



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

February 16, 1981

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

Dear Mr. Saltzman:

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

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

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

1. Annual certified financial statements for year 1980.
2. Certified Cash Flow Projection for year 1981 with narrative statement.

Sincerely,

J. G. Remmel/bjk

Treasurer

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	1980	1979	1978
Operating Revenues			
Electric	\$ 761,051	\$667,757	\$583,162
Gas	237,932	191,238	161,177
Steam	8,162	8,570	8,272
Total Operating Revenues	1,007,145	867,565	752,611
Operating Expenses			
Fuel (Note A)	215,604	179,050	155,615
Purchased power	63,203	67,863	48,568
Gas purchased for resale	190,598	143,844	115,948
Other operation expenses (Note B)	158,426	133,442	112,573
Maintenance	78,095	66,824	55,879
Taxes other than income taxes	35,249	34,464	35,049
Depreciation (Note C)			
Straight line	68,849	59,855	54,160
Deferred income taxes (Note D)	22,081	17,192	3,873
Federal income tax (Note D)	1,316	12,452	31,904
Investment tax credit adjustments — net (Note D) ..	32,024	27,657	23,946
State income tax (Note D)	2,623	6,981	6,887
Total Operating Expenses	868,008	749,624	644,402
Operating Income	139,077	117,941	108,209
Other Income and Deductions			
Interest income	3,897	2,491	1,659
Allowance for other funds used			
during construction (Note E)	5,330	7,535	3,372
Discount on purchase of bonds for sinking fund	640	499	393
Miscellaneous — net	(830)	(314)	(715)
Federal income tax (Note D)	(2,274)	(1,465)	(1,026)
State income tax (Note D)	(378)	(242)	(158)
Total Other Income and Deductions	385	8,504	3,525
Income Before Interest Charges	145,462	126,445	111,734
Interest Charges			
Long term debt	52,304	40,875	36,998
Allowance for borrowed funds			
used during construction (Note E)	(8,338)	(6,165)	(1,895)
Other	19,008	9,203	5,026
Total Interest Charges	62,974	43,913	40,129
Net Income	82,488	82,532	71,605
Preferred Stock Dividend Requirement	13,520	12,368	7,337
Earnings Available for Common Stockholders ...	\$ 68,968	\$ 70,164	\$ 64,268
Average Number of Shares of			
Common Stock Outstanding (Thousands)	19,542	18,705	18,354
Earnings Per Share of Common Stock	\$3.53	\$3.75	\$3.50

The notes on pages 23 through 29 are an integral part of the financial statements.

STATEMENT OF
CHANGES IN
FINANCIAL POSITION
PERIOD ENDING DECEMBER 31, 1981

WISCONSIN ELECTRIC POWER COMPANY SYSTEM

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(Thousands of Dollars)

	1980	1979	1978
Financial Resources Provided			
Operations			
Net income	\$ 82,478	\$ 62,532	\$ 71,605
Depreciation — straight line	68,049	59,655	54,160
— deferred income taxes	22,081	17,192	3,873
Accumulated deferred investment tax credits	27,331	23,598	19,942
Nuclear fuel expense	8,431	12,767	8,782
Amortization of precertification expenditures	5,906	—	—
Allowance for funds used during construction	(13,568)	(13,700)	(5,267)
Total from operations	201,418	182,244	153,095
Common stock	21,767	14,864	5,516
Preferred stock	24,906	—	59,455
Long term	148,670	75,525	104,862
Sale of	60,501	—	5,192
Release of construction funds held by trustees	20,633	10,695	—
Normalization of income taxes — precertification expenditures	9,939	—	—
Short term borrowings	—	108,559	3,675
Contributions in aid of construction	3,652	4,259	3,338
Miscellaneous	5,353	1,004	(2,529)
	<u>\$502,141</u>	<u>\$397,150</u>	<u>\$332,625</u>
Financial Resources Used			
Construction expenditures	\$294,102	\$252,258	\$220,563
Nuclear fuel	31,260	37,362	33,436
Dividends	61,792	55,902	47,625
Retirement of long term debt	15,101	9,511	12,165
Reduction of short term borrowings	58,973	—	—
Constructing funds held by trustees	—	23,447	12,153
Increase in working capital (other than short term borrowing and long term debt due currently)	41,931	18,610	6,683
	<u>\$503,141</u>	<u>\$397,150</u>	<u>\$332,625</u>
Increase (Decrease) in Components of Working Capital			
Cash and temporary cash investments	\$ (10,077)	\$ 7,277	\$ (676)
Accounts receivable	7,519	1,531	9,734
Accrued utility revenues	14,963	11,609	7,748
Fossil fuel	40,550	12,014	13,052
Accounts payable and taxes accrued	(14,593)	(21,657)	(22,390)
Other	4,369	7,046	(785)
	<u>\$ 41,931</u>	<u>\$ 18,610</u>	<u>\$ 6,683</u>

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	1980	1979
ASSETS		
Utility Plant		
Electric	\$2,027,000	\$1,571,082
Gas	105,976	184,042
Steam	18,113	17,274
	<u>2,241,169</u>	<u>1,772,008</u>
Accumulated provision for depreciation	(609,750)	(725,321)
	<u>1,431,419</u>	<u>1,047,177</u>
Construction work in progress	218,186	411,397
Nuclear fuel (Note A)	46,533	94,709
Accumulated provision for amortization	—	(11,773)
	<u>46,533</u>	<u>82,936</u>
Net Utility Plant	1,696,133	1,541,510
Nonutility Property	7,496	7,453
Accumulated provision for depreciation	(633)	(630)
Net Nonutility Property	6,863	6,823
Construction Funds Held by Trustees (Note F)	4,272	24,905
Current Assets		
Cash	2,546	5,026
Temporary cash investments	2,701	11,028
Accounts receivable (Note G)	59,003	51,544
Accrued utility revenues	86,649	71,686
Fossil fuel (at average cost)	99,729	59,179
Materials and supplies (at average cost)	44,129	34,131
Prepayments and other assets	6,057	6,649
Total Current Assets	300,874	239,313
Deferred Charges and Other Assets	22,094	18,113
	<u>\$2,030,241</u>	<u>\$1,830,664</u>

The notes on pages 23 through 29 are an integral part of the financial statements.

(Thousands of Dollars)

	1980	1979
LIABILITIES		
Capitalization (See Capitalization Statement)		
Common Stock Equity (Note H)	\$ 628,707	\$ 586,385
Preferred Stock — Redemption Not Required (Note I)	160,451	160,451
Preferred Stock — Redemption Required (Note J)	25,000	—
Long Term Debt (Note K)	793,905	649,227
Total Capitalization	1,608,063	1,396,063
Current Liabilities		
Long term debt due currently (Note K)	2,137	13,493
Notes payable to banks (Note L)	19,962	19,700
Commercial paper (Note L)	55,062	114,322
Accounts payable	89,562	69,326
Payroll and vacation accrued	11,209	12,309
Taxes accrued — income and other	20,131	33,774
Interest accrued	17,041	12,488
Customer deposits	2,203	1,998
Other	6,940	5,563
Total Current Liabilities	232,269	282,973
Deferred Credits and Other Liabilities		
Accumulated deferred investment tax credits	100,885	73,554
Nuclear fuel costs accrued (Note D)	29,359	19,646
Unamortized accrued utility revenues	25,334	29,556
Other	8,427	6,630
Total Deferred Credits and Other Liabilities	164,015	129,386
Contributions in Aid of Construction	25,894	22,242
Commitments and Contingencies (Note M)		
	\$2,030,241	\$1,830,664

The notes on pages 23 through 29 are an integral part of the financial statements.

CAPITALIZATION STATEMENT

WISCONSIN ELECTRIC POWER COMPANY SYSTEM

DECEMBER 31

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(Thousands of Dollars)

1980

1979

COMMON STOCK EQUITY (Note H)

Common Stock (\$10 par value; authorized 41,000,000 shares; issued 20,007,779 and 19,035,720 shares)

Premium on Capital Stock

Retained Earnings

Total Common Stock Equity

PREFERRED STOCK — Wisconsin Electric Power Company, Cumulative

Six Per Cent Preferred Stock — \$100 par value; authorized 45,000 shares; 44,508 shares issued

Serial Preferred Stock — \$25 par value; authorized 8,000,000 shares; unissued

Serial Preferred Stock — \$100 par value; authorized 2,300,000 shares

3.60% Series — 250,000 shares issued

8.90% Series — 400,000 shares issued

7.75% Series — 300,000 shares issued

8.30% Series — 600,000 shares issued

Total Preferred Stock — Redemption Not Required (Note I)

10.875% Series — 250,000 shares issued; redeemable at par

Total Preferred Stock — Redemption Required (Note J)

LONG TERM DEBT (Note K)

First Mortgage Bonds

Series	Due	1980	1979	Series	Due	1980	1979
Wisconsin Electric Power Company							
2 1/4% — 1980		\$ —	\$10,995	6 1/4% — 1988		\$ 33,771	\$ 33,808
3 1/4% — 1982		9,220	9,324	6 1/4% — 1990-2008		25,000	25,000
10 20/100 — 1982		50,000	50,000	6 25% — 1990-2008		1,000	1,000
3 1/4% — 1984		15,273	15,425	7 1/4% — 1999		39,983	39,991
3 1/4% — 1986		21,770	22,070	8 1/4% — 1999		30,552	30,555
13 1/4% — 1986		80,000	—	6 45% — 2004		12,000	12,000
11 40/100 — 1987		70,000	—	8 1/4% — 2005		60,000	60,000
4 1/4% — 1988		22,709	23,062	6 45% — 2008		4,000	4,000
5% — 1990		26,706	26,571	6 50% — 2007-2009		10,000	10,000
5 1/4% — 1995		28,041	28,097	8 1/4% — 2008		80,000	80,000
6 1/4% — 1997		37,959	38,081			665,129	665,279

Former Wisconsin Michigan Power Company (merged with company in 1977)

2 1/4% — 1980	—	640	5 1/4% — 1988	9,251	9,251
3 1/4% — 1981	2,137	2,147	6 1/4% — 1997	11,539	11,539
3 1/4% — 1981	2,112	2,164	6 1/4% — 1997	9,677	9,690
4 1/4% — 1991	3,623	3,623	8 1/4% — 1999	11,772	11,820
4 1/2% — 1993	5,049	5,052		55,360	55,134

Wisconsin Natural Gas Company

3 1/4% — 1980	—	1,858	6 1/4% — 1988	9,340	9,435
4 1/4% — 1980	3,631	3,631	8 1/4% — 1994	9,095	9,700
4 1/4% — 1987	4,409	4,469	8 1/4% — 1995	9,841	9,912
4 1/4% — 1990	6,513	6,513		43,519	45,578

Debentures (Unsecured)

Wisconsin Electric Power Company — 7 1/2% Series due 1993

Unamortized Discount — net

Long Term Debt Due Currently

Total Long Term Debt

Total Capitalization

32,767	33,577
(1,733)	(60)
(2,137)	(134)
793,905	649,220
\$1,508,063	\$1,308,000

The notes on pages 23 through 29 are an integral part of the financial statements.

RETAINED EARNINGS STATEMENT

A TACSON ELECTRIC POWER COMPANY SYSTEM

FOR THE YEAR ENDED DECEMBER 31

(Thousands of Dollars)

	1980	1979	1978
Balance, January 1	\$251,488	\$225,022	\$201,424
Additions			
Net income	82,488	82,532	71,605
Transfer of amortization reserve — hydroelectric projects	—	—	305
	<u>333,976</u>	<u>307,554</u>	<u>273,334</u>
Deductions			
Dividends — Cash			
Preferred stock	13,294	12,178	7,068
Common stock — \$2.485, \$2.345 and \$2.21 per share	48,469	43,784	40,537
	<u>61,763</u>	<u>55,962</u>	<u>47,625</u>
Cost of issuing capital stock	170	104	687
	<u>61,933</u>	<u>56,066</u>	<u>48,312</u>
Balance, December 31	<u>\$272,043</u>	<u>\$251,488</u>	<u>\$225,022</u>

The notes on pages 23 through 29 are an integral part of the financial statements.

Summary of Significant Accounting Policies

General

The accounting records of the company and its utility subsidiary are kept as prescribed by the Federal Energy Regulatory Commission, modified for requirements of the Public Service Commission of Wisconsin (PSCW). The consolidated financial statements include the accounts of the company and its subsidiaries, Wisconsin Natural Gas Company and Badger Service Company.

Revenues

Meters are read and accounts are billed monthly. Since January 1, 1977 utility revenues have been recognized on the accrual basis and include estimated amounts for service rendered but not billed. Accrued utility revenue of \$52 million at December 31, 1976 is being recorded as revenue in equal amounts over a ten year period as prescribed by the PSCW.

Fuel

The cost of fossil and nuclear fuel is expensed in the period consumed.

Nuclear fuel expense includes an estimate for offsite storage of spent nuclear fuel for ten years after removal from the reactor. No salvage value is recognized for spent nuclear fuel. The accounting for nuclear fuel follows the ratemaking treatment for such costs.

Gas Purchased for Resale

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

Property

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

Income Taxes

Deferred income tax accounting is practiced in respect to significant timing differences. The federal investment tax credit is accounted for on the deferred basis and is reflected in income ratably over the life of the related property.

Debt Premium, Discount and Expense

Long term debt premium or discount and expense of issuance are amortized by the straight line method over the lives of the debt issues. Unamortized amounts pertaining to debt reacquired for sinking fund purposes are written off currently.

A - Rental Expense

Total rental expense was \$27,800,000 in 1980, \$16,521,000 in 1979 and \$20,069,000 in 1978. This includes charges of \$25,551,000 in 1980, \$15,612,000 in 1979 and \$19,875,000 in 1978 for the portion of nuclear fuel which was leased.

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

The nuclear fuel leases have been treated as operating leases in the financial statements and by the PSCW in determining revenue requirements. The value of the leased fuel is not included in the company's rate base. Had the leases been accounted for as capital leases, expenses before income taxes and intermediate effects of corresponding ratemaking treatment would have been increased \$1,657,000 in 1980 and decreased \$529,000 in 1979 and \$531,000 in 1978, and an asset and corresponding liability equal to the unamortized cost of the leased nuclear fuel would have been recorded at December 31 in the amounts of \$55,568,000 in 1980 and \$9,534,000 in 1979.

B • Pension Plans

Several noncontributory pension plans cover all eligible employees. Normal employee pension cost is accrued and funded currently. Unfunded prior service liability is amortized over periods from ten to thirty years. The unfunded prior service liability of the pension plans is not significant. Pension expense was \$9,015,000 in 1980, \$7,449,000 in 1979 and \$5,715,000 in 1978.

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

	December 31
	(Thousands of dollars)
	1980
Actuarial present value of accumulated plan benefits:	
Vested benefits	\$120,307
Nonvested benefits	5,567
	<u>\$125,874</u>
Net plan assets	<u>\$131,008</u>

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

The excess of net plan assets over the present value of accumulated plan benefits is the result of required calculations being made on two different bases, and does not necessarily reflect the company's funding position.

The present value of accumulated plan benefits shown above has been determined in accordance with Statement of Financial Accounting Standards No. 35 and is based on present company benefits. However, company contributions and resulting net plan assets are based on estimated future employee earnings.

C • Depreciation

Depreciation expense is accrued at straight line rates certified by the PSCW. Depreciation rates include estimates of salvage and plant removal costs. Nuclear plant depreciation rates provide for an amount to cover estimated plant decommissioning costs.

Additional depreciation is accrued in accordance with the PSCW requirements which is equal to the tax effects of timing differences related to property and nuclear fuel including principally the use for tax purposes of accelerated depreciation methods (see Note D).

Straight line depreciation as a percent of average depreciable utility plant was 3.6% in 1980, 3.7% in 1979 and 3.5% in 1978.

D • Income Tax Expense

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

(Thousands of Dollars)	1980	1979	1978
Current tax expense	\$ 6,591	\$ 21,140	\$ 39,975
Investment tax credit adjustments -- net	32,024	27,657	23,516
Deferred taxes charged to depreciation expense	22,081	17,102	3,973
Total tax expense	\$ 60,696	\$ 65,899	\$ 67,464
Income before income taxes	\$143,184	\$140,821	\$173,333
Expected tax at federal statutory rate	\$ 65,865	\$ 68,320	\$ 66,912
Allowance for funds used during construction	(6,287)	(6,300)	(2,528)
State income tax benefit	1,894	5,227	5,028
Federal tax reduction	(2,940)	(3,381)	(1,821)
Investment tax credit restored			
Other (the item over 5% of expected liability)	164	1,725	223
Total tax expense	\$ 60,696	\$ 65,899	\$ 67,464

The aggregate amount of deferred income taxes included in the accumulated provision for depreciation at December 31 was \$163,469,000 in 1980 and \$140,253,000 in 1979.

In 1978 the company filed claims for refunds with the Internal Revenue Service (IRS) for the years 1970-72. The claims seek a refund of federal income taxes for the deduction of storage and other costs for spent nuclear fuel. Such costs were disallowed as a current deduction by IRS on audit and the resulting disallowance was withheld from a previous refund. Management is contesting the disallowance, but pending resolution the company recorded the tax effect of these costs for the years 1970-80 by increasing the current federal income tax provisions and normalizing those amounts by reducing deferred income taxes by \$2,151,000 in 1980, \$2,057,000 in 1979 and \$14,738,000 in 1978, resulting in no effect on net income. Deferred nuclear fuel costs accrued were reduced by the amounts of taxes provided. This accounting for income taxes is in accordance with the PSCW practice. Related interest was accrued in the amounts of \$1,501,000 in 1980, \$507,000 in 1979 and \$1,652,000 in 1978.

E • Allowance for Funds Used During Construction (AFDC)

AFDC is included in utility plant accounts and represents the cost of borrowed funds used during plant construction and a rate of return on stockholders' capital used for construction purposes. On the income statement the cost of borrowed funds (before income taxes) is a reduction of interest expense and the return on stockholders' capital is an item of noncash other income.

The company is limited by the PSCW to capitalizing AFDC only on construction work in progress exceeding 10% of its net investment rate base. Revenues granted by the PSCW in rate orders include the equivalent of a return on investment in construction work in progress below this limit. AFDC was capitalized in 1980, 1979 and 1978 at a rate of 7% approved by the PSCW.

F • Construction Funds Held by Trustees

The construction funds were established to finance pollution control and environmental improvement facilities at the company's new Pleasant Prairie Power Plant. Proceeds from the sales of municipal revenue bonds issued by the Town of Pleasant Prairie in 1978 and 1979 were deposited in the funds under loan agreements with the company. As a revenue source and collateral for the loans, the company has issued to the town its first mortgage bonds in the aggregate principal amount of \$52 million. Funds are released to the company as qualifying property is constructed at the plant.

G • Accounts Receivable

Accounts receivable are shown on the balance sheet after deducting an accumulated provision for doubtful accounts in the amount of \$1,424,000 for 1980 and \$1,175,000 for 1979. Uncollectible account write-offs net of recoveries were \$2,697,000 in 1980, \$2,316,000 in 1979 and \$1,552,000 in 1978.

H • Common Stock and Premium on Capital Stock

Under the Automatic Dividend Reinvestment and Stock Purchase Plan, sales of common stock were 727,076 shares in 1980, 426,901 shares in 1979 and 114,306 shares in 1978. Proceeds from the sales were \$15,551,000 in 1980, \$10,173,000 in 1979 and \$3,148,000 in 1978. Sales of common stock under the Tax Reduction Act Stock Ownership Plan (TRASOP) were 254,983 shares in 1980, 185,072 shares in 1979 and 83,173 shares in 1978. Proceeds from the TRASOP sales were \$6,216,000 in 1980, \$4,651,000 in 1979 and \$2,368,000 in 1978. The increase in premium on capital stock is the excess of the proceeds from sales over the \$10 par value of the common stock sold.

I • Preferred Stock — Redemption Not Required

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

Series	Redemption Price Per Share
3.60%	\$101
8.00%	\$104 to December 1, 1985 and \$101 thereafter
7.75%	\$107 to November 1, 1991, \$101 to November 1, 1996 and \$101 thereafter
8.80%	\$108.00 to January 1, 1994; \$105.82 to January 1, 1999; \$102.34 to January 1, 1994 and \$101 thereafter

The only increase in this account during the past three years was \$60,000,000 in 1978 representing the sale of the 8.80% Series of Serial Preferred Stock.

J • Preferred Stock — Redemption Required

In July 1980 the company issued 250,000 shares of Serial Preferred Stock, 10.875% Series. The redemption at \$100 per value of 6,250 shares is required annually on each September 1, from 1990 through 2009, with redemption of the remaining shares required on September 1, 2010. In addition to the mandatory redemption, the company may at its option redeem the stock at \$110.85 to September 1, 1991 and at declining amounts thereafter to \$100 after September 1, 2009. In the event of default in the payment of dividends or in the mandatory redemption requirements, no dividends or other distribution shall be declared on junior stock. In addition, no dividend shall be declared on any preferred stock class and series except ratably on all preferred shares according to their respective dividend rates.

K • Long Term Debt

The maturities and sinking fund requirements through 1985 for the aggregate amount of long term debt outstanding at December 31, 1980 are shown below. Of the annual sinking fund requirements, \$3,990,000 may be satisfied by certifying additional mortgaged property.

	Maturities	Sinking Fund
1981	\$ 2,137,000	\$ 6,300,000
1982	59,137,000	6,315,000
1983	—	6,150,000
1984	16,733,000	32,557,000
1985	—	33,960,000

Future sinking fund requirements have been anticipated by advance purchases of bonds to the extent of \$2,720,000 and certification of property in the amount of \$3,990,000. Sinking fund requirements for 1991 have been satisfied.

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

L • Notes Payable and Commercial Paper

Unused lines of credit for short term borrowing amounted to \$179,405,000 at December 31, 1980. In support of various informal lines of credit from banks, the companies have agreed to maintain unrestricted compensating balances. With the exception of funds required for daily operations, the cash balance shown on the balance sheet at December 31, 1980 as well as \$500,000 of non-interest bearing certificates of deposit included in temporary cash investments represent compensating balances.

M • Commitments and Contingencies

Plans for the construction and financing of future additions to utility plant can be found elsewhere in this report in "Management's Discussion and Analysis of Financial Condition and Results of Operations." Commitments for new generation facilities amounted to \$89 million at December 31, 1990.

The inclusion of nuclear fuel costs in the company's automatic fuel adjustment tariff and the collection of monies to cover future decommissioning costs for Point Beach Nuclear Plant are matters currently pending before the Wisconsin Court of Appeals. The company and the PSCW have appealed an earlier circuit court judgment which had reversed certain provisions of a 1979 rate order providing for inclusion of nuclear fuel in the fuel clause tariff and collection through rates of monies to cover the decommissioning costs. The ultimate impact of the circuit court's judgment, if upheld on appeal, cannot be determined at this time. If nuclear fuel is ultimately eliminated from the automatic fuel adjustment tariff, the company would generally seek to offset changes in nuclear fuel expense through adjustment of its base rates from time to time to include recovery of estimated future nuclear fuel expense.

In its interim rate order of January 15, 1981, pending disposition of the above described issues, the PSCW established a limitation in the tariff which prevents the company from recovering in any month the nuclear fuel costs in excess of estimated average cost of nuclear fuel found to be appropriate. The \$75,946,000 annual increase in electric service rates granted by the interim order will be collected subject to refund pending a final rate order.

On October 9, 1980 the PSCW issued a final rate order which provided that revenues to cover costs attributable to Point Beach Unit 1 steam generator problems, estimated to be \$7,416,000 through December 31, 1980, are subject to refund, plus interest, in the event the PSCW finds these problems were caused by imprudent management. In the opinion of management, the actions taken in operating and maintaining Point Beach Nuclear Plant were reasonable and prudent and such expenditures should, therefore, be recognized for ratemaking purposes.

Pursuant to the PSCW's March 1979 order, the company wrote off throughout 1979 its share (\$2.3 million after income tax effect) of certain capitalized expenditures related to the discontinued Koshkonong nuclear plant project. The write-off reduced 1979 earnings by \$0.12 a share. In issuing its order the PSCW deemed that such expenditures were prudently made, but of no future value. In late 1979 the Brown County Circuit Court found that such expenditures were prudently made and were not to be charged to the stockholders, and therefore reversed and remanded the order to the PSCW for modification. The company and other participating utilities subsequently filed a motion with the PSCW requesting reinstatement of the expenditures written off and proposing a formula to recover such expenditures through rates in subsequent separate utility rate dockets. The PSCW has not acted upon the utilities' motion but appealed the circuit court decision to the Court of Appeals, which subsequently dismissed the appeal. The matter is presently pending before the Wisconsin Supreme Court.

N • Information by Segments of Business

Year Ended December 31	(Thousands of Dollars)	1980	1979	1978
Electric Operations				
Revenue from unaffiliated customers		\$ 761,051	\$ 667,757	\$ 583,162
Intersegment sales		181	206	199
Operating revenues		761,232	667,963	583,360
Operating income before income taxes		181,138	160,655	153,948
Depreciation — straight line		60,992	52,619	47,432
Construction expenditures		276,929	238,728	212,063
Gas Operations				
Revenue from unaffiliated customers		237,932	191,238	161,177
Intersegment sales		21,588	24,584	3,234
Operating revenues		259,520	215,822	164,401
Operating income before income taxes		14,794	20,027	18,908
Depreciation — straight line		7,311	6,697	6,217
Construction expenditures		16,240	12,772	8,153
Steam Operations				
Operating revenues (unaffiliated)		8,162	8,570	8,272
Operating income before income taxes		1,189	1,540	1,963
Depreciation — straight line		546	539	511
Construction expenditures		760	243	273
Consolidated				
Operating revenues (excluding intersegment sales eliminated in consolidation)		1,007,145	867,585	752,611
Operating income before income taxes		197,121	182,223	174,819
Depreciation — straight line		68,649	59,855	54,160
Construction expenditures (including nonutility)		294,102	252,258	220,563
At December 31				
Net Identifiable Assets				
Electric		\$1,820,679	\$1,643,722	\$1,367,513
Gas		190,555	163,635	159,369
Steam and nonutility		19,007	18,307	18,260
Total Consolidated Assets		\$2,030,241	\$1,825,664	\$1,545,142

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

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheet and statement of capitalization and the related consolidated statements of income, retained earnings and dividends, and federal income taxes for fully the financial periods of Wisconsin Electric Power Company and its subsidiaries at December 31, 1960 and 1970, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1970, are in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

MILWAUKEE, WISCONSIN
January 29, 1971

WISCONSIN ELECTRIC POWER COMPANY

1981 Internal Cash Flow Projection
for Point Beach Nuclear Power Station
(Dollars in Millions)

	Actual 1980	Projected 1981
Net Income After Taxes	82	83
Less Dividends Paid	(62)	(67)
Retained Earnings	20	16
Adjustments:		
Depreciation and Amortization	69	83
Deferred Income Taxes and Investment Tax Credits	54	38
Allowance for Funds Used During Construction	(14)	(9)
Total Adjustments	109	112
Internal Cash Flow	<u>129</u>	<u>128</u>
Average Quarterly Cash Flow *	<u>32.25</u>	<u>32.00</u>
Percentage Ownership in all Operating Nuclear Units	Unit No. 1 Unit No. 2	100% 100%
Maximum Total Contingent Liability	<u>\$20,000,000</u>	

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

CERTIFICATION:

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

Dated February 16, 1981

By

Treasurer