Commission of Wisconsin. As a result of the analysis, the Commission concluded that complete and immediate deregulation is not in the best interest of the public, especially given the recent developments in California. The Commission agreed that more transmission capacity is needed and contracts between electric generators and customers may mitigate market power issues. Additionally, the Commission concluded that complex horizontal market power issues will require further study before actions to mitigate market power are considered.

Transmission

On January 1, 2001, all of the investor-owned utilities in eastern Wisconsin, including Wisconsin Public Service, transferred their transmission assets to and became owners of American Transmission Company. By joining American Transmission Company, the utilities became eligible for relief from the holding company system asset cap limitation on nonregulated investments. Until a Regional Transmission Operator is operational, American Transmission Company will own and operate the eastern Wisconsin transmission system. Wisconsin Public Service transferred transmission assets with a net book value of approximately $60 million to $70 million to American Transmission Company for an approximate 12% ownership interest. The ownership interest will fluctuate as additional assets are contributed or more companies join American Transmission Company. We expect income under equity accounting for the investment in American Transmission Company to be similar to Wisconsin Public Service's current earnings on its transmission assets.

Final approval of the proposed transmission line between Weston, Wisconsin and Duluth, Minnesota is expected in 2001. This project will be transferred to American Transmission Company upon completion of hearings with the Public Service Commission of Wisconsin. The hearings are expected to be completed in the first quarter of 2001. WPS Resources will be funding the equity portion of this transmission project and receiving an additional ownership interest in American Transmission Company.

Electric Utility Restructuring – Michigan

In June 2000, legislation was enacted which provides electric customers the right to choose their generation supplier by January 1, 2002. Wisconsin Public Service, Upper Peninsula Power, the Michigan Public Service Commission, and other utilities are developing systems to accommodate the new law, develop open access tariffs, and implement business practices. Preliminary tariffs are expected in the first quarter of 2001.

Gas Utility Restructuring – Wisconsin

In its 2001-2002 Wisconsin retail rate application, Wisconsin Public Service proposed to facilitate customer choice of natural gas suppliers through the use of its new automated meter reading system. The proposal was approved by the Public Service Commission of Wisconsin and will provide customer choice of gas suppliers for commercial customers beginning on November 1, 2001. This program will be expanded to all customers as the automated meter reading system is installed system-wide.

Since 1991, the Lyle Kingston Conservation League has brought WPS Resources' employees and their families together to improve the environment. The group has completed 30-plus projects, including this nature trail.

Gas Utility Restructuring – Michigan

The majority of Michigan's largest gas customers are allowed to choose their natural gas commodity supplier. Gas restructuring for smaller customers remains in a pilot phase. The smaller Michigan natural gas utilities, including Wisconsin Public Service, are to propose a customer choice program for all customer classes when it is in the best interests of each utility and its customers. Wisconsin Public Service intends to provide customer choice to its Michigan customers following the implementation of its automated meter reading system in that state.

Utility Restructuring – Federal Energy Regulatory Commission

Wisconsin Public Service transferred its electric transmission assets to American Transmission Company on January 1, 2001 in exchange for an ownership interest in the company. American Transmission Company implemented new Federal Energy Regulatory Commission tariffs, subject to refund, on January 1, 2001.

Wisconsin Public Service and Upper Peninsula Power joined the Midwest Independent System Operator in June of 2000. The Midwest Independent System Operator filed to become a Regional Transmission Organization in October of 2000.

Environmental

Wisconsin Public Service continues to investigate the environmental cleanup of eight manufactured gas plant sites. The cleanup of the Stevens Point manufactured gas plant site has been substantially completed with monitoring of the site continuing. Costs of this cleanup were within the range expected for this site. Future undiscounted investigation and cleanup costs for the remaining seven sites is estimated to be in the range of $35.7 million to $42.2 million. These estimates may be adjusted in the future contingent upon remedial technology, regulatory requirements, and the assessment of natural resources damages.

Wisconsin Public Service currently has a $37.4 million liability recorded for gas plant cleanup with an offsetting regulatory asset (deferred charge). Management believes that cleanup costs net of insurance recoveries, but not the carrying costs associated with the cleanup expenditures, will be recoverable in current and future customer rates. Wisconsin Public Service has received $12.6 million in insurance recoveries which have been recorded as a reduction in the regulatory asset.

The state of Wisconsin developed a nitrogen oxide reduction plan for Wisconsin's ozone non-attainment area in southern Wisconsin. The nitrogen oxide reductions begin in 2003, and the requirements are gradually increased through 2007. This reduction plan affects Edgewater Unit 4. Wisconsin Public Service owns 31.8% of this unit. A compliance plan for Edgewater Unit 4 was initiated in 2000. The plan includes a combination of combustion optimization and emission trading at a potential cost of approximately $5 million. The state of Wisconsin is also seeking voluntary reductions from units outside the ozone non-attainment area which may lead to additional expenditures for nitrogen oxide reductions at other units. Wisconsin Public Service is participating in voluntary efforts to reduce nitrogen oxide levels at the Columbia Energy Center. Wisconsin Public Service owns 31.8% of Columbia. The Public Service Commission of Wisconsin has approved recovery of the costs associated with nitrogen oxide compliance.

The Wisconsin Department of Natural Resources initiated a rulemaking effort aimed at the control of mercury emissions. Coal-fired generation plants are likely to be the target of this effort. A draft of the rule has not been released and the effect on Wisconsin Public Service is not yet known. If restrictive limits are adopted, the costs could be significant.

On November 3, 1999, the Environmental Protection Agency announced that it was pursuing an enforcement initiative against seven utilities, or their subsidiaries, located in the Midwest and the South as well as the Tennessee Valley Authority. The enforcement initiative alleges that the utilities may have undertaken projects at certain coal-fired generation plants in violation of the Clean Air Act. The Environmental Protection Agency is seeking penalties and the installation of additional pollution-control equipment at these plants.

As a continuation of this initiative, the Environmental Protection Agency requested, on December 14, 2000, that Wisconsin Public Service provide information related to projects undertaken at its Pulliam and Weston plants. This information was submitted on January 6, 2001. Wisconsin Power and Light Company, the operator of units co-owned with Wisconsin Public Service, also submitted information related to projects undertaken at the Columbia and Edgewater plants.

The Sunbury plant, acquired by WPS Power Development in November 1999, currently purchases emission allowances to comply with air regulations. Additional technology may be required by 2003 in order to comply with nitrogen oxide standards. Expenditures for this technology could be significant.

Kewaunee Nuclear Power Plant

On September 29, 1998, Wisconsin Public Service and Madison Gas and Electric Company entered into an agreement pursuant to which Wisconsin Public Service will acquire Madison Gas and Electric's 17.8% share of the Kewaunee plant. This agreement, the closing of which is contingent upon Nuclear Regulatory Commission approval and steam generator replacement scheduled for the fall of 2001, will result in Wisconsin Public Service's ownership interest in the Kewaunee plant increasing to 59%.

On January 1, 2001, Wisconsin Public Service's administrative employees at the Kewaunee plant transferred to Nuclear Management Company, LLC. As a result of these employees leaving the Wisconsin Public Service benefit plans, a curtailment loss of $8.7 million was experienced. The majority of the curtailment loss was deferred as a regulatory asset. A settlement gain is anticipated in 2001 as withdrawals are made. The majority of the settlement gain will be recorded as a regulatory liability.

Wisconsin Public Service anticipates a significant increase in Kewaunee operating costs in 2001 due to expenditures related to Nuclear Regulatory Commission compliance requirements and is seeking regulatory approval to defer all incremental costs for recovery in the next rate proceeding.

Impact of Inflation

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States and report operating results in terms of historic cost. The statements provide a reasonable, objective, and quantifiable statement of financial results; but they do not evaluate the impact of inflation. Under rate treatment prescribed by utility regulatory commissions, Wisconsin Public Service's and Upper Peninsula Power's projected operating costs are recoverable in revenues. Because rate forecasting assumes inflation, most of the inflationary effects on normal operating costs are recoverable in rates. However, in these forecasts, Wisconsin Public Service and Upper Peninsula Power are only allowed to recover the historic cost of plant via depreciation.

Qualitative and Quantitative Disclosures About Market Risk

Market Risks

WPS Resources has potential market risk exposure related to interest rate risk, equity return and principal preservation risk, and commodity price risk. There currently is no material exposure due to foreign currency risk. Our exposure to interest rate risk relates primarily to ongoing short-term financing and a long-term debt financing at WPS Power Development. Exposure to equity return and principal preservation risk results from various debt and equity security investments in our employee benefit and nuclear decommissioning trust funds. Exposure to commodity price risk exists with respect to the price of coal, uranium, electricity, natural gas, and fuel oil. WPS Resources has risk management policies in place to monitor and assist in controlling these market risks and uses derivative instruments to manage some of these exposures.

Interest Rate Risk

WPS Resources generally issues commercial paper, subject to varying interest rates, for short-term borrowing. The fluctuation of interest rates will have an impact on interest expense related to this short-term borrowing. We manage interest rate exposure by continually monitoring the effects of market changes on interest rates. The amount of commercial paper outstanding was $119.6 million and $79.9 million at December 31, 2000 and December 31, 1999, respectively. A change in interest rates of 100 basis points would have affected annual interest expense on this commercial paper by approximately $1.2 million in 2000 and $0.8 million in 1999. Wisconsin Public Service also has outstanding a $10 million master note that is subject to a variable interest rate adjusted daily. WPS Resources is not exposed to changes in interest rates on most of its long-term debt until such debt matures and may be refinanced at the then applicable rates.

Sunbury Generation, LLC, a nonregulated subsidiary of WPS Resources, had an outstanding balance of approximately $79.1 million on a variable rate nonrecourse loan at December 31, 2000. Sunbury Generation utilized interest rate swaps to fix the interest rate for 50% of the loan beginning in May of 2000 and continuing through March of 2018. In January of 2001, Sunbury Generation used an interest rate swap to fix the interest rate for the remaining 50% of the loan beginning April 1, 2001. A change in interest rates of 100 basis points would have affected annual interest expense in 2000 on the loan by approximately $0.4 million. WPS Resources currently does not employ any other interest rate swaps.

Mid-American Power, LLC, a nonregulated subsidiary of WPS Resources, currently has an outstanding balance of approximately $11 million on a variable rate loan. The interest rate is adjusted quarterly. A change in interest rates of 100 basis points would have affected annual interest expense on the loan by approximately $0.1 million.

Equity Return and Principal Preservation Risk

WPS Resources currently funds its liabilities related to employee benefits and nuclear decommissioning through various trust funds. These funds are managed by various investment managers and hold investments in debt and equity securities. Changes in the market value of these investments can have an impact on the future expenses related to these liabilities. The pension liability is adequately funded and under normal market conditions future required contributions to the plan are unlikely. Changes in the market value of investments related to other employee benefits or nuclear decommissioning could impact future contributions. WPS Resources monitors the trust fund portfolios by benchmarking the performance of the investments against certain security indices. All decommissioning costs and most of the employee benefit costs relate to WPS Resources' regulated utilities. The majority of these costs are

Wisconsin Public Service and the De Pere High School Ecology Club release Galerucella beetles. These beneficial bugs help control Purple Loosestrife, a plant that disturbs the ecological balance in wetlands.

reflected in customers' rates, mitigating any equity return and principal preservation risk on these exposures.

Commodity Price Risk

Exposure to commodity price risk exists with respect to the price of coal, uranium, electricity, natural gas, and fuel oil. WPS Resources and its affiliates employ established policies and procedures to reduce the market risk associated with changing commodity prices, including utilizing various types of commodity and financial instruments. Management actively monitors commodity price risk exposure across all of its subsidiaries. WPS Resources engages in minimal price risk management activities at its regulated utility operations because much of this risk exposure is recoverable through customer rates.

WPS Energy Services uses derivative financial and commodity instruments to reduce market risk associated with the changing prices of natural gas and electricity sold at firm prices to customers. WPS Energy Services also uses derivatives to manage market risk associated with anticipated energy purchases, as well as trading activities. Derivatives may include, but are not limited to, futures and forward contracts, basis swap agreements, and call and put options. For purposes of risk management disclosure, all of WPS Energy Services' activities including all of its energy commodity purchase and sale contracts and its gas in storage inventory are classified as trading.

WPS Power Development uses derivative commodity instruments in connection with the sale of its generated power. For purposes of risk management disclosure, all of WPS Power Development's activities are classified as non-trading.

Value-at-Risk

To measure commodity price risk exposure, WPS Resources performs a value-at-risk (VaR) analysis on third party exposures.

VaR is used to describe a probabilistic approach to managing the exposure to market risk. The VaR amount represents the potential change in fair value that could occur from adverse changes in market factors within a given confidence level if an instrument or portfolio is held for a specified time period. VaR models are relatively sophisticated. However, the quantitative risk information is limited by the parameters established in creating the model. The instruments being utilized may have features that may trigger a potential loss in excess of the calculated amount if the changes in the underlying commodity price exceed the confidence level of the model used. VaR is not necessarily indicative of actual results which may occur.

At WPS Resources, VaR is estimated using a delta-normal approximation based on a one-day holding period and a 95% confidence level. The delta-normal approximation is based on the assumption that changes in the value of the portfolio over short time periods, such as one day, are normally distributed. It does not take into account higher order risk exposures, so it may not provide a good approximation of the risk in a portfolio with substantial option positions. We utilized a delta-normal approximation because our portfolio has limited exposure to optionality. In 2000, we switched from a tabular presentation of quantitative risk disclosure to a VaR presentation, because we believe VaR is a more effective risk monitoring tool.

Our VaR amount for trading activities was calculated to be $0.4 million at December 31, 2000 compared to $0.3 million at December 31, 1999. Our VaR amount for non-trading activities was calculated to be $4.4 million and $1.2 million at December 31, 2000 and December 31, 1999, respectively. However, a significant portion of the VaR amount related to non-trading activities is mitigated by WPS Power Development's generating capabilities, which are excluded from the VaR calculation.

For the year ended December 31, 2000, the average, high, and low VaR amounts for trading activities were $0.3 million, $0.4 million, and $0.2 million, respectively. The average, high, and low VaR amounts over the same reporting period for non-trading activities were $2.2 million, $4.4 million, and $1.1 million, respectively. The average, high, and low amounts were computed using the VaR amounts at the beginning of the reporting period and the four quarter-end amounts.

Foreign Currency Exchange Rate Risk

We are exposed to foreign currency risk primarily through the purchase and sale of gas in Canada by one of our nonregulated subsidiaries. This risk is currently immaterial. As the exposure increases, we expect to hedge a majority of the risk through the use of various financial instruments.

Consolidated Statements of Income, Comprehensive Income, and Retained Earnings

Year Ended December 31 (Thousands, except share amounts)	2000	1999	1998
Operating revenues			
Electric utility	$ 623,786	$ 582,471	$ 543,260
Gas utility	264,519	191,521	165,111
Nonregulated gas	913,816	286,495	329,413
Nonregulated electric and other	149,453	38,053	25,952
Total operating revenues	1,951,574	1,098,540	1,063,736
Operating expenses			
Utility electric production fuels	129,507	113,780	110,809
Utility purchased power	69,473	73,619	56,447
Utility gas purchased for resale	180,308	118,889	105,908
Nonregulated gas cost of sales	907,360	280,577	324,287
Nonregulated electric and other cost of sales	106,954	20,874	22,376
Other operating expenses	238,470	194,938	172,876
Maintenance	73,031	60,564	52,813
Depreciation and decommissioning	99,842	83,744	86,274
Taxes other than income	33,799	31,818	31,902
Total operating expenses	1,838,744	978,803	963,692
Operating income	112,830	119,737	100,044
Other income			
Allowance for equity funds used during construction	1,712	716	173
Other, net	15,848	8,233	2,505
Total other income	17,560	8,949	2,678
Income before interest expense	130,390	128,686	102,722
Interest on long-term debt	41,677	27,162	23,987
Other interest	11,855	8,507	4,827
Allowance for borrowed funds used during construction	(2,752)	(2,901)	(177)
Total interest expense	50,780	32,768	28,637
Distributions – preferred securities of subsidiary trust	3,501	3,501	1,488
Income before income taxes	76,109	92,417	72,597
Income taxes	6,005	29,741	23,445
Minority interest	–	–	(611)
Preferred stock dividends of subsidiaries	3,111	3,111	3,132
Net income	66,993	59,565	46,631
Other comprehensive income	–	–	–
Comprehensive income	66,993	59,565	46,631
Retained earnings at beginning of year	341,701	335,154	339,508
Cash dividends on common stock	(53,938)	(53,018)	(50,985)
Retained earnings at end of year	$ 354,756	$ 341,701	$ 335,154
Average shares of common stock	26,463	26,644	26,511
Basic and diluted earnings per average share of common stock	$2.53	$2.24	$1.76
Dividend per share of common stock	2.04	2.00	1.96

The accompanying notes are an integral part of these statements.

Ducks Unlimited is a global force in wetlands and waterfowl conservation. At the Ducks Unlimited Great Outdoors Festival in Oshkosh, Wisconsin, Wisconsin Public Service helps spread the word about environmental stewardship.

Consolidated Balance Sheets

At December 31 (Thousands)	**2000**	1999
Assets		
Utility plant		
Electric	**$1,893,358**	$1,797,832
Gas	**302,942**	285,048
Property under capital lease	**74,130**	74,130
Total	**2,270,430**	2,157,010
Less – Accumulated depreciation and decommissioning	**1,365,367**	1,293,354
Net	**905,063**	863,656
Nuclear decommissioning trusts	**207,224**	198,052
Construction in progress	**69,997**	74,187
Nuclear fuel, less accumulated amortization	**16,040**	15,007
Net utility plant	**1,198,324**	1,150,902
Current assets		
Cash and equivalents	**12,789**	10,547
Customer and other receivables, net of reserves of $4,205 at December 31, 2000 and $2,676 at December 31, 1999	**317,808**	132,355
Accrued utility revenues	**60,149**	38,533
Fossil fuel, at average cost	**18,122**	24,657
Gas in storage	**65,975**	29,344
Materials and supplies, at average cost	**31,373**	28,618
Assets from risk management activities	**642,481**	–
Prepayments and other	**52,474**	28,871
Total current assets	**1,201,171**	292,925
Regulatory assets	**74,579**	70,490
Nonutility and nonregulated plant, net of accumulated depreciation of $13,341 at December 31, 2000 and $8,189 at December 31, 1999	**152,474**	129,352
Pension assets	**62,992**	65,622
Investments and other assets	**126,602**	107,257
Total	**$2,816,142**	$1,816,548
Capitalization and Liabilities		
Capitalization		
Common stock equity	**$ 542,777**	$ 536,300
Preferred stock of subsidiary with no mandatory redemption	**51,168**	51,193
Company-obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely WPS Resources 7.00% subordinated debentures	**50,000**	50,000
Long-term capital lease obligation	**72,955**	73,585
Long-term debt	**587,017**	510,917
Total capitalization	**1,303,917**	1,221,995
Current liabilities		
Current portion of long-term debt and capital lease obligation	**8,311**	1,362
Notes payable	**10,000**	10,403
Commercial paper	**119,557**	79,855
Accounts payable	**334,311**	103,437
Accrued taxes	**11,217**	9,844
Accrued interest	**9,882**	7,561
Liabilities from risk management activities	**659,468**	–
Other	**29,866**	21,099
Total current liabilities	**1,182,612**	233,561
Long-term liabilities and deferred credits		
Accumulated deferred income taxes	**100,463**	111,092
Accumulated deferred investment tax credits	**23,963**	25,748
Regulatory liabilities	**50,641**	64,148
Environmental remediation liabilities	**38,867**	40,557
Postretirement liabilities	**47,267**	49,643
Other long-term liabilities	**68,412**	69,804
Total long-term liabilities and deferred credits	**329,613**	360,992
Commitments and contingencies (See Note 13)	**–**	–
Total	**$2,816,142**	$1,816,548

The accompanying notes are an integral part of these statements.

Boundless Energy

Consolidated Statements of Capitalization

At December 31 *(Thousands, except share amounts)*			2000	1999
Common stock equity				
Common stock, $1 par value, 100,000,000 shares authorized; 26,851,034 shares outstanding at December 31, 2000 and 26,851,045 shares outstanding at December 31, 1999			**$ 26,851**	$ 26,851
Premium on capital stock			**172,451**	172,108
Retained earnings			**354,756**	341,701
Treasury stock, 336,385 shares at average cost of $24.23 at December 31, 2000			**(8,149)**	-
Shares in deferred compensation trust; 105,179 shares at an average cost of $29.78 per share at December 31, 2000 and 71,097 shares at an average cost of $30.04 per share at December 31, 1999			**(3,132)**	(2,136)
Employee Stock Ownership Plan loan guarantees			**-**	(2,224)
Total common stock equity			**542,777**	536,300
Preferred stock – Wisconsin Public Service Corporation				
Cumulative, $100 par value, 1,000,000 shares authorized; with no mandatory redemption				
	Shares Outstanding			
Series	2000	1999		
5.00%	131,720	131,950	**13,172**	13,195
5.04%	29,980	29,980	**2,998**	2,998
5.08%	49,980	50,000	**4,998**	5,000
6.76%	150,000	150,000	**15,000**	15,000
6.88%	150,000	150,000	**15,000**	15,000
Total preferred stock of subsidiary with no mandatory redemption			**51,168**	51,193
Company-obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely WPS Resources 7.00% subordinated debentures			**50,000**	50,000
Capital lease obligation – Wisconsin Public Service Corporation			**73,585**	74,004
Less current portion			**(630)**	(419)
Long-term capital lease obligation			**72,955**	73,585
Long-term debt				
First mortgage bonds – Wisconsin Public Service Corporation				
Series	Year Due			
7.30%	2002		**50,000**	50,000
6.80%	2003		**50,000**	50,000
$6\frac{1}{8}$%	2005		**9,075**	9,075
6.90%	2013		**22,000**	22,000
8.80%	2021		**53,100**	53,100
$7\frac{1}{8}$%	2023		**50,000**	50,000
6.08%	2028		**50,000**	50,000
First mortgage bonds – Upper Peninsula Power Company				
Series	Year Due			
7.94%	2003		**15,000**	15,000
10.0%	2008		**3,000**	4,800
9.32%	2021		**18,000**	18,000
Unsecured senior notes – WPS Resource Corporation				
Series	Year Due			
7.00%	2009		**150,000**	150,000
Employee Stock Ownership Plan loan guarantees			**-**	2,224
Term loans – nonrecourse, secured by nonregulated assets			**102,742**	24,000
Notes payable to bank, secured by nonregulated plant			**19,342**	11,136
Senior secured note			**3,542**	3,722
Other long-term debt			**119**	142
Total			**595,920**	513,199
Unamortized discount and premium on bonds and debt securities, net			**(1,222)**	(1,339)
Total long-term debt			**594,698**	511,860
Less current portion			**(7,681)**	(943)
Net long-term debt			**587,017**	510,917
Total capitalization			**$1,303,917**	$1,221,995

The accompanying notes are an integral part of these statements.

Employee Russ Senso surveys fish near Wisconsin Public Service hydroelectric plants, ensuring hydro power is truly an environmentally-friendly energy resource from the fishes' perspective.

Consolidated Statements of Cash Flows

Year Ended December 31 *(Thousands)*	2000	1999	1998
Cash flows from operating activities			
Net income	$ 66,993	$ 59,565	$ 46,631
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and decommissioning	99,842	83,744	86,274
Gain on nuclear decommissioning trust	(10,771)	(3,941)	(3,258)
Amortization of nuclear fuel and other	19,746	14,949	16,257
Deferred income taxes	(15,030)	(12,624)	(11,940)
Investment tax credit restored	(1,785)	(1,402)	(2,311)
Allowance for equity funds used during construction	(1,712)	(716)	(173)
Gain on sale of property	(3,750)	-	-
Pension income	2,630	(5,604)	(9,669)
Postretirement funding	(2,602)	5,402	4,491
Unrealized gains and losses on nonregulated energy contracts	16,988	7,586	(6,380)
Other, net	5,903	17,908	3,469
Changes in			
Customer and other receivables	(185,515)	(15,149)	(21,106)
Accrued utility revenues	(21,616)	(4,358)	(3,425)
Fossil fuel inventory	6,535	(11,505)	(2,530)
Gas in storage	(36,631)	(8,549)	1,285
Miscellaneous assets	(39,044)	(16,713)	(2,367)
Accounts payable	230,874	(12,053)	25,743
Accrued taxes	8,363	7,006	(7,276)
Miscellaneous current and accrued liabilities	1,373	11,312	(4,004)
Net cash from operating activities	140,791	114,858	109,711
Cash flows from (used for) investing activities			
Construction of utility plant and nuclear fuel expenditures	(159,475)	(140,697)	(94,734)
Construction of nonregulated plant	(8,481)	-	-
Purchase of other property and equipment	(31,128)	(132,486)	(16,075)
Decommissioning funding	(8,831)	(9,180)	(17,239)
Proceeds from sale of property	31,337	-	-
Other	(15,569)	12,840	4,046
Net cash used for investing activities	(192,147)	(269,523)	(124,002)
Cash flows from (used for) financing activities			
Issuance of notes payable	-	34,350	196,353
Redemption of notes payable	-	(36,650)	(203,150)
Issuance of other long-term debt	87,351	174,433	50,233
Redemption of other long-term debt	(10,330)	(1,484)	(53,660)
Issuance of mandatorily redeemable trust preferred securities	-	-	50,000
Issuance of commercial paper	1,044,401	1,661,095	2,157,808
Redemption of commercial paper	(1,004,699)	(1,628,830)	(2,130,924)
Cash dividends on common stock	(53,938)	(53,018)	(50,985)
Issuance of common stock	-	8,970	-
Purchase of treasury and deferred compensation shares	(10,505)	(631)	(554)
Other	1,318	(157)	(2,191)
Net cash from financing activities	53,598	158,078	12,930
Net increase (decrease) in cash and equivalents	2,242	3,413	(1,361)
Cash and equivalents at beginning of year	10,547	7,134	8,495
Cash and equivalents at end of year	$ 12,789	$ 10,547	$ 7,134
Cash paid during year for			
Interest, less amount capitalized	$ 49,498	$ 34,106	$ 26,879
Income taxes	25,468	35,285	44,553
Preferred stock dividends of subsidiary	3,111	3,111	3,132

Supplemental schedule of noncash investing and financing activities for 1999 only *(thousands)*:

1. A capital lease obligation of $74,130 was incurred when Wisconsin Public Service entered into a long-term lease agreement for utility plant assets.
2. Net cash surrender value of a key executive life insurance policy of $11,787 was transferred from Wisconsin Public Service to WPS Resources.
3. Nonutility assets of $121 were transferred from Wisconsin Public Service to WPS Resources.

The accompanying notes are an integral part of these statements.

Note 1—Summary of Significant Accounting Policies

(a) Nature of Operations—WPS Resources Corporation is a holding company. Our primary wholly-owned subsidiary, Wisconsin Public Service Corporation, is an electric and gas utility. Wisconsin Public Service supplies and distributes electric power and natural gas in its franchised service territory in northeastern Wisconsin and an adjacent portion of the Upper Peninsula of Michigan. Our other wholly-owned utility subsidiary, Upper Peninsula Power Company, is an electric utility. Upper Peninsula Power supplies and distributes electric energy in the Upper Peninsula of Michigan. Another wholly-owned subsidiary, WPS Resources Capital Corporation, is a holding company for our nonregulated businesses, WPS Energy Services, Inc. and WPS Power Development, Inc. WPS Energy Services is a diversified energy supply and services company. WPS Power Development develops, owns, and operates, through its own subsidiaries, electric generation projects.

The term "utility" refers to the regulated activities of Wisconsin Public Service and Upper Peninsula Power, while the term "nonutility" refers to the activities of Wisconsin Public Service and Upper Peninsula Power which are not regulated. The term "nonregulated" refers to activities other than those of Wisconsin Public Service and Upper Peninsula Power.

(b) Use of Estimates—We prepare our financial statements in conformity with accounting principles generally accepted in the United States. We make estimates and assumptions that affect reported amounts. These estimates and assumptions include assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(c) Accounting for Price Risk Management—Effective January 1, 2001, WPS Resources adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," (Statement No. 133) as amended by Statements of Financial Accounting Standards Nos. 137 and 138. Statement No. 133 normalizes accounting and financial reporting standards for forward contracts, futures, options, and other derivative instruments, and related hedging activities. Statement No. 133 requires, in part, that we report all derivative instruments on the balance sheet as assets or liabilities at their fair value. The treatment of subsequent changes in fair value are recorded currently in earnings unless certain hedge accounting criteria are met or if the derivatives are subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (Statement 71).

Although all of WPS Resources' subsidiaries adopted Statement No. 133, instruments utilized by WPS Energy Services in connection with price risk management activities are accounted for using the mark-to-market method of accounting as prescribed by the Emerging Issues Task Force Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." In the first quarter of 2000, WPS Energy Services classified all of its unaffiliated energy contracts and gas in storage as trading operations. Under the mark-to-market method of accounting, the unrealized gains and losses on these contracts are recorded as Price Risk Management Assets and Liabilities on the balance sheet. Changes in the market value of these assets and liabilities and gas in storage are recorded in operations on the income statement and result primarily from changes in the valuation of the portfolio of contracts, newly originated transactions, and the timing of settlement relative to the receipt of cash for certain contracts. The market prices used to value these transactions reflect management's best estimate considering various factors including exchange and over-the-counter market closing quotations, time value, and volatility factors underlying the commitments. Contracts entered into with other subsidiaries at WPS Resources and the related hedged commitments are not classified as trading contracts and continue to be accounted for at cost.

(d) Income Taxes—We account for income taxes using the liability method as prescribed by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under the liability method, deferred income tax liabilities are established for all temporary differences in the book and tax basis of assets and liabilities based upon enacted tax laws and rates applicable to the periods in which the taxes become payable.

(e) Property, Plant, and Equipment—Utility plant is stated at the original cost of construction which includes an allowance for funds used during construction. The cost of renewals and betterments of units of property (as distinguished from minor items of property) is capitalized as an addition to the utility plant accounts. Except for land, no gain or loss is recognized in connection with ordinary retirements of utility property units. The utility charges the cost of units of property retired, sold, or otherwise disposed of, plus removal, less salvage, to the accumulated provision for depreciation. Maintenance, repair, replacement, and renewal costs associated with items not qualifying as units of property are part of operating expenses.

We capitalize certain costs related to software developed or obtained for internal use and amortize those costs to operating expense over the estimated useful life of the related software.

Nonutility property interest capitalization takes place during construction and gain and loss recognition occurs in connection with retirements. Nonregulated property, plant, and equipment are capitalized at original cost. Significant additions or improvements that extend asset lives are capitalized, while repairs and maintenance are charged to expense as incurred.

(f) Allowance for Funds Used During Construction—Approximately 50% of Wisconsin Public Service's retail jurisdictional construction work in progress expenditures are subject to allowance for funds used during construction. The Public Service Commission of Wisconsin is allowing accrual of allowance for funds used during construction on 100% of the Kewaunee plant's steam generator replacement project. For 2000, Wisconsin Public Service's retail rate allowance for funds used during construction was approximately 10.6%. Historically, Upper Peninsula Power's construction work in progress expenditures have not been subject to retail jurisdictional allowance for funds used during construction due to their small dollar amounts. We expect larger projects to occur in the future that will be subject to retail jurisdictional allowance for funds used during construction.

Wholesale jurisdictional electric allowance for funds used during construction is recorded on Wisconsin Public Service's and Upper Peninsula Power's construction work in progress at debt and equity percentages specified in the Federal Energy Regulatory Commission's

WPS Resources' Board member Dean Arganbright learns about the brighter side of bats at the Ducks Unlimited Great Outdoors Festival in Oshkosh, Wisconsin.

Uniform System of Accounts. For 2000, the allowance for funds used during construction wholesale rate was approximately 7.4% for Wisconsin Public Service and 8.9% for Upper Peninsula Power.

(g) Leases—Wisconsin Public Service accounts for the agreement to purchase power from De Pere Energy Center, LLC as a capital lease. On June 14, 1999, Wisconsin Public Service recorded a leased asset and a lease obligation equal to the present value of the minimum lease payments. The leased asset is depreciated over 25 years, the life of the contract.

(h) Depreciation—We record straight-line depreciation expense over the estimated useful life of utility property and include amounts for estimated removal and salvage. Depreciation rates for Wisconsin Public Service were approved by the Public Service Commission of Wisconsin effective January 1, 1999.

Depreciation rates for Upper Peninsula Power were approved by the Michigan Public Service Commission on January 1, 1994 and remain in effect through 2001. A new depreciation study will be filed with the Michigan Public Service Commission in early 2001. A final rate order is expected in 2001.

Depreciation for the Kewaunee plant is being accrued based on a 1997 Public Service Commission of Wisconsin order. The order allows for full cost recovery by the end of 2002. The Public Service Commission of Wisconsin rate order that became effective on January 1, 2001 includes a change in the methodology for the Kewaunee plant after the steam generators have been replaced. Under this order, existing net plant at January 1, 2001 will be recovered using a straight-line remaining life method, with full recovery to be realized by the end of April 2010. The cost of new steam generators, estimated to be in service by November 2001, will be recovered over an 8½ year period using the sum-of-years-digits method of depreciation.

Depreciation expense also includes accruals for nuclear decommissioning. These accruals are not included in the annual composite rates shown below. An explanation of this item is included in Note 1(j).

Annual Utility Composite Depreciation Rates	**2000**	1999	1998
Electric	**3.52%**	3.46%	3.52%
Gas	**3.26%**	3.23%	3.26%

Other nonutility property is depreciated using straight-line depreciation. Asset lives range from 3 to 20 years.

Our nonregulated subsidiaries compute depreciation using the straight-line method over the following estimated useful lives:

Structures	15 to 40 years
Equipment	5 to 35 years
Vehicles	5 years
Leasehold improvements	Life of the lease

(i) Nuclear Fuel—The quantity of heat produced for the generation of electric energy by the Kewaunee plant is the basis for the amortization of the costs of nuclear fuel to electric production fuel expense including an amount for ultimate disposal. Recovery of these costs occurs currently from customers in rates. The ultimate storage of fuel is handled by the United States Department of Energy pursuant to a contract required by the Nuclear Waste Act of 1982. The Department of Energy receives quarterly payments for the storage of fuel based on generation. Spent nuclear fuel storage space is provided at the Kewaunee plant on an interim basis. Expenses associated with interim spent fuel storage at the Kewaunee plant are recognized as current operating costs. With minor plant modifications planned for 2001, the Kewaunee plant should have sufficient fuel storage capacity until the end of its useful life in 2013. At December 31, 2000, the accumulated provision for nuclear fuel totaled $167.7 million compared with $162.7 million at December 31, 1999.

(j) Nuclear Decommissioning—Our share of nuclear decommissioning costs to date has been accrued over the estimated service life of the Kewaunee plant, recovered currently from customers in rates, and deposited in external trusts. Such costs totaled $8.9 million in 2000, $9.2 million in 1999, and $17.2 million in 1998. The 1998-2000 funding levels used a recovery period ending in 2002 as described in Note 1(h), Depreciation. Beginning in 2001, the Public Service Commission of Wisconsin has authorized use of a funding period ending in 2010. As a result of this extension, the contributions for 2001 will be $2.6 million.

Based on the standard cost escalation assumptions required by a July 1994 Public Service Commission of Wisconsin order, the undiscounted amount of Wisconsin Public Service's share of decommissioning costs forecasted to be expended between the years 2013 and 2043 is $675.2 million under the revised funding plan which became effective in 1999. In developing the funding plan, a long-term after-tax earnings rate of approximately 5.3% was assumed.

Wisconsin Public Service's share of the Kewaunee plant decommissioning based on a 41.2% ownership interest is estimated to be $211.4 million in current dollars based on a site-specific study. The study, which was performed in 1998, uses immediate dismantlement as the method of decommissioning and assumes shutdown in 2013. As of December 31, 2000, the market value of the external nuclear decommissioning trusts totaled $207.2 million.

Depreciation expense includes future decommissioning costs collected in customer rates and an offsetting charge for earnings from external trusts. As of December 31, 2000, the accumulated provision for depreciation and decommissioning included accumulated provisions for decommissioning totaling $207.2 million. Realized trust earnings totaled $10.8 million in 2000, $4.6 million in 1999, and $3.3 million in 1998. Unrealized gains, net of tax, in external trusts are reflected as an increase to the decommissioning reserve, since decommissioning expense will be recognized as the gains are realized, in accordance with regulatory requirements.

Investments in the nuclear decommissioning trusts are recorded at market value. Investments at December 31, 2000, consisted of 51.4% equity securities and 48.6% fixed income securities. The investments classified as utility plant are presented net of related income tax effects on unrealized gains and represent the amount of assets available to accomplish decommissioning. The nonqualified trust investments designated to pay income taxes when unrealized gains become realized are classified as other assets. An offsetting regulatory liability reflects the expected reduction in future rates as unrealized gains in the nonqualified trust are realized. Information regarding the cost and market value of the external nuclear decommissioning trusts is set forth on the following page:

2000 Security Type *(Thousands)*	**Market**	**Cost**	**Unrealized Gain (Loss)**
Fixed income	**$100,702**	**$ 98,898**	**$ 1,804**
Equity	**106,522**	**61,959**	**44,563**
Balance at December 31	**$207,224**	**$160,857**	**$46,367**

1999 Security Type *(Thousands)*	Market	Cost	Unrealized Gain (Loss)
Fixed income	$ 77,156	$ 78,394	$(1,238)
Equity	120,896	62,861	58,035
Balance at December 31	$198,052	$141,255	$56,797

(k) Cash and Equivalents—We consider short-term investments with an original maturity of three months or less to be cash equivalents.

(l) Revenue and Customer Receivables—We accrue estimated amounts for electric and gas service rendered but not billed. Approximately 8.8% of our total revenue is from companies in the paper products industry.

Wisconsin Public Service and Upper Peninsula Power use automatic fuel adjustment clauses for the Federal Energy Regulatory Commission wholesale-electric and the Michigan Public Service Commission retail-electric portions of the business.

The Wisconsin retail-electric portion of Wisconsin Public Service's business uses a "cost variance range" approach, based on a specific estimated fuel cost for the forecast year. If Wisconsin Public Service's actual fuel costs fall outside this range, a hearing can be held resulting in an adjustment to future rates.

The Public Service Commission of Wisconsin has approved a modified one-for-one gas cost recovery plan for Wisconsin Public Service. Implementation of the modified one-for-one gas cost recovery plan began in January 1999. This plan allows Wisconsin Public Service to pass changes in the cost of gas purchased from its suppliers on to system gas customers, subject to regulatory review.

Billings to Upper Peninsula Power's customers under the Michigan Public Service Commission's jurisdiction include base rate charges and a power supply cost recovery factor. Upper Peninsula Power receives Michigan Public Service Commission approval each year to recover projected power supply costs by establishment of power supply cost recovery factors. Annually, the Michigan Public Service Commission reconciles these factors to actual costs and permits 100% recovery of allowed power supply costs. Upper Peninsula Power defers any over or under recovery on the balance sheet. The deferrals are relieved with additional billings or refunds.

Wisconsin Public Service and Upper Peninsula Power are required to provide service and grant credit to customers within their service territories. The two companies continually review their customers' creditworthiness and obtain deposits or refund deposits accordingly. Wisconsin Public Service is precluded from discontinuing service to residential customers during certain periods of the year.

At WPS Power Development, electric power revenues related to fixed-price contracts are recognized at the lower of amounts billable under the contract or an amount equal to volume of the capacity made available or the energy delivered during the period multiplied by the estimated average revenue per kilowatt-hour per the term of the contract.

Under floating-price contracts, electric power revenues are recognized when capacity is provided or energy is delivered.

WPS Energy Services accrues revenues in the month that energy is delivered and/or services are rendered.

(m) Gas in Storage—Average cost is used to value gas in storage used for non-trading activities. Gas in storage used for trading activities is recorded at fair market value. Approximately 67% of the total gas in storage at December 31, 2000 was recorded at fair market value. In 1999, none of the gas in storage was recorded at fair market value.

(n) Regulatory Assets and Liabilities—Wisconsin Public Service and Upper Peninsula Power are subject to the provisions of Statement No. 71. Regulatory assets represent probable future revenue associated with certain incurred costs. Revenue will be recovered from customers through the ratemaking process. Regulatory liabilities represent amounts that are refundable in future customer rates.

(o) Stock Options—We issue options under our stock option plans and account for them using the intrinsic value based method described in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (Opinion 25). The intrinsic value based method only records compensation expense for the excess of the quoted market price of the stock at the measurement date over the amount an employee must pay to acquire the stock.

(p) Investments and Other Assets—WPS Resources follows cost, equity, and consolidation methods of accounting for its investments. Unless circumstances are present that lead to a different conclusion, the following criteria are used to determine which method of accounting is applied. The cost method of accounting is used for investments where WPS Resources owns less than 20% of the voting stock of the company, unless other evidence indicates we have significant influence over the operating and financial policies of the investee. If more than 20% of the voting stock is owned, we use the equity method of accounting. This decision is made presuming we have significant influence. When we own 50% or more of the voting stock, the subsidiary is consolidated into our financial statements, unless our control is temporary. All significant intercompany transactions and accounts are eliminated. If a minority owner's equity is reduced to zero, it is our policy to record 100% of the subsidiary's losses until the minority owner makes capital contributions or commitments to fund its share of the operating costs.

(q) Reclassifications—We reclassified certain prior year financial statement amounts to conform to current year presentation.

(r) Retirement of Debt—Amortization of gains or losses resulting from the settlement of long-term utility debt obligations occurred concurrently with rate recovery as required by regulators.

Kerry Mommaerts (left) and Leeann Heisler (right), from Wisconsin Public Service's Weston Plant, "Fill a Backpack, Fill a Need" for eager students at the start of a new school year.

Note 2—Jointly-Owned Utility Facilities

Information regarding Wisconsin Public Service's share of major jointly-owned electric-generating facilities in service at December 31, 2000 is set forth below:

(Thousands, except for percentages)	West Marinette Unit No. 33	Columbia Energy Center	Edgewater Unit No. 4	Kewaunee Nuclear Power Plant
Ownership	68.0%	31.8%	31.8%	41.2%
Plant capacity (Megawatts)	77.0	322.6	105.8	205.2
Utility plant in service	$17,497	$118,663	$22,695	$135,861
Accumulated depreciation	$ 5,169	$ 73,141	$14,697	$115,131
In-service date	1993	1975 and 1978	1969	1974

Wisconsin Public Service's share of direct expenses for these plants is included in the corresponding operating expenses in the consolidated statements of income. Wisconsin Public Service has supplied its own financing for all jointly-owned projects.

Our ownership of the Kewaunee plant could change based on commitments we have made. See Note 13 for additional information.

Note 3—Capital Lease

In June 1999, Phase I of a 25-year power purchase contract with De Pere Energy Center, LLC became effective. We have accounted for the contract as a capital lease. In Phase I, an initial asset and corresponding obligation were recorded at $74.1 million. The asset and obligation represent the present value of minimum lease payments. Excluded from the payments are executory costs such as insurance, maintenance, and taxes. When the contract expires in 2024, Wisconsin Public Service may renew the contract for two additional five-year periods with proper notice. We are amortizing the leased asset on a straight-line basis over the original 25-year term of the contract. The following is a schedule of future minimum lease payments, excluding executory costs, under the De Pere Energy Center capital lease:

Year ending December 31 *(Thousands)*	
2001	$ 5,048
2002	5,234
2003	5,426
2004	5,625
2005	5,831
Later years	102,550
Net minimum lease payments	129,714
Less: Amount representing interest	(56,129)
Present value of net minimum lease payments	$ 73,585

Note 4—Short-Term Debt and Lines of Credit

To provide short-term borrowing flexibility and security for commercial paper outstanding, WPS Resources and its subsidiaries maintain bank lines of credit. These lines of credit require a fee.

The information in the table below relates to short-term debt and lines of credit for the years indicated:

(Thousands, except for percentages)	**2000**	1999	1998
As of end of year			
Commercial paper outstanding	**$119,557**	$ 79,855	$ 47,590
Average discount rate on outstanding commercial paper	**6.63%**	6.55%	4.84%
Short-term notes payable outstanding	**$ 10,000**	$ 10,403	$ 12,703
Average interest rate on short-term notes payable	**6.73%**	8.10%	5.88%
Available (unused) lines of credit	**$132,000**	$127,000	$ 62,102
For the year			
Maximum amount of short-term debt	**$139,548**	$218,545	$102,033
Average amount of short-term debt	**$ 65,558**	$ 68,620	$ 50,939
Average interest rate on short-term debt	**6.39%**	5.34%	5.93%

Note 5—Long-Term Debt

At our utility subsidiaries, plant assets secure first mortgage bonds. In December 1998, Wisconsin Public Service issued $50.0 million of 6.08% senior notes due in 2028 secured by a pledge of first mortgage bonds. The 1998 notes become unsecured if Wisconsin Public Service retires all of its outstanding first mortgage bonds.

WPS Resources and Wisconsin Public Service are not required to make sinking fund payments on outstanding debt. Upper Peninsula Power, however, is required to make bond sinking fund payments for its outstanding first mortgage bonds.

A schedule of all debt payments, including bond maturities and excluding capital lease payments, for WPS Resources is as follows:

Year ending December 31 *(Thousands)*	
2001	$ 7,681
2002	55,834
2003	82,118
2004	15,104
2005	16,403
Future years	418,780
Total payments	$595,920

WPS New England Generation, Inc. and WPS Canada Generation, Inc., subsidiaries of WPS Power Development, make semiannual installment payments on a $24.0 million nonrecourse term loan obtained in 1999 for financing the purchase of generation assets in Maine. The assets purchased secure the loan.

In April 2000, Sunbury Generation, LLC, an indirect subsidiary of WPS Power Development, obtained $83.7 million of nonrecourse financing that is secured by the Sunbury generation plant. Quarterly payments will be made in relation to this financing.

As of December 31, 2000, WPS Power Development drew $11.0 million against its revolving credit note of $12.5 million, which is secured by the assets of the Stoneman plant. The note, which is guaranteed by WPS Resources, is due in 2003.

Note 6—Company-Obligated Mandatorily Redeemable Trust Preferred Securities of Subsidiary Trust

On July 30, 1998, WPSR Capital Trust I, a Delaware business trust, issued $50.0 million of trust preferred securities to the public. WPS Resources owns all of the outstanding trust common securities of the Trust, and the only asset of the Trust is $51.5 million of subordinated debentures that we issued. The debentures are due on June 30, 2038 and bear interest at 7% per year. The terms and interest payments on the debentures correspond to the terms and distributions on the trust preferred securities. We have consolidated the preferred securities of the Trust into our financial statements. We reflect the interest payments on the debentures as "Distributions - preferred securities of subsidiary trust." These payments are tax deductible by WPS Resources.

We may defer interest payments on the debentures for up to 20 consecutive quarters. This would require the deferral of distributions on the trust preferred securities as well. If we would defer interest payments, interest and distributions would continue to accrue. We would also accrue compounding interest on the deferred amounts. We may redeem all or part of the debentures after July 30, 2003. This would require the Trust to redeem an equal amount of trust securities at face value plus any accrued interest and unpaid distributions. We entered into a limited guarantee of payment of distributions, redemption payments, and liquidation payments with respect to the trust preferred securities. This guarantee, together with our obligations under the debentures, and under other related documents, provides a full and unconditional guarantee by us of amounts due on the outstanding trust preferred securities.

Note 7—Common Equity

During 2000, we purchased common stock on the open market to meet annual requirements of our Stock Investment Plan. We also purchased stock on the open market in connection with our stock-based employee benefit plans. Effective January 2001, we began issuing new stock for our Stock Investment Plan and for some of our stock-based employee benefit plans.

In December 1996, we adopted a Shareholder Rights Plan. The plan is designed to enhance the ability of the Board of Directors to protect shareholders and the company if efforts are made to gain control of our company in a manner that is not in our best interests or the best interests of our shareholders. The plan gives our existing shareholders, under certain circumstances, the right to purchase stock at a discounted price. The rights expire on December 11, 2006.

At December 31, 2000, we had $347.6 million of retained earnings available for dividends.

Earnings per share is computed by dividing net income available for the period by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income available for the period by the weighted average number of shares of common stock outstanding

Louie the Lightning Bug could pop up anywhere! By teaching electric safety and staying in the hearts and minds of our children, he helps us protect our most precious resource of all.

during the period adjusted for the exercise and/or conversion of all potentially dilutive securities. Such dilutive items include in-the-money stock options and deferred compensation plan shares. The calculation of diluted earnings per share for the years shown excludes deferred compensation plan shares that had an anti-dilutive effect. The following table reconciles the computation of basic and diluted earnings per share:

Reconciliation of Earnings Per Share

(Thousands, except share amounts)	**2000**	1999	1998
Net income	**$66,993**	$59,565	$46,631
Basic weighted average shares	**26,463**	26,644	26,511
Incremental issuable shares	**11**	–	10
Diluted weighted average shares	**26,474**	26,644	26,521
Basic earnings per share	**$2.53**	$2.24	$1.76
Diluted earnings per share	**$2.53**	$2.24	$1.76

Note 8—Stock Option Plans

In 1999, shareholders approved the WPS Resources Corporation 1999 Stock Option Plan for certain management personnel. In December 1999, the Board of Directors approved the WPS Resources Corporation 1999 Non-Employee Directors Stock Option Plan. Opinion 25 and related interpretations are used to account for these plans. Accordingly, no compensation costs have been recognized for these plans in 2000 or 1999. Had compensation cost been determined consistent with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation," net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(Thousands, except per share amounts)	**2000**	1999	1998
Net income			
As reported	**$66,993**	$59,565	$46,631
Pro forma	**66,830**	56,450	46,631
Basic earnings per share			
As reported	**$2.53**	$2.24	$1.76
Pro forma	**$2.53**	$2.23	$1.76
Diluted earnings per share			
As reported	**$2.53**	$2.24	$1.76
Pro forma	**$2.52**	$2.23	$1.76

Under the provisions of the WPS Resources Corporation 1999 Stock Option Plan (Employee Plan), the number of shares for which options may be granted may not exceed 1.5 million and no single employee can be granted options for more than 0.4 million shares during any five-year period. Options are granted by the Compensation and Nominating Committee of the Board of Directors and may be granted at any time. No options may be granted after February 10, 2004, under this plan. All options have a ten-year life. The exercise price of each option is equal to the fair market value of the stock on the date the option was granted. Options were granted on May 6, 1999, March 13, 2000, and December 14, 2000 having exercise prices of $29.875, $23.1875, and $34.75, respectively. One-fourth of the options granted will become vested and exercisable each year following the year of grant on the anniversary date of the grant.

Under the provisions of the WPS Resources Corporation 1999 Non-Employee Directors Stock Option Plan (Director Plan), the number of shares for which options may be granted under the plan may not exceed 100,000. Options are granted at the discretion of the Board of Directors. No options may be granted under this plan after December 31, 2008. All options have a ten-year life, but may not be exercised until one year after the date of grant. Options granted under this plan are immediately vested. The exercise price of each option is equal to the fair market value of the stock on the date the options were granted. Options were granted on December 9, 1999 and February 10, 2000, with exercise prices of $25.4375 and $25.6875, respectively.

The number of shares subject to each option plan and each outstanding option and option exercise prices are subject to adjustment in the event of any stock split, stock dividend, or other transaction affecting our outstanding common stock.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model assuming:

	WPS Resources 2000 Stock Option Plan	WPS Resources 2000 Non-Employee Directors Stock Option Plan
Annual dividend yield		
May 6, 1999	6.63%	
December 31, 1999		7.94%
March 13, 2000	8.71%	
December 14, 2000	5.93%	
Expected volatility		
May 6, 1999	14.00%	
December 31, 1999		14.90%
March 13, 2000	15.50%	
December 14, 2000	20.40%	
Risk-free interest rate		
May 6, 1999	5.52%	
December 31, 1999		6.14%
March 13, 2000	6.36%	
December 14, 2000	5.23%	
Expected life (in years)	10	10

A summary of the status of the stock option plans as of December 31, 2000 is presented below:

Options	Shares		Weighted-Average Exercise Price
Options outstanding at beginning of year			
Employee plan	478,000		$29.8750
Director plan	21,000		25.4375
Granted			
Employee plan	244,416		32.9997
Director plan	3,000		25.6875
Exercised	–		–
Forfeited	–		–
Outstanding at end of year			
Employee plan	722,416		30.9322
Director plan	24,000		25.4688
Options exercisable at year-end			
Employee plan	119,500		29.8750
Director plan	21,000		25.4375
Weighted-average fair value of options granted during the year			
Employee plan		$3.87	
Director plan		$1.08	

Wisconsin Public Service employees volunteer their time to install lighting for a Mosinee, Wisconsin, ball field. We hope this field becomes somebody's field of dreams.

A summary of the status of the stock option plans as of December 31, 1999 is presented below:

Options	Shares		Weighted-Average Exercise Price
Options outstanding at beginning of year	–		$ –
Granted			
Employee plan	478,000		29.8750
Director plan	21,000		25.4375
Exercised	–		–
Forfeited	–		–
Outstanding at end of year			
Employee plan	478,000		29.8750
Director plan	21,000		25.4375
Options exercisable at year-end	–		–
Weighted-average fair value of options granted during the year			
Employee plan		$2.04	
Director plan		$1.38	

The 722,416 options outstanding for the Employee Plan have exercise prices between $23.1875 and $34.7500 and are summarized below:

Options Outstanding

Exercise Prices	Options Outstanding At December 31, 2000	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In Years)
$23.1875	37,000	$23.1875	9
29.8750	478,000	29.8750	9
34.7500	207,416	34.7500	10

The 119,500 stock options exercisable under the Employee Plan all have an exercise price of $29.8750 and a remaining life of 9 years.

The Director Plan has 24,000 options outstanding at year-end. All options have an exercise price of approximately $25.50 with a remaining contractual life of approximately 9 years. A total of 21,000 of these options are exercisable at year-end, with an exercise price of $25.4375 and a remaining contractual life of 9 years.

Note 9—Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash, Short-Term Investments, Energy Conservation Loans, Notes Payable, and Outstanding Commercial Paper: The carrying amount approximates fair value due to the short maturity of those investments and obligations.

Nuclear Decommissioning Trusts: The value of nuclear decommissioning trust investments is recorded at market value, net of taxes payable on unrealized gains and losses.

Long-Term Debt, Preferred Stock, and Employee Stock Ownership Plan Loan Guarantees: The fair value of long-term debt, preferred stock, and Employee Stock Ownership Plan loan guarantees are estimated based on the quoted market price for the same or similar issues or on the current rates offered to WPS Resources for debt of the same remaining maturity.

The estimated fair values of our financial instruments as of December 31 were:

(Thousands)	**2000**		1999	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents	**$ 12,789**	**$ 12,789**	$ 10,547	$ 10,547
Energy conservation loans	**3,509**	**3,509**	5,198	5,198
Nuclear decommissioning trusts - utility plant	**207,224**	**207,224**	198,052	198,052
Nuclear decommissioning trusts - other assets	**18,338**	**18,338**	19,129	19,129
Notes payable	**10,000**	**10,000**	10,403	10,403
Commercial paper	**119,557**	**119,557**	79,855	79,855
Employee Stock Ownership Plan loan guarantees	**-**	**-**	2,224	2,249
Trust preferred securities	**50,000**	**49,000**	50,000	40,260
Long-term debt	**595,920**	**601,912**	513,199	497,369
Preferred stock	**51,168**	**41,902**	51,193	47,881
Electric and gas commodity instruments	**16,987**	**16,987**	(692)	1,265

Note 10—Price Risk Management Activities

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" amended this statement on June 15, 2000. WPS Resources adopted the statements as of January 1, 2001. Statement No. 133 requires that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

WPS Resources has concluded that at its utility subsidiaries and WPS Power Development the majority of its contracts for the purchase, sale, and storage of natural gas, electricity, coal, and nuclear fuel do not meet the definition of a derivative. Therefore, the majority of such contracts at January 1, 2001 are not subject to the accounting requirements of the new statement. Wisconsin Public Service has entered into a limited number of commodity contracts to service its customers that meet the definition of a derivative under Statement No. 133. Most of these contracts are gas purchase agreements with minimal fixed commodity price components. Management believes any gains or losses resulting from the eventual settlement of the gas purchase agreements will be collected from or refunded to customers under our utilities' tariffs with the Public Service Commission of Wisconsin and Michigan Public Service Commission. The derivative amounts to be recorded as a result of these contracts will be offset with a corresponding regulatory asset and liability pursuant to Statement No. 71. A limited number of other financial derivative instruments are used to mitigate commodity price risk related to fuel oil held in inventory. WPS Resources has designated these instruments as fair value hedges of the inventory. Future changes in the fair market values of these derivatives will be recorded directly in earnings with offsetting changes in the value of the inventory also recorded directly in earnings. As of January 1, 2001, we have recorded a derivative asset and a regulatory liability of approximately $17 million related to our utility subsidiaries. The cumulative effect on income was not significant.

WPS Energy Services uses derivative financial and commodity instruments to reduce market risk associated with changing prices of natural gas and electricity sold at firm prices to customers. WPS Energy Services also utilizes derivatives to manage market risk associated with anticipated energy purchases as well as trading activities. Derivatives may include futures and forward contracts, price swap agreements, and call and put options. As a result of changes in strategic focus that resulted in a shift in customer mix, WPS Energy Services in applying Emerging Issues Task Force Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (Issue 98-10) concluded in the first quarter of 2000 that all of its activities should be classified as trading activities. Issue 98-10 requires energy trading contracts to be recorded at fair value on the balance sheet, with changes in fair value included in earnings. Because WPS Energy Services marks to market its energy trading contracts in accordance with Issue 98-10 and does not anticipate designating any derivative contracts as hedges for accounting purposes, the adoption of Statement No. 133 is not expected to have a material impact at WPS Energy Services.

Shawn Puzen, from Wisconsin Public Service, uses equipment to hear the echolocation calls of bats near our wind farm in Kewaunee County, Wisconsin. He's working to ensure the bats aren't harmed by the turbines.

Note 11—Employee Benefit Plans

WPS Resources has non-contributory retirement plans covering substantially all employees under which the company may make annual contributions to an irrevocable trust. We established the plans to provide retired employees, who meet conditions relating to age and length of service, with a monthly payment. Wisconsin Public Service administers and maintains the plans. These plans are fully funded and no contributions were made to them in 2000, 1999, or 1998.

WPS Resources also currently offers medical, dental, and life insurance benefits to employees and their dependents. We expense these items for active employees as incurred. We fund benefits for retirees through irrevocable trusts as allowed for income tax purposes. Wisconsin Public Service and Upper Peninsula Power expensed and recovered through customer rates the net periodic benefit cost. Our nonregulated subsidiaries expensed funded amounts. Our non-administrative plan is a collectively bargained plan and, therefore, is tax exempt. The investments in the trust covering administrative employees are subject to federal unrelated business income taxes at a 39.6% tax rate.

All pension costs and postretirement plan costs are accounted for under Statements of Financial Accounting Standards Nos. 87 and 106, "Employers' Accounting for Pensions" and "Employers' Accounting for Postretirement Benefits Other Than Pensions," respectively. The standards require the company to accrue the cost of these benefits as expense over the period in which the employee renders service. The transition obligation for current and future retirees is recognized over 20 years beginning in 1993.

The following tables provide a reconciliation of the changes in the plan's benefit obligations and fair value of assets over the three one-year periods ending December 31, 2000, 1999, and 1998, and a statement of the funded status as of December 31 for each year:

(Thousands)	**2000**	1999	1998
Reconciliation of benefit obligation - pension			
Obligation at January 1	**$396,651**	$399,364	$350,669
Service cost	**10,216**	10,904	9,014
Interest cost	**31,492**	27,524	25,264
Plan amendments	**56,552**	3,956	5,762
Actuarial (gain) loss	**2,224**	(31,515)	26,085
Acquisitions	**-**	4,863	-
Benefit payments	**(19,429)**	(18,445)	(17,430)
Curtailments	**7,182**	-	-
Obligation at December 31	**$484,888**	$396,651	$399,364
Reconciliation of fair value of plan assets - pension			
Fair value of plan assets at January 1	**$654,251**	$610,483	$537,756
Actual return on plan assets	**41,243**	57,984	89,618
Employer contributions	**-**	-	539
Acquisitions	**-**	4,229	-
Benefit payments	**(19,429)**	(18,445)	(17,430)
Fair value of plan assets at December 31	**$676,065**	$654,251	$610,483
Funded status at December 31	**$191,177**	$257,599	$211,119
Unrecognized transition (asset) obligation	**(6,097)**	(9,890)	(13,467)
Unrecognized prior-service cost	**64,377**	21,242	19,336
Unrecognized (gain) loss	**(186,465)**	(204,057)	(156,972)
Net prepaid benefit cost	**$ 62,992**	$ 64,894	$ 60,016

(Thousands)	2000	1999	1998
Reconciliation of benefit obligation - other			
Obligation at January 1	**$135,211**	$138,815	$127,705
Service cost	**2,757**	4,632	3,874
Interest cost	**7,769**	9,410	9,126
Plan amendments	**(16,755)**	-	-
Actuarial (gain) loss	**(19,026)**	(13,835)	2,599
Acquisitions adjustments	**(1,323)**	2,174	-
Benefit payments	**(6,033)**	(5,985)	(4,489)
Obligation at December 31	**$102,600**	$ 135,211	$138,815
Reconciliation of fair value of plan assets - other			
Fair value of plan assets at January 1	**$149,742**	$ 139,841	$121,930
Actual return on plan assets	**7,872**	15,226	21,161
Employer contributions	**715**	660	1,239
Benefit payments	**(6,033)**	(5,985)	(4,489)
Fair value of plan assets at December 31	**$152,296**	$ 149,742	$139,841
Funded status at December 31	**$ 49,696**	$ 14,530	$ 1,026
Unrecognized transition (asset) obligation	**15,724**	36,605	39,434
Unrecognized prior-service cost	**(14,107)**	3,935	4,259
Unrecognized (gain) loss	**(96,906)**	(104,989)	(87,011)
Net accrued benefit liability	**$(45,593)**	$ (49,919)	$(42,292)

We reduced the net amounts recognized for 1998 pension benefits to account for an additional unrecognized regulatory liability related to pension costs. The entire regulatory liability was recognized by year-end 1998.

The following table provides the components of net periodic benefit cost for the plans for fiscal years 2000, 1999, and 1998:

(Thousands)	2000	1999	1998
Net periodic benefit cost - pension			
Service cost	**$10,216**	$10,904	$ 9,014
Interest cost	**31,492**	27,524	25,264
Expected return on plan assets	**(46,331)**	(42,414)	(38,282)
Amortization of transition asset	**(3,576)**	(3,576)	(3,576)
Amortization of prior-service cost	**4,661**	2,050	1,950
Amortization of net loss	**(2,688)**	-	(507)
Net periodic benefit cost	**$(6,226)**	$(5,512)	$(6,137)
Curtailment loss	**8,756**	-	-
Regulatory asset offset	**(8,121)**	-	-
Net periodic benefit cost after curtailments	**$(5,591)**	$(5,512)	$(6,137)
Net periodic benefit cost - other			
Service cost	**$ 2,757**	$ 4,632	$ 3,874
Interest cost	**7,769**	9,410	9,126
Expected return on plan assets	**(9,289)**	(8,302)	(7,356)
Amortization of transition obligation	**1,804**	2,828	2,852
Amortization of prior-service cost	**(700)**	324	324
Amortization of net gain	**(4,646)**	(2,780)	(2,692)
Net periodic benefit cost	**$(2,305)**	$ 6,112	$ 6,128

Blake Goddard of FSG Energy Services (a division of WPS Energy Services) shares the joy of reading during a literacy campaign in Ohio.

During 2000, WPS Resources made substantial changes to the administrative employees' portion of the pension and postretirement benefit plans. Effective January 1, 2001, the administrative employees' pension plan was changed to a pension equity plan with a lump sum distribution option for all future retirees. Additionally, all future administrative retirees will no longer be given subsidized postretirement medical and dental coverage. Due to employees who waited until 2001 to retire to take advantage of the new plan benefits and various reorganizations including the formation of Nuclear Management Company, a significant number of employees are leaving our pension plan in early 2001. This requires curtailment accounting for the year 2000 under Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." Most of the 2000 curtailment loss was deferred as a regulatory asset.

The assumptions used in measuring WPS Resources' benefit obligation are shown in the following table:

	2000	1999	1998
Weighted average assumptions as of December 31 - pension			
Discount rate	**7.50%**	7.50%	6.75%
Expected return on plan assets	**8.75%**	8.75%	8.75%
Rate of compensation increase	**5.50%**	5.50%	5.50%
Weighted average assumptions as of December 31 - other			
Discount rate	**7.50%**	7.50%	6.75%
Expected return on plan assets	**8.75%**	8.75%	8.75%

For 2000, we assumed health care cost trend rates of 7%, decreasing to 5% by the year 2006. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effects:

(Thousands)	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ 1,348	$ (1,243)
Effect on the health care component of the accumulated postretirement benefit obligation	$14,364	$(11,682)

Wisconsin Public Service has an Employee Stock Ownership Plan and Trust that held 1,868,859 shares of WPS Resources common stock (market value of approximately $68.8 million) at December 31, 2000. The Employee Stock Ownership Plan also had a loan guaranteed by Wisconsin Public Service and secured by common stock which was paid off in June of 2000. The company had been paying principal and interest on the loan using contributions from Wisconsin Public Service and dividends on our common stock held by the Employee Stock Ownership Plan. The Employee Stock Ownership Plan allocated shares to participants as the loan was repaid. Tax benefits from dividends paid to the Employee Stock Ownership Plan are recognized as a reduction in Wisconsin Public Service's cost of providing service to customers. The Public Service Commission of Wisconsin has allowed Wisconsin Public Service to include in cost of service an additional employer contribution to the plan. The net effect of the tax benefits and of the employer contribution is an approximately equal sharing of the tax benefits of the program between customers and employees.

Note 12—Income Taxes

WPS Resources is refunding to customers taxes provided in prior years at rates greater than current rates prospectively as the temporary differences reverse. The regulatory liability for these refunds totaled $25.2 million as of December 31, 2000 and $29.1 million as of December 31, 1999, respectively.

We recognized a deferred tax asset of approximately $11.0 million for tax credits that will be carried forward to reduce the regular tax liability in future years. In addition, as of December 31, 2000 and 1999, we had the following significant temporary differences that created deferred tax assets and liabilities:

(Thousands)	**2000**	1999
Deferred tax assets		
Plant related	**$ 72,088**	$ 72,077
Customer advances	**12,423**	11,512
Capital losses/state net operating losses	**6,520**	3,368
Deferred tax credit carryforward	**11,016**	–
Environmental cleanup	**3,337**	3,835
Employee benefits	**35,007**	32,486
Other	**1,677**	5,131
Total	**$142,068**	$128,409
Deferred tax liabilities		
Plant related	**$200,251**	$201,826
Demand-side management expenditures	**4,688**	7,043
Employee benefits	**31,288**	26,442
Other	**6,304**	4,190
Total	**$242,531**	$239,501
Net deferred tax liabilities	**$100,463**	$111,092

We are amortizing previously deferred investment tax credits as a reduction in income tax expense over the life of the related utility plant. Income tax expense decreased in 2000 primarily due to increased utilization of federal tax credits. Income tax expense is comprised of the following components:

(Thousands, except for percentages)	**2000**		1999		1998	
	Rate	**Amount**	Rate	Amount	Rate	Amount
Statutory federal income tax	**35.0%**	**$26,637**	35.0%	$32,346	35.0%	$25,623
State income taxes, net	**5.5**	**4,162**	5.0	4,611	5.9	4,344
Investment tax credit restored	**(2.3)**	**(1,785)**	(1.9)	(1,789)	(2.6)	(1,924)
Rate difference on reversal of income tax temporary differences	**(2.1)**	**(1,584)**	(1.6)	(1,461)	(2.0)	(1,461)
Dividends paid to Employee Stock Ownership Plan	**(0.9)**	**(648)**	(1.5)	(1,349)	(1.9)	(1,414)
Federal tax credits	**(24.1)**	**(18,324)**	(1.6)	(1,520)	(1.0)	(751)
Other differences, net	**(3.2)**	**(2,453)**	(1.2)	(1,097)	(1.4)	(972)
Effective income tax	**7.9%**	**$ 6,005**	32.2%	$29,741	32.0%	$23,445
Current provision						
Federal		**$ 5,938**		$33,788		$29,492
State		**8,569**		9,436		7,779
Total current provision		**14,507**		43,224		37,271
Deferred benefit		**(6,717)**		(11,694)		(11,902)
Investment tax credit restored, net		**(1,785)**		(1,789)		(1,924)
Total income tax expense		**$ 6,005**		$29,741		$23,445

Sue Selner, a Wisconsin Public Service employee and Lions Club member, helps screen children's vision at a local elementary school.

Note 13—Commitments and Contingencies

Coal Contracts

To ensure a reliable, low-cost supply of coal, Wisconsin Public Service entered into a long-term contract that has take-or-pay obligations totaling $89.2 million from 2001 through 2016. The obligations are subject to force majeure provisions which provide Wisconsin Public Service other options if the specified coal does not meet emission limits that may be mandated in future legislation. We believe that any amounts paid under the take-or-pay obligations described above would be considered costs of service subject to recovery in customer rates.

Purchased Power

Wisconsin Public Service has several take-or-pay contracts for either capacity or energy related to purchased power. These contracts total $87.2 million through April 2003. We expect to recover these costs in future customer rates.

Long-Term Power Supply

In November 1995, Wisconsin Public Service signed a 25-year agreement to purchase power from De Pere Energy Center, LLC, an independent power producer, that built a cogeneration facility and is selling electrical power to Wisconsin Public Service. Phase I of the project went into operation in June of 1999 and is accounted for as a capital lease. Phase II is currently projected to be operational within five years of the start of Phase I. When Phase II becomes operational, Wisconsin Public Service will record an additional utility plant asset of approximately $80.0 million. See Note 3, Capital Lease, for more detail.

Natural Gas Costs

Wisconsin Public Service has natural gas supply and transportation contracts that require total estimated demand payments of $72.9 million through October 2010.

Wisconsin Public Service will acquire natural gas supply and transportation contracts from Wisconsin Fuel and Light Company when the acquisition of Wisconsin Fuel and Light is completed. We expect the acquisition to be completed in April of 2001. Because Wisconsin Public Service and Wisconsin Fuel and Light hold similar natural gas supply and transportation contracts, the acquisition of the Wisconsin Fuel and Light contracts is expected to have no significant impact on Wisconsin Public Service's cost of natural gas.

Nuclear Liability

The Price Anderson Act ensures that funds will be available to pay for public liability claims arising out of a nuclear incident. This Act may require Wisconsin Public Service to pay up to a maximum of $36.3 million per incident. The payments will not exceed $4.1 million per incident in a given calendar year. These amounts represent Wisconsin Public Service's 41.2% ownership in the Kewaunee plant.

After Wisconsin Public Service acquires Madison Gas and Electric's share of the Kewaunee plant, our ownership will be 59%; and thus our liabilities will increase accordingly. The maximum liability per incident will be $52.0 million with payments not to exceed $5.9 million per incident in a given calendar year.

Nuclear Plant Operation

On September 29, 1998, Wisconsin Public Service and Madison Gas and Electric entered into an agreement pursuant to which Wisconsin Public Service will acquire, at Madison Gas and Electric's book value on the date of acquisition, Madison Gas and Electric's 17.8% share of the Kewaunee plant including Madison Gas and Electric's decommissioning trust assets held in their qualified trust fund. Wisconsin Public Service will also assume Madison Gas and Electric's share of the decommissioning obligation to the extent such obligation may exceed the funds available within Madison Gas and Electric's nonqualified trust fund at the time of decommissioning. This agreement, the closing of which remains contingent upon Nuclear Regulatory Commission approval and steam generator replacement scheduled for the fall of 2001, will result in Wisconsin Public Service's ownership interest in the Kewaunee plant increasing to 59%.

The net book value of Wisconsin Public Service's share of the Kewaunee plant at December 31, 2000 is $52.5 million. In addition, the current cost of Wisconsin Public Service's share of the estimated costs to decommission the Kewaunee plant, assuming early retirement, exceeds the trust assets at December 31, 2000 by $4.2 million. On January 3, 1997, the Public Service Commission of Wisconsin accepted Wisconsin Public Service's recommendation to accelerate recovery of the Wisconsin retail portion of both the current undepreciated plant balance and the unfunded decommissioning costs over a six-year period, 1997 through 2002. This method of recovery ended on December 31, 2000, as a result of a recent Public Service Commission of Wisconsin rate order in Docket 6690-UR-112 authorizing new rates for 2001. This rate order includes a change in methodology for recovery of the Kewaunee plant investment. Under the new rates, the investment in the new steam generators will be recovered using the sum-of-the-years-digits depreciation method with an 8.5 year remaining life after installation. The unrecovered plant investment at the end of 2000 will be recovered over a period ending 8.5 years after the installation of the steam generators using a straight-line remaining life depreciation methodology. Also under the 2001 rate order, the funding period for decommissioning was extended to the end of 2010.

Transmission Assets

During 2000, Wisconsin Public Service committed to transfer all its transmission assets to American Transmission Company LLC. This transfer occurred on January 1, 2001 at the net book value of the assets. WPS Investments, LLC, a wholly-owned subsidiary of Wisconsin Public Service, will hold the resulting investment in American Transmission Company and use the equity method of accounting.

Clean Air Regulations

Early compliance with the federal Clean Air Act has generated surplus sulfur dioxide allowances. We will consider the sale of any allowances available in excess of our own needs. The Wisconsin Commission has ordered that profits from the sale of allowances be passed on to customers.

On December 24, 1998, Wisconsin Public Service joined other parties in a petition challenging the Environmental Protection Agency's regulations that required Wisconsin to prepare and submit a nitrogen oxide implementation plan. On January 22, 1999, the State of Wisconsin intervened in the litigation and challenged the geographic scope of the rule and the required timing for implementation of nitrogen oxide controls within the state. The United States Court of Appeals for the District of Columbia heard arguments on November 9,

1999. On March 3, 2000, the Court held that the Environmental Protection Agency's nitrogen oxide state implementation plan was not appropriately issued to the State of Wisconsin and vacated the rule for the State of Wisconsin.

However, under another part of the Clean Air Act, the State of Wisconsin developed a nitrogen oxide reduction plan for Wisconsin's ozone non-attainment area in southern Wisconsin. The nitrogen oxide reductions begin in 2003 and are gradually increased through 2007. This plan affects Edgewater Unit 4. A compliance plan for this unit was started in 2000 and may include a combination of combustion optimization and emission trading at a cost of about $5 million. The state rule also seeks voluntary reductions from utility units outside the ozone non-attainment area, which may lead to additional expenditures for nitrogen oxide reductions at other units. Wisconsin Public Service is participating in voluntary efforts to reduce nitrogen oxide levels at the Columbia Energy Center. Wisconsin Public Service owns 31.8% of Columbia. The Public Service Commission of Wisconsin has approved recovery of the costs associated with nitrogen oxide compliance.

Recent air quality modeling by the Wisconsin Department of Natural Resources revealed that Weston Units 1 and 2 contribute to a modeled deviation from the sulfur dioxide ambient air quality standard. Wisconsin Public Service and the Wisconsin Department of Natural Resources developed a plan to eliminate the model deviation by extending the existing stacks at Weston Units 1 and 2 by 55 feet and limiting the sulfur content of the fuel to 1.2 lb/mm Btu. The cost of the stack extension is about $0.86 million. The current and projected fuel meets the sulfur content limit. The Environmental Protection Agency is reviewing this plan.

On November 3, 1999, the Environmental Protection Agency announced it was pursuing an enforcement initiative against seven utilities, or their subsidiaries, located in the Midwest and the South as well as the Tennessee Valley Authority. The enforcement initiative alleges the utilities may have undertaken projects at certain coal-fired generation plants in violation of the Clean Air Act. The Environmental Protection Agency is seeking penalties and the installation of additional pollution control equipment.

As a continuation of this initiative, the Environmental Protection Agency requested on December 14, 2000 that Wisconsin Public Service Corporation provide information pursuant to Section 114 of the Clean Air Act relating to projects undertaken at the Pulliam and Weston plants. The information was submitted on January 16, 2001. Wisconsin Power and Light Company, the operator of units jointly-owned with Wisconsin Public Service, also submitted information related to projects undertaken at the Columbia and Edgewater plants.

The Wisconsin Department of Natural Resources has initiated a rulemaking effort aimed at the control of mercury emissions. Coal burning power plants are likely to be the target of this regulatory effort. A draft of the rule has not been released, and as such, the effect on Wisconsin Public Service is unknown. However, if restrictive limits are adopted, the costs could be significant.

WPS Power Development acquired 30 years of emission allowances as a result of the acquisition of Sunbury Generation, LLC in November 1999. The purchase of WPS Westwood Generation, LLC in September 2000 also resulted in acquiring 30 years of emission allowances. A consistent valuation across vintage years is being utilized to allocate the cost of these allowances. The cost assigned to these allowances is being charged to expense as the allowances are used. The Sunbury plant also purchases incremental emission allowances on the open market to comply with air regulations. Additional technology may be required by 2003 in order to comply with nitrogen oxide standards. Expenditures for this technology could be significant.

Manufactured Gas Plant Remediation

Wisconsin Public Service continues to investigate the environmental cleanup of eight manufactured gas plant sites. The cleanup of Wisconsin Public Service's Stevens Point manufactured gas plant site is complete with monitoring of the site continuing. Costs of this cleanup were within the range expected for this site. Cleanup began at both of the Sheboygan sites in November 2000 and is expected to be completed by June 2001. To-date costs are at expected levels. Wisconsin Public Service estimates future undiscounted investigation and cleanup costs to be $35.7 million to $42.2 million. These estimates may be adjusted in the future contingent upon remediation technology, regulatory requirements, and the assessment of natural resources damages.

Wisconsin Public Service currently has a $37.4 million liability recorded for cleanup with an offsetting regulatory asset (deferred charge). We expect to recover cleanup costs net of insurance recoveries in current and future customer rates. Carrying costs associated with the cleanup expenditures will not be recoverable. Wisconsin Public Service has received $12.6 million in insurance recoveries that we recorded as a reduction to the regulatory asset.

Future Utility Expenditures

We estimate utility plant construction expenditures at Wisconsin Public Service for 2001 to be approximately $179.7 million and construction expenditures at Upper Peninsula Power for 2001 to be approximately $28.7 million. Wisconsin Public Service estimates demand-side management expenditures to be $19.9 million in 2001. In addition, recovery of previously deferred demand-side management expenditures of $11.9 million from customers will occur through 2002.

Note 14—Acquisitions and Other Investments

On December 31, 2000, Wisconsin Public Service increased its ownership in Wisconsin River Power Company to two-thirds by purchasing an additional one-third interest from Consolidated Water Power Company. The purchase price was at net book value of Wisconsin River Power at August 31, 2000. In addition, one-third of the net proceeds from the sale of Wisconsin River Power's real estate and wood products over a 12-year period will be payable to Consolidated Water Power. In 2001, Wisconsin Power and Light has the option to purchase one-half of our newly purchased one-third share of Wisconsin River Power. Exercise of this option would result in Wisconsin Public Service and Wisconsin Power and Light each owning one-half of Wisconsin River Power, but Wisconsin Public Service would remain the operator of the facility.

Al Trick of Wisconsin Public Service and Greg Septon of the Peregrine Society band four Peregrine falcon chicks that hatched in a nesting box atop our Pulliam Power Plant in 2000.

Along with Wisconsin Public Service, we entered into a merger agreement with Wisconsin Fuel and Light on July 13, 2000. Under the agreement, Wisconsin Fuel and Light shareholders will receive 1.73 shares of WPS Resources' common stock for each share of Wisconsin Fuel and Light's common stock. The exchange ratio will be adjusted if, at the time of closing the transaction, the market price of WPS Resources' common stock exceeds $33.96 per share or is less than $27.79 per share. The market price is defined as the average of the closing price of WPS Resources' common stock during the ten trading days ending three days immediately preceding the effective date of the merger.

A majority of the outstanding preferred shareholders of Wisconsin Public Service approved the merger, allowing Wisconsin Fuel and Light to merge into Wisconsin Public Service. In November 2000, a majority of the outstanding common shareholders of Wisconsin Fuel and Light approved the plan of merger. We will account for the merger using the purchase method of accounting, and we expect to complete it in April of 2001.

WPS Power Development reached an agreement with Sierra Pacific Power Company in October 2000 to purchase their 545-megawatt Tracy/Pinon Power Station. The facility consists of natural gas and oil-fired generation units and a coal gasification project that had been co-funded by the United States Department of Energy. Regulatory approval is still needed to complete the purchase. The purchase price of $249.8 million is subject to taxes and other adjustments at closing. We expect to close the purchase in 2001 and to finance a portion of the purchase with nonrecourse debt. Included with the purchase is a temporary purchase power agreement to sell the power generated by Tracy/Pinon to Sierra Pacific.

Also in 2000, WPS Power Development's subsidiary, Sunbury Holdings, LLC, purchased CinCap VI LLC, from Cinergy Capital and Trading, Inc. CinCap VI owns the 30-megawatt Westwood generation facility located in Pennsylvania. As of January 1, 2001, CinCap VI changed its name to WPS Westwood Generation, LLC.

At WPS Energy Services, the price paid in excess of fair value for the purchase of retail gas contracts acquired in 1999 is being amortized over a five-year period.

Note 15—Investments and Other Assets

The table below details items included in investments and other assets at December 31, 2000.

WPS Resources' Investments and Other Assets *(Thousands)*	**2000**	1999
Emissions allowances	**$ 42,363**	$ 38,791
Investments in other companies	**19,294**	12,420
Nuclear decommissioning trusts	**18,338**	19,129
Key executive life insurance	**14,996**	11,787
Unamortized debt expense	**4,081**	5,156
Edgewater and Columbia deposits	**3,190**	3,144
Notes receivable from unaffiliated companies	**6,869**	6,973
Deferred financing costs	**3,712**	–
Other	**13,759***	9,857*
Total	**$126,602**	$107,257

* Contains items that are less than 5% of the total investments and other assets.

Emission allowances are related to WPS Power Development's ownership of the Westwood and Sunbury generation facilities. The emission allowances extend 29 years into the future and are expensed as used by each facility.

Note 16—Regulatory Environment

Wisconsin Public Service received a rate order in the Wisconsin jurisdiction effective January 1, 2001. The impact is an estimated $27.2 million increase in electric revenues and an estimated $4.3 million increase in gas revenues on an annual basis. The new rates are effective for 2001 and 2002. The Public Service Commission of Wisconsin authorized a 12.1% return on Wisconsin Public Service's equity for 2001 and 2002. A 2002 rate reopener was not approved by the Public Service Commission of Wisconsin, but the Commission did acknowledge that pursuant to statutes Wisconsin Public Service may request a reopener at any time.

On October 13, 2000, Upper Peninsula Power filed an application for a $5.7 million rate increase with the Michigan Public Service Commission. A final rate order is expected in 2001.

Note 17—Regulatory Assets and Liabilities

The following regulatory assets and liabilities were reflected in our consolidated balance sheets as of December 31:

WPS Resources Regulatory Assets/Liabilities *(Thousands)*	**2000**	1999
Regulatory assets		
Demand-side management expenditures	**$20,734**	$23,862
Environmental remediation costs (net of insurance recoveries)	**30,503**	30,942
Funding for enrichment facilities	**4,122**	4,579
Pension curtailment loss	**8,121**	–
Other	**11,099**	11,107
Total	**$74,579**	$70,490
Regulatory liabilities		
Income tax related items	**$25,171**	$29,080
Unrealized gain on decommissioning trust	**18,338**	19,129
Kewaunee deferred revenue	**–**	2,819
De Pere Energy Center deferred revenue	**–**	3,263
Deferred gain on emission allowance sales	**2,921**	3,705
Interest from tax refunds	**3,811**	3,730
Other	**400**	2,422
Total	**$50,641**	$64,148

Our utility subsidiaries are recovering their regulatory assets and returning their regulatory liabilities through rates charged to customers based on specific ratemaking decisions or precedent for each item. Except for amounts expended for environmental costs, Wisconsin Public Service is recovering carrying costs for all regulatory assets. Upper Peninsula Power may recover carrying costs on environmental regulatory assets. Based on prior and current rate treatment for such costs, we believe it is probable that Wisconsin Public Service and Upper Peninsula Power will continue to recover from customers the regulatory assets described above.

See Notes 11 and 12 for specific information on pension and income tax related regulatory liabilities. See Note 13 for information on environmental remediation deferred costs.

The Wisconsin Public Service Farm Show celebrated its 40th Anniversary in 2000. This annual show in Green Bay, Wisconsin, helps energize farms for the growing season ahead.

Note 18—Segments of Business

We manage our reportable segments separately due to their different operating and regulatory environments. Our principal business segments are the regulated electric utility operations of Wisconsin Public Service and Upper Peninsula Power and the regulated gas utility operations of Wisconsin Public Service. Our other reportable segments include WPS Energy Services and WPS Power Development. WPS Energy Services is a diversified energy supply and services company, and WPS Power Development is an electric generation asset development company. Nonutility operations and subsidiaries of WPS Resources not already mentioned are included in the Other column. The tables below present information for the respective years pertaining to our operations segmented by lines of business.

Segments of Business *(Thousands)*

	Regulated Utilities			Nonutility and Nonregulated Operations				
2000	Electric Utility*	Gas Utility*	Total Utility*	WPS Energy Services	WPS Power Development	Other	Reconciling Eliminations	WPS Resources Consolidated
Income Statement								
Operating revenues	$ 642,705	$264,519	$ 907,224	$955,622	$128,135	$ 9,841	$(49,248)	$1,951,574
Depreciation and decommissioning	82,439	8,894	91,333	1,384	6,687	438	–	99,842
Other income (expense)	18,154	56	18,210	872	1,039	1,042	(3,603)	17,560
Interest expense	27,258	4,813	32,071	416	10,879	20,676	(9,761)	54,281
Income taxes	33,597	7,615	41,212	922	(29,252)	(6,877)	–	6,005
Net income (loss)	60,653	11,577	72,230	1,734	931	(7,902)	–	66,993
Balance Sheet								
Total assets	1,239,003	305,491	1,544,494	924,922	233,086	178,062	(64,422)	2,816,142
Cash expenditures for long-lived assets	137,947	21,528	159,475	295	39,018	296	–	199,084

* Includes only utility operations. Nonutility operations are included in the Other column.

Segments of Business *(Thousands)*

	Regulated Utilities			Nonutility and Nonregulated Operations				
1999	Electric Utility*	Gas Utility*	Total Utility*	WPS Energy Services	WPS Power Development	Other	Reconciling Eliminations	WPS Resources Consolidated
Income Statement								
Operating revenues	$ 590,359	$191,521	$ 781,880	$292,212	$ 35,400	$ 5,718	$ (16,670)	$1,098,540
Depreciation and decommissioning	70,898	8,216	79,114	1,058	3,282	290	-	83,744
Other income (expense)	7,232	78	7,310	(221)	(253)	5,716	(3,603)	8,949
Interest expense	23,965	4,534	28,499	336	4,629	11,308	(8,503)	36,269
Income taxes	32,040	7,405	39,445	(2,579)	(4,683)	(2,442)	–	29,741
Net income (loss)	56,083	11,246	67,329	(3,488)	(3,799)	(477)	–	59,565
Balance Sheet								
Total assets	1,247,859	267,356	1,515,215	64,846	190,247	184,349	(138,109)	1,816,548
Cash expenditures for long-lived assets	120,929	19,768	140,697	70	132,137	279	–	273,183

* Includes only utility operations. Nonutility operations are included in the Other column.

Segments of Business *(Thousands)*

1998	Regulated Utilities Electric Utility*	Gas Utility*	Total Utility*	Nonutility and Nonregulated Operations WPS Energy Services	WPS Power Development	Other	Reconciling Eliminations	WPS Resources Consolidated
Income Statement								
Operating revenues	$ 550,004	$165,111	$ 715,115	$351,258	$ 5,919	$ 3,587	$(12,143)	$1,063,736
Depreciation and decommissioning	75,974	7,751	83,725	1,148	1,205	196	–	86,274
Other income (expense)	5,461	114	5,575	(5,765)	110	4,681	(1,923)	2,678
Interest expense	22,820	4,323	27,143	592	1,320	5,082	(4,012)	30,125
Income taxes	27,534	4,429	31,963	(4,783)	(2,516)	(1,219)	–	23,445
Net income (loss)	50,488	5,912	56,400	(6,869)	(2,432)	(468)	–	46,631
Balance Sheet								
Total assets	1,117,438	246,365	1,363,803	71,839	32,894	90,729	(48,878)	1,510,387
Cash expenditures for long-lived assets	75,589	19,145	94,734	291	15,029	755	–	110,809

* Includes only utility operations. Nonutility operations are included in the Other column.

Note 19—Quarterly Financial Information (Unaudited)

(Thousands, except for share amounts) Three Months Ended 2000	**March**	**June**	**September**	**December**	**Total**
Operating revenues	$398,849	$374,673	$458,639	$719,413	$1,951,574
Net income	$ 29,232	$ 11,355	$ 12,867	$ 13,539	$ 66,993
Average number of shares of common stock	26,634	26,398	26,407	26,413	26,463
Basic and diluted earnings per share	$1.10	$0.43	$0.49	$0.51	$2.53

1999	March	June	September	December	Total
Operating revenues	$329,834	$221,552	$251,005	$296,149	$1,098,540
Net income	$ 22,752	$ 10,041	$ 13,819	$ 12,953	$ 59,565
Average number of shares of common stock	26,520	26,601	26,682	26,768	26,644
Basic and diluted earnings per share	$0.86	$0.38	$0.52	$0.48	$2.24

Because of various factors, which affect the utility business, the quarterly results of operations are not necessarily comparable.

At St. John's School in Wrightstown, Wisconsin, children learn about safety while observing electricity's ability to find a "path to ground." Line electricians like Mark Slusarek and Steve Van Campenhout are frequent guests in classrooms.

Report of Management

WPS Resources Corporation

The management of WPS Resources Corporation has prepared and is responsible for the consolidated financial statements and related financial information encompassed in this Annual Report. Our consolidated financial statements have been prepared in conformity with generally accepted accounting principles, and financial information included elsewhere in this report is consistent with our consolidated financial statements.

We maintain a system of internal accounting control designed to provide reasonable assurance that our assets are safeguarded and that transactions are executed and recorded in accordance with authorized procedures. Written policies and procedures have been developed to support the internal controls in place and are updated as necessary.

We also maintain an internal auditing department that reviews and assesses the effectiveness of selected internal controls, and reports to management as to their findings and recommendations for improvement.

Our Board of Directors has established an Audit Committee, comprised entirely of outside directors, which actively assists our Board in its role of overseeing our financial reporting process and system of internal control.

The accompanying consolidated financial statements have been audited by Arthur Andersen LLP, independent public accountants, whose report follows.

Larry L. Weyers

Larry L. Weyers
Chairman, President, and Chief Executive Officer

Daniel P. Bittner

Daniel P. Bittner
Senior Vice President and Chief Financial Officer

Diane L. Ford

Diane L. Ford
Vice President-Controller and Chief Accounting Officer

Report of Independent Public Accountants

ARTHUR ANDERSEN

To the Board of Directors of
WPS Resources Corporation:

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of WPS Resources Corporation (a Wisconsin corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, comprehensive income, and retained earnings and cash flows for each of the three years in the period ended December 31, 2000. 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 in accordance with auditing standards generally accepted in the United States. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of WPS Resources Corporation and subsidiaries as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin
January 25, 2001

Financial Statistics

Year Ended December 31 *(Thousands, except share amounts)*	**2000**	1999	1998	1997	1996
Total operating revenues	**$1,951,574**	$1,098,540	$1,063,736	$ 935,837	$ 916,449
Net income	**66,993**	59,565	46,631	55,809	52,885
Total assets	**2,816,141**	1,816,548	1,510,387	1,435,804	1,463,316
Preferred stock of subsidiaries	**51,168**	51,193	51,200	51,645	51,656
Long-term debt	**709,972**	634,502	393,037	347,015	349,054
Shares of common stock less treasury stock and shares in deferred compensation trust					
Outstanding at December 31	**26,409**	26,780	26,502	26,518	26,537
Average	**26,463**	26,644	26,511	26,527	26,545
Basic and diluted earnings per average share of common stock	**$2.53**	$2.24	$1.76	$2.10	$1.99
Dividend per share of common stock	**2.04**	2.00	1.96	1.92	1.88
Stock price	**$36 13/16**	$25 1/8	$35 1/4	$33 13/16	$28 1/2
Book value per share	**$20.55**	$20.03	$19.52	$19.56	$19.24
Return on average equity	**12.4%**	11.3%	9.0%	10.8%	10.3%
Number of common stock shareholders	**24,029**	25,020	26,319	27,369	27,922
Number of employees	**3,030**	2,900	2,673	2,902	3,032

Helping the community is a lifelong commitment. Retired Wisconsin Public Service employee Jim Reynard helps transport Red Cross clients to medical appointments.

Shareholder Information

Shareholder Inquiries

Our Shareholder Services staff can be reached via telephone between the hours of 7:30 a.m. and 4:30 p.m., central time, Monday through Friday by calling 920-433-1050 or 800-236-1551.

Pictured above

(Seated L to R) *Sue Ascher, Shareholder Systems Specialist*
Donna Winnekens, Shareholder Administrative Support Specialist
Bob Bursa, Shareholder Services Representative
(Standing L to R) *Barth Wolf, Secretary and Manager - Legal Services*
Donna Sheedy, Investor Relations Supervisor

Addresses and additional telephone numbers are listed on the back cover of this report.

Common Stock

The New York Stock Exchange is the principal market for WPS Resources Corporation common stock which trades under the ticker symbol of WPS.

You may purchase or sell our common stock through our Stock Investment Plan described below or through brokerage firms and banks which offer brokerage services.

Common stock certificates issued before September 1, 1994 bear the name of Wisconsin Public Service Corporation and remain valid certificates.

Effective December 16, 1996, each share of our common stock has a Right associated with it which would entitle the owner to purchase additional shares of common stock under specified terms and conditions. The Rights are not presently exercisable. The Rights would become exercisable ten days after a person or group (1) acquires 15% or more of WPS Resources Corporation's common stock or (2) announces a tender offer to acquire at least 15% of WPS Resources' common stock.

On December 31, 2000, we had 26,514,649 shares of common stock outstanding which were owned by 24,029 holders of record.

Common Stock Comparison (by quarter)	Dividends Per Share	Price Range High	Price Range Low
2000			
1st quarter	**$ .505**	**26 11/16**	**22 5/8**
2nd quarter	**.505**	**32 1/4**	**25 1/4**
3rd quarter	**.515**	**33 1/4**	**29 5/8**
4th quarter	**.515**	**39**	**30 1/16**
	$2.04		
1999			
1st quarter	$ .495	35 3/4	29 1/4
2nd quarter	.495	32 1/4	28 3/8
3rd quarter	.505	30 11/16	27 13/16
4th quarter	.505	29 1/16	24 1/4
	$2.00		

Dividends

We have paid quarterly cash dividends on our common stock since 1953, and we expect to continue that trend. Future dividends are dependent on regulatory limitations, earnings, capital requirements, cash flows, and other financial considerations.

Anticipated record and payment dates for common stock dividends paid in 2001 are:

Record Date	*Payment Date*
February 28	March 20
May 31	June 20
August 31	September 20
November 30	December 20

If you are a record holder of our common stock and your dividend check is not received on the payment date, wait approximately ten days to allow for delays in mail delivery. After that time, call our Shareholder Services Department to request a replacement check.

As a record holder of our common stock, you may have your dividends electronically deposited in a checking or savings account at a financial institution. If you are a record holder and your dividends are not electronically deposited, we will mail your dividend check directly to you.

Stock Investment Plan

We maintain a Stock Investment Plan for the purchase of common stock which allows persons who are not already shareholders (and who are not employees of WPS Resources or its system companies) to become participants by making a minimum initial cash investment of $100. Our Plan enables you to maintain registration with us in your own name rather than with a broker in "street name."

The Stock Investment Plan also provides you with options for reinvesting your dividends and making optional cash purchases of common stock directly through our Shareholder Services Department without

paying brokerage commissions, fees, or service charges. Optional cash payments of not less than $25 per payment may be made subject to a maximum of $100,000 per calendar year. An automatic investment option allows you to authorize the deduction of payments from your checking or savings account automatically once each month, on the 3rd day of the month, by electronic means for investment in the Plan as optional cash payments.

Cash for investment must be received by the 3rd or 18th days of the month for investment which generally commences on or about the 5th or 20th days of the month or as soon thereafter as practicable.

The shares you hold in our Stock Investment Plan may be sold by the agent for the Plan as you direct us, or you may request a certificate for sale through a broker you select. We will accumulate sale requests from participants and, approximately every five business days, will submit a sale request to the independent broker-dealer on behalf of those participants.

Participation in the Stock Investment Plan is being offered only by means of a Prospectus. If you would like a copy of the Stock Investment Plan Prospectus, you may call us at 800-236-1551, contact us via e-mail by using our e-mail address of investor@wpsr.com, or you may order or download the Prospectus and enrollment forms using the Internet at http://www.wpsr.com under Financial Information.

Safekeeping Services

As a participant in the Stock Investment Plan you may transfer shares of common stock registered in your name into a Plan account for safekeeping. Contact our Shareholder Services Department for further details.

Preferred Stock of Subsidiary

The preferred stock of Wisconsin Public Service Corporation trades on over-the-counter markets. Payment and record dates for preferred stock dividends paid in 2001 are:

Record Date	*Payment Date*
January 15	February 1
April 13	May 1
July 13	August 1
October 15	November 1

Stock Transfer Agent and Registrar

Questions about transferring common or preferred stock, lost certificates, or changing the name in which certificates are registered should be directed to our transfer agent, Firstar Bank, N.A. at the address or telephone numbers listed on the back cover.

Address Changes

If your address changes, call or write our Shareholder Services Department.

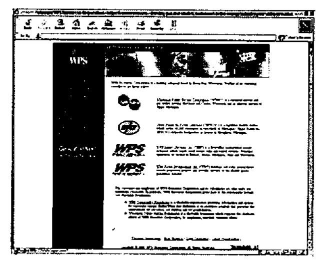
Availability of Information

Company financial information is available on the Internet. The address is http://www.wpsr.com.

It is anticipated that 2001 quarterly earnings information will be released on April 19, July 19, and October 18 in 2001 and on January 29 in 2002.

You may obtain, without charge, a copy of our 2000 Form 10-K, without exhibits, as filed with the Securities and Exchange Commission, by contacting the Corporate Secretary, at the Corporate Office mailing address listed on the back cover, or by using the Internet.

Internet



Visit our award-winning web site at http://www.wpsr.com to find a wealth of information on our company and its subsidiaries.

The site will give you instant access to Annual Reports, SEC filings, proxy statements, financial news, presentations, news releases, career opportunities, and much more. You may also download a copy of the Prospectus for the Stock Investment Plan and the associated forms for participation in the Plan.

The site is updated regularly, so visit it often.

Annual Shareholders' Meeting

Our Annual Shareholders' Meeting will be held on Thursday, May 3, 2001, at 10:00 a.m. at the Weidner Center, University of Wisconsin - Green Bay, 2420 Nicolet Drive, Green Bay, Wisconsin.

Proxy Statements for our May 3, 2001 Annual Shareholders' Meeting were mailed to shareholders of record on March 19, 2001.

Annual Report

If you receive more than one Annual Report because of differences in the registration of your accounts, please call our Shareholder Services Department so that account mailing instructions can be modified accordingly.

This Annual Report is prepared primarily for the information of our shareholders and is not given in connection with the sale of any security or offer to sell or buy any security.

"Need knows no season." Neither do our volunteers. During a frigid December, Wisconsin Public Service retired employee Charlie Heidemann replaces and restocks kettles at Salvation Army collection sites.

Leadership Staff

WPS Resources Corporation

Bradley A. Johnson
Corporate Planning Executive
Age 46/Years of service 21

Barbara A. Nick
Manager-Corporate Services
Age 42/Years of service 16

Wisconsin Public Service Corporation

William L. Bourbonnais, Jr.
Manager-Rates and Economic Evaluation
Age 55/Years of service 32

Donald R. Carlson
Manager-Energy Supply and Control
Age 50/Years of service 25

Charles A. Cloninger
Regional Customer Service Manager
Age 42/Years of service 19

Kenneth H. Evers *
Manager-Nuclear Plant Support Services
Age 55/Years of service 27

Ronald K. Grosse *
Manager-Customer Strategy
Age 57/Years of service 35

Kyle A. Hoops
Manager-Kewaunee Plant
Age 38/Years of service 16

Terry P. Jensky
Manager-Pulliam Plant
Age 47/Years of service 23

Jerry A. Johnson
Manager-Information Services
Age 51/Years of service 28

Randall G. Johnson
Manager-Corporate Transformation
Age 53/Years of service 30

Timothy J. Kallies
Manager-Customer Care
Age 41/Years of service 17

Paul J. Liegeois
Utility Business Development Leader
Age 50/Years of service 27

Dennis J. Maki
Manager-Weston Plant
Age 52/Years of service 30

Roger M. Mc Cambridge
Manager-Gas Engineering
Age 45/Years of service 16

Dale N. Miller
Regional Customer Service Manager
Age 55/Years of service 30

Edward N. Newman
Director-Environmental Services
Age 58/Years of service 26

Dale M. Quinn
Manager-Substation and Transmission
Age 55/Years of service 29

Michael I. Radtke
Manager-Electric Distribution Engineering
Age 46/Years of service 22

Jack C. Rasmussen
Manager-Purchasing and Stores
Age 53/Years of service 30

Peter J. Van Beek
Regional Customer Service Manager
Age 55/Years of service 32

Kenneth H. Weinhauer *
General Manager-Kewaunee Plant
Age 56/Years of service 25

Ralph P. Zagrzebski
Regional Customer Service Manager
Age 56/Years of service 34

WPS Energy Services, Inc.

Richard J. Bissing
Director of Sales-Wisconsin
Age 40/Years of service 4

John T. Keenan
Director-Producer Pricing Structures
Age 47/Years of service 1

Chris E. Matthiesen
Director-Energy Supply Cost Management
Age 44/Years of service 21

Debra L. Mc Dermid
Manager-Customer Service and Business System Operation
Age 44/Years of service 21

Joseph W. Peikert
Accounting Manager
Age 34/Years of service 1

Bruce A. Rizor
Director-Wholesale Pricing Structures
Age 39/Years of service 1

WPS Power Development, Inc.

Thomas G. Balzola
General Manager-Operations
Age 57/Years of service 21

Michael W. Charles
Assistant to Senior Vice President
Age 51/Years of service 23

John K. Mortonson
Director-Asset Management
Age 43/Years of service 18

Richard J. Suslick
Director-Power Development
Age 57/Years of service 9

Upper Peninsula Power Company

Gary W. Erickson
Regional Customer Service Manager
Age 58/Years of service 32

* Retired January 2, 2001.

Years of service take into consideration service with WPS Resources Corporation or a system company.

Board of Directors

A. Dean Arganbright
(Age 70)
Oshkosh, Wisconsin
Retired Chairman, President, and Chief Executive Officer
Wisconsin National Life Insurance Company
(Director since 1972)

Michael S. Ariens
(Age 69)
Brillion, Wisconsin
Chairman
Ariens Company
(Director since 1974)

Richard A. Bemis
(Age 59)
Sheboygan Falls, Wisconsin
President and Chief Executive Officer
Bemis Manufacturing Company
(Director since 1983)

Clarence R. Fisher *
(Age 60)
Houghton, Michigan
President and Chief Executive Officer
Upper Peninsula Power Company
(Director since 1998)

Robert C. Gallagher
(Age 62)
Green Bay, Wisconsin
President and Chief Executive Officer
Associated Banc-Corp
(Director since 1992)

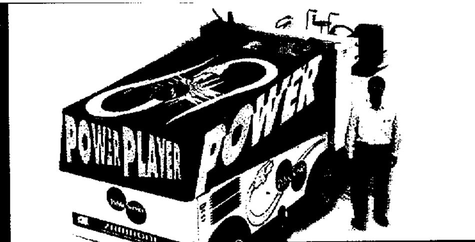
Kathryn M. Hasselblad-Pascale
(Age 52)
Green Bay, Wisconsin
Managing Partner
Hasselblad Machine Company, LLP
(Director since 1987)

James L. Kemerling
(Age 61)
Wausau, Wisconsin
President and Chief Executive Officer
Riiser Oil Company, Inc.
(Director since 1988)

John C. Meng
(Age 56)
Green Bay, Wisconsin
Chairman of the Board
Schreiber Foods, Inc.
(Director since 2000)

Larry L. Weyers
(Age 55)
Green Bay, Wisconsin
Chairman, President, and Chief Executive Officer
WPS Resources Corporation
(Director since 1996)

* Retired from the Board of Directors on February 1, 2001.



Every hockey game has a power play. At the N.E.W. Community Ice and Family Recreation Center in Ashwaubenon, Wisconsin, every game has our Power Player. Wisconsin Public Service funded the Zamboni ice machine in 2000.

Officers

WPS Resources Corporation

Larry L. Weyers
Chairman, President, and Chief Executive Officer
Age 55/Years of service 15

Patrick D. Schrickel
Executive Vice President
Age 56/Years of service 34

Daniel P. Bittner
Senior Vice President and Chief Financial Officer
Age 57/Years of service 35

Thomas P. Meinz
Senior Vice President-Public Affairs
Age 54/Years of service 31

Phillip M. Mikulsky
Senior Vice President-Development
Age 52/Years of service 29

Bradley W. Andress
Vice President-Marketing
Age 46/Years of service 2

Ralph G. Baeten
Vice President-Treasurer
Age 57/Years of service 30

Diane L. Ford
Vice President-Controller and Chief Accounting Officer
Age 47/Years of service 25

Richard E. James
Vice President-Corporate Planning
Age 47/Years of service 25

Neal A. Siikarla
Vice President
Age 53/Years of service 2

Bernard J. Treml
Vice President-Human Resources
Age 51/Years of service 28

Glen R. Schwalbach
Assistant Vice President-Corporate Planning
Age 55/Years of service 32

Barth J. Wolf
Secretary and Manager-Legal Services
Age 43/Years of service 12

George R. Wiesner
Assistant Controller
Age 43/Years of service 16

Wisconsin Public Service Corporation

Larry L. Weyers
Chairman and Chief Executive Officer
Age 55/Years of service 15

Patrick D. Schrickel
President and Chief Operating Officer
Age 56/Years of service 34

Daniel P. Bittner
Senior Vice President and Chief Financial Officer
Age 57/Years of service 35

Thomas P. Meinz
Senior Vice President-Public Affairs
Age 54/Years of service 31

Ralph G. Baeten
Vice President-Treasurer
Age 57/Years of service 30

Lawrence T. Borgard
Vice President-Transmission and Engineering
Age 39/Years of service 16

Diane L. Ford
Vice President-Controller
Age 47/Years of service 25

Wayne J. Peterson
Vice President-Distribution and Customer Service
Age 42/Years of service 18

Bernard J. Treml
Vice President-Human Resources
Age 51/Years of service 28

David W. Harpole
Assistant Vice President-Energy Supply
Age 45/Years of service 23

Barth J. Wolf
Secretary and Manager-Legal Services
Age 43/Years of service 12

WPS Energy Services, Inc.

Phillip M. Mikulsky
Chief Executive Officer
Age 52/Years of service 29

Mark A. Radtke
President
Age 39/Years of service 17

Daniel J. Verbanac
Senior Vice President
Age 37/Years of service 16

Darrell W. Bragg
Vice President
Age 41/Years of service 5

Betty J. Merlina
Vice President
Age 40/Years of service 5

Ruqaiyah Z. Stanley-Lolles
Vice President
Age 46/Years of service 2

Barth J. Wolf
Secretary
Age 43/Years of service 12

Ralph G. Baeten
Treasurer
Age 57/Years of service 30

WPS Power Development, Inc.

Larry L. Weyers
President and Chief Executive Officer
Age 55/Years of service 15

Phillip M. Mikulsky
Vice President
Age 52/Years of service 29

Gerald L. Mroczkowski
Vice President
Age 55/Years of service 32

Barth J. Wolf
Secretary
Age 43/Years of service 12

Ralph G. Baeten
Treasurer
Age 57/Years of service 30

UPPCO

Patrick D. Schrickel
Chairman
Age 56/Years of service 34

Clarence R. Fisher *
President and Chief Executive Officer
Age 60/Years of service 37

Daniel P. Bittner
Vice President
Age 57/Years of service 35

Barth J. Wolf
Secretary
Age 43/Years of service 12

Ralph G. Baeten
Treasurer
Age 57/Years of service 30

*Retired February 1, 2001.

Years of service take into consideration service with WPS Resources Corporation or a system company.

WPS Resources Corporation

Corporate Office
700 North Adams Street
Green Bay, WI 54301
Mailing Address:
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Stock Exchange Listing
New York Stock Exchange
Ticker Symbol: WPS
Listing Abbreviation: WPS Res

Wisconsin Utility Investors, Inc.

Wisconsin Utility Investors, Inc. ("WUI") is an independent, non-profit organization representing the collective voices of utility shareholders. It monitors and evaluates industry issues and trends and is a resource for its members, regulators, and the public. WUI can be reached by calling 414-967-8791.

Equal Employment Opportunity

WPS Resources Corporation is committed to equal employment opportunity for all qualified individuals without regard to race, creed, color, religion, sex, age, national origin, sexual orientation, disability, or veteran status. To that end, we support and will cooperate fully with all applicable laws, regulations, and executive orders in all of our employment policies, practices, and decisions.

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