WISCONSIN ELECTRIC POWER COMPANY

1982 ANNUAL REPORT

"The view, for Wisconsin Electric and its customers, shareholders and employes, is indeed bright."

productivity and cost advantages of operating profitably in the [illegible] system.

The area that Wisconsin Electric serves is a blend of [illegible] and [illegible], as shown in the photographs on these pages. [illegible]

[illegible]

[illegible] factories produce goods for world markets and farms [illegible] for recreation [illegible]

[illegible]

Volume 60, Number 11
November 1982

Electric Light & Power

THE NEWS MAGAZINE OF ELECTRIC UTILITY MANAGEMENT AND TECHNOLOGY

WEPCo named Electric Utility of Year

BARRINGTON, IL—Wisconsin Electric Power Co., which serves three territories in Wisconsin and the Upper Peninsula of Michigan, has been chosen Electric Utility of the Year for 1982. The announcement ... *Electric Light & Power* ... Chief Robert ...

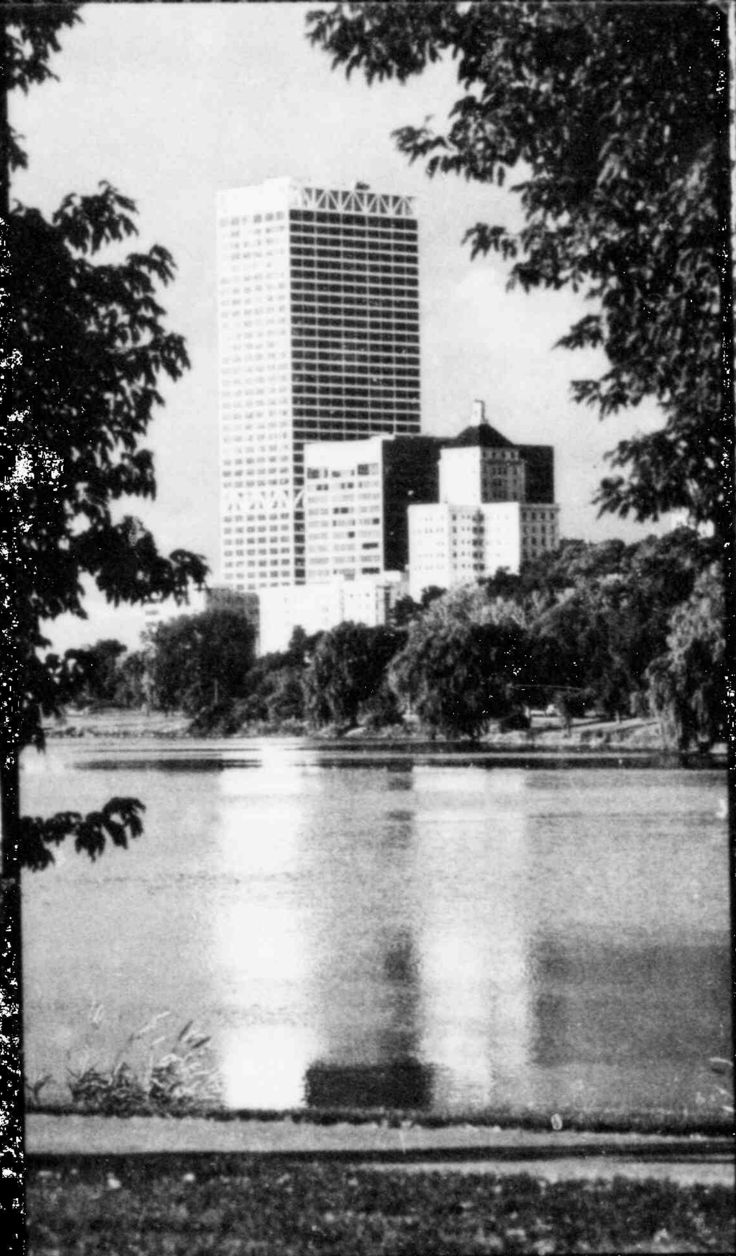
... lysts as "difficult" were important factors in company management's ability to gain better control of its own future prospects than many other utilities are capable.

... has curtailed its construct- ... the point where it an- ... additions until 1992 beyond the three projects now being finished. As a result, the company believes it will be able to meet 93 percent of its construction fund requirements, and 69 percent of total capital needs, from internal generation.

WEPCo's heavy emphasis on two-way communication with its publics—customers, shareholders and employees—also was rated heavily in the decision, along with the company's two-year budgeting procedure that allows rate increases to begin with the start of the target year, instead of part way through the year.

The Wisconsin utility, which serves some 2-million people in its three operating territories in the industrialized Milwaukee-Southeast Wisconsin; Appleton (WI) and Upper Peninsula (MI) areas, is the 14th electric ... award since incep- ... in 1969. Last ... City Elec-

strengthen



Wisconsin Business Is In A Fine State

that "Wisconsin Business is in a Fine State." The program, outlined at meetings with community leaders in key service area cities, focuses on efforts to attract new industry and to encourage existing business to expand.

The Wisconsin Electric program has received the support of leaders in industry, labor and government. Many service area executives have volunteered to become "ambassadors" to discuss Wisconsin business conditions with their counterparts in other states. Television, newspaper and business magazine editorials have commended the Wisconsin Electric activity.

The economic development campaign stresses the positive changes made in Wisconsin's tax laws in the 1970s, creating a business climate superior to other Midwestern states. The program also highlights Wisconsin's higher-than-average labor

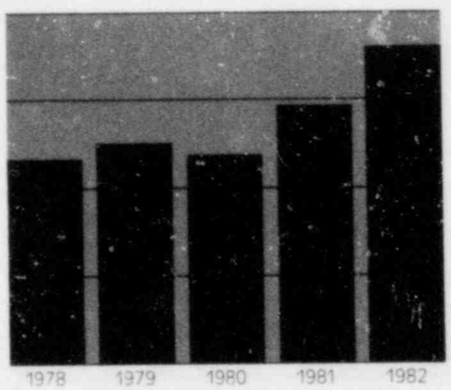
Highlights

	1982	1981	Per Cent Increase (Decrease)
Earnings per Share of Common Stock*	**$3.60**	$2.93	22.9
Dividends per Share of Common Stock*	**$1.902**	$1.76	8.1
Total Operating Revenues	**$1,302,910,000**	$1,152,383,000	13.1
Earnings Available for Common Stockholders	**$ 116,558,000**	$ 90,415,000	28.9
Average Number of Common Shares Outstanding*	**32,402,000**	30,894,000	4.9
Electric Sales to Retail, Municipal and Cooperative Customers (thousand KWH)	**17,059,317**	17,399,450	(2.0)
Gas Sales (thousand therms)	**632,326**	652,171	(3.0)
Retail, Municipal and Cooperative Customers (year-end)			
Electric	**818,843**	812,834	0.7
Gas	**217,983**	215,520	1.1

*Adjusted for July 1982 3-for-2 common stock split

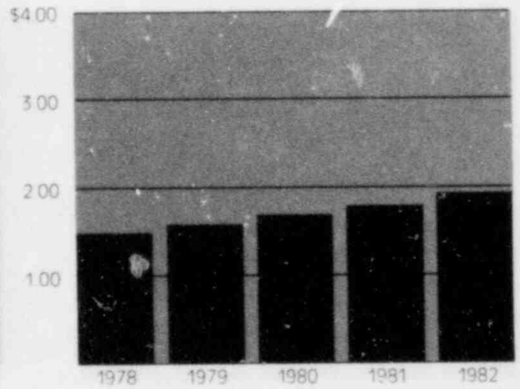
Earnings per Share of Com. Stock

Adjusted for 3-for-2 Stock Split



Dividends per Share of Com. Stock

Adjusted for 3-for-2 Stock Split



ON THE COVER — The medallion commemorates the selection of the company as "Electric Utility of the Year" by Electric Light & Power magazine. The quotation is from an article in EL&P's November 1982 issue.

Annual Meeting

The annual meeting of Wisconsin Electric Power Co. stockholders will be held at 2 p.m. on May 10, 1983 at the Red Carpet Hotel, 4747 S. Howell Ave., Milwaukee, Wis. In order to ensure your participation in the annual meeting, we encourage you to vote, sign and return your proxy promptly.

Report to Stockholders

Charles McNeer and Russell Britt.

The year 1982 was one of achievement on many fronts for Wisconsin Electric, highlighted by a solid increase in earnings and selection of the company as electric utility of the year.

Revenues for the year increased 13 percent over 1981, and earnings per share of common stock improved from $2.93 a share in 1981 to $3.60 a share in 1982, after being adjusted for the three-for-two stock split completed in July.

Common stock dividend payments were increased from $1.76 a share in 1981 to $1.90 a share in 1982, also adjusted for the stock split. It was the 22nd consecutive year in which dividend payments have risen.

The company's sound performance in 1982, coupled with better stock market conditions, contributed to a substantial improvement in the price of Wisconsin Electric common stock. The market price of WE common stock increased more than 25 percent during the year.

We believe that Wisconsin Electric's 1982 performance, achieved in a year of considerable economic difficulty, says something important about the fundamental strengths of the company.

Our efficient system operation and careful control of expenses have kept our electric rates among the lowest of the nation's largest metropolitan areas. Gas rates have risen at a faster pace because of higher prices from our pipeline supplier, but only two increases have been needed in the past six years to cover other gas operating costs.

However, we have not been hesitant to seek rate increases when those increases were necessary to offset rising expenses, and we have been successful in reducing "regulatory lag" by a system of long-term budgeting and early filing of rate increase requests.

The company's good performance in 1982 came despite the recession and unusually warm weather in the fourth quarter, which caused declines in both electric and gas sales, compared to the previous year. Rate increases contributed $66 million to revenues during the year, and electric and gas increases approved in late 1982 are expected to increase 1983 revenues by approximately $53 million.

The industrial character of the company's service area remains basically strong, although production cutbacks and layoffs were common in Wisconsin as in other parts of the nation. The manufacturing base of the service area is well diversified and includes many firms which are industry leaders. The operations at many of these concerns are illustrated on the following pages.

The company believes, however, that a major effort is needed to support and stimulate future economic activity in Wisconsin. We are working closely with business, government and labor leaders in a coordinated effort to improve the state's economic base. The program seeks to attract new business firms as well as encourage modernization and expansion of existing industries. The first success in this effort came in early 1983, with the announcement that a major robotics manufacturer is moving its national headquarters to the Milwaukee area.

As reported in previous annual reports, the company is financially strong and well-positioned to meet the future energy requirements of our service territory.

A program to control peak demand for electricity, established in the mid-1970s, has been highly effective. Wisconsin Electric was one of the pioneers in efforts to control peak demand, establishing innovative rates and developing aggressive load management and conservation strategies.

The success of these programs has led to leveling off in the peak demand for electricity, and has allowed the company to significantly reduce future construction expenditures.

The manageable size of our construction program is one of the factors which sets Wisconsin Electric apart from most of the nation's utilities and enhances the company's future prospects. At present, construction continues on Unit 2 of the coal-fired Pleasant Prairie Power Plant, scheduled to begin operation in 1984. We also own 25 percent interest in a coal plant being built by another utility, planned for 1985 operation. No other plants are in the planning stages, and we do not expect to need additional generating capacity until at least the mid-1990s. Because of the moderate size of our construction program, we plan to raise 75 percent of our capital requirements from internal sources during the next four years.

Last year 96 percent of the electricity generated by the company came from coal and nuclear plants, with higher priced oil and natural gas used only at times of peak demand. We expect to continue to rely on this favorable fuel mix for the remainder of the century.

Ample natural gas supplies are available to meet present and future customer needs of our subsidiary, Wisconsin Natural Gas Co. As natural gas prices continue to rise, we foresee increased competition from oil for some customer applications. Accordingly, Wisconsin Natural is encouraging installation of high-efficiency gas appliances as part of a major load retention activity.

Over the years we have worked aggressively to improve efficiency and productivity because we believe these efforts are a measure of management performance which benefits both stockholders and customers. Those efforts have been successsful in the past and will be pursued with vigor in the future.

We are gratified that the performance of our employes and our management team was recognized in 1982 with the company's selection as electric utility of the year. But, despite the outstanding performance recorded in this report and a promising forecast, the future is not without challenge.

We live in a world of rapid political and economic transition, and all around us decisions are being made in legislatures and agencies of the government that will be crucial to our business operations. Our experience continues to confirm that future success depends not only on doing our jobs well, but also in helping formulate public policies that permit us to do so.

Particularly in these times of tighter governmental budgets it is important for us—both as corporate citizens and as individual stockholders, employes and customers—to be actively involved in the governmental process. To do less is to ignore our responsibilities as citizens.

Many important decisions that could affect future business prospects will be decided at the federal and state levels during the coming months. We will keep you informed on issues as they develop and urge you, as stockholders, to make your views known to your elected officials.

We also will report to you any development in our plans for diversification into new business areas. These plans have been delayed pending a Public Service Commission of Wisconsin decision regarding its jurisdiction over the proposed corporate restructuring.

While there are uncertainties ahead, we believe the positive factors in this letter point to great opportunities and a promising future for Wisconsin Electric. Perhaps the quote from the Electric Light & Power article naming the company utility of the year says it best: "The view, for Wisconsin Electric and for its customers, shareholders and employes, is indeed bright."

Charles S. McNeer

Charles S. McNeer
Chairman of the Board and
Chief Executive Officer

Russell W. Britt

Russell W. Britt
President and
Chief Operating Officer

March 17, 1983

Innovation Continues Strong

Innovation has long been a tradition at Wisconsin Electric.

The concept of burning pulverized coal as boiler fuel, a step that revolutionized the electric industry, was proven at a Wisconsin Electric power plant. The world's first power plant to operate exclusively on pulverized coal was built by the company, and a later plant held the world generating efficiency record for 13 consecutive years.

The company was an early leader in the use of nuclear power, and innovations built into the Point Beach Nuclear Plant have helped it consistently rank among the nation's most efficient and dependable nuclear facilities.

One of the first liquefied natural gas storage plants was built by our gas subsidiary.

These innovations have benefited both stockholders and customers, allowing us to provide dependable energy services at reasonable costs.

Today, the tradition of innovation continues strong as we seek new ideas to help our customers use energy more effectively. This spirit of innovation says that the old ways may not always be the best, and recognizes that new methods will be needed to reflect the changing realities of a changing society.

In the mid-1970s, the economics of the electric utility business changed. The company realized that new initiatives would be needed to operate successfully in the last quarter of the 20th century.

So, a major change in corporate strategy evolved.

Wisconsin Electric moved aggressively to control the growth in peak electric demand, encourage conservation and develop new pricing policies to more accurately reflect the cost of producing electric energy. This load control program continues today.

Holding down demand for electricity is important in today's business climate because lower peak load growth delays the need for more expensive new power plants and extends the time we have to finance and put these facilities into service.

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

Almost 85,000 water heater control units have been installed and eventually we expect to have more than 100,000 water heaters connected to this system. Participation in the program is voluntary and those who do take part receive a monthly credit on their electric bills.

(Above) Miller Electric Mfg. Co. of Appleton, Wis., is a major manufacturer of electric arc welding equipment.
(Left) General Electric Medical Systems, headquartered in Waukesha, Wis., is one of the world's largest manufacturers of high-technology medical diagnostic imaging equipment.


ASEA
ASEA

A number of rate changes, implemented to more accurately reflect the cost of providing service, have also contributed to a leveling off in the peak demand for electricity. By providing a "price signal" to customers, time-of-use and seasonal rates have encouraged shifting of energy use to off-peak times.

About 50 percent of the electricity sold by the company in 1982 was billed on time-of-use rates which price electricity higher on weekdays and lower at night, on weekends and holidays. Time-of-use rates now apply to all the company's industrial and major commercial customers, as well as our larger residential customers. Time-of-use rates are also available to other residential customers on a voluntary basis.

These innovative load control programs, combined with overall customer conservation, have been highly successful. As a result, we will not need to build as many power plants in this decade as originally planned. This has allowed us to reduce our construction budget for the 1980s by $1.5 billion.

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

(Above) Globe Battery Division of Johnson Controls, Glendale, Wis., is the largest producer of automotive batteries in the U.S. (Left) Robots and robotic systems are produced in ASEA's New Berlin, Wis. facility.

Plant Construction Progresses

Although our long-term construction program has been sharply reduced, construction continued throughout 1982 on the second 580,000-kilowatt generating unit at the coal-fired Pleasant Prairie Power Plant near Kenosha. This new facility, which burns low-sulfur coal, will double the size of the plant when completed in 1984. The first Pleasant Prairie unit began operation in 1980.

The only other capacity addition scheduled in the 1980s will come from the company's one-quarter share of the 380,000-kilowatt coal-fired power plant being built by Wisconsin Power and Light Co. That unit is scheduled for completion in 1985. No additional generating facilities will be needed until at least the mid-1990s.

When these two generating units begin operation, more than 50 percent of the company's generating capability will be less than 15 years old. East Wells Power Plant, the company's oldest generating plant, was retired in 1982 after 92 years of operation. The 61-year-old Lakeside plant is scheduled to close in 1983.

The company is planning to replace the steam generators in Unit 1 of the Point Beach Nuclear Plant in 1983 and install sleeving in some


14 15 16 17 18 19 20

steam generator tubes in Unit 2.

The Point Beach repairs are necessary because of corrosion in some of the steam generator tubes. While this corrosion is not a safety concern, it has reduced the capacity of Unit 1. The repairs are intended to return Unit 1 to maximum capability and reduce maintenance costs for both units.

Also producing electricity for our customers are new "power plants" fueled by the wind and sun, as part of our continuing program to study alternate energy sources. Three wind generators and two photovoltaic systems, consisting of a series of cells capable of producing electricity directly from sunlight, are now in operation. A third photovoltaic array and another wind generator will be installed in 1983.

While these experimental wind and solar units are small in size, they reflect the company's commitment to conduct research in alternate energy sources. Information obtained from these installations will be shared with customers and utility research groups.

Customer Services Improved

Both Wisconsin Electric and Wisconsin Natural took major steps in 1982 to improve services to customers. Installation was completed on a new computerized customer billing and information system for Wisconsin Electric. The new system allows customer service representatives to greatly speed up handling of service orders and customer inquiries. Wisconsin Natural is developing a similar system by adding to its present information retrieval methods.

The company has an active Consumer Advisory Council composed of members representing a broad spectrum of customer groups. The council meets monthly and makes recommendations to the company on various phases of operation. The dialogue between the company and consumers was expanded during 1982 with the establishment of consumer advisory committees in several of our operating divisions. These committees operate much like our system-wide council and have played an important role in resolving consumer questions on the local level. Separate committees composed of renters and landlords also have been established to help resolve problems unique to these customers.

The company also maintains contact with various community groups through the developing Wisconsin Energy and Older Adult Network, and targeted newsletters which are sent quarterly to consumer leaders, older adults, educators and community leaders interested in economic development.

In early 1983, the company announced establishment of a customer assistance fund designed to help low income and elderly customers

(Above) The RTE Corp. manufactures transformers, switches and fuses at its Waukesha, Wis., plant.
(Left) The Renault Alliance, Motor Trend magazine's 1983 Car of the Year, is produced by American Motors Corp. in Kenosha, Wis.

who have trouble paying their energy bills. The company is contributing $100,000 to establish this "Good Neighbor Energy Fund," and employes and customers are being asked to donate $1 a month to the fund. Distributions from the fund will be made by a designated community organization.

Energy Conservation Stressed

Efforts to encourage energy conservation by customers continued at an accelerated pace during 1982.

Home energy checkups, conducted by employe specialists at Wisconsin Electric and Wisconsin Natural Gas, play an important role in helping customers use our services most effectively. WE and WN energy auditors performed a record 29,000 home energy checkups in 1982, bringing to 74,000 the number of home surveys since the program was established by our gas subsidiary five years ago. The companies plan to conduct an additional 26,000 home energy checkups in 1983. Energy auditors make recommendations on insulation, storm windows and doors, weatherstripping, caulking, thermostat settings, timing devices and appliance efficiency.

Wisconsin Electric and Wisconsin Natural Gas also actively promote energy conservation through media advertising, "how to" booklets, community presentations and at exhibits at fairs and energy shows. Conservation messages are available on the company's Energy Facts Phone, which provides customers with quick access to a tape library of energy information.

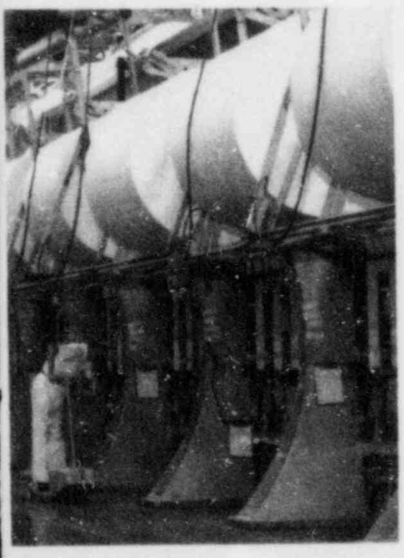
Weatherization assistance programs are now being offered for low income gas and electric customers. The WN program is designed primarily to aid elderly customers who heat with natural gas, while the WE program assists low income customers who have electric water heaters, heat with electricity or oil, or need air conditioning for health reasons. All electric water heating customers are eligible for a "Wrap-up, Seal-up" program which allows them to purchase weatherization services at discount prices.

Improving Effectiveness

Programs to increase employe effectiveness have been ongoing at Wisconsin Electric for many years and are continuing to make improvements in overall company productivity and efficiency.

A new "Quality Circles" program was started during the year. This program consists of small groups of employes who voluntarily meet regularly on company time to identify and analyze areas for improvement, recommend changes to management and, upon approval, carry out implementation. Enthusiasm for the program has been high and additional Quality Circles will be organized in 1983.

Refinement of the Management



(Above) Rolls of paper are converted into facial tissue and other products at Kimberly-Clark's mill in Neenah, Wis.
(Left) Product designers work with computer-aided design facilities at Allen-Bradley Co., Milwaukee, a leading producer of factory automation control systems.


Glade

By Objectives program was continued during 1982. This program, by its very nature, aims at improving the effectiveness of the work force. Under the program all management employes determine goals and work toward their attainment.

The company also maintains a wage incentive system, for certain types of employes, known as mutual gainsharing. This system rewards superior work output by paying an incentive bonus. Another productivity-oriented program is the compatible units system which applies to our outside electrical construction crews. This system ties together the layout of facilities, procurement of equipment and materials, performance of the work and related accounting requirements.

In the power plant area, a maintenance management system utilizes labor standards for planning, scheduling and measuring work output. The system is now operating at the Pleasant Prairie Power Plant and is being instituted at our Oak Creek facility.

Results of employe surveys show that employes are interested in improved productivity and efficiency. We look forward to our employes' continued active support in the further improvement of our overall effectiveness.

New Officers Named

Charles S. McNeer was elected chairman of the board and chief executive officer of Wisconsin Electric by the board of directors following the annual stockholders meeting in May. Russell W. Britt was named president and chief operating officer.

McNeer had been president and chief executive officer and Britt an executive vice president of Wisconsin Electric since 1975.

In October, John W. Boston was elected a senior vice president of Wisconsin Electric, with responsibility for the Engineering and Construction Department and System Operations Department.

Boston came to WE from the Power Authority of the State of New York, where he was executive vice president-procedures and performance. He also served as executive vice president and director of power operations at PASNY.

Carlyle W. Fay and Kenneth E. Wolters were elected vice presidents of the company in December 1982.

Fay was named vice president-nuclear power. He had joined the company in 1966 and was appointed an assistant vice president a year ago.

Wolters was promoted to vice president-system operations, succeeding Philip G. Sikes who retired Jan. 1, 1983 after 31 years of service. Wolters was employed in 1950 and had been named assistant director-system operations earlier in 1982.

(Above) Harley-Davidson, headquartered in Milwaukee, is the only motorcycle manufacturer in the United States.
(Left) Johnson Wax in Racine, Wis., is one of the world's leading manufacturers of chemical specialty products for home, auto and personal care.

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

Liquidity and Capital Resources

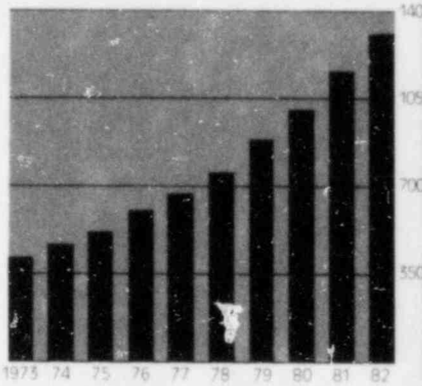
Wisconsin Electric Power Co.'s capital requirements for the three years ended Dec. 31, 1982 totaled $876 million. Sixty-seven percent of this amount was for construction of new or improved facilities, 14 percent for the reduction of short-term debt, 9 percent for acquisition of nuclear fuel, 9 percent for retirement of long-term debt, and 1 percent for increases in working capital. The company acquired $490 million, or 56 percent, of its capital requirements during this period through internal sources of cash. Such internal sources of cash consisted principally of depreciation accruals, normalization of investment tax credits and retained earnings. The remaining $386 million of the company's capital requirements during the period was supplied through the issue of $156 million of additional long-term debt, sale and leaseback of $117 million of nuclear fuel, $77 million of additional common stock, $25 million of additional preferred stock, and $11 million from contributions and advances in aid of construction. All sales of common stock during the period were made through either the company's Automatic Dividend Reinvestment and Stock Purchase Plan or its Tax Reduction Act Stock Ownership Plan.

At Dec. 31, 1982, the company's capitalization consisted of 43 percent long-term debt, 11 percent preferred stock and 46 percent common equity. The company's short-term indebtedness at that date consisted of $5 million of notes payable. Leased nuclear fuel and short-term debt was less than 4 percent and 1 percent, respectively, of capitalization. The company also, on that date, had $8 million of short-term investments available, which could be used to finance a portion of the company's anticipated capital requirements, as well as $103 million in lines of bank credit.

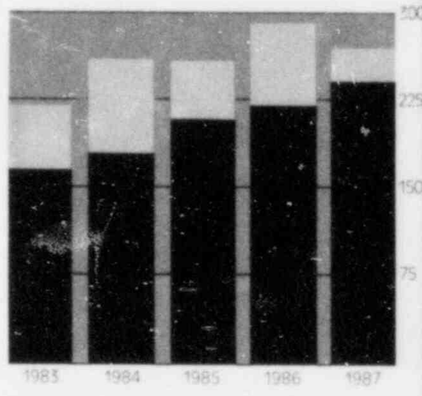
The company has a nuclear fuel lease with a trust which issues commercial paper backed by a line of revolving bank credit of $75 million. The line of revolving bank credit would generally be available to finance the trust's ownership of the nuclear fuel for a period of three years if the trust were unable to sell its commercial paper. The company is in effect the ultimate guarantor of the commercial paper and the revolving bank credit. At Dec. 31, 1982, the trust had $65 million of commercial paper outstanding.

The company estimates that for the four years 1983 through 1986 its capital requirements will aggregate $1 billion of which 75 percent

Total Operating Revenues
Millions of dollars



Sources of Capital (Estimated)
Millions of dollars



will be required for construction expenditures. Estimated construction expenditures for new power plants during this period include $81 million for completion of the 580-megawatt Unit 2 at Pleasant Prairie Power Plant and $36 million for the company's 25 percent undivided interest in the 380-megawatt Edgewater Unit 5 which is being constructed by Wisconsin Power and Light Co. The other estimated construction expenditures are primarily for improvements to existing power plants, for additions to and replacements of portions of the distribution and transmission system, for new service centers and for other buildings and equipment. The balance of capital requirements during this period is principally for sinking funds and maturities of long-term debt.

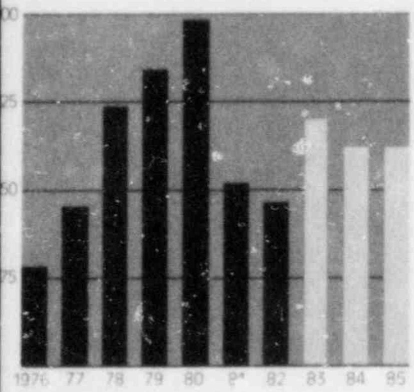
The company believes that it will be able to obtain capital in sufficient amounts to meet its capital requirements over the four years ending Dec. 31, 1986 provided that adequate rate relief can be obtained from regulatory authorities to permit the company to maintain its credit worthiness during the period. The company expects to provide 75 percent of its capital requirements during this period from internal sources. The remaining 25 percent of the company's capital requirements during this period are expected to be met principally through a combination of the sale of common stock through the company's stock plans and the sale of long-term debt.

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

The company's embedded cost of long-term debt outstanding at Dec. 31, 1979 was 7.02 percent and had climbed to 8.10 percent at Dec. 31, 1982, reflecting primarily the substantially higher interest rates on the aggregate $150 million principal amount of debt issued in 1980. This intermediate-term debt is scheduled to be retired through sinking fund provisions, beginning in 1984 and extending through 1987. As a result, the company believes its embedded cost of debt will remain stable through this period.

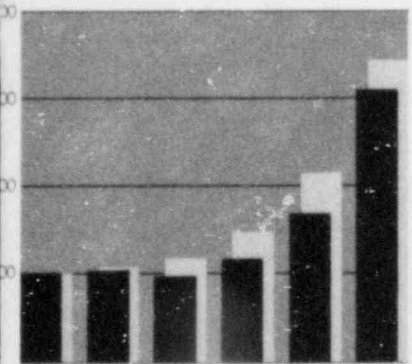
Construction Expenditures

Millions of dollars



Residential Electricity Costs Vs. Consumer Price Index.

1957 Index = 100
U.S. Consumer Price Index
Residential Cost per KWH



Results of Operations

Earnings per share of common stock increased to $3.60 in 1982 from $2.93 in 1981, due principally to increased revenue and continued close control of operating expenses. Rate increases totaling $89 million, on an annual basis, were granted in 1982. The company estimates that of this amount approximately 75 percent, or $66 million, was included in 1982 revenues. This high percentage reflects the fact that, in the company's principal jurisdiction, rate orders have been granted by the Public Service Commission of Wisconsin near the beginning of the test year, substantially reducing regulatory lag. The impact of the higher rates on earnings was offset slightly by lower unit sales.

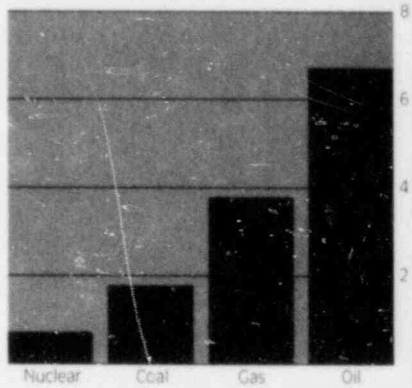
Electric sales to retail and municipal customers declined by 2.0 percent in 1982 from 1981, and gas therm sales declined by 3.0 percent from 1981 levels, reflecting the depressed economic activity in the company's service area. Electric kilowatt-hour and gas therm sales to large commercial and industrial customers declined 5.6 percent and 14.2 percent, respectively, in 1982 from 1981.

For the three years ended Dec. 31, 1982, sales of electricity decreased 2.2 percent, while the cost of fuel and purchased power grew at a compound annual rate of 5.9 percent. Other electric operating expenses, excluding income taxes, increased at a rate of 15.3 percent. General rate increases accounted for approximately 90 percent of the increase in electric revenues during this period. The balance reflects principally the recovery of increases in fuel and purchased power costs through fuel adjustment clauses in the company's tariffs.

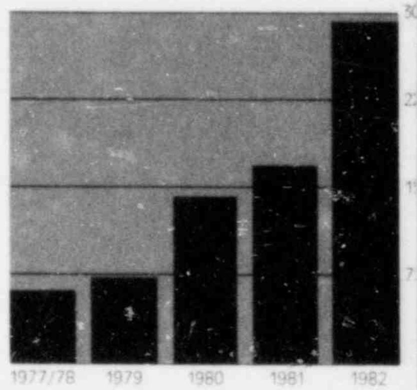
Over the same three-year period, gas therm sales decreased 10.4 percent, while the cost of gas purchased for resale grew at a compound annual rate of 20.7 percent. Other gas operating expenses, excluding income taxes, increased at a rate of 12.1 percent. The rapid increase in the cost of gas purchased for resale reflects primarily higher cost of natural gas received from the company's pipeline supplier. Virtually all of the increase in the cost of gas purchased for resale was recovered through purchased gas adjustment clauses and accounted for approximately 85 percent of the increase in gas revenues during the period. The balance reflects primarily rate relief granted in the third quarter of 1981 and, to a lesser extent, rate relief granted in 1982.

The rapid escalation in the cost of natural gas and recent declines in the cost of fuel oil may result in erosion of sales to large commer-

Unit Costs of Fuel
Dollars per million BTU

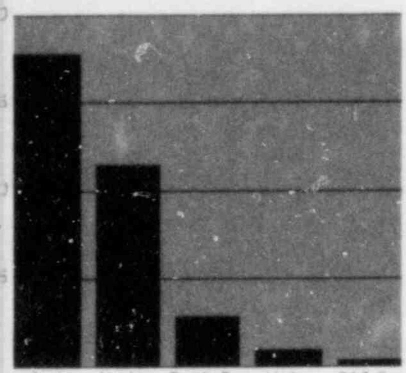


Home Energy Checkups
In Thousands



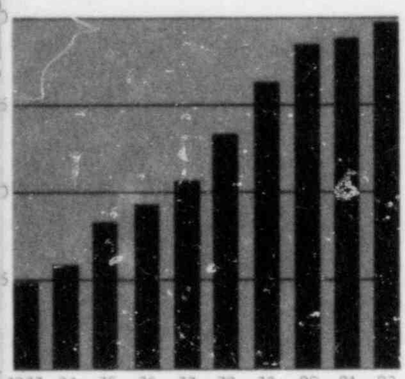
Sources of Electric Energy

Percent



Total Electric Fuel and Purchased Power Cost

Millions of Dollars



cial and industrial customers if certain of those customers with dual-fuel capacity switch to fuel oil. A special rate has been approved by the PSCW for these customers in order to attempt to retain such large volume customers.

Assuming an improvement in the economy, the company anticipates that sales of electricity will grow at a compound annual rate of 2.8 percent over the four years ending Dec. 31, 1986. That rate assumes continued conservation by customers, a practice endorsed by the company. The company expects little change in sales of natural gas over the next four years.

Costs of operations and capital are expected to continue to increase but at a more moderate rate because of a reduction in the rate of inflation. The financial viability of the company will be dependent upon regulatory bodies granting prompt rate increases from time to time to meet rising costs for materials, taxes, wages and capital, and on the company continuing to recover costs of fuel, purchased power and purchased gas. For supplementary information concerning the effects of inflation, see Note N to the Financial Statements.

Information Available

Stock Held in Street Name

The company maintains a direct mailing list to ensure that shareholders whose stock is held in broker accounts may receive information on a timely basis. If you would like your name added to this list, please send your request to the company's Transfer Agent at:

231 W. Michigan St.
P.O. Box 2046
Milwaukee, WI 53201

Shareholder Inquiries

Inquiries concerning the transfer of shares, lost certificates, dividends, dividend reinvestment and change of address should be made by writing to the Transfer Agent at the above listed address or by calling the Stockholder Hotline.

Form 10-K

The company will provide without charge to any stockholder of record or beneficial owner of the company's stock, upon written request, a copy of the company's annual report for the year 1982 to the Securities and Exchange Commission on Form 10-K. Such requests should be directed to the company's Secretary, 231 W. Michigan St., P.O. Box 2046, Milwaukee, WI 53201.

10-Year Statistical Report

A copy of Wisconsin Electric's 1982 10-Year Statistical Report also is available by writing the company's Secretary at the above address.

Income Statement • Year ended December 31

(Thousands of Dollars)

	1982	1981	1980
Operating Revenues			
Electric	**$ 974,788**	$ 869,977	$ 761,051
Gas	**317,225**	273,065	237,932
Steam	**10,897**	9,341	8,162
Total Operating Revenues	**1,302,910**	1,152,383	1,007,145
Operating Expenses			
Fuel (Note A)	**261,992**	256,045	215,604
Purchased power	**37,310**	30,509	63,203
Gas purchased for resale	**253,070**	224,651	190,598
Other operation expenses (Note B)	**200,091**	172,120	158,426
Maintenance	**103,805**	[illegible]	78,095
Taxes other than income taxes	**49,099**	4[illegible],576	35,249
Depreciation (Note C)			
Straight line	**85,010**	78,600	68,849
Deferred income taxes (Note D)	**17,027**	29,192	22,081
Federal income tax (Note D)	**72,464**	33,676	1,316
Investment tax credit adjustments—net (Note D)	**10,557**	15,581	32,024
State income tax (Note D)	**15,404**	9,601	2,623
Total Operating Expenses	**1,105,829**	980,215	868,068
Operating Income	**197,081**	172,168	139,077
Other Income and Deductions			
Interest income	**9,305**	7,156	3,897
Allowance for other funds used during construction (Note E)	**4,588**	3,155	5,330
Miscellaneous—net (Note M)	**(7,196)**	(151)	(190)
Federal income tax (Note D)	**(811)**	(2,852)	(2,274)
State income tax (Note D)	**(208)**	(515)	(378)
Total Other Income and Deductions	**5,678**	6,793	6,385
Income Before Interest Charges	**202,759**	178,961	145,462
Interest Charges			
Long term debt	**64,341**	65,344	52,304
Allowance for borrowed funds used during construction (Note E)	**(2,812)**	(3,557)	(8,338)
Other	**9,585**	11,672	19,008
Total Interest Charges	**71,114**	73,459	62,974
Net Income	**131,645**	105,502	82,488
Preferred Stock Dividend Requirement	**15,087**	15,087	13,520
Earnings Available for Common Stockholders	**$ 116,553**	$ 90,415	$ 68,968
Average Number of Shares of Common Stock Outstanding (Thousands)*	**32,402**	30,894	29,314
Earnings Per Share of Common Stock*	**$3.60**	$2.93	$2.35

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

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

Statement of Changes in Financial Position • Year ended December 31

(Thousands of Dollars)

	1982	1981	1980
Financial Resources Provided			
Operations			
Net income	**$131,645**	$105,502	$ 82,488
Depreciation—straight line	**85,010**	78,600	68,849
—deferred income taxes	**17,027**	29,192	22,081
Accumulated deferred investment tax credits	**8,442**	12,954	27,331
Nuclear fuel expense	**11,165**	7,573	8,431
Amortization of precertification expenditures	**9,137**	8,358	5,906
Write-off of additional construction costs	**5,000**	—	—
Allowance for funds used during construction	**(7,400)**	(6,712)	(13,668)
Total from operations	**260,026**	235,467	201,418
Common stock	**30,152**	25,260	21,767
Preferred stock	**—**	—	24,906
Long term debt	**6,904**	—	148,970
Sale of nuclear fuel	**27,112**	23,042	66,501
Release of construction funds held by trustees	**1,641**	2,578	20,633
Normalization of income taxes—precertification expenditures	**(3,363)**	(4,141)	9,939
Contributions and advances in aid of construction	**3,741**	3,282	4,369
Deferred charges/credits and other	**1,416**	(8,197)	4,638
	$327,629	$277,291	$503,141
Financial Resources Used			
Construction expenditures	**$139,621**	$154,814	$294,102
Nuclear fuel	**22,617**	32,813	31,260
Dividends	**76,521**	69,262	61,763
Retirement of long term debt	**60,425**	3,675	15,107
Reduction of short term borrowings	**14,983**	55,062	58,978
Construction funds held by trustees	**6,923**	—	—
Increase (decrease) in working capital (other than short term borrowings and long term debt due currently)	**6,539**	(38,335)	41,931
	$327,629	$277,291	$503,141
Increase (Decrease) in Components of Working Capital			
Cash and temporary cash investments	**$ (28,894)**	$ 39,027	$ (10,877)
Accounts receivable and accrued utility revenues	**1,588**	14,078	22,482
Fossil fuel	**21,626**	(16,283)	40,550
Accounts payable and accrued liabilities	**10,439**	(70,892)	(19,630)
Other	**1,780**	(4,265)	9,406
	$ 6,539	$ (38,335)	$ 41,931

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

Balance Sheet • December 31

		(Thousands of Dollars)
Assets	**1982**	1981
Utility Plant		
Electric	**$2,155,979**	$2,114,435
Gas	**219,091**	206,838
Steam	**19,259**	18,483
	2,394,329	2,339,756
Accumulated provision for depreciation	**(1,001,367)**	(913,402)
	1,392,462	1,426,354
Construction work in progress	**332,271**	266,546
Nuclear fuel (Note A)	**46,300**	46,976
Net Utility Plant	**1,771,033**	1,739,876
Nonutility Property	**8,999**	7,899
Accumulated provision for depreciation	**(2,037)**	(1,006)
Net Nonutility Property	**6,962**	6,893
Construction Funds Held by Trustees	**6,976**	1,694
Current Assets		
Cash	**7,210**	5,374
Temporary cash investments	**8,170**	38,900
Accounts receivable (Note F)	**54,533**	52,443
Accrued utility revenues	**106,845**	107,347
Fossil fuel (at average cost)	**105,072**	83,446
Materials and supplies (at average cost)	**42,001**	40,349
Prepayments and other assets	**5,700**	5,572
Total Current Assets	**329,531**	333,431
Deferred Charges and Other Assets	**16,796**	34,176
	$2,131,298	$2,116,070

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

Liabilities	1982	1981
	(Thousands of Dollars)	
Capitalization (See Capitalization Statement)		
Common Stock Equity (Note G)	**$ 775,173**	$ 690,186
Preferred Stock—Redemption Not Required (Note H)	**160,451**	160,451
Preferred Stock—Redemption Required (Note I)	**25,000**	25,000
Long Term Debt (Note J)	**737,720**	732,631
Total Capitalization	**1,698,344**	1,608,268
Current Liabilities		
Long term debt due currently (Note J)	**—**	59,119
Notes payable to banks (Note K)	**4,999**	19,982
Accounts payable	**93,390**	98,366
Payroll and vacation accrued	**15,977**	13,410
Taxes accrued—income and other	**74,252**	72,176
Interest accrued	**24,398**	19,195
Other	**7,524**	22,833
Total Current Liabilities	**220,540**	305,081
Deferred Credits and Other Liabilities		
Accumulated deferred investment tax credits	**122,281**	113,839
Nuclear fuel costs accrued	**30,891**	30,578
Unamortized accrued utility revenues	**16,889**	21,111
Other	**7,139**	5,656
Total Deferred Credits and Other Liabilities	**177,200**	171,184
Contributions in Aid of Construction	**35,214**	31,537
Commitments and Contingencies (Note M)		
	$2,131,298	$2,116,070

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

Capitalization Statement • December 31

(Thousands of Dollars)	1982	1981
Common Stock Equity* (Note G)		
Common Stock ($10 par value; authorized 41,000,000 shares; 33,216,164 and 31,732,460 shares issued)	**$ 332,162**	$ 317,325
Premium on Capital Stock	**79,914**	64,599
Retained Earnings	**363,097**	308,262
Total Common Stock Equity	**775,173**	690,186
Preferred Stock—Wisconsin Electric Power Company, Cumulative		
Six Per Cent. Preferred Stock—$100 par value; authorized 45,000 shares; 44,508 shares issued	**4,451**	4,451
Serial Preferred Stock—$25 par value; authorized 5,000,000 shares; unissued	**—**	—
Serial Preferred Stock—$100 par value; authorized 2,360,000 shares		
3.60% Series—260,000 shares issued	**26,000**	26,000
8.90% Series—400,000 shares issued	**40,000**	40,000
7.75% Series—300,000 shares issued	**30,000**	30,000
8.80% Series—600,000 shares issued	**60,000**	60,000
Total Preferred Stock—Redemption Not Required (Note H)	**160,451**	160,451
10.875% Series—250,000 shares issued, redeemable at par	**25,000**	25,000
Total Preferred Stock—Redemption Required (Note I)	**25,000**	25,000

Long Term Debt (Note J)
First Mortgage Bonds

Series — Due	1982	1981	Series — Due	1982	1981		
Wisconsin Electric Power Company							
3¼%—1982	**$ —**	$ 9,119	6⅝%—1998	**$ 9,822**	$ 9,832		
10.20%—1982	**—**	50,000	6⅞%—1998	**33,621**	33,698		
3⅛%—1984	**16,848**	17,177	6.10%—1999-2008	**25,000**	25,000		
3⅞%—1986	**21,207**	21,420	6.25%—1999-2008	**1,000**	1,000		
13¾%—1986	**80,000**	80,000	7¼%—1999	**38,973**	38,986		
11.40%—1987	**70,000**	70,000	8⅜%—1999	**39,537**	39,550		
4⅛%—1988	**22,191**	22,426	8½%—1999	**11,729**	11,756		
5%—1990	**26,701**	26,701	6.45%—2004	**12,000**	12,000		
4¾%—1991	**3,620**	3,620	8¾%—2006	**59,990**	60,000		
4½%—1993	**5,016**	5,049	6.45%—2006	**4,000**	4,000		
5⅞%—1996	**37,188**	37,255	6.50%—2007-2009	**10,000**	10,000		
6½%—1997	**11,507**	11,512	8⅞%—2008	**80,000**	80,000		
6⅞%—1997	**37,790**	37,907					
				657,740	718,008		
Wisconsin Natural Gas Company							
4¾%—1986	**3,631**	3,631	6⅜%—1992	**9,312**	9,324		
4⅜%—1987	**4,478**	4,479	8¾%—1994	**9,598**	9,611		
4⅞%—1990	**6,488**	6,513	8⅝%—1996	**9,738**	9,776		
				43,245	43,334	**700,985**	761,342

	1982	1981
Debentures (Unsecured)		
Wisconsin Electric Power Company—7% Series due 1993	**31,165**	31,942
Note (Unsecured)		
Wisconsin Electric Power Company—7¼% due 1985	**7,000**	—
Unamortized Discount—net	**(1,430)**	(1,534)
Long Term Debt Due Currently	**—**	(59,119)
Total Long Term Debt	**737,720**	732,631
T-tal Capitalization	**$1,698,344**	$1,608,268

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

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

Retained Earnings Statement • Year ended December 31

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

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

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

Notes to Financial Statements

Summary of Significant Accounting Policies

General

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

Revenues

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

Fuel

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

Nuclear fuel expense includes an estimate for offsite storage of spent nuclear fuel after removal from the reactor. No salvage value is recognized for spent nuclear fuel.

Gas Purchased for Resale

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

Property

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

Income Taxes

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

Debt Premium, Discount and Expense

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

A • Rental Expense

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

The nuclear fuel lease has been treated as an operating lease in the financial statements and by the PSCW in determining revenue requirements. The value of the leased fuel is not included in the company's rate base. Had the lease been accounted for as a capital lease, an asset and corresponding liability equal to the unamortized cost of the leased nuclear fuel would have been recorded at December 31 in the amounts of $53,036,000 in 1982, and $53,241,000 in 1981.

B • Pension Plans

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

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

	December 31		
(Thousands of Dollars)	1982	1981	1980
Actuarial present value of accumulated plan benefits:			
Vested benefits	$150,067	$135,817	$120,307
Nonvested benefits	10,050	7,554	5,567
	$160,117	$143,371	$125,874
Net plan assets	$182,083	$137,037	$131,088

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

C • Depreciation

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

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

Straight line depreciation as a percent of average depreciable utility plant was 3.8% in 1982 and 3.6% in 1981 and 1980.

D • Income Tax Expense

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

(Thousands of Dollars)	1982	1981	1980
Current tax expense	$ 86,887	$ 46,644	$ 6,591
Investment tax credit adjustments – net	10,557	15,581	32,024
Deferred taxes charged to depreciation expense	17,027	29,192	22,081
Total tax expense	$116,471	$ 91,417	$ 60,696
Income before income taxes	$248,116	$196,919	$143,184
Expected tax at federal statutory rate	$114,133	$ 90,583	$ 65,865
Allowance for funds used during construction	(3,404)	(3,088)	(6,287)
State income tax net of federal tax reduction	10,800	7,785	4,894
Investment tax credit restored	(5,561)	(4,952)	(3,940)
Other (no item over 5% of expected tax)	503	1,089	164
Total tax expense	$116,471	$ 91,417	$ 60,696

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

E • Allowance for Funds Used During Construction (AFDC)

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

The company has been limited by the PSCW to capitalizing AFDC only on construction work in progress exceeding 12.5% of its net investment rate base in 1982 and 10% of its net investment rate base in 1981 and 1980. Revenues granted by the PSCW in rate orders include the equivalent of a return on investment in construction work in progress below this limit. AFDC was capitalized in 1982, 1981 and 1980 at a rate of 7% approved by the PSCW.

F • Accounts Receivable

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

G • Common Stock and Premium on Capital Stock

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

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

	1982	1981	1980
Shares issued (restated for 3-for-2 stock split)			
ADRSPP	1,291,058	1,257,908	1,090,614
TRASOP	198,838	372,883	382,475
Proceeds from sales			
ADRSPP	$25,819,000	$19,199,000	$15,551,000
TRASOP	$ 4,333,000	$ 6,061,000	$ 6,216,000

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

H • Preferred Stock—Redemption Not Required

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

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

I • Preferred Stock—Redemption Required

In 1980 the company issued 250,000 shares of Serial Preferred Stock, 10.875% Series. The redemption at $100 par value of 6,250 shares is required annually on each September 1, from 1990 through 2009, with redemption of the remaining shares required on September 1, 2010. In addition to the mandatory redemption, the company may at its option redeem the stock at $110.13 to September 1, 1983 and at declining amounts thereafter to $100 after September 1, 2009. In the event of default in the payment of dividends or in the mandatory redemption requirements, no dividends or other distribution shall be declared on junior stock. In addition, no dividend shall be declared on any preferred stock class and series except ratably on all preferred shares according to their respective dividend rates.

J • Long Term Debt

The maturities and sinking fund requirements through 1987 for the aggregate amount of long term debt outstanding at December 31, 1982 are shown below. Of the annual sinking fund requirements, $3,990,000 may be satisfied by certifying additional mortgaged property.

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

Future sinking fund requirements have been anticipated by advance purchases of bonds to the extent of $2,404,000 and certification of property in the amount of $3,990,000. Sinking fund requirements for 1983 have been satisfied.

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

K • Notes Payable and Commercial Paper

Unused lines of credit for short term borrowing amounted to $103,350,000 at December 31, 1982. In support of various informal lines of credit from banks, the companies have agreed to maintain unrestricted compensating balances. With the exception of funds required for daily operations, the cash balance shown on the balance sheet at December 31, 1982 as well as $350,000 of non-interest bearing certificates of deposit included in temporary cash investments represent compensating balances.

L • Information by Segments of Business

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

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

M • Commitments and Contingencies

Plans for the construction and financing of future additions to utility plant can be found elsewhere in this report in "Management's Discussion and Analysis of Financial Condition and Results of Operations." At December 31, 1982, construction work in progress includes $41,136,000 of company-financed expenditures relating to the company's 25% share in the 380 megawatt Edgewater Unit 5 coal-fired generating station which is being constructed by Wisconsin Power and Light Co.

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

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

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

In 1979 the company wrote off its share ($2.3 million after income tax effect) of certain capitalized expenditures related to the discontinued Koshkonong nuclear plant project. In late 1979 the Brown County Circuit Court found that such expenditures were prudently made and were not to be charged to the stockholders and, therefore, reversed and remanded the order to the PSCW for modification. The Circuit Court order, which had been reversed by a 1981 Wisconsin Court of Appeals decision, has been upheld by a November 1982 decision of the Wisconsin Supreme Court. The company has not restored the write-off to income pending an order from the PSCW.

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

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

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

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

Statement of Income Adjusted for Changing Prices

Year Ended December 31	1982		
		Average 1982 Dollars	
(Millions of Dollars)	As Reported in Financial Statements	Adjusted for General Price Level	Adjusted for Current Cost
Operating Revenues	$1,303	$1,303	$1,303
Operating Expenses			
Depreciation – Straight line	85	195	223
Other expenses	905	905	905
Income taxes	116	116	116
Total Operating Expenses	1,106	1,216	1,244
Operating Income	197	87	59
Other Income and Deductions	6	6	6
Interest Charges and Preferred Stock Dividends	(86)	(86)	(86)
Earnings (Loss) Available for Common Stockholders (excluding adjustment of plant investment to net recoverable cost) (Note)	$ 117	$ 7	$ (21)
Earnings (Loss) Per Share of Common Stock	$ 3.60	$ 0.22	$ (0.65)

The current cost of net utility plant at December 31, 1982 was $4.2 billion. The increase in the current cost of property and the adjustment to net recoverable cost was $248 million and ($28) million in 1982.

Note – Earnings (loss) after adjustment of net utility plant to net recoverable cost would have been $42 million in 1982 adjusted for general price level.

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

Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

Year Ended December 31 (All amounts are stated in average 1982 dollars) (Millions of dollars except for per share amounts)	1982	1981	1980	1979	1978
General Price Level Information					
Earnings (loss) available for common stockholders (Note a)	7	(5)	(12)	15	
Earnings (loss) per share of common stock (Notes a & b)	$0.22	$(0.17)	$(0.40)	$0.52	
Current Cost Information					
Earnings (loss) available for common stockholders (Note a)	(21)	(32)	(41)	(47)	
Earnings (loss) per share of common stock (Notes a & b)	$(0.65)	$(1.03)	$(1.39)	$(1.66)	
Increase in general price level over (under) increase in current cost of property after adjustment to net recoverable cost	(63)	46	121	118	
General Information					
Unrealized gain from decline in purchasing power of debt and preferred stock	47	114	159	164	
Common stock equity at year-end	766	709	703	737	
Operating revenues	1,303*	1,223	1,180	1,154	1,114
Cash dividends per share of common stock (Note b)	$1.90*	$1.87	$1.94	$2.08	$2.18
Market price per share of common stock at year-end (Note b)	$22.49	$18.66	$16.60	$19.18	$24.70
Consumer Price Index—average for year	289.1	272.4	246.8	217.4	195.4

*Actual 1982 dollars.
Note a—Excluding adjustment to net recoverable cost
Note b—Adjusted for July 1982 3-for-2 common stock split

Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheet and statement of capitalization and the related consolidated statements of income, retained earnings, and changes in financial position present fairly the financial position of Wisconsin Electric Power Company and its subsidiaries at December 31, 1982 and 1981, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse
Price Waterhouse

Milwaukee, Wisconsin
January 27, 1983

Selected Financial Data

(Thousands of dollars except for per share amounts)

	1982	1981	1980	1979	1978
Financial					
Net income	**131,645**	105,502	82,488	82,532	71,605
Preferred stock dividend requirement	**(15,087)**	(15,087)	(13,520)	(12,368)	(7,337)
Earnings available for common stock	**116,558**	90,415	68,968	70,164	64,268
Earnings per share of common stock ($)*	**3.60**	2.93	2.35	2.50	2.33
Dividends declared per share of common stock ($)*	**1.902**	1.76	1.657	1.563	1.473
Operating revenues:					
Electric	**974,788**	869,977	761,051	667,757	583,162
Gas	**317,225**	273,065	237,932	191,238	161,177
Steam	**10,897**	9,341	8,162	8,570	8,272
Total operating revenues	**1,302,910**	1,152,383	1,007,145	867,565	752,611
Total assets	**2,131,298**	2,116,070	2,030,241	1,830,664	1,565,171
Long term debt and preferred stock—redemption required	**762,720**	757,631	818,905	649,227	589,576
Sales and Customers					
Electric					
Megawatt-hours sold	**17,279,680**	17,792,080	17,729,184	17,670,612	17,469,673
Customers (End of year)	**818,850**	812,841	806,329	795,670	782,851
Gas					
Therms (thousands) sold	**632,326**	652,171	693,675	706,101	680,759
Customers (End of year)	**217,983**	215,520	212,279	206,032	197,603
Steam					
Pounds (millions) sold	**2,041**	1,924	1,941	2,188	2,352
Customers (End of year)	**543**	549	561	585	610

*Adjusted for July 1982 3-for-2 common stock split

Quarterly Financial Data

(Thousands of dollars except for per share amounts)

	Three Months Ended							
	March		June		September		December	
	1982	1981	**1982**	1981	**1982**	1981	**1982**	1981
Total operating revenues	**$389,670**	$300,161	**$288,365**	$254,190	**$286,433**	$275,100	**$338,442**	$322,932
Operating income	**61,109**	40,670	**41,408**	38,133	**50,881**	49,349	**43,683**	44,016
Net income	**42,097**	21,563	**25,825**	20,032	**35,639**	34,095	**28,084**	29,812
Earnings per share of common stock*	**$1.20**	$0.59	**$0.69**	$0.53	**$0.98**	$0.98	**$0.74**	$0.83

Because of seasonal factors which affect the utility business and differences between summer and winter electric rates, the quarterly results of operations are not directly comparable.

*Adjusted for July 1982 3-for-2 common stock split

Stock and Dividend Information

Stock Transfer Agents

Common Stock, Six Per Cent Preferred Stock and $100 Par Value Serial Preferred, 3.60% Series, 8.90% Series, 7.75% Series, 8.80% Series and 10.875% Series

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

Common Stock and $100 Par Value Serial Preferred Stock, 8.90% Series, 7.75% Series and 8.80% Series

Manufacturers Hanover Trust Company
Post Office Box 24935
Church Street Station
New York, New York 10249

Stock Registrars

Common Stock

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

Manufacturers Hanover Trust Company
Post Office Box 24935
Church Street Station
New York, New York 10249

Six Per Cent Preferred Stock

M&I Marshall & Ilsley Bank
770 North Water Street
Milwaukee, Wisconsin 53202

$100 Par Value Serial Preferred Stock, 3.60% Series

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

$100 Par Value Serial Preferred Stock, 8.90% Series, 7.75% Series and 8.80% Series

M&I Marshall & Ilsley Bank
770 North Water Street
Milwaukee, Wisconsin 53202

Manufacturers Hanover Trust Company
Post Office Box 24935
Church Street Station
New York, New York 10249

$100 Par Value Serial Preferred Stock, 10.875% Series

M&I Marshall & Ilsley Bank
770 North Water Street
Milwaukee, Wisconsin 53202

Number of Common Stockholders

As of Dec. 31, 1982, there were 51,103 Common Stockholders, based on the number of stockholder accounts.

Dividend Restrictions on Common Stock

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

Stock Listing and Trading

Common Stock and $100 Par Value Serial Preferred Stock, 8.90% Series and 7.75% Series are listed and traded on the New York Stock Exchange.

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

Six Per Cent Preferred Stock and $100 Par Value Serial Preferred Stock, 3.60% Series and 8.80% Series are traded on an over-the-counter basis.

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

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Directors & Officers

DIRECTORS

Frederick M. Belmore
Corporate Director and Consultant. Formerly Chairman of the Board of Directors, Will Ross, Inc. (manufacturer and distributor of hospital and laboratory supplies and equipment), Subsidiary of G. D. Searle & Co., and Vice President, G. D. Searle & Co.

Russell W. Britt
President and Chief Operating Officer of the Company.

Sol Burstein
Executive Vice President of the Company.

Richard L. Johnson
Chairman of the Board of the Menasha Corp. (manufacturer of paperboard, corrugated containers and plastic products and manager of timber).

Charles S. McNeer
Chairman of the Board and Chief Executive Officer of the Company.

Donald K. Mundt
Executive Vice President, The Northwestern Mutual Life Insurance Co.

John P. Reeve
Retired. Formerly President and Chief Executive Officer, Appleton Papers (manufacturer of pulp, paper and coated papers), then a Division of NCR Corp., and Vice President, NCR Corp.

Morris W. Reid
Independent management consultant. Chairman of the Board of Versa Technologies, Inc. and Corporate Director. Formerly Chairman of the Board of Directors of J. I. Case Co. (manufacturer of construction and farm machinery), subsidiary of Tenneco Corp.

Jon G. Udell
Irwin Maier Professor of Business, the University of Wisconsin in Madison, and Chairman of the Board of Directors of Federal Home Loan Bank of Chicago.

OFFICERS

Charles S. McNeer (56;32)
Chairman of the Board and Chief Executive Officer

Russell W. Britt (56;34)
President and Chief Operating Officer

Sol Burstein (60;17)
Executive Vice President

John W. Boston (49;1)
Senior Vice President

Thomas J. Cassidy (57;36)
Senior Vice President

Nicholas A. Ricci (58;35)
Senior Vice President

Robert H. Gorske (50;18)
Vice President and General Counsel

Richard A. Abdoo (38;7)
Vice President – Corporate Planning

Carlyle W. Fay (56;16)
Vice President – Nuclear Power

John H. McLean (58;29)
Vice President – Customer Relations

Russell A. Niles (59;34)
Vice President – Division Operations

Huberto R. Platz (53;16)
Vice President – Engineering and Construction

Richard E. Skogg (54;30)
Vice President – Operating Services

John E. Speaker (51;6)
Vice President – Communications

Kenneth E. Wolters (57;32)
Vice President – System Operations

John H. Goetsch (49;24)
Secretary

Jerry G. Remmel (51;27)
Treasurer

Richard R. Piitz (42;17)
Controller

John W. Fleissner (58;12)
Assistant Secretary

Gordon A. Willis (44;21)
Assistant Treasurer

George W. Bomier (58;28)
Vice President and General Manager Wisconsin Natural Gas Company

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

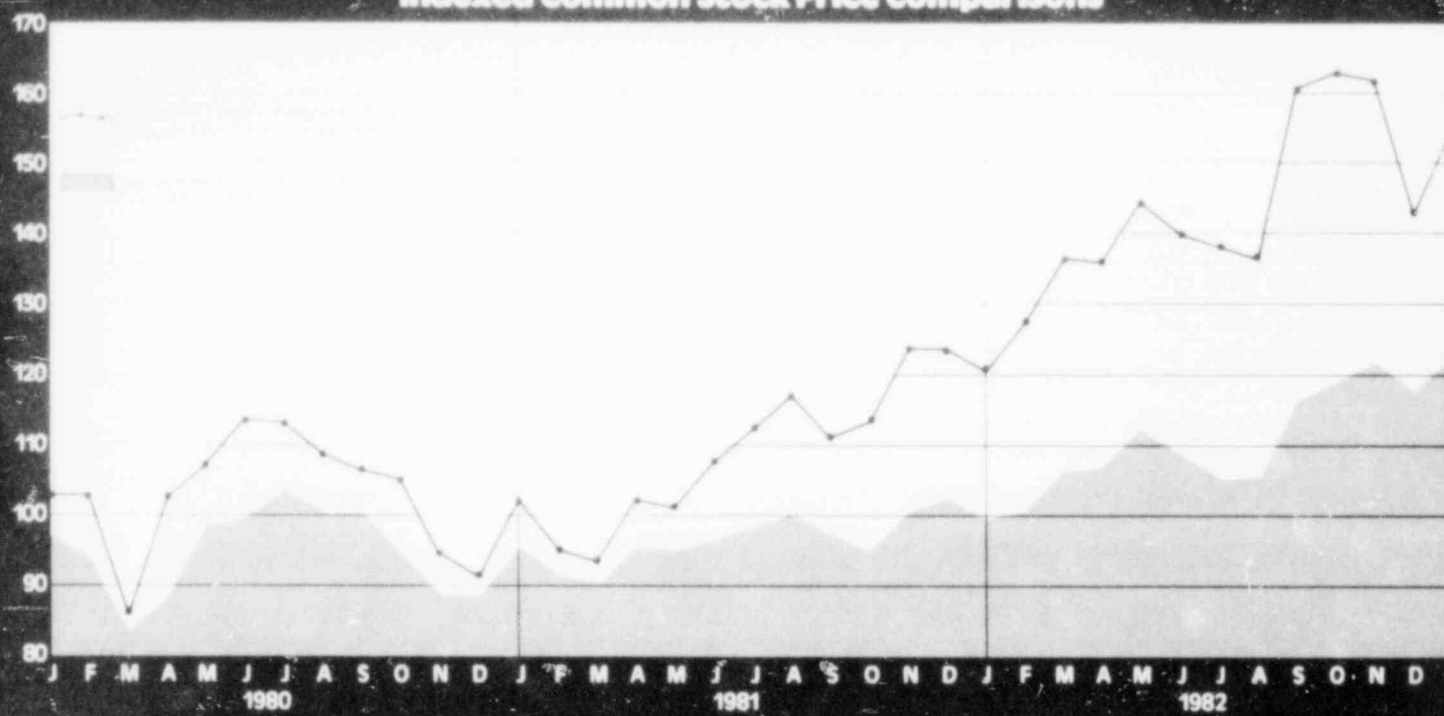
Members of the Audit Committee are directors Belmore, Johnson, Mundt, Reeve, Reid and Udell.

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

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

Figures in parentheses indicate age and years of service.

Indexed Common Stock Price Comparisons



Ranges of Common Stock Prices and Dividends

Stock and Dividend Information

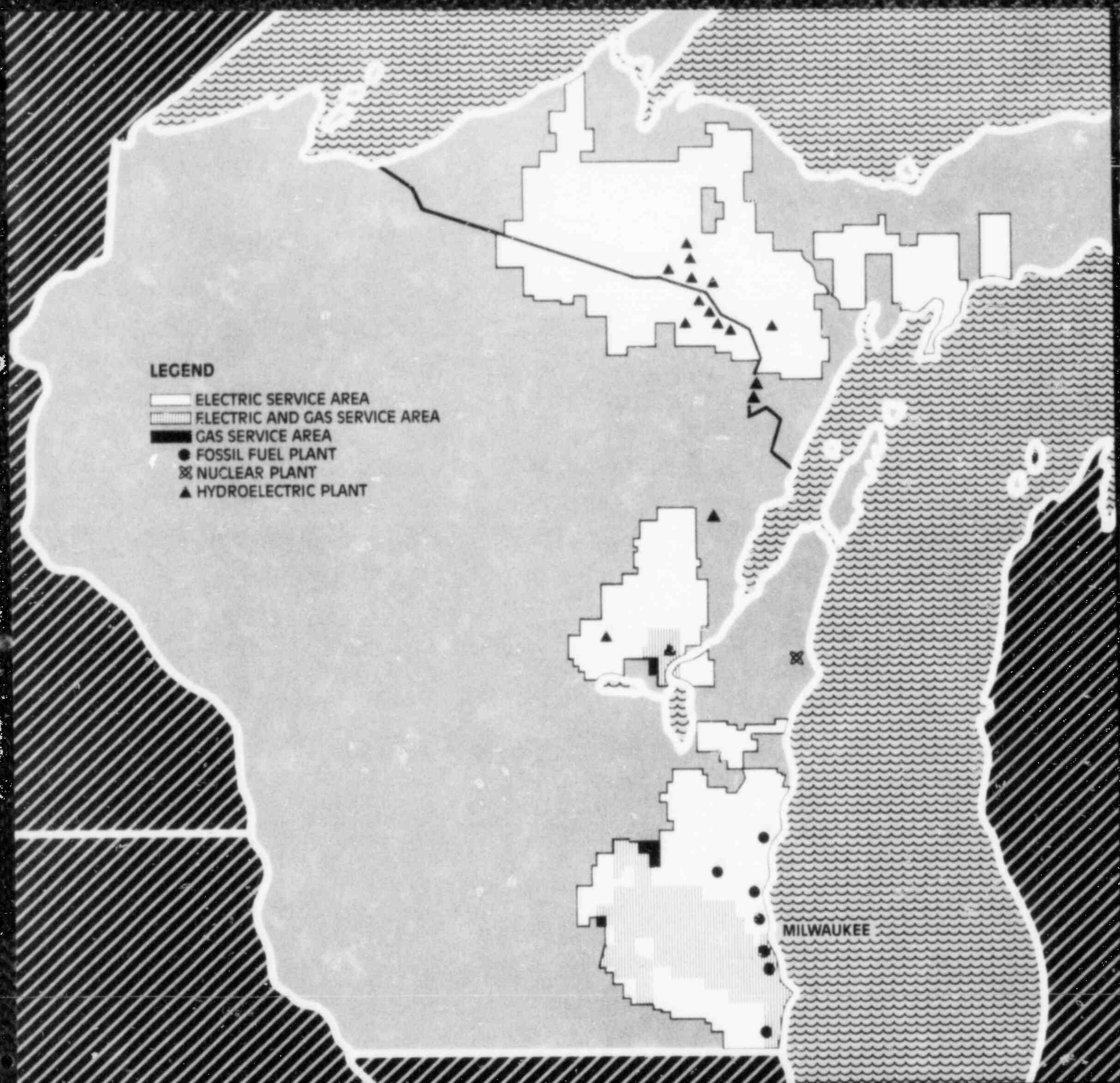
Stockholder Hotline

If you have a question, comment or problem related to your investment in the company, you can get answers or assistance quickly. Information on subjects such as dividends, reinvestment, stock prices, transfer of shares, change of address procedure or company operations in general is readily available by calling our toll-free telephone hotline. Stockholder relations representatives are available to assist you from 8:00 a.m. to 4:30 p.m. (Central Time) every business day.

You can even call when our offices are closed. If you call in the evening, on a weekend or a holiday, leave a message on our automatic answering equipment. We will return your call at a time convenient to you.

The Stockholder Hotline numbers are:

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



The Business of the Company

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

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

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


1 REPLICA OF ORIGINAL EDISON LAMPS
2 CARBONIZED BAMBOO FILAMENT LAMPS MADE BY FRANCIS JEHL, EDISON'S ASSISTANT
3 PHOTO ELECTRIC TUBE
4 1000 WATT PROJECTION LAMP