Wisconsin Electric
POWER COMPANY

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

April 3, 1997

U.S. Nuclear Regulatory Commission
Document Control Desk
Washington, DC 20555

Ladies and Gentlemen:

In accordance with 10 C.F.R. Section 50.71, enclosed is the 1996 annual report to stockholders of Wisconsin Electric Power Company, which includes certified financial statements. Such annual report accompanies Wisconsin Electric's definitive information statement, which is being mailed to stockholders today.

Wisconsin Electric Power Company is the holder of Facility Operating License Nos. DPR-24 and DPR-27 issued by your Commission under Dockets 50-266 and 50-301, respectively.

Very truly yours,

Ann Marie Brady
Corporate Secretary & Vice President-External Affairs

KHE/sls

Enclosure

cc: U.S. Nuclear Regulatory Commission
Region III
801 Warrenville Road
Lisle, IL 60532-4351

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

Tony McMurtray, NRC Resident Inspector
K. H. Ecke
A. W. Finke
R. R. Grigg

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Wisconsin Electric
POWER COMPANY

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

April 3, 1997

Dear Wisconsin Electric Stockholder:

Wisconsin Electric Power Company will hold its annual meeting of stockholders at 9:00 a.m. on Tuesday, April 29, 1997 in Conference Room P437 at the Public Service Building, 231 West Michigan Street, Milwaukee, Wisconsin. We are not soliciting proxies for this meeting, as over 99% of the voting stock is owned, and will be voted, by Wisconsin Electric's parent company, Wisconsin Energy Corporation. If you wish, you may attend the meeting and vote your shares of preferred stock; however, it will be a very short business meeting only.

On behalf of the directors and officers of Wisconsin Energy, I invite you to attend Wisconsin Energy's annual meeting to be held Wednesday, April 30, 1997 at 9:30 a.m. The Wisconsin Energy meeting will be held at the Grand Milwaukee Hotel, 4747 South Howell Avenue, near Milwaukee's airport. By attending this meeting, you will have the opportunity to meet many of the Wisconsin Electric officers and directors. Although you cannot vote your shares of Wisconsin Electric preferred stock at the Wisconsin Energy meeting, you should find the activities to be worthwhile. You will be asked to register before entering the meeting.

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

Sincerely,

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

NOTICE
OF
ANNUAL MEETING OF STOCKHOLDERS

April 3, 1997

To the Stockholders of Wisconsin Electric Power Company:

The Annual Meeting of Stockholders of Wisconsin Electric Power Company will be held at 9:00 a.m. on Tuesday, April 29, 1997 in Conference Room P437 at the Public Service Building, 231 West Michigan Street, Milwaukee, Wisconsin, for the following purposes:

1. To elect a Board of Directors to hold office until the 1998 Annual Meeting of Stockholders; and

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

Stockholders of record at the close of business on February 26, 1997 will be entitled to vote at the meeting.

By Order of the Board of Directors

Ann Marie Brady
Corporate Secretary and
Vice President - External Affairs

Wisconsin Electric
A WISCONSIN ENERGY COMPANY

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

INFORMATION STATEMENT
and
ANNUAL REPORT TO STOCKHOLDERS

INFORMATION STATEMENT

This information statement is being furnished to stockholders beginning on or about April 3, 1997 in connection with the annual meeting of stockholders of Wisconsin Electric Power Company ("Wisconsin Electric" or "WE") to be held on April 29, 1997, at WE's Public Service Building, 231 West Michigan Street, Milwaukee, Wisconsin, and all adjournments of the meeting, for the purposes listed in the Notice of Annual Meeting of Stockholders. The WE annual report to stockholders accompanies this information statement.

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

VOTING SECURITIES

As of February 26, 1997, WE had outstanding 44,498 shares of Six Per Cent. Preferred Stock; 260,000 shares of $100 par value 3.60% Serial Preferred Stock; and 33,289,327 shares of common stock. Each outstanding share of each class is entitled to one vote. Stockholders of record at the close of business on February 26, 1997 will be entitled to vote at the meeting. A majority of the votes entitled to be cast by the shares entitled to vote shall constitute a quorum.

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

RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANT

Price Waterhouse LLP has acted as independent public accountant for WE or its predecessor continuously since 1932, and was appointed by Wisconsin Energy's board of directors to serve as independent public accountant of WEC and its subsidiaries, including WE, during the current year. Representatives of the firm will not attend the annual meeting, but will be present at Wisconsin Energy's annual meeting on April 30, 1997 to make any statement they may consider appropriate and to respond to questions which may be directed to them.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors is responsible for overseeing the performance of WE. In 1996 the Board held eight meetings. The average attendance of all directors for Board and committee meetings was 98%.

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

ELECTION OF DIRECTORS

At the 1997 annual meeting, there will be an election of eight directors to hold office for a term of one year and until they are reelected or until their respective successors are duly elected and qualified. Directors are elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. "Plurality" means that the individuals who receive the largest number of votes are elected as directors up to the maximum number of directors to be chosen in the election. Therefore, any shares not voted, whether by withheld authority, broker non-vote or otherwise, have no effect in the election of directors.

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

Biographical information regarding each nominee is shown below. Ages are shown as of December 31, 1996.

Information Concerning Nominees (For Terms Expiring in 1998)

RICHARD A. ABDOO. Age 52. Chairman of the Board, President and Chief Executive Officer of WEC since 1991. Chairman of the Board and Chief Executive Officer of Wisconsin Electric, WEC's principal subsidiary, since 1990. Director of WEC since 1988. Director of Wisconsin Electric since 1989. Chairman of the Board and Chief Executive Officer of Wisconsin Natural Gas Company ("Wisconsin Natural" or "WN") from 1990 to 1995. Wisconsin Natural, which was WEC's gas utility subsidiary, merged into Wisconsin Electric effective January 1, 1996. Director of Wisconsin Natural from 1989 to 1995. Director of Marshall & Ilsley Corporation, Sundstrand Corporation and United Wisconsin Services, Inc.

JOHN F. AHEARNE. Age 62. Director of the Sigma Xi Center for Sigma Xi, The Scientific Research Society, an organization that provides grants to graduate students and conducts national meetings on major scientific issues, since 1989. Adjunct Scholar of Resources for the Future, an economic research, non-profit institute, since 1993. Lecturer, Duke University, since 1995. Vice President and Senior Fellow of Resources for the Future from 1984 to 1993. Commissioner of the United States Nuclear Regulatory Commission from 1978 to 1983, serving as its Chairman from 1979 to 1981. Member, National Academy of Engineering. Director of WEC and Wisconsin Electric since 1994.

JOHN F. BERGSTROM. Age 50. Chairman and Chief Executive Officer of Bergstrom Corporation since January 1997; President and Chief Executive Officer of Bergstrom Corporation from 1974 to 1996. Bergstrom Corporation owns and operates numerous automobile dealerships, three hotels and an automotive leasing company. Director of WEC since 1987. Director of Wisconsin Electric since 1985. Director of Bergstrom Corporation, First National Bank-Fox Valley, Kimberly-Clark Corporation, Midwest Express Holdings, Inc., Universal Foods Corporation, Driver's Mart Worldwide, Inc. and The Green Bay Packers, Inc.

ROBERT A. CORNOG. Age 56. Chairman of the Board, President and Chief Executive Officer of Snap-on Incorporated since 1991. Snap-on Incorporated is a developer, manufacturer and distributor of professional hand and power tools, diagnostic and shop equipment, and tool storage products. Director of WEC since 1993. Director of Wisconsin Electric since 1994. Director of Snap-on Incorporated and Johnson Controls, Inc.

RICHARD R. GRIGG. Age 48. Vice President of WEC and President and Chief Operating Officer of Wisconsin Electric since January 1995; Chief Nuclear Officer of Wisconsin Electric since December 1996. President and Chief Operating Officer of Wisconsin Natural during 1995. Group Executive and Vice President of Wisconsin Electric from June to December 1994. Vice President of Wisconsin Electric from 1990 to 1994. Director of WEC since 1995. Director of Wisconsin Electric since 1994. Director of Wisconsin Natural during 1995.

GENEVA B. JOHNSON. Age 67. Corporate Director. Former President and Chief Executive Officer of Family Service America, an organization representing private agencies in the United States and Canada that provide human service programs, from 1983 to 1994. Director of WEC and Wisconsin Electric since 1988. Director of Firstar Bank Milwaukee, N.A.

DAVID K. PORTER. Age 53. Senior Vice President of WE since 1989. Vice President of Wisconsin Natural from 1989 to 1995. Director of WE since 1989. Director of Wisconsin Natural from 1988 to 1995.

FREDERICK P. STRATTON, JR. Age 57. Chairman and Chief Executive Officer of Briggs & Stratton Corporation, a manufacturer of small gasoline engines, since 1986. Director of WEC since 1987. Director of Wisconsin Electric since 1986. Director of Briggs & Stratton Corporation, Banc One Corporation, Midwest Express Holdings, Inc. and Weyco Group, Inc.

OTHER MATTERS

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

COMPENSATION

Directors' Compensation

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

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

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

Executive Officers' Compensation

The following table summarizes certain information concerning compensation awarded to, earned by or paid to WE's Chief Executive Officer and each of WE's or WEC's other five most highly compensated executive officers for services in all capacities to WEC and its subsidiaries, including WE, for the last three fiscal years. The amounts shown in this and all subsequent tables in this information statement are WEC consolidated compensation data. The portion of time devoted by each officer to WE in 1996, as determined by the percent of time each officer worked for WE versus the other affiliated companies, is as follows: Mr. Abdoo (81%), Mr. Grigg (95%), Mr. Brzezinski (40%), Ms. Krause (100%), Mr. Porter (100%) and Mr. Baker (86%).

Summary Compensation Table

Name and Principal Position at WE	Year	Annual Compensation			Long-Term Compensation Awards	
		Salary ($)	Bonus ($)	Other Annual Compensation ($)	Securities Underlying Options/SARs (#) (1)	All Other Compensation ($) (2)
Richard A. Abdoo						
Chairman of the Board and	1996	560,000	306,472	8,953	38,000	113,297
Chief Executive Officer	1995	496,000	232,000	8,321	38,000	83,858
	1994	450,000	222,396	0	25,000	15,970
Richard R. Grigg						
President, Chief Operating Officer	1996	295,000	62,835	5,206	19,000	43,412
and Chief Nuclear Officer	1995	237,500	63,788	3,084	19,000	42,125
	1994	168,333	46,667	0	6,500	11,000
Francis Brzezinski						
Vice President-Business Development	1996	225,000	108,513 (3)	5,933	9,500	19,247
	1995	225,000	25,515	80,532 (4)	7,600	17,051
	1994	212,000	26,037	0	6,500	7,478
Kristine M. Krause						
Vice President-Fossil Operations	1996	190,000	68,750	0	9,500	23,239
	1995	160,000	48,904	0	9,500	16,532
	1994	112,500	24,013	0	6,500	3,368
David K. Porter						
Senior Vice President	1996	190,000	63,449	0	7,600	23,994
	1995	190,000	46,170	0	7,600	21,766
	1994	190,000	58,333	0	3,000	6,695
Calvin H. Baker						
Vice President-Finance and	1996	170,000	70,298	1,420	9,500	21,996
Chief Financial Officer	1995	145,000	35,235	1,286	7,600	16,249
	1994	132,000	34,737	0	3,000	4,331

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

(2) All Other Compensation for 1996 for Messrs. Abdoo, Grigg, Brzezinski, Ms. Krause, Messrs. Porter and Baker, respectively, includes: (i) employer matching of contributions by each named executive into the Employee Savings Plan (ESP) in the amount of $4,750 for each named executive officer, (ii) "make whole" payments under the Executive Deferred Compensation Plan with respect to matching in the ESP on deferred salary or salary received but not otherwise eligible for matching in the amounts of $13,450, $4,512, $2,529, $3,325, $1,425 and $775, respectively, and (iii) the full dollar value of life insurance premiums paid by the company in the amounts of $95,097, $34,150, $11,968, $15,164, $17,819 and $16,471, respectively, under a split-dollar life insurance program.

(3) Mr. Brzezinski's 1996 award is higher than in previous years because of accomplishments by WEC's non-utility subsidiaries; the award includes $17,238 relating to performance in connection with development of land known as the Westridge project.

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

Option/SAR Grants in Last Fiscal Year

Individual Grants (1)					Grant Date Value
Name	Number of Securities Underlying Options/SARs Granted (#)	Percent of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	Grant Date Present Value ($)(2)
Richard A. Abdoo	38,000	18.0%	26.81	11/26/2006	119,407
Richard R. Grigg	19,000	9.0%	26.81	11/26/2006	59,704
Francis Brzezinski	9,500	4.5%	26.81	11/26/2006	29,852
Kristine M. Krause	9,500	4.5%	26.81	11/26/2006	29,852
David K. Porter	7,600	3.6%	26.81	11/26/2006	23,881
Calvin H. Baker	9,500	4.5%	26.81	11/26/2006	29,852

(1) Consists of incentive and non-qualified stock options to purchase shares of WEC common stock granted pursuant to WEC's 1993 Omnibus Stock Incentive Plan ("OSIP") on November 27, 1996. These options were granted with an equal number of contingent dividend awards (as described in the table entitled "Long-Term Incentive Plans--Awards in Last Fiscal Year"), have exercise prices equal to the fair market value of the WEC shares on the date of grant and first become exercisable on November 27, 2000, at which time they become fully exercisable. Upon a "change in control" of WEC, as defined in the OSIP, or upon retirement, permanent total disability or death of the option holder, these options shall become immediately exercisable. The proposed merger with Northern States Power Company ("NSP") will not be considered a change in control of WEC for purposes of the OSIP. These options were granted for a term of ten years, subject to earlier termination in certain events related to termination of employment. In the discretion of the WEC compensation committee, the exercise price may be paid by delivery of already-owned shares and tax withholding obligations related to exercise may be satisfied by withholding shares otherwise deliverable upon exercise, subject to certain conditions. Subject to the limitations of the OSIP, the WEC compensation committee has the power with the participant's consent to modify or waive the restrictions on vesting of these options, to amend these options and to grant extensions or to accelerate these options.

(2) The Black-Scholes option pricing model was used to determine the options' present value as of the date of the grant. The assumptions used in the Black-Scholes equation are: market price of stock: $26.81; exercise price of option: $26.81; stock volatility: 14.41%; annualized risk-free interest rate: 6.28%; exercise at the end of 10-year option term; and dividend yield: 5.28%. WE's use of this model should not be construed as an endorsement of its accuracy. Whether the model's assumptions will prove to be accurate cannot be known at the date of grant. The ultimate value of the options, if any, will depend upon the future value of the WEC common stock, which cannot be forecast with reasonable accuracy, and the optionee's investment decisions.

No stock options other than those granted pursuant to the OSIP were outstanding in the last fiscal year. The earliest date outstanding options previously granted under the OSIP become exercisable is December 15, 1997. Consequently, no options were exercisable in 1996. The following table sets forth the number of options which were not exercisable and the value of such options based upon the difference between the exercise price and the market price of the underlying shares as of December 31, 1996.

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

Name	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options/SARs at Fiscal Year-End ($)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Richard A. Abdoo	0	123,500	0	3,906
Richard R. Grigg	0	51,000	0	1,581
Francis Brzezinski	0	30,100	0	992
Kristine M. Krause	0	26,750	0	992
David K. Porter	0	24,700	0	657
Calvin H. Baker	0	23,100	0	775

The following table further describes the long-term incentive awards made during 1996:

Long-Term Incentive Plans--Awards in Last Fiscal Year

Name	Number of Shares, Units or Other Rights (#)(1)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans
			Target ($ or #) (2)
Richard A. Abdoo	38,000	11/26/2000	$245,277
Richard R. Grigg	19,000	11/26/2000	$122,638
Francis Brzezinski	9,500	11/26/2000	$61,319
Kristine M. Krause	9,500	11/26/2000	$61,319
David K. Porter	7,600	11/26/2000	$49,055
Calvin H. Baker	9,500	11/26/2000	$61,319

(1) Consists of performance units awarded under the OSIP in combination with stock options (as described in the table entitled "Option/SAR Grants in Last Fiscal Year" above). These performance units, entirely in the form of contingent dividends, will be paid if total shareholder return (appreciation in the value of WEC common stock plus reinvested dividends) over a four-year period ending November 26, 2000 equals or exceeds the median return earned by the companies included in the Peer Group Index in the "Performance Graph" section of WEC's proxy statement for the 1997 Annual Meeting, except that there will be no payout if WEC's total shareholder return is negative over the course of such period. If payable, each participant shall receive an amount equal to the actual dividends paid on WEC common stock for the period of November 27, 1996 through November 26, 2000 multiplied by the number of performance units awarded to such participant. Upon a "change in control" of WEC, as defined in the OSIP, this benefit shall immediately vest with all performance goals deemed fully achieved. As described in footnote 1 to the table entitled "Option/SAR Grants in Last Fiscal Year," WEC's proposed merger with NSP does not constitute a change in control under the OSIP with respect to any outstanding contingent dividends granted to the above executive officers.

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

Severance Policy. In connection with the Agreement and Plan of Merger between WEC and Northern States Power Company (approved by WEC's stockholders on September 13, 1995) the WEC board adopted a Senior Executive Severance Policy ("Severance Policy"). The Severance Policy was adopted to encourage certain executive officers and other key employees, whose expertise has been critical to WE's success, to remain with WE

during the WEC/NSP merger transition process. The Severance Policy provides for payment of severance to participants whose employment is terminated under certain circumstances (e.g., terminations by WE that are other than for cause, disability or retirement; terminations resulting from certain sales of a business by WE; and terminations resulting from reductions in participants' salaries, responsibilities or benefits) at any time before (i) the second anniversary of the effective time of the merger with NSP if the transaction is consummated or (ii) April 28, 2000 if the transaction with NSP is not consummated.

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

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

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

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

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

In determining competitive compensation for WE's officer positions, the committee relies primarily on an analysis of compensation practices for the companies included in the industry peer group used to compare investment performance in WEC's proxy statement for the 1997 Annual Meeting ("Peer Group"). The committee relies secondarily on a broader analysis of compensation data from a survey of approximately 100 utilities conducted by the Edison Electric Institute ("EEI"), a consortium of utilities, and on a survey of compensation practices in general industry. The committee reviews both peer group specific and broader industry and general industry pay practices to be fully informed of compensation levels. The committee does not mathematically average the data from these analyses but, rather, considers them as three separate views of the external market.

Elements of Compensation. The 1996 compensation of WE's executives primarily consisted of three elements: base salary, annual incentive compensation and long-term incentive compensation. The committee's basis for determining appropriate levels of executive compensation for 1996 for each of these elements is described below. Specific values of 1996 compensation for the Chief Executive Officer and the five other most highly-compensated officers in the WE organization are included in the Summary Compensation Table provided in this information statement.

Base Salary. In determining appropriate executive base salaries, the committee considered factors such as individual experience, performance and potential, changes in duties and responsibilities, economic conditions in the

utility service areas, the reputation of WE's utility operations, competitiveness of utility service rates and impact of cost-control achievements. In addition, the committee reviewed executive compensation practices for comparable positions at companies within the Peer Group, as well as the broader group of utilities in the EEI database and practices in general industry. As noted above, the committee does not mathematically average the data from these analyses but, rather, considers them as three separate views of the external market. In general, base salaries are targeted at or near the 50th percentile of the average of these three groups.

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

Annual incentive compensation awards are targeted at approximately the 75th percentile of industry pay practices. In 1996, target incentive awards were set for participants that ranged from 15% to 55% of base salary. Each participant is eligible to receive an award if pre-established corporate performance goals are met. Awards may be increased by up to 100% of targeted amounts or reduced to zero based on individual and team performance.

Except for WE Chief Executive Officer Abdoo and Mr. Grigg, who serves as WE President, Chief Operating Officer and Chief Nuclear Officer, performance goals for 1996 were 50% financial and 40% operational. The remaining 10% related to improving WE's relationship with its customers as measured by its Customer Value Added (CVA) score. Financial goals focused on achievement of target earnings per share. Operational goals were specific to WE's business processes and, among other things, related to energy marketing efforts, development of new energy services, customer satisfaction, employee training and development, environmental stewardship, safety of operations, and corporate strategic planning. Mr. Abdoo's goals were 80% financial, 10% operational and 10% CVA; Mr. Grigg's goals were 60% financial, 30% operational and 10% CVA.

For 1996, Wisconsin Electric did very well in achieving a number of performance goals. Along with these accomplishments, however, Wisconsin Electric received penalties from regulatory agencies. A civil penalty was levied by the Nuclear Regulatory Commission related to operations at WE's Point Beach Nuclear Plant. A notice of violation of air emissions requirements at WE's Port Washington Power Plant was referred to the Wisconsin Department of Justice. This matter was resolved through payment of a forfeiture. In order that stockholders not assume responsibility for these penalties, the committee agreed that incentive awards for 1996 be reduced to cover the costs of these penalties. As a result, all STPP awards, including the award for Mr. Abdoo, were reduced by 12.2%. In addition, awards for participants who are employed in WE's Nuclear Business Unit were further reduced by 50% to more appropriately reflect nuclear performance results. Mr. Grigg, who began serving as WE's Chief Nuclear Officer in December 1996, also had his award reduced. Based on these adjustments, awards to WE and WEC executive officers under the STPP for 1996 ranged from 0% to 54.7% of base salary.

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

For 1996, awards in the form of stock options and performance dividend units were granted to each of several groups of OSIP participants. Stock option and performance dividend unit grants to executive officers who received grants ranged from 3,800 to 38,000 shares and related performance dividend units. The grant level was dependent on each participant's role in influencing the achievement of long-term performance goals.

The committee believes that an important adjunct to the long-term incentive program is significant stock ownership by participants. Accordingly, as a condition of participating in the OSIP, the committee has implemented stock ownership guidelines for participants. Guidelines for executive officers range from 100% to 300% of base salary.

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

As part of a procedure instituted in 1995, the Compensation Committee chair requested that non-employee directors provide a written evaluation of the CEO's performance. The directors' written feedback was discussed by committee members as part of its compensation determinations and has been shared with the CEO.

With respect to base salary, in recognition of the leadership provided by the Chief Executive Officer in shaping and guiding a financially strong organization that is able to provide quality services to its customers at competitive prices, as well as his role in guiding the reengineering of several business processes and related cost-control achievements of the company, the outstanding reputation of Wisconsin Electric's utility operations in the utility industry and in consideration of competitive salary data, the committee set Mr. Abdoo's base salary at $560,000 for 1996. Mr. Abdoo's base salary approximates the 50th percentile of the data reviewed by the committee.

With respect to annual incentive compensation for fiscal year 1996, the Compensation Committee awarded Mr. Abdoo the annual incentive award set forth in the "Bonus" column of the Summary Compensation Table. In this regard, the committee established his 1996 STPP target award level at 55% of base salary. The committee's evaluation of Mr. Abdoo's 1996 performance resulted in an award under the STPP of $306,472 or 54.7% of base salary. The award was based upon Mr. Abdoo's actual performance versus specific company-wide financial and operational performance goals. As noted above, Mr. Abdoo's goals were weighted 80% financial, 10% operational and 10% CVA. Mr. Abdoo's financial goals focused on achievement of target earnings per share. Operational goals were specific to achieving a high level of nuclear safety, generating new revenue from energy and non-energy related sources, staying within a prescribed budget and safety of operations. His CVA goals related to improving WE's relationship with its customers.

In determining Mr. Abdoo's 1996 STPP award, the committee specifically noted several accomplishments by the CEO during 1996, including (i) his leadership toward promoting continued close control of operating expenditures which has resulted in significant reductions in costs since 1993, (ii) exceeding earnings targets, in part through earnings growth from WE's gas operations, (iii) continued growth of the organization's customer base, (iv) completion of the purchase of the Milwaukee County Power Plant, (v) successful start-up of a state-of-the art Customer Call Center, (vi) implementation of a new, integrated financial system, (vii) his consistent support of equal opportunity, diversity, cross-cultural sensitivity and strong labor-management relationships within WE, (viii) his leadership role and continued visionary efforts to restructure the electric utility industry and (ix) his effectiveness in guiding employees to implement productivity improvements that will enable WE to become the low-cost energy provider in the upper midwest region and in ensuring that the organization and its employees are prepared for the merger of WEC and Northern States Power Company. As noted above, the committee reduced Mr. Abdoo's award by 12.2% in recognition of the penalties levied by the Nuclear Regulatory Commission and the Wisconsin Department of Justice against Wisconsin Electric.

With respect to the OSIP, in keeping with the Compensation Committee's philosophy as stated above, Mr. Abdoo was awarded stock options and related dividend performance units in 1996 as set forth in the "Long-Term Compensation Awards" column of the Summary Compensation Table to specifically link a portion of his compensation to the achievement of WE's longer term goals. The award of dividend performance units will be paid if total shareholder return (appreciation in the value of WEC common stock plus reinvested dividends) over a four-year period ending November 26, 2000 equals or exceeds the median return earned by the Peer Group, except that there will be no payout if WEC's total shareholder return is negative over the course of such period.

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

Compliance With Tax Regulations Regarding Executive Compensation. Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public companies for compensation over $1 million paid to the corporation's chief executive officer and the other executive officers named in the Summary Compensation Table.

Qualifying performance-based compensation will not be subject to the deduction limit if certain requirements are met. The committee will continue to review these tax regulations as they apply to WE's executive compensation program. It is the committee's intent to preserve the deductibility of executive compensation to the extent reasonably practicable and to the extent consistent with its other compensation objectives.

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

Robert A. Cornog, Committee Chair
John F. Ahearne
John F. Bergstrom

STOCK OWNERSHIP OF DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS

WE directors, nominees and executive officers as a group (15 persons) do not own any of WE's stock, but do own 85,216 shares of common stock of its parent company, Wisconsin Energy (less than 1% of total WEC common stock outstanding). The following table lists the beneficial ownership of WEC common stock (including phantom common stock) of each director, nominee and executive officer named in the Summary Compensation Table below, as of February 11, 1997. Included are shares owned by each individual's spouse, minor children or any other relative sharing the same residence, as well as shares held in a fiduciary capacity or held in WEC's Stock Plus Investment Plan and Wisconsin Electric's Employee Savings Plan ("ESP").

Name	Number of Shares (1)	Name	Number of Shares (1)
Richard A. Abdoo	22,078	Richard R. Grigg	3,605
John F. Ahearne	766	Geneva B. Johnson	3,040
Calvin H. Baker	4,309	Kristine M. Krause	4,805
John F. Bergstrom	5,522	David K. Porter	10,175
Francis Brzezinski	3,260	Frederick P. Stratton, Jr.	6,949
Robert A. Cornog	3,514		

(1) Share units held in the WEC phantom common stock account under WEC's Directors' Deferred Compensation Plan or Executive Deferred Compensation Plan are: Mr. Abdoo (5,334), Mr. Baker (1,157), Mr. Bergstrom (2,522), Mr. Brzezinski (1,053), Mr. Cornog (858), Mr. Grigg (263), Mrs. Johnson (633), Ms. Krause (173), Mr. Porter (229), and Mr. Stratton (1,249). Share units are intended to reflect the performance of WEC common stock and are payable in cash.

Each person has sole voting and investment power as to all shares listed for such person (other than phantom shares) except that the following persons have shared voting and/or investment power as to the indicated number of shares so listed: Mr. Baker (400), Mr. Brzezinski (108), Mr. Stratton (3,300), Ms. Krause (1,333) and all above-named directors and officers and other executive officers as a group (5,589).

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

RETIREMENT PLANS

In 1996, WE maintained a defined benefit pension plan of the cash balance type for most employees, including WE executive officers. The plan bases a participant's defined benefit pension on the value of a hypothetical

account balance. For individuals participating in the plan as of December 31, 1995, a starting account balance was created equal to the present value of the benefit accrued as of December 31, 1994, under the plan benefit formula prior to the change to a cash balance approach. That formula provided a retirement income based on years of credited service and final average compensation for the 36 highest consecutive months, without any deduction for Social Security or other offset, with a Social Security integrated benefit formula based on percentages of final average compensation for up to 30 years of credited service and additional (lower) percentages of compensation in excess of 30 years, up to a maximum of 10 years. In addition, individuals participating in the plan as of December 31, 1995 received a special one-time transition credit amount equal to a specified percentage varying with age multiplied by credited service and 1994 base pay.

The present value of the accrued benefit as of December 31, 1994, plus the transition credit were also credited with interest at a stated rate. For 1996 and thereafter, a participant receives annual credits to the account equal to 5% of base pay (including certain incentive payments, pre-tax deferrals and other items), plus an interest credit on all prior accruals equal to 4% plus 75% of the annual time-weighted trust investment return for the year in excess of 4%.

The life annuity payable under the plan is determined by converting the hypothetical account balance credits into annuity form. Individuals who were participants in the plan on December 31, 1995 are in no event to receive any less than what would have been provided under the prior formula, had it continued, if they terminate on or before January 1, 2011, and do not elect to commence benefits before the earlier of age 55 and completion of 10 years' service, or age 65.

All of the individuals listed in the Summary Compensation Table are "grandfathered" under the prior plan benefit formula. Since their estimated benefits under that formula are higher than under the cash balance plan formula, utilizing current assumptions, their benefits would currently be determined by the prior plan benefit formula. The following table shows estimated annual benefits payable in life annuity form on normal retirement for persons in various compensation and years of service classifications during 1996, based on the grandfathered continuation of the prior plan formula (including supplemental amounts providing additional benefits described below in the "Other Retirement Benefits" section):

Pension Plan Table

	Years of Service					
Remuneration	15	20	25	30	35	40
$ 50,000	$ 10,960	$ 14,614	$ 18,267	$ 21,920	$ 24,028	$ 26,136
100,000	23,897	31,862	39,828	47,794	52,339	56,885
150,000	36,835	49,114	61,392	73,670	80,653	87,636
200,000	49,772	66,362	82,953	99,544	108,964	118,385
250,000	62,708	83,611	104,514	125,417	137,275	149,132
300,000	75,647	100,862	126,078	151,294	165,589	179,385
400,000	101,522	135,362	169,203	203,044	222,214	241,385
500,000	127,397	169,862	212,328	254,794	278,839	302,885
600,000	153,272	204,362	255,453	306,544	335,464	364,385
700,000	179,147	238,862	298,578	358,294	392,089	425,885
800,000	205,022	273,362	341,703	410,044	448,714	487,385
900,000	230,897	307,862	384,828	461,794	505,339	548,885
1,000,000	256,772	342,362	427,953	513,544	561,964	610,385
1,100,000	282,647	376,862	471,078	565,294	618,589	671,885

The compensation for the individuals listed in the Summary Compensation Table in the columns labeled "Salary" and "Bonus" is virtually equivalent to the compensation considered for purposes of the retirement plans and the various supplemental plans. Messrs. Abdoo, Grigg, Brzezinski, Ms. Krause, Messrs. Porter and Baker currently have 21, 26, 7, 18, 27 and 5 credited years of service, respectively.

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

WEC and WE have entered into agreements with Mr. Abdoo and Mr. Baker, respectively, who cannot accumulate by normal retirement age the maximum number of years of credited service under the pension plan formula in effect immediately before the change to the cash balance formula. According to Mr. Abdoo's agreement, Mr. Abdoo at retirement will receive supplemental retirement payments which will make his total retirement benefits at age 58 or older substantially the same as those payable to employees who are age 60 or older, who are in the same compensation bracket and who became plan participants at the age of 25. According to Mr. Baker's agreement, Mr. Baker at retirement will receive supplemental retirement payments which will make his total retirement benefits at age 60 or older substantially the same as those payable to employees who are in the same compensation bracket and who became plan participants at the age of 25.

The WEC Amended Non-Qualified Trust, a grantor trust, has been established to fund the SERP, the Executive Deferred Compensation Plan and Mr. Abdoo's and Mr. Baker's agreements. The plans and agreements provide for optional lump sum payments and, in the instance of a change in control, mandatory lump sum payouts without regard to whether the executive's employment has terminated. In each case, the interest rate benchmark formula for calculating the lump sum amount is the five-year U. S. Treasury Note yield as of the last business day of the month prior to date of payment.

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

AVAILABILITY OF FORM 10-K

A copy (without exhibits) of the Annual Report on Form 10-K for the fiscal year ended December 31, 1996 as filed with the Securities and Exchange Commission is available without charge to any stockholder of record or beneficial owner of WE common stock by writing to the Corporate Secretary, Ann Marie Brady, 231 West Michigan Street, P. O. Box 2046, Milwaukee, Wisconsin 53201.

WISCONSIN ELECTRIC POWER COMPANY

1996 ANNUAL REPORT TO STOCKHOLDERS

ACCOMPANYING INFORMATION STATEMENT

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BUSINESS

Wisconsin Electric Power Company ("WE" or "Wisconsin Electric") is an electric, gas and steam utility incorporated in the State of Wisconsin in 1896. Effective January 1, 1996, Wisconsin Energy Corporation ("WEC"), WE's parent company, merged its wholly owned natural gas utility subsidiary, Wisconsin Natural Gas Company ("WN"), into WE to form a single combined utility subsidiary. Where applicable, references to WE include WN prior to the merger. WE's operations are conducted in the following three business segments.

Electric Operations: The WE electric operations generates, transmits, distributes and sells electric energy in a territory of approximately 12,000 square miles with a population estimated at 2,300,000 in southeastern (including the metropolitan Milwaukee area), east central and northern Wisconsin and in the Upper Peninsula of Michigan.

Gas Operations: The WE gas operations purchases, distributes and sells natural gas to retail customers and transports customer-owned gas in three distinct service areas of about 2,800 square miles in Wisconsin: west and south of the City of Milwaukee, the Appleton area and the Prairie du Chien area. The gas service territory, which has an estimated population of over 1,100,000, is largely within WE's electric service area.

Steam Operations: The WE steam operations distributes and sells steam supplied by its Valley and Milwaukee County Power Plants to space heating and processing customers in the metropolitan Milwaukee area.

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

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Cash dividends declared on Wisconsin Electric Power Company's Common Stock during the two most recent fiscal years are set forth below. Dividends were paid to WE's sole common stockholder, WEC.

	Total Dividend *	
Quarter	1996	1995
First	$40,455,444	$38,[illegible]08,667
Second	42,478,000	40,455,444
Third	42,478,000	40,455,444
Fourth	42,478,000	40,455,444

* Includes dividends paid by Wisconsin Natural Gas Company in 1995.

WISCONSIN ELECTRIC POWER COMPANY **
SELECTED FINANCIAL DATA

	(Thousands of Dollars)				
Financial	1996	1995	1994	1993	1992
Year Ended December 31					
Earnings available for common stockholder	$210,112	$239,465	$180,403 *	$187,703	$170,034
Operating revenues					
Electric	$1,393,270	$1,437,480	$1,403,562	$1,347,844	$1,298,723
Gas	364,875	318,262	324,349	331,301	283,699
Steam	15,675	14,742	14,281	14,090	13,093
Total operating revenues	$1,773,820	$1,770,484	$1,742,192	$1,693,235	$1,595,515
At December 31					
Total assets	$4,507,160	$4,318,924	$4,202,193	$4,078,973	$3,623,838
Long-term debt and preferred stock - redemption required	$1,371,446	$1,325,169	$1,257,776	$1,274,476	$1,280,012

Sales and Customers	1996	1995	1994	1993	1992
Electric					
Megawatt-hours sold	27,560,428	27,283,869	26,911,363	25,685,436	24,747,581
Customers (End of year)	968,735	955,616	944,855	932,285	919,466
Gas					
Therms delivered (Thousands)	936,894	886,729	811,219	809,348	772,036
Customers (End of year)	367,275	357,036	347,080	336,571	327,247
Steam					
Pounds sold (Millions)	2,705	2,532	2,395	2,376	2,284
Customers (End of year)	465	473	471	459	472

QUARTERLY FINANCIAL DATA

	(Thousands of Dollars)			
	March		June	
Three Months Ended	1996	1995	1996	1995
Total operating revenues	$495,457	$471,122	$401,686	$405,093
Operating income	85,145	84,572	68,382	72,848
Earnings available for common stockholder	61,703	62,121	44,906	51,249

	September		December	
Three Months Ended	1996	1995	1996	1995
Total operating revenues	$398,801	$426,413	$477,876	$467,856
Operating income	76,693	80,704	75,624	90,897
Earnings available for common stockholder	52,392	58,679	51,111	67,415

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

Earnings and dividends per share are not provided as all of Wisconsin Electric Power Company's ("WE") common stock is held be Wisconsin Energy Corporation.

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

** Where applicable, prior year financial and statistical information has been restated to include Wisconsin Natural Gas Company at historical values.

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

Wisconsin Energy Corporation ("WEC" or the "Company") is a holding company whose principal subsidiary is Wisconsin Electric Power Company ("WE"), an electric, gas and steam utility. As of December 31, 1996, approximately 94% of WEC's consolidated total assets were attributable to WE. The following discussion and analysis of financial condition and results of operations includes both WEC and WE unless otherwise stated.

Wisconsin Electric Revitalization

To better position the Company in a changing energy marketplace, WE implemented a revitalization program ("Revitalization") in 1994 to increase efficiencies and improve customer service by reengineering and restructuring the organization. The new structure consolidated many business functions and simplified work processes. See "Note K - Benefits Other Than Pensions" in the NOTES TO FINANCIAL STATEMENTS for additional information.

Mergers

Wisconsin Natural Gas Company: On January 1, 1996, WEC merged its natural gas utility subsidiary, Wisconsin Natural Gas Company ("WN"), into its electric and steam utility subsidiary, WE, to form a single combined utility subsidiary. The merger, which was part of Revitalization, is expected to improve customer service and reduce operating costs. The accounting treatment for this merger was similar to that which would result from a pooling of interests. Where applicable, references to WE include WN's gas operations prior to the merger.

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

Cautionary Factors

When used in this document, "anticipate", "believe", "estimate", "expect", "objective", "project" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are subject to certain risks, uncertainties and assumptions which could cause actual results to differ materially from those that are described, including the items described below under "FACTORS AFFECTING RESULTS OF OPERATIONS" and below under "CAUTIONARY FACTORS".

RESULTS OF OPERATIONS

The following discussion and analysis of the RESULTS OF OPERATIONS does not consider the impact of the proposed merger with NSP. See "FACTORS AFFECTING RESULTS OF OPERATIONS - Merger Agreement with Northern States Power Company" for information concerning the proposed merger. See "Note L - Information By Segments of Business" in the NOTES TO FINANCIAL STATEMENTS for additional information related to WEC's and WE's RESULTS OF OPERATIONS.

Earnings

1996 Compared to 1995: During 1996, WEC's consolidated net income and earnings per share of common stock were $218.1 million and $1.97 per share compared to $234.0 million and $2.13 per share during 1995. WE's Net Income decreased to $210.1 million in 1996 from approximately $239.5 million in 1995. As described below, WEC's and WE's earnings decreased primarily because 1996 retail electric and gas rate decreases more than offset the favorable impact of increases in electric sales and gas deliveries and decreases in certain Operating Expenses.

1995 Compared to 1994: Earnings per share of WEC's common stock in 1995 were $2.13 compared with $1.67 per share in 1994, an increase of 27.5%. WEC's Net Income increased by approximately $53.2 million and WE's Net Income increased $58.9 million in 1995 compared to 1994. WEC's and WE's earnings during 1994 reflect a nonrecurring charge of approximately $73.9 million ($45 million net of tax, or 42 cents per share) associated with WE's Revitalization program.

The 1994 nonrecurring charge primarily included the costs of early retirement and severance packages which were elements of Revitalization. The Company has recovered the 1994 nonrecurring charge in avoided labor costs that would have been charged to Other Operations and Maintenance expense during 1994 and 1995.

Excluding the Revitalization charge, WEC's 1995 earnings and earnings per share of common stock were 3.6% and 1.9% greater than 1994 earnings and earnings per share, respectively. WE's 1995 earnings were 6.2% greater than 1994 earnings excluding the Revitalization charge. The increase in WEC's and WE's 1995 earnings primarily reflects higher electric sales and gas deliveries and a decrease in Other Operation and Maintenance expenses.

Electric Revenues, Gross Margins and Sales

The table below summarizes Electric Operating Revenues, gross margins, megawatt-hour sales and average electric customers for each of the three years ended December 31, 1996.

Electric Operations	1996	1995	% Change 1995 to 1996	1994	% Change 1994 to 1995
Electric Gross Margin ($000's)					
Operating Revenues					
Residential	$ 494,142	$ 507,416	(2.6%)	$ 484,627	4.7%
Small Commercial/Industrial	421,511	423,039	(0.4%)	406,043	4.2%
Large Commercial/Industrial	383,047	401,794	(4.7%)	398,179	0.9%
Other-Retail/Municipal	56,318	69,318	(18.8%)	69,258	0.1%
Resale-Utilities	26,372	24,811	6.3%	31,295	(20.7%)
Other Operating Revenues	11,880	11,102	7.0%	14,160	(21.6%)
Total Operating Revenues	1,393,270	1,437,480	(3.1%)	1,403,562	2.4%
Fuel & Purchased Power	331,867	345,387	(3.9%)	328,485	5.2%
Gross Margin	$1,061,403	$1,092,093	(2.8%)	$1,075,077	1.6%
Sales (Mwh)					
Residential	6,998,769	7,042,691	(0.6%)	6,670,081	5.6%
Small Commercial/Industrial	7,204,694	7,047,277	2.2%	6,699,073	5.2%
Large Commercial/Industrial	10,785,505	10,639,782	1.4%	10,471,869	1.6%
Other-Retail/Municipal	1,476,999	1,550,937	(4.8%)	1,603,741	(3.3%)
Resale-Utilities	1,094,461	1,003,182	9.1%	1,466,599	(31.6%)
Total Electric Sales	27,560,428	27,283,869	1.0%	26,911,363	1.4%

Electric Operations (cont'd)	1996	1995	% Change 1995 to 1996	1994	% Change 1994 to 1995
Average Customers					
Residential	867,917	857,924	1.2%	846,745	1.3%
Small Commercial/Industrial	91,565	90,386	1.3%	88,765	1.8%
Large Commercial/Industrial	706	679	4.0%	674	0.7%
Other-Retail/Municipal	1,812	1,809	0.2%	1,802	0.4%
Resale-Utilities	20	12	66.7%	9	33.3%
Total Average Customers	962,020	950,810	1.2%	937,995	1.4%

1996 Compared to 1995: Primarily as a result of annualized electric retail rate decreases effective January 1, 1996 of approximately $33.4 million or 2.8% in Wisconsin and $1.1 million or 3.3% in Michigan, total Electric Operating Revenues decreased by 3.1% or $44.2 million during 1996 compared to 1995. Also contributing to the 1996 decrease in Electric Operating Revenues were the effects of renegotiated contracts with various wholesale customers and with the Empire and Tilden iron ore mines (the "Mines"), WE's two largest retail customers, as well as continued reductions in sales to Wisconsin Public Power Inc. SYSTEM ("WPPI") and Upper Peninsula Power Company ("UPPCo"), WE's largest municipal and utility customer, respectively. The renegotiated wholesale and mine contracts contain discounts from previous rates charged to these customers in exchange for contract extensions. A 1.0% 1996 increase in total electric kilowatt-hour sales was not sufficient to offset the impact on Electric Operating Revenues of the rate decreases, the renegotiated contracts and the reduced sales to WPPI and UPPCo.

Between the comparative periods, the gross margin on Electric Operating Revenues (Electric Operating Revenues less Fuel and Purchased Power expenses) decreased 2.8% or by approximately $30.7 million. The lower 1996 Electric Operating Revenues more than offset the lower net 1996 Fuel and Purchased Power expenses. Fuel expenses declined 2.6% in 1996 primarily due to lower average coal costs per ton consumed. Between the comparative periods, Purchased Power expense decreased 13.4% as WE substituted lower cost generation for power purchases.

Residential sales declined 0.6%, but Small Commercial/Industrial sales increased 2.2% during 1996 compared to 1995. A decrease in the average electric usage per Residential customer as a result of cooler weather during the summer of 1996 compared to the summer of 1995 was partially offset by the effect of a 1.2% increase in the average number of Residential customers during 1996. Average usage per Small Commercial/Industrial customer in 1996 was flat compared to 1995. However, a 1996 increase in the average number of Small Commercial/Industrial customers caused the increase in electric sales to this customer class.

Electric energy sales to the Mines increased by 3.2% to approximately 2,369,000 megawatt-hours in 1996 compared to 2,296,000 megawatt-hours in 1995. Excluding the Mines, sales to Large Commercial/Industrial customers increased 0.9% between the comparative periods.

The 4.8% decrease in 1996 sales to the Other-Retail/Municipal customer class compared to 1995 is largely due to the reduction in sales to WPPI noted above. WPPI has been reducing its purchases from WE subsequent to acquiring generating capacity and expanding use of its existing generating facilities.

Sales of electric energy to other utilities (the Resale-Utilities customer class), representing 4.0% of total 1996 electric energy sales, increased 9.1% from 1995 to 1996. This increase is attributed in part to increased availability during 1996 of WE's lowest cost generating units compared to 1995 and to greater native load demand as a result of the hot weather during the summer of 1995, allowing for higher opportunity sales by WE to other utilities in 1996. During 1996, a continued reduction in purchases of electricity by UPPCo somewhat offset the increase in resale sales to other utilities during 1996. WE expects UPPCo to significantly reduce its purchases of electric energy from WE when a 65 megawatt ("MW") agreement with WE expires at the end of 1997.

1995 Compared to 1994: Despite an annualized $16.2 million or 1.3% Wisconsin retail electric fuel adjustment rate decrease that became effective on August 4, 1994, total Electric Operating Revenues increased by 2.4% or by $33.9 million from 1994 to 1995 due to increased 1995 electric sales.

The gross margin on Electric Operating Revenues increased by 1.6% or $17.0 million in 1995 compared to 1994. The gross margin grew because the increased electric sales were primarily to Residential and Small Commercial/Industrial customers who contribute higher margins to earnings than other customer classes. During 1995, Fuel expense increased 6.2% or by approximately $17.7 million in 1995 compared to 1994 as a result of higher electric sales. Purchased Power expense declined 1.9% or by approximately $0.8 million in 1995 compared to 1994 as a result of decreased marginal generating costs in 1995 at three of WE's fossil plants and the newly installed peaking capacity at Paris Generating Station ("Paris"). Lower generating costs at the fossil plants were due to decreased per unit fuel costs and the benefits of Revitalization, allowing WE to substitute lower cost generation for power purchases. The addition of Paris, a natural gas fired peaking unit, in 1995 allowed WE to eliminate firm power purchase contracts that included fixed demand charges. Unscheduled or longer than expected outages in 1995 at two of WE's most efficient power plants, however, offset most of the decrease in Purchased Power expense as WE purchased nonfirm replacement power on the spot market.

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

The warmer 1995 summer weather increased sales primarily to Residential and Small Commercial/Industrial customers. These customers are more sensitive to weather variations than other customer classes. The average number of customers in the Residential and Small Commercial/Industrial customer classes increased by 1.3% and 1.8%, respectively, from 1994 to 1995.

Electric energy sales to the Mines decreased by 0.5% to 2,296,000 megawatt-hours in 1995 compared to 2,308,000 megawatt-hours in 1994. Excluding the Mines, sales to Large Commercial/Industrial customers increased 2.2%.

The 3.3% reduction in sales to the Other-Retail/Municipal customer class in 1995 compared to 1994 is largely the result of reductions in sales to WPPI discussed above. WPPI's sales reductions during 1995 did not have a significant effect on earnings.

Sale of electric energy to the Resale-Utilities customer class declined 31.6% in 1995 compared to 1994. This decline can in part be attributed to unplanned or longer than expected outages at two of WE's least cost generating facilities during 1995 and to increased retail customer load as a result of the warmer summer of 1995 weather, both of which reduced the opportunity to sell electric energy to other utilities. Also, as noted above, UPPCo reduced the amount of energy that it purchased from WE in 1995. The 1995 sales reductions by UPPCo did not have a significant effect on 1995 earnings.

Gas Revenues, Gross Margins and Therm Deliveries

The table below summarizes Gas Operating Revenues, gross margins, therm deliveries and average gas customers for each of the three years ended December 31, 1996.

<u>Gas Operations</u>	<u>1996</u>	<u>1995</u>	% Change 1995 <u>to 1996</u>	<u>1994</u>	% Change 1994 <u>to 1995</u>
Gas Gross Margin ($000's)					
Operating Revenues					
Residential	$218,811	$194,226	12.7%	$200,824	(3.3%)
Commercial/Industrial	108,100	94,482	14.4%	102,496	(7.8%)
Interruptible	11,531	7,712	49.5%	12,605	(38.8%)
Transported Customer Owned Gas	11,006	12,161	(9.5%)	11,453	6.2%
Other - Interdepartmental	3,775	5,834	(35.3%)	2,907	100.7%
Other Operating Revenues	11,652	3,847	202.9%	(5,936)	(164.8%)
Total Operating Revenues	364,875	318,262	14.6%	324,349	(1.9%)
Cost of Gas Sold	234,254	188,764	24.1%	199,511	(5.4%)
Gross Margin	$130,621	$129,498	0.9%	$124,838	3.7%
Therms Delivered (000's)					
Residential	371,990	345,140	7.8%	32[illegible],913	6.6%
Commercial/Industrial	225,169	207,358	8.6%	[illegible]9,206	4.1%
Interruptible	35,869	29,397	22.0%	36,916	(20.4%)
Transported Customer Owned Gas	268,163	261,361	2.6%	235,850	10.8%
Other - Interdepartmental	35,703	43,473	(17.9%)	15,334	183.5%
Total Gas Delivered	936,894	886,729	5.7%	811,219	9.3%
Average Customers					
Residential	330,153	321,643	2.7%	311,288	3.3%
Commercial/Industrial	29,930	29,228	2.4%	28,439	2.8%
Interruptible	196	203	(3.5%)	198	2.5%
Transportation	230	209	10.1%	202	3.5%
Other - Interdepartmental	8	8	0.0%	7	14.3%
Total Average Customers	360,517	351,291	2.6%	340,134	3.3%

1996 Compared to 1995: Despite an annualized $8.3 million or 2.6% Wisconsin retail gas rate decrease effective January 1, 1996, total Gas Operating Revenues increased 14.6% or by $46.6 million and the gross margin on Gas Operating Revenues (Gas Operating Revenues less Cost of Gas Sold) increased 0.9% or by $1.1 million during 1996 compared to 1995. A 5.7% increase in total therm deliveries during 1996 more than offset the impact of the rate decrease on Gas Operating Revenues and on gross margin.

Gross margin was higher in 1996 because the increased therm deliveries were primarily to Residential and Commercial customers, who contribute higher margins to earnings than other customer classes. The change in Cost of Gas Sold increased 24.1% or by approximately $45.5 million in 1996 compared to 1995 due to a higher 1996 per unit cost of purchased gas and to a higher volume of gas purchases in 1996. WE arranges for its own gas supply contracts with terms of various lengths. Changes in the cost of natural gas purchased at market prices are included in customer rates through the purchased gas adjustment mechanism and do not affect gross margin.

Total natural gas therm deliveries increased 5.7% or by 50,165,000 therms in 1996 compared to 1995. Of this increase in therm deliveries, Residential and Commercial/Industrial sales increased by 26,850,000 therms and 17,811,000 therms, respectively, in 1996. These increases are attributed in part to colder weather and in part to increased customers in these two customer classes during 1996 compared to 1995. As measured by heating degree days, 1996 was 9.3% colder than 1995 and 6.0% colder than normal. During 1996, the average number of Residential and Commercial/Industrial customers increased by 2.7% and 2.4%, respectively, compared to 1995.

Other-Interdepartmental therm deliveries decreased 17.9% or by 7,770,000 therms during 1996 compared to 1995. These therm deliveries to WE electric generating facilities, primarily the natural gas fired peaking units at the Paris and Concord Generating Stations ("Concord"), are at rates approved by the Public Service Commission of Wisconsin ("PSCW"). Therm deliveries to these customers decreased in 1996 as a result of the cooler 1996 summer weather discussed above in "Electric Revenues, Gross Margins and Sales".

1995 Compared to 1994: Despite an increase in 1995 total gas deliveries, total Gas Operating Revenues decreased 1.9% or by approximately $6.1 million in 1995 compared to 1994 as a result of a reduction in the cost of gas, which is recovered in Gas Operating Revenues through the purchased gas adjustment clause. The gross margin on Gas Operating Revenues (Gas Operating Revenues less Cost of Gas Sold) increased 3.7% or by approximately $4.7 million in 1995 compared to 1994. The gross margin was higher because of increased therm sales to Residential and Commercial customers who contribute higher margins to earnings than other customer classes. A decrease in the average per unit cost of purchased gas during 1995 more than offset the effect of the increase in therm deliveries such that Cost of Gas Sold decreased 5.4% or by $10.7 million compared to 1994.

Total natural gas therms delivered increased 9.3% or by 75,510,000 therms between the comparative periods. Colder weather during the fourth quarter of 1995 compared to the fourth quarter of 1994 contributed to net increased deliveries for 1995. As measured by heating degree days, the fourth quarter of 1995 was 43.1% colder than the same period in 1994. The colder weather in the fourth quarter of 1995 especially increased sales to Residential and Commercial customers. These customers are more sensitive to weather variations as a result of heating requirements than other customer classes. Also, the average number of Residential and Commercial/Industrial customers increased by 3.3% and 2.8%, respectively, in 1995 compared to 1994.

During 1995, Other-Interdepartmental therm deliveries increased 183.5% or by 28,139,000 therms compared to 1994. WE attributes this increase to increased electric generation peaking requirements of Concord and Paris, especially given the warmer weather conditions during the summer of 1995 noted above. All of the gas fired generating units at Concord and Paris were in operation by the end of the second quarter of 1995 while only the generating units at Concord were in operation by the end of the second quarter of 1994.

Operating Expenses

1996 Compared to 1995: Other Operation Expenses decreased 0.9% or by $3.7 million during 1996 compared to 1995, primarily due to lower capitalized conservation, property insurance and pension and benefit expenses, partially offset by increased uncollectible expenses. Maintenance expense decreased 8.3% or by approximately $9.4 million in 1996 compared to 1995, primarily as a result of a decrease in costs associated with maintenance of WE's fossil power plants. WE attributes the decrease in maintenance to an extended outage at WE's Pleasant Prairie Power Plant in 1995 as well as to continued efforts to reduce operating and maintenance costs. Depreciation expense increased 10.3% or by $18.9 million between the same comparative periods primarily due to increased nuclear decommissioning expenses and to a lesser extent to higher depreciable plant balances in 1996.

During 1996, Operating Taxes Other Than Income Taxes increased 4.1% or by $3.1 million compared to 1995 due to tax adjustments related to prior periods. Total operating income taxes decreased 10.2% or by $14.4 million in 1996 compared to 1995 as a result of lower taxable income.

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

In 1995 compared to 1994, total operating income taxes increased 41.4% or by $41 million due to lower taxable income in 1994 caused by the nonrecurring Revitalization charge. Deferred Income Taxes-Net increased $22 million

or 88.7% primarily due to tax matters related to the timing of payments made in connection with WE's Revitalization program.

Other Items

Excluding the annual $10.9 million impact of a 1996 change in accounting for capitalized conservation expenditures at WE, Miscellaneous - Net Other Income and Deductions increased $14.9 million in 1996 compared to 1995. The change in accounting more than offset a 1996 increase in non-utility Miscellaneous-Net Other Income and Deductions of $13.4 million compared to 1995. This $13.4 million increase was primarily due to fair market valuation adjustments of non-utility investments and the gain recorded on sales of non-utility property and investments. Miscellaneous-Net Other Income and Deductions decreased $9.8 million in 1995 compared to 1994, due in part to fair market valuation adjustments of non-utility investments.

Other Interest Charges decreased by approximately $5.0 million in 1996 compared to 1995 due to decreased average outstanding short-term debt balances during 1996, primarily at WE. Other Interest Charges increased by $4.8 million in 1995 compared to 1994 as a result of increased average short-term debt balances, primarily at WE, in 1995 compared to 1994.

FACTORS AFFECTING RESULTS OF OPERATIONS

Merger Agreement with Northern States Power Company

On April 28, 1995, Wisconsin Energy Corporation ("WEC") and Northern States Power Company, a Minnesota corporation ("NSP"), entered into an Agreement and Plan of Merger, which was amended and restated as of July 26, 1995 ("Merger Agreement"). The Merger Agreement provides for a strategic business combination involving WEC and NSP in a "merger-of-equals" transaction ("Transaction"). As a result, WEC will become a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended ("PUHCA"), and will change its name to Primergy Corporation ("Primergy"). Primergy will be the parent company of WEC's utility subsidiary, Wisconsin Electric Power Company ("WE", which will be renamed Wisconsin Energy Company), of NSP (which, for regulatory reasons, will reincorporate in Wisconsin ("New NSP")), and of the other subsidiaries of WEC and NSP.

The Transaction is intended to be tax-free for income tax purposes and to be accounted for as a "pooling of interests" On September 13, 1995, the stockholders of WEC and NSP voted to approve the proposed Transaction. Under the provisions of the Merger Agreement, each outstanding share of NSP common stock will be converted into 1.626 shares of Primergy common stock and each outstanding share of WEC common stock will remain outstanding as a share of Primergy common stock.

The Merger Agreement is subject to various conditions, including approval of various regulatory agencies. The goal of WEC and NSP was to complete the Transaction by January 1, 1997. However, as discussed below, all necessary regulatory approvals were not obtained by the end of 1996 and, as a result, the Transaction was not completed in 1996. WEC and NSP continue to pursue regulatory approvals, without unacceptable conditions, to facilitate completion of the Transaction as soon as possible in 1997.

Upon consummation of the Transaction, cost savings are estimated to be approximately $2 billion over a 10-year period, net of transaction costs (including fees for financial advisors, attorneys, accountants, consultants, filings and printing) and net of costs to achieve the savings of approximately $30 million and $122 million, respectively. The allocation between WEC and NSP and their customers of the estimated cost savings resulting from the Transaction, net of costs incurred to achieve such estimated cost savings, is subject to regulatory review and approval.

WEC and NSP have proposed that, upon consummation of the Transaction, retail electric rates be reduced by approximately 1.5% and frozen at that level for four years in the jurisdictions in which they operate. WEC and NSP have also proposed a four year freeze in their wholesale electric rates. In December 1995, WEC and NSP entered into a settlement agreement with certain Wisconsin municipal intervenors that ended the latters' participation in the

Federal Energy Regulatory Commission ("FERC") and state merger proceedings. The settlement agreement, which provides for certain rate reductions on power sales and transmission services, was approved by the FERC in June 1996. For retail gas customers, WE and NSP-WI have proposed that Wisconsin Energy Company implement a $4.2 million reduction in retail gas rates on an annualized basis and a four year rate freeze for customers in Wisconsin and Michigan. NSP has proposed a two year gas retail rate freeze in its Minnesota jurisdiction and a modest gas retail rate reduction and four year gas retail rate freeze in its North Dakota jurisdiction.

Regulatory authorities may also require the restructuring of electric transmission system operations or administration. As noted below, WEC and NSP have proposed an Independent System Operator ("ISO") of their electric transmission systems in testimony filed with the FERC and the Public Service Commission of Wisconsin ("PSCW") during merger application hearings. WEC and NSP currently cannot predict what, if any, restructuring of the transmission system will be required. In addition, Wisconsin State law limits the total assets of non-utility affiliates of Primergy, which could affect the amount of non-regulated operations.

Securities and Exchange Commission: In April 1996, WEC and NSP submitted the initial filing with the Securities and Exchange Commission ("SEC") to facilitate registration of Primergy under the PUHCA. Although WEC and NSP are working to avoid divestitures, the SEC could require, as a condition of its approval of the Transaction, that Primergy divest of certain of its gas utility and/or non-regulated operations within a reasonable time after the Transaction is consummated. In a few cases, the SEC has allowed the retention of such properties or deferred the question of divestiture for a substantial period of time. In those cases in which divestiture has taken place, the SEC has usually allowed enough time to complete the divestiture so as to allow the applicant to avoid a "fire sale" of the divested assets. WEC and NSP believe that strong policy reasons and prior SEC decisions exist which support their retaining their existing gas utility properties and non-utility ventures, or, alternatively, which support deferring the question of divestiture for a substantial period of time. Accordingly, WEC and NSP requested in their April 1996 merger application with the SEC that WEC and NSP be allowed to retain WEC's and NSP's existing gas utility properties and non-utility ventures.

Federal Energy Regulatory Commission: The FERC held hearings on the merger application in June 1996. Subject to WEC and NSP meeting eight conditions, the administrative law judge ("ALJ") in the merger proceeding issued an initial decision in August 1996 recommending approval of the Transaction. The ALJ's initial decision included recommendations for a working ISO and specifically rejected the need for divestiture of any generation or transmission facilities as a requirement for ensuring open and equal access to the transmission system. In October 1996, WEC and NSP filed with the FERC a Unilateral Settlement Offer of the Primergy Merger Applicants ("Settlement Offer") setting forth a proposed ISO for Primergy. The Settlement Offer contains all of the elements appropriate to an ISO and addresses all issues and concerns related to transmission "market power".

In mid-December 1996, the FERC revised and streamlined its 30-year-old policy for evaluating public utility mergers, with the changes designed to expedite the processing of merger applications. The new policy primarily focuses on three factors in reviewing mergers: the effect on competition, rates, and state and federal regulation. For pending mergers, such as that between WEC and NSP, the policy will be applied on a case-by-case basis. WEC and NSP believe the proposed Transaction is consistent with the FERC's revised merger policy and are hopeful that the FERC will simultaneously rule on the Settlement Offer and the pending merger application in the first quarter of 1997.

Public Service Commission of Wisconsin: In October 1996, the PSCW commenced hearings on the merger application, which were completed in November 1996.

In late December 1996, two Wisconsin legislators asked the PSCW to delay decisions on all pending utility mergers until the Wisconsin Legislature had an opportunity to consider a bill revising the state's utility merger law, which the two legislators indicated they would introduce. In early January 1997, the PSCW voted unanimously not to delay its decision. However, later in January 1997, a Dane County Circuit Court judge ordered the PSCW to delay its decision on the application, pending the results of an investigation regarding alleged prohibited conversations between one of the commissioners and WEC officials. The judge further ordered the PSCW to investigate the allegations.

While WEC cannot predict specifically when the PSCW will resolve the allegations and proceed with deliberations concerning the merger application, the Company is hopeful that such investigation might be completed by early in the second quarter of 1997.

Minnesota Public Utilities Commission: In June 1996, the Minnesota Public Utilities Commission ("MPUC") issued an order which established the procedural framework for the MPUC's consideration of the merger. The issues of merger-related savings, electric rate freeze characteristics, NSP's pre-merger revenue requirements, Primergy's ability to control the transmission interface between the Mid-Continent Area Power Pool and the Wisconsin and upper Michigan area, and the impact of control of this interface on Minnesota utilities were set for contested case hearings.

The MPUC completed evidentiary hearings on the merger application in December 1996. In January and February 1997, ALJs in the merger application proceedings issued their findings and recommendations about the Minnesota merger application. Among other items, they found that the projected merger-related cost savings were reasonable, recommended a four-year rate freeze, with very limited exceptions for rate changes and concluded that the merger would not provide Primergy with the ability or incentive to negatively impact competition. The MPUC will consider the ALJs' recommendations along with other information when they deliberate and decide the case. In late March 1997, the MPUC indicated that in April 1997 it would decide whether to adopt procedures in connection with its decision on the Transaction that include additional public hearings as well as additional written comments. If additional hearings or written comments are necessary, final deliberations in this matter would be scheduled for late June or early July 1997.

Michigan Public Service Commission: In April 1996, the Michigan Public Service Commission ("MPSC") approved the merger application through a settlement agreement containing terms consistent with the merger application.

North Dakota Public Service Commission: In June 1996, the North Dakota Public Service Commission approved the merger application.

Other Federal Agencies: In the fall of 1995, WEC and NSP filed applications with the United States Nuclear Regulatory Commission ("NRC") for license amendments related to the Merger Agreement. The matter is pending. In 1995, WEC and NSP received a ruling from the United States Internal Revenue Service indicating that the proposed successive merger transactions included in the Merger Agreement would not prevent treatment of the Transaction as a tax-free reorganization under applicable tax law if each transaction independently so qualified. In December 1996, WEC and NSP filed required notifications with the Federal Trade Commission and the United States Department of Justice ("DOJ") under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. In January 1997, the DOJ served a second request for information and documents. WEC and NSP anticipate responding to the second request in March 1997.

Merger Conditions: Under the Merger Agreement, completion of the Transaction is subject to several conditions, including but not limited to the prior receipt of all necessary regulatory approvals without the imposition of materially adverse terms. In addition, both WEC and NSP have the right to terminate the Merger Agreement if the Transaction has not been completed by April 30, 1997, except where on such date all necessary statutory approvals and third party consents have not been obtained but all other conditions to closing have been fulfilled or are capable of being fulfilled. Then the termination date shall be extended to October 31, 1997. WEC continues to work with NSP to complete the Transaction and believes that fulfillment of the various conditions to the Transaction within the time frame of the Merger Agreement is achievable.

Additional information with respect to the Merger Agreement and the proposed Transaction, including pro forma combined condensed financial information, may be found in "Note B - Mergers" in the NOTES TO FINANCIAL STATEMENTS.

Nuclear Matters

Point Beach Nuclear Plant: WE operates two 500 megawatt electric generating units at Point Beach Nuclear Plant ("Point Beach"). During 1996, Point Beach accounted for 25.4% of WE's net electric generation. The current operating licenses for the two units at Point Beach expire in 2010 and 2013 for Units 1 and 2, respectively.

As a result of degradation of tubes within the Unit 2 steam generators at Point Beach, WE completed replacement of the steam generators in January 1997. The unit had been operating at 90% of its capacity during the operating cycle prior to the Unit 2 fall refueling and steam generator replacement outage, which began in October 1996. Subject to approval by the NRC, WE expects to restart Unit 2 during the second quarter of 1997. Unit 1 was taken out of service in February 1997 due to equipment problems. These problems and other emergent issues associated with this Unit 1 outage were resolved and Unit 1 was scheduled to return to service in March 1997. Unit 1 had been scheduled to be taken out of service again in early May 1997 to begin an extended refueling outage. In March 1997, WE reevaluated its generating unit outage schedule scenarios to optimize the availability of supply resources and has decided to return Unit 1 to service in early summer 1997, with the refueling outage currently scheduled to occur from September through October 1997. This decision allows Point Beach staff to focus their attention on the work necessary to bring Unit 2 back into service and, secondarily, to allow Unit 1 to be in service during the 1997 summer peak demand months. See "FACTORS AFFECTING RESULTS OF OPERATIONS - Rates and Regulatory Information" below for information about a related emergency fuel rate increase request filed with the PSCW in the first quarter of 1997.

WE anticipates additional power purchases during 1997, in part due to the extended outages of Point Beach Units 1 and 2. The cost of these additional power purchases are included in the emergency fuel rate increase request filed with the PSCW as noted above.

WE completed construction of an Independent Spent Fuel Storage Installation ("ISFSI") in 1995 for dry storage of spent fuel from Point Beach. The ISFSI was necessary because the spent fuel pool inside the plant is nearly full. Two storage casks have been loaded with spent fuel and transferred to the ISFSI. As a result of a hydrogen gas ignition during loading of a third cask in May 1996, cask loading has been halted until actions are implemented to prevent recurrence of such an event and until the NRC has reviewed and accepted these actions. WE hopes to resume loading of the casks in the summer of 1997.

In December 1996, WE paid the NRC $325,000 in civil penalties for performance deficiencies and violations of NRC requirements in various plant activities. In January 1997, the NRC informed WE of additional potential violations observed during a special inspection that could result in further civil penalties. Also, the NRC sent a letter on January 27, 1997 notifying WE of a declining trend in performance at Point Beach based upon these inspections and other ongoing regulatory interactions. The NRC issues trend letters to provide early notification of declining performance and to allow a utility, under the watchfulness of the NRC, to take early corrective actions. The NRC acknowledged in the letter that WE has made improvements in the identification and resolution of specific problems.

See "Note F - Nuclear Operations" in the NOTES TO FINANCIAL STATEMENTS for further information related to Point Beach, the Unit 2 steam generator replacement, the ISFSI and NRC matters. See "LIQUIDITY AND CAPITAL RESOURCES - Investing Activities" below for additional information about the Unit 2 steam generator replacement project.

Spent Fuel Storage and Disposal: As noted in the preceding section, WE constructed the ISFSI because its spent fuel pool within Point Beach is nearly full. Without NRC agreement that WE may resume loading of storage casks, the pool for spent fuel will be full by 1998. With NRC agreement to resume loading spent fuel, WE will load up to a total of 12 casks, providing sufficient storage capacity for spent fuel until the year 2000. WE plans to file an application with the PSCW later in 1997 for approval to load by the year 2000 further storage casks in addition to the 12 that were previously approved.

The temporary dry storage facilities at Point Beach are being used until the United States Department of Energy ("DOE") takes ownership of and permanently removes the spent fuel under a contract mandated by the Nuclear Waste Policy Act of 1982, as amended in 1987 ("Waste Act"). In July 1996, the United States Court of Appeals for the District of Columbia circuit ruled that the DOE has an unconditional obligation under the Waste Act to begin accepting spent fuel by January 31, 1998. However, in December 1996, the DOE notified owners of commercial nuclear plants that it will not be able to meet its statutory obligation. The DOE has indicated that it does not expect a permanent spent fuel repository to be available until at least 2010. On January 31, 1997, numerous electric utilities filed a petition in the Court of Appeals for review of the DOE's failure to meet its statutory obligation and requested, among other things, authority to withhold payments to the DOE for the permanent disposal program until it begins accepting their spent fuel. While WE was not a party to the petition, the PSCW has joined other public utility commissions and states in a similar petition filed on the same day. At this time, WE is unable to predict when the DOE will actually begin accepting spent fuel. Until such time, WE expects to continue to rely on temporary dry storage of its spent nuclear fuel. As another potential temporary storage option, WE is participating with a consortium of electric utilities to establish a private facility for interim storage of spent nuclear fuel. However, the availability of this private facility is uncertain at this time.

Industry Restructuring and Competition

The electric industry continues a trend towards restructuring and increased competition, driven by a combination of market forces, regulatory and legislative initiatives and technological changes. To date, competitive pressures have been most prominent in the wholesale power market, but are expected to continue to develop in the electric retail markets. Currently proposed federal legislation targets electric retail customer choice by the years 2000 through 2003. Present regulatory restructuring initiatives in various midwestern states target electric retail customer choice by the years 2000 through 2005. While the Company cannot predict the ultimate timing or impact of a restructured electric industry, WE has been advocating restructuring of the electric utility industry and believes that as a low-cost energy provider, it is well positioned to benefit from such changes. Among others, the following electric and gas industry restructuring initiatives are underway in regulatory jurisdictions where WE currently does business.

PSCW Electric Utility Industry Investigation: The PSCW has conducted an investigation into the electric utility industry in Wisconsin, particularly its institutional structure and regulatory regime, in order to evaluate what changes would be beneficial for Wisconsin. In December 1995, the PSCW decided the general direction of utility regulation in Wisconsin. This proposed restructuring of the industry would permit all consumers to choose their electricity provider by the year 2001 and it would establish a competitive generation business. The transmission and distribution functions would remain regulated. In a February 1996 report to the Wisconsin Legislature, the PSCW identified a 32 step workplan that it would follow for electric utility restructuring in Wisconsin. During 1996, the PSCW opened dockets on six of these steps including:

- Required utilities to file plans to functionally segment the business into generation, transmission, distribution and customer service operations. Comments were filed on the plans and a technical conference will be held in early 1997.

- Requested utilities and other interested parties to file comments on the adoption of affiliated interest standards to prevent unfair competition and cross-subsidization between affiliated businesses. The PSCW staff will prepare an initial proposal for comment in the spring of 1997 to be followed by hearings and rulemaking proceedings in the fourth quarter of 1997.

- Evaluated whether a public benefits policy advisory board should be created to carry out policies to continue programs, such as conservation and low-income energy assistance which are best handled by a government agency as competition is introduced into the industry. Meetings were held throughout 1996 to discuss recommendations for action. These recommendations formed a report that will serve as the basis for public meetings in early 1997. The PSCW is expected to make decisions in April 1997 which will most likely require significant legislation.

- Evaluated what quality of service standards and mechanisms for measuring and monitoring service quality should be established. Utilities and other interested parties were requested to comment on ways to generally improve service rules before moving to a restructured industry. A rulemaking hearing is planned for early 1997. The PSCW is expected to issue an order on service quality for legislative review after the hearings.

- Examined the introduction of an ISO in the state of Wisconsin that effectively separates control and operation of the transmission system from the ownership of generation. At the request of the PSCW, WE, along with four other utilities (including NSP) submitted a joint proposal in May 1996 for an ISO that would have the responsibility for ensuring transmission service in the state will be conducted fairly and equitably for all parties. Three other proposals were also filed. In September 1996, the PSCW issued an order setting forth principles for an acceptable ISO ("ISO Order"). Among the principles are that the ISO would operate the transmission system, be governed by a Board of Directors not subject to control by transmission owners and be the principal transmission planner. The PSCW indicated that the preferred method of transfer of authority to the ISO is a contract with a minimum length of five years. The PSCW has indicated that it will consider the principles contained in its ISO Order as deliberations are held on the Prim rgy merger application. As part of the PSCW merger proceeding, WEC and NSP proposed an ISO consistent with the ISO proposal filed with the FERC in the Settlement Offer discussed above. See "FACTORS AFFECTING RESULTS OF OPERATIONS - Merger Agreement with Northern States Power Company" above for further information about the proposed merger.

MPSC Electric Utility Industry Investigation: In December 1996, the staff of the MPSC issued a proposal to restructure that state's electric utility industry. If adopted, the plan would allow all consumers to be able to choose their electric supplier by the year 2004. The proposal supports development of a lower Michigan ISO using FERC principles to ensure non-discriminatory access and continued reliability. The Michigan ISO could later be involved with a regional ISO if determined to provide substantive benefit to Michigan customers. Based upon comments received in January 1997, the MPSC has requested further input on several implementation issues and will hold additional public hearings in March and April 1997.

Midwest ISO: WE is one of twenty-five utilities who are participating in the formation of a Midwest ISO which would be responsible for ensuring nondiscriminatory open transmission service access and the planning and security of the combined bulk transmission systems of the utilities. These utilities are all transmission facility owners within the East Central Area Reliability Council ("ECAR") or the Mid-America Interconnected Network ("MAIN"). In its Wisconsin statewide ISO Order, the PSCW did not specifically address how the Wisconsin ISO might be merged into the regional Midwest ISO once it was formed. Plans for the Midwest ISO are expected to be filed with the FERC in the summer of 1997 and would be implemented in stages after acceptance by the FERC.

FERC Open Access Transmission Ruling: As a result of the Energy Policy Act of 1992, the FERC issued in April 1996 two orders relating to open access transmission service, stranded costs, standards of conduct and open access same-time information systems. The ruling is intended to create a more competitive wholesale electric power market.

The first order, Order No. 888, requires public utilities owning, controlling or operating transmission lines to file non-discriminatory open access tariffs that offer others the same transmission service provided to themselves and requires the use of the tariffs for their own wholesale energy sales and purchases. Order No. 888 also provides for the full recovery of "stranded costs" that were prudently incurred to serve power customers and that could go unrecovered if wholesale customers use open access to move to another electric energy supplier. In July 1996, WE submitted to the FERC a transmission tariff in connection with Order No. 888. WE's filing includes terms and conditions of network transmission service and point-to-point transmission service, including ancillary services. The rate related aspects of the tariff were accepted by the FERC in a June 1996 settlement agreement regarding WE's preexisting transmission service tariffs. All other aspects of the tariff followed the FERC pro-forma tariff and were accepted by the FERC.

The second order, Order No. 889, works to ensure that transmission owners and their affiliates do not have an unfair competitive advantage in using transmission to sell power. Order No. 889 establishes standards of conduct and

requires that a public utility's merchant function rely on the same electronic information network that its transmission customers rely on to obtain information about its transmission system when buying or selling power.

On March 3, 1997, the FERC reaffirmed and clarified these orders with the issuance of Order No. 888a.

WE has advocated open access to transmission facilities as a necessary step in the competitive restructuring of the electric utility industry and does not believe that the ruling by the FERC will have a detrimental effect on its financial position or results of operations. The open access transmission orders became effective in mid-1996.

In its open access transmission ruling, the FERC encouraged utilities to consider ISOs such as the Wisconsin statewide and Midwest ISOs noted above as a tool to meet the demands of a competitive market for electric energy.

Wholesale Competition: Wholesale sales of electric energy accounted for 5.0%, 5.6% and 6.2% of WE's total Electric Operating Revenues in 1996, 1995 and 1994, respectively. WE attributes the decrease over this three year period in part to the increasingly competitive market for electric wholesale customers. In response to competition, WE renegotiated long-term power sales contracts with its municipal and rural electric cooperative wholesale customers during 1995 and 1996. The renegotiated contracts contain discounts from previous rates charged to these customers in exchange for contract extensions. Two wholesale customers, representing 24 MW, chose to obtain their power supplies from other suppliers, with their contracts phasing out between 1997 and 1998. As a result of the renegotiated and lost contracts, WE anticipates that electric wholesale revenues will continue to decrease slightly in 1997 and 1998. WE expects to continue to provide transmission service to the customers who did not renew their contracts.

PSCW Natural Gas Utility Industry Investigation: The PSCW continued a generic investigation of the natural gas industry in Wisconsin and addressed the extent to which traditional regulation should be replaced with a different approach. In response to a November 1996 PSCW order, WE will file a revised gas cost recovery mechanism ("GCRM") by July 1, 1997. In accordance with that order, GCRMs must either be an incentive type or modified dollar-for-dollar type, both of which will include after-the-fact prudence reviews by the PSCW. After WE files and receives PSCW approval for the new GCRM, WE will be able to assess the level of risk. The Company does not expect that a major portion of gas costs that are currently passed through to customers will be subject to risk under any GCRM that will be filed later this year.

The PSCW has also issued Standards of Conduct applicable to opportunity sales. Opportunity sales are described as the sales of underutilized capacity and supply entitlements that become periodically available because of the variable daily and seasonal needs of customers. These Standards of Conduct are intended to ensure that all interested market participants have an opportunity to purchase released capacity and supply and that the releasing utility receives the highest price for the sale, given the specific circumstances. Additional restrictions become applicable if a gas utility has a marketing affiliate.

Electric Sales and Gas Deliveries Outlook

Assuming moderate growth in the economy of its service territory and normal weather, WE presently anticipates total electric kilowatt-hour sales to grow at a compound annual rate of approximately 2.1% over the five-year period ending December 31, 2001. WE forecasts total therm deliveries of natural gas to grow at a compound annual rate of approximately 1.9% over the same five-year period. These forecasts are subject to a number of variables, including among others the economy, weather and the restructuring of the electric and gas utility industries, which may affect the actual growth in sales. These estimates do not reflect the operations of NSP, which will become a part of Primergy after consummation of the Transaction. See "FACTORS AFFECTING RESULTS OF OPERATIONS - Merger Agreement with Northern States Power Company" above.

New Gas Service Proposal: On February 14, 1997, WE filed revised plans with the PSCW to expand natural gas service to more than 4,800 potential customers in northeastern Wisconsin. The project will involve the installation of more than 350 miles of new gas main and is one of the largest proposed new franchise territory expansion efforts in

recent Wisconsin history. Wisconsin Public Service Corporation ("WPS"), an unaffiliated investor-owned utility in Green Bay, Wisconsin, filed a competing application to serve a portion of the area for which WE originally filed. WE and WPS have reached an agreement that resolves which company will serve in areas that both companies initially filed to serve. A number of approvals must be granted before the project can continue, including receiving approval from the PSCW. The Wisconsin Propane Gas Association has intervened in the case and has requested that the PSCW hold a hearing. The hearing is scheduled for April 1997. Once all approvals are received, WE expects to begin contacting potential customers in the second half of 1997.

Proposed Acquisition of ESELCO, Inc.: ESELCO, Inc., parent company of Edison Sault Electric Company ("Edison Sault"), and WEC announced on March 25, 1997, that they had entered into a letter of intent setting forth the preliminary terms of the potential acquisition of ESELCO, Inc. by WEC. All outstanding shares of ESELCO, Inc. common stock would be converted into shares of WEC common stock based on a value of $44.50 for each share of ESELCO, Inc. common stock in a transaction proposed to be structured as a tax-free reorganization and accounted for as a pooling of interests. The total purchase price would be approximately $71 million. The exact number of shares of WEC common stock to be issued in the transaction would be determined by dividing $44.50 by the average closing prices of WEC common stock during a specified period prior to closing.

Consummation of the proposed transaction is contingent upon several conditions including the negotiation and execution of a definitive agreement, approval by the Boards of Directors of both companies and the shareholders of ESELCO, Inc., receipt of all appropriate regulatory approvals, the effectiveness of a registration statement to be filed with the Securities and Exchange Commission covering the WEC shares to be issued in the transaction and other customary conditions. There can be no assurance as to the final terms of the proposed transaction, or that the conditions will be satisfied, or that the proposed transaction will be consummated.

Edison Sault is an electric utility which serves approximately 22,000 residential, commercial and industrial customers located in Michigan's eastern Upper Peninsula. ESELCO, Inc. is traded under the symbol EDSE on the NASDAQ National Market.

Effects of Weather

By the nature of its utility business segments, WEC's and WE's earnings are sensitive to weather variations from period to period. Variations in winter weather affect heating load for both the gas and electric utility. Variations in summer weather affect cooling load for the electric utility as well as therm deliveries to gas fired electric generating customers. The table below summarizes weather in WE's service territory as measured by degree days for each of the three years ended December 31, 1996.

Degree Days	1996	1995	% Change 1995 to 1996	1994	% Change 1994 to 1995
Heating (7,049 Normal)	7,469	6,833	9.3%	6,431	6.3%
Cooling (668 Normal)	608	952	(36.1%)	877	8.6%

Effects of Inflation

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

Rates and Regulatory Matters

The table below summarizes the projected annual revenue impact of recent rate changes authorized by regulatory commissions for the electric, natural gas and steam utilities of the Company based on the sales projections utilized by those commissions in setting rates. The PSCW regulates Wisconsin retail electric, steam and natural gas rates, while the FERC regulates wholesale power and electric transmission and gas transportation service rates. The MPSC regulates retail electric rates in Michigan.

The PSCW has discontinued the practice of conducting annual rate case proceedings, replacing it with a new schedule which calls for future rate cases to be conducted once every two years. In support of its goal to become the lowest-cost energy provider in the region and in light of the operating cost reductions expected from Revitalization discussed above, WE did not seek an increase in rates for 1994 or 1995. Discussion of rate changes for the 1997 and 1996 test years follow the table.

Service	Revenue Increase (Decrease) (Millions)	Percent Change in Rates (%)	Effective Date
Retail electric, WI	$ (7.4)	(0.6)	02/18/97
Retail gas	(6.4)	(2.0)	02/18/97
Steam heating	0.1	.5	02/18/97
Retail electric, WI	(33.4)	(2.8)	01/01/96
Retail electric, MI	(1.1)	(3.3)	01/01/96
Retail gas	(8.3)	(2.6)	01/01/96
Steam heating	(0.8)	(5.1)	01/01/96
Fuel electric, WI	(16.2)*	(1.3)	08/04/94

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

Under the Wisconsin retail electric fuel cost adjustment procedure, retail electric rates may be adjusted, on a prospective basis, if cumulative fuel and purchased power costs, when compared to the costs projected in the retail electric rate proceeding, deviate from a prescribed range and are expected to continue to be above or below that range.

Due to extended outages at Point Beach and the Oak Creek Power Plant, WE has incurred and will continue to incur increased fuel costs beyond those reflected in its electric rates. In February 1997, WE filed with the PSCW a request for an increase in its electric rates to cover the increased fuel costs. The filing was made under the PSCW special rules governing fuel cost increases. Under these rules, a utility may, if allowed by the PSCW, recover a portion of the fuel cost increase. The projected fuel cost increase for WE is estimated at about $67 million of which $53 million is allocated to the Wisconsin jurisdiction. The portion of the $53 million which WE may be allowed to recover could depend upon the timing and nature of the PSCW order. It is expected that WE's rate increase request will be contested.

In December 1995, the MPSC approved the suspension of the Power Supply Cost Recovery Clause (fuel adjustment procedure) for a five-year period for Michigan retail electric customers. In the case of natural gas costs, differences between the test year estimate and the actual cost of purchased gas are accounted for through a purchased gas adjustment clause.

1997 Test Year: In an order dated February 13, 1997, the PSCW directed WE to implement rate decreases for Wisconsin retail electric and gas customers of $7.4 million or 0.6% and $6.4 million or 2.0%, respectively, on an annualized basis, and a steam rate increase of $0.1 million or 0.5% on an annualized basis. The order is effective February 18, 1997 and is based on a regulatory return on common equity of 11.8%, up from 11.3% authorized since

January 1, 1996. The PSCW had determined that it required a special full review of WE's rates for the 1997 test year in connection with consideration of the application for approval of the proposed merger of WEC and NSP.

1996 Test Year: In a letter order dated September 11, 1995, the PSCW directed WE to implement rate decreases for Wisconsin retail electric, gas and steam customers of $33.4 million or 2.8%, $8.3 million or 2.6% and $0.8 million or 5.1%, respectively, on an annualized basis effective January 1, 1996. The order is based on a regulatory return on common equity of 11.3%, down from 12.3% authorized since 1993. Also effective January 1, 1996, the MPSC authorized WE to implement a rate decrease for Michigan non-mine retail electric customers of $1.1 million or 3.3% on an annualized basis.

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

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

New Accounting Pronouncements

In 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets ("FAS 121") and Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("FAS 123"). FAS 121 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. FAS 123 establishes reporting standards and an optional accounting method for stock-based employee compensation plans. The Company adopted both standards prospectively in 1996. Adoption did not have a material effect on the Company's net income or financial position.

In February 1996, FASB released for comment an exposure draft of a Proposed Statement of Financial Accounting Standards, Accounting for Certain Liabilities Related to Closure or Removal of Long-Lived Assets ("Proposed FAS"). The Proposed FAS, if issued, would require WE to recognize as a liability the present value of the estimated future total costs associated with closure or removal of certain long-lived assets and to correspondingly capitalize those costs. The capitalized costs would be depreciated to expense over the useful life of the asset. The proposed statement would become effective in 1998. This Proposed FAS would apply to decommissioning costs for Point Beach and would result in WE recording a decommissioning liability and corresponding asset as required by the pronouncement. Currently, nuclear decommissioning costs are accrued as depreciation expense over the expected service lives of the two units at Point Beach based on an external sinking fund method. Any changes in depreciation expense due to differing assumptions between the Proposed FAS and those currently required by the PSCW are not expected to be material and would most likely be deferrable and recoverable in rates. For additional information on the costs of decommissioning Point Beach, see "Note F - Nuclear Operations" in the NOTES TO FINANCIAL STATEMENTS.

Environmental Matters

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

WE has completed the installation of continuous emission monitors at all of its facilities and installed low NO_x burners on all boilers at its Oak Creek and Valley Power Plants. These actions, along with the burning of low sulfur coal meet the requirements that became effective January 1, 1995. To date, approximately $47.6 million has been spent on compliance with the 1990 amendments to the Clean Air Act.

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

WE projects a surplus of SO_2 emission allowances during Phase I and a small shortfall during Phase II, which begins in the year 2000. WE is seeking additional allowances available as a result of energy conservation programs. As an integral component of its least-cost plan, WE is active in SO_2 allowance trading. Revenue from the sale of allowances is being used to offset future potential rate increases.

Additional fuel switching and the installation of NO_x controls at various power plants will be required to meet the second phase of reduction requirements that become effective January 1, 2000. These costs, along with additional operating expenses, are not expected to exceed $38.0 million based on today's costs.

Manufactured Gas Plant Sites: WE is reviewing and addressing environmental conditions at a number of former manufactured gas plant sites. See "Note M - Commitments and Contingencies" in the NOTES TO FINANCIAL STATEMENTS for additional information.

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

LS Power Generation Facility

In 1993, a competitive bidding process conducted by the PSCW resulted in the selection of a proposal submitted by an unaffiliated independent power producer, LSP-Whitewater L.P. ("LS Power"), to construct a generation facility to meet a portion of WE's anticipated increase in system supply needs. WE subsequently signed a long-term agreement to purchase electricity from the proposed facility. The agreement is contingent upon the facility being completed and placed into operation. Plant construction is currently on schedule to meet the planned start-up date of June 1, 1997. See "Note M - Commitments and Contingencies" in the NOTES TO FINANCIAL STATEMENTS for additional information about WE's long-term power purchase agreement with LS Power.

LIQUIDITY AND CAPITAL RESOURCES

Except where specifically noted, the following discussion and analysis of LIQUIDITY AND CAPITAL RESOURCES does not consider the impact of the proposed merger with NSP. See "FACTORS AFFECTING RESULTS OF OPERATIONS - Merger Agreement with Northern States Power Company" above for information about the proposed merger.

Investing Activities

WEC invested a net total of $1.106 billion in its businesses during the three years ended December 31, 1996. Investments during this three-year period included approximately $957 million for construction of new or improved facilities of which $840 million was for utility projects and approximately $117 million was for non-utility projects. Additional investments during the three years ended December 31, 1996 included approximately $76 million for acquisition of nuclear fuel, $47 million for the eventual decommissioning of Point Beach and net capitalized conservation expenditures of $18 million. WEC's non-utility subsidiaries received net proceeds of $31 million during this three-year period on the disposition of various investments as part of Other Investing Activities.

Point Beach Unit 2 Steam Generators: In October 1992, WE filed an application with the PSCW for replacement of the Point Beach Unit 2 steam generators, which will allow for the unit's operation until the expiration of its operating license in 2013. In an Interim Order in February 1995, the PSCW deferred the decision on steam generator replacement until after the refueling outage in September 1995. However, the PSCW directed WE to make suitable arrangements with the fabricator of the new steam generators to allow the fabrication, delivery and replacement to proceed promptly if authorized by the PSCW. The reasonable costs of such arrangements to maintain a place in line with the fabricator would be afforded rate recovery. In May 1996, WE received a written order from the PSCW approving replacement of the steam generators at an estimated cost of $96 million. Replacement of the Unit 2 steam generators was completed in January 1997. Capital expenditures of $41.5 million and $24.6 million were made in 1996 and 1995, respectively, for replacement of the Unit 2 steam generators.

Milwaukee County Power Plant: The 11 MW Milwaukee County Power Plant supplies electricity, steam and chilled water to the hospitals and other member institutions of the Milwaukee Regional Medical Center, as well as to other large customers located on land known as the Milwaukee County Grounds. In December 1995, WE acquired the electric generation and distribution facilities in the first phase of the acquisition. The capital cost for the electric facilities was $7 million. These facilities and the new customers associated with them were integrated into WE's current electric utility operations. In December 1996, WEC acquired the steam and chilled water production and distribution facilities to complete the second phase of the purchase. Two outstanding contingencies were met prior to closing the purchase. The PSCW approved the purchase of the steam facilities, and the five largest customers signed steam and chilled water service agreements which obligate them to purchase their present and future heating and cooling requirements from WEC for a period of ten years. The capital cost for the steam facilities was approximately $21 million. WE has integrated these facilities and the associated customers into its current steam utility operations. The capital cost for the chilled water facilities was approximately $19 million. A separate subsidiary of WEC will operate the chilled water facilities as a non-regulated business.

Paris Generating Station: During 1995, WE placed in service four units, or approximately 300 megawatts of capacity, at its Paris Generating Station. This natural gas-fired combustion turbine facility, located near Union Grove, Wisconsin, is designed to meet peak demand requirements. Capital expenditures of $6 million, $10 million and $54 million were made during 1996, 1995 and 1994, respectively. The capital costs of the Paris facility totalled approximately $102 million.

Concord Generating Station: During 1994, WE placed in service the last two units, or approximately 150 megawatts of capacity, at its Concord Generating Station. This four unit 300 megawatt natural gas-fired combustion turbine facility, located near Watertown, Wisconsin, is designed to meet peak demand requirements. The first two units were completed in 1993. Capital expenditures of $3 million and $6 million were made during 1995 and 1994, respectively, for construction of this facility. The capital costs of the Concord facility totalled approximately $100 million.

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

Kimberly Cogeneration Facility: Prior to the 1993 selection of the LS Power generation facility by the PSCW discussed above in "FACTORS AFFECTING RESULTS OF OPERATIONS - LS Power Generation Facility", WE had proposed to construct its own 220 megawatt cogeneration facility in Kimberly, Wisconsin, which was intended to provide process steam to Repap Wisconsin, Inc. ("Repap") starting in mid-1994. In its order, the PSCW selected the WE project as the second place conditional project if the LS Power project did not proceed. At December 31, 1996, a net investment of approximately $65.6 million remains in Other Deferred Charges and Other Assets for the Kimberly Cogeneration Facility equipment (the "Equipment"). This balance represents costs associated with the procurement of three combustion turbines, one steam turbine and three heat recovery boilers that were acquired in order to achieve the in-service dates as agreed to in a steam service contract with Repap. See "Note M - Commitments and Contingencies" in the NOTES TO FINANCIAL STATEMENTS for further information concerning disposition of the Equipment.

Non-Utility Investments: WEC's non-utility assets amounted to approximately $304 million at December 31, 1996. WEC currently anticipates making additional non-utility investments from time to time. For additional information, see "Capital Requirements 1997-2001" below.

Minergy Glass Aggregate Plant: Minergy Corp. ("Minergy"), a non-utility WEC subsidiary, plans to place into operation a $45 million facility in Neenah, Wisconsin that would recycle paper sludge from area paper mills into two usable products: glass aggregate and steam. The glass aggregate will be sold into existing construction and aggregate markets and the steam will be sold to a local paper mill. The plant will result in substantial environmental and economic benefits to the area by providing an alternative to landfilling paper sludge. Minergy commenced construction in July 1996, with commercial operation scheduled for April 1998. The project is expected to be financed during construction through short-term borrowings. Capital expenditures totaling $14 million were made during 1996 for this facility.

Cash Provided by Operating and Financing Activities

During the three years ended December 31, 1996, cash provided by operating activities totaled $1.308 billion at WEC and $1.310 billion at WE. During this period, internal sources of funds, after the payment of dividends, provided 75% of WEC's and 82% of WE's capital requirements.

Financing activities during the three-year period ended December 31, 1996 included the issuance of approximately $506 million of long-term debt by WEC of which $480 million was issued by WE. The proceeds of these new debt issues were used to retire or refinance higher coupon debt in the amount of $223 million, to reduce net short-term borrowings in the amount of $138 million and for other general corporate purposes. WEC added $126 million of common equity from the issuance of new shares through the Company's stock plans and purchased or redeemed $5 million of preferred stock. No preferred stock was issued during this period. Dividends on WEC's common stock were $167 million, approximately $160 million and approximately $151 million during 1996, 1995 and 1994, respectively. WE paid dividends to WEC of approximately $168 million, $160 million and $151 million during 1996, 1995 and 1994, respectively, and received a total of $60 million in capital contributions from WEC during this three-year period.

In December 1996, WE and WISVEST Corporation issued promissory notes in the amount of $12.05 and $10.95 million, respectively, due 2006. The notes were issued as part of the transaction to acquire the steam and chilled water facilities from Milwaukee County. The notes have been discounted to reflect the difference between the effective interest rate of 6.36% and the stated rate of 1.93%.

In November 1996, WE issued $200 million of 6 5/8% unsecured debentures due 2006. In December 1995, WE issued $100 million of unsecured One Hundred Year 6 7/8% Debentures due 2095. Proceeds of both issues were added to WE's general funds and were applied to the repayment of short-term borrowings.

In August 1995, WE called for optional redemption $98.35 million aggregate principal amount of fixed rate tax exempt bonds issued by three political jurisdictions on WE's behalf that were secured by issues of WE's First

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

The Merger Agreement, entered into by WEC and NSP, provides for restrictions on certain transactions by both the Company and NSP, including the issuance of debt and equity securities. Should circumstances arise to make such transactions necessary, NSP would need to agree to consent to any such change in the Merger Agreement.

Capital Structure

WEC's and WE's capitalization at December 31 were:

	WEC		WE	
	1996	1995	1996	1995
Common Equity	53.3%	53.8%	51.6%	52.1%
Preferred Stock	0.8	0.9	0.9	1.0
Long-Term Debt (including current maturities)	44.0	40.8	46.1	42.3
Short-Term Debt	1.9	4.5	1.4	4.6
	100.0%	100.0%	100.0%	100.0%

Compared to the utility industry in general, the Company has maintained a relatively high ratio of common equity to total capitalization and low debt and preferred stock ratios. This conservative capital structure, along with strong bond ratings and internal cash generation has provided, and should continue to provide, the Company with access to the capital markets when necessary to finance the anticipated growth in the Company's utility business. WE currently has senior secured debt ratings of AA+ by Standard & Poor's Corporation ("S&P"), Duff & Phelps Inc. and Fitch Investors Service Inc. ("Fitch") and Aa2 by Moody's Investors Service ("Moody's"). WE currently has unsecured debt ratings of AA by S&P and Duff & Phelps, Inc. and Aa3 by Moody's.

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

At year-end 1996, WEC had $185 million of unused lines of bank credit and approximately $11 million of cash and cash equivalents, and WE had $99 million of unused lines of bank credit and approximately $2 million of cash and cash equivalents.

Capital Requirements 1997-2001

Construction Expenditures: The Company's construction expenditures for the period 1997-2001 are estimated to be $1.2 billion. Of this amount, approximately $992 million represents utility construction expenditures. 1997 utility construction expenditures are estimated to be $250 million, and include, in addition to the recurring additions and improvements to WE's distribution and transmission systems, anticipated expenditures associated with the installation of more than 350 miles of new gas main which will expand natural gas service to more than 4,800 potential

customers, expenditures for the construction of approximately 250 miles of new distribution system to improve the reliability of WE's rural electric distribution system, expenditures for upgrades to environmental equipment at several of WE's fossil fueled power plants and expenditures related to upgrading computer systems to improve productivity and customer service.

Retirement of Long-term Debt Securities: The Company's capital requirements for maturing long-term debt and sinking funds total $173 million in 1997 and $179 million for the period 1998-2001. Included in the above amounts are WE's requirements of $167 million and $159 million, respectively. See "Note H - Long-Term Debt" in the NOTES TO FINANCIAL STATEMENTS for additional information.

Decommissioning Trust Payments: WE's estimated payments to the Nuclear Decommissioning Trust Fund ("Fund") for 1997 are $33 million. For the period 1998-2001, the combined estimated payments are $154 million. Payments to the Fund represent both the amount of annual contribution to external trust funds and the income earned on the external trust funds. WE expects to contribute $11 million to the Fund annually. See "Note F - Nuclear Operations" in the NOTES TO FINANCIAL STATEMENTS for additional information.

PSCW Advance Plans: In December 1995, the PSCW approved WE's Advance Plan 7 filing originally filed in January 1994. In addition to specifying the expectations of conservation and load management programs, the plan indicates the need for additional peaking and intermediate load capacity during the 20-year planning period. WE does not anticipate needing additional base load generation until after 2010.

In the Advance Plan process, the regulated electric utilities in Wisconsin file, for planning purposes, long-term forecasts of future resource requirements along with plans to meet those requirements, including planned implementation of energy management and conservation programs (demand-side savings). As a result of the PSCW's industry restructuring initiatives described above in "FACTORS AFFECTING RESULTS OF OPERATIONS - Industry Restructuring and Competition", future Advance Plans will be streamlined to focus primarily on the need and timing for new generation additions and transmission facilities. In a February 1997 ruling, the PSCW split the Advance Plan 8 filing into two phases. In May 1997, Wisconsin utilities will be filing twenty year forecasts of electricity demand along with data on existing generation. The PSCW will rule on this in August 1997. Phase two will be filed in January 1998 and will include generation and transmission plans. An order on Phase two is expected from the PSCW in August 1998.

Capital Resources

The Company expects internal sources of funds from operations to provide approximately 73% of the capital requirements for 1997. The remaining cash requirements for 1997 are expected to be met through short-term borrowings and/or the issuance of intermediate or long-term debt. Beyond 1997, capital requirements will be met principally through internally generated funds supplemented, when required, by debt and equity financing. The specific form, amount and timing of securities which may be issued have not yet been determined and will depend, to a large extent, on market conditions and other factors.

On September 1, 1996, WEC resumed issuing new shares of common stock through the Company's stock plans. Between January 1, 1996 and August 31, 1996, WEC purchased shares required for the plans on the open market. From September 1996 through December 1996, WEC issued 859,458 new shares of common stock through the Company's stock plans and received proceeds of approximately $23 million.

CAUTIONARY FACTORS

This report and other documents or oral presentations contain or may contain forward-looking statements made by or on behalf of WEC or WE. Such statements are based upon management's current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the statements. When used in written documents or oral presentations, the words "anticipate", "believe", "estimate", "expect", "objective", "project" and similar expressions are intended to identify forward-looking statements. In addition to the

assumptions and other factors referred to specifically in connection with such statements, factors that could cause WEC's or WE's actual results to differ materially from those contemplated in any forward-looking statements include, among others, the following:

Operating, Financial and Industry Factors

- Factors affecting utility operations such as unusual weather conditions; catastrophic weather-related damage; unscheduled generation outages, maintenance or repairs; unanticipated changes in fossil fuel, nuclear fuel or gas supply costs or availability due to higher demand, shortages, transportation problems or other developments; nuclear or environmental incidents; resolution of spent nuclear fuel storage and disposal and steam generator replacement issues; electric transmission or gas pipeline system constraints; unanticipated organizational structure or key personnel changes; collective bargaining agreements with union employees or work stoppages; inflation rates; or demographic and economic factors affecting utility service territories or operating environment.

- The rapidly changing and increasingly competitive electric and gas utility environment as market-based forces replace strict industry regulation and other competitors enter the electric and gas markets resulting in increased wholesale and retail competition.

- Customer business conditions including demand for their products or services and supply of labor and materials used in creating their products and services.

- Regulatory factors such as unanticipated changes in rate setting policies or procedures; unanticipated changes in regulatory accounting policies and practices; industry restructuring initiatives; transmission system operation and/or administration initiatives; recovery of costs of previous investments made under traditional regulation; required approvals for new construction; NRC operating regulatory changes related to Point Beach; or the siting approval process for new generating and transmission facilities.

- The cost and other effects of legal and administrative proceedings, settlements, and investigations, claims and changes in those matters.

- Factors affecting the availability or cost of capital such as changes in interest rates; market perceptions of the utility industry, the Company or any of its subsidiaries; or security ratings.

- Federal, state or local legislative factors such as changes in tax laws or rates; changes in trade, monetary and fiscal policies, laws and regulations; electric and gas industry restructuring initiatives; or changes in environmental laws and regulations.

- Certain restrictions imposed by various financing arrangements and regulatory requirements on the ability of WE to transfer funds to WEC in the form of cash dividends, loans or advances.

- Authoritative generally accepted accounting principle or policy changes from such standard setting bodies as the FASB and the SEC.

- Unanticipated technological developments that result in competitive disadvantages and create the potential for impairment of existing assets.

- Changes in social attitudes regarding the utility and power industries.

- Possible risks associated with non-utility diversification such as competition; operating risks; dependence upon certain suppliers and customers; or environmental and energy regulations.

- Other business or investment considerations that may be disclosed from time to time in WEC's or WE's SEC filings or in other publicly disseminated written documents.

Business Combination Factors

- Consummation of the Transaction with NSP to form Primergy and Wisconsin Energy Company, which will have a significant effect on the future operations and financial position of WEC and WE, respectively. Specific factors include:

  - The ability to consummate the Transaction on substantially the basis contemplated.

  - The ability to obtain the requisite approvals by all applicable regulatory authorities without the imposition of materially adverse terms.

  - The ability to generate the cost savings to Primergy that WEC and NSP believe will be generated by the synergies resulting from the Transaction. This depends upon the degree to which the assumptions upon which the analyses employed to develop estimates of potential cost savings as a result of the Transaction will approximate actual experience. Such assumptions involve judgements with respect to, among other things, future national and regional economic conditions, national and regional competitive conditions, inflation rates, regulatory treatment, weather conditions, financial market conditions, business decisions and other uncertainties. All of these factors are difficult to predict and many are beyond the control of WEC and NSP. While it is believed that such assumptions are reasonable, there can be no assurance that they will approximate actual experience or that the estimated cost savings will be realized.

  - The allocation of the benefits of cost savings between shareholders and customers, which will depend, among other things, upon the results of regulatory proceedings in various jurisdictions.

  - The rate structure of Primergy's utility subsidiaries.

- Additional regulation to which Primergy will be subject as a registered public utility holding company under PUHCA, in contrast to the more limited impact of PUHCA upon WEC and NSP as exempt holding companies, and other different or additional federal and state regulatory requirements or restrictions to which Primergy and its subsidiaries may be subject as a result of the Transaction (including conditions which may be imposed in connection with obtaining the regulatory approvals necessary to consummate the Transaction such as the possible requirement to divest gas utility properties and possibly certain non-utility ventures).

- Factors affecting the dividend policy of Primergy including results of operations and financial condition of Primergy and its subsidiaries and such other business considerations as the Primergy Board of Directors considers relevant.

WEC and WE undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

WISCONSIN ELECTRIC POWER COMPANY
INCOME STATEMENT
Year Ended December 31

	1996	1995	1994
		(Thousands of Dollars)	
Operating Revenues			
Electric	$1,393,270	$1,437,480	$1,403,562
Gas	364,875	318,262	324,349
Steam	15,675	14,742	14,281
Total Operating Revenues	1,773,820	1,770,484	1,742,192
Operating Expenses			
Fuel (Note F)	295,651	303,553	285,862
Purchased power	36,216	41,834	42,623
Cost of gas sold	234,254	188,764	199,511
Other operation expenses	391,520	395,242	399,011
Maintenance	103,046	112,400	124,602
Revitalization (Note K)	-	-	73,900
Depreciation (Note C)	202,796	183,876	177,614
Taxes other than income taxes	77,866	74,765	76,035
Federal income tax (Note D)	105,656	119,939	104,725
State income tax (Note D)	24,976	28,405	24,756
Deferred income taxes - net (Note D)	(1,575)	(2,833)	(25,095)
Investment tax credit - net (Note D)	(2,430)	(4,482)	(4,625)
Total Operating Expenses	1,467,976	1,441,463	1,478,919
Operating Income	305,844	329,021	263,273
Other Income and Deductions			
Interest income	13,553	12,850	11,715
Allowance for other funds used during construction (Note E)	3,036	3,650	4,985
Miscellaneous - net	(3,642)	5,677	10,727
Federal income tax (Note D)	(631)	(535)	(1,504)
State income tax (Note D)	(570)	(370)	(589)
Total Other Income and Deductions	11,746	21,272	25,334
Income Before Interest Charges	317,590	350,293	288,607
Interest Charges			
Long-term debt	100,133	99,727	102,059
Other interest	7,821	11,960	7,610
Allowance for borrowed funds used during construction (Note E)	(1,679)	(2,062)	(2,816)
Total Interest Charges	106,275	109,625	106,853
Net Income	211,315	240,668	181,754
Preferred Stock Dividend Requirement	1,203	1,203	1,351
Earnings Available for Common Stockholder	$210,112	$239,465	$180,403

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

The notes are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY
BALANCE SHEET
December 31

ASSETS

	1996	1995
	(Thousands of Dollars)	
Utility Plant		
Electric	$4,725,832	$4,531,404
Gas	503,041	489,739
Steam	60,480	40,078
	5,289,353	5,061,221
Accumulated provision for depreciation	(2,441,950)	(2,288,080)
	2,847,403	2,773,141
Construction work in progress	135,040	78,153
Nuclear fuel - net (Note F)	75,476	59,260
Net Utility Plant	3,057,919	2,910,554
Other Property and Investments		
Nuclear decommissioning trust fund (Note F)	322,085	275,125
Conservation investments (Note A)	92,705	115,523
Other	43,219	36,979
Total Other Property and Investments	458,009	427,627
Current Assets		
Cash and cash equivalents	1,871	19,550
Accounts receivable, net of allowance for doubtful accounts - $13,264 and $13,400	140,256	144,476
Accrued utility revenues	155,838	140,201
Fossil fuel (at average cost)	113,516	83,366
Materials and supplies (at average cost)	70,900	70,347
Prepayments	55,176	55,147
Other	3,268	4,637
Total Current Assets	540,825	517,724
Deferred Charges and Other Assets		
Accumulated deferred income taxes (Note D)	150,269	136,581
Deferred regulatory assets (Note A)	193,756	193,757
Other	106,382	132,681
Total Deferred Charges and Other Assets	450,407	463,019
Total Assets	$4,507,160	$4,318,924

The notes are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY

BALANCE SHEET

December 31

CAPITALIZATION and LIABILITIES

	1996	1995
	(Thousands of Dollars)	
Capitalization (See Capitalization Statement)		
Common stock equity	$1,738,788	$1,696,565
Preferred stock	30,450	30,451
Long-term debt (Note H)	1,371,446	1,325,169
Total Capitalization	3,140,684	3,052,185
Current Liabilities		
Long-term debt due currently (Note H)	183,635	51,419
Notes payable (Note I)	45,390	150,694
Accounts payable	145,394	107,115
Payroll and vacation accrued	24,507	26,699
Taxes accrued - income and other	33,581	18,378
Interest accrued	22,500	21,617
Other	32,588	48,762
Total Current Liabilities	487,595	424,684
Deferred Credits and Other Liabilities		
Accumulated deferred income taxes (Note D)	507,845	479,828
Accumulated deferred investment tax credits	87,798	89,672
Deferred regulatory liabilities (Note A)	175,943	167,483
Other	107,295	105,072
Total Deferred Credits and Other Liabilities	878,881	842,055
Commitments and Contingencies (Note M)		
Total Capitalization and Liabilities	$4,507,160	$4,318,924

The notes are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY
STATEMENT OF CASH FLOWS
Year Ended December 31

	1996	1995	1994
		(Thousands of Dollars)	
Operating Activities			
Net income	$211,315	$240,668	$181,754
Reconciliation to cash			
Depreciation	202,796	183,876	177,614
Nuclear fuel expense - amortization	21,887	22,324	21,437
Conservation expense - amortization	22,498	21,870	20,910
Debt premium, discount & expense - amortization	9,762	12,652	14,368
Revitalization - net	(942)	(5,404)	43,860
Deferred income taxes - net	(1,575)	(2,833)	(25,095)
Investment tax credit - net	(2,430)	(4,482)	(4,625)
Allowance for other funds used during construction	(3,036)	(3,650)	(4,985)
Change in - Accounts receivable	4,220	(32,639)	7,684
Inventories	(30,703)	5,233	11,455
Accounts payable	38,779	16,650	(20,683)
Other current assets	(14,297)	(4,068)	(9,878)
Other current liabilities	(2,780)	17,097	9,980
Other	5,816	(29,204)	(13,123)
Cash Provided by Operating Activities	461,310	438,090	410,673
Investing Activities			
Construction expenditures	(319,832)	(248,867)	(271,448)
Allowance for borrowed funds used during construction	(1,679)	(2,062)	(2,816)
Nuclear fuel	(26,053)	(23,454)	(26,351)
Nuclear decommissioning trust	(26,309)	(10,861)	(10,138)
Conservation investments - net	319	2,130	(20,823)
Other	(8,211)	(4,511)	(10,205)
Cash Used in Investing Activities	(381,765)	(287,625)	(341,781)
Financing Activities			
Sale of long-term debt	230,094	217,453	32,474
Retirement of long-term debt	(52,921)	(134,172)	(35,069)
Change in short-term debt	(105,304)	(91,811)	49,294
Stockholder capital contribution	-	30,000	30,000
Retirement of preferred stock	(1)	-	(5,250)
Dividends on common stock	(167,889)	(159,576)	(150,951)
Dividends on preferred stock	(1,203)	(1,203)	(1,381)
Cash Used in Financing Activities	(97,224)	(139,309)	(80,883)
Change in Cash and Cash Equivalents	($17,679)	$11,156	($11,991)
Supplemental Information			
Cash Paid For			
Interest (net of amount capitalized)	$94,845	$99,352	$93,383
Income taxes	107,682	149,224	148,552

The notes are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY
CAPITALIZATION STATEMENT
December 31

	1996	1995
	(Thousands of Dollars)	
Common Stock Equity (See Common Stock Equity Statement)		
Common stock - $10 par value; authorized 65,000,000 shares; outstanding - 33,289,327 shares	$332,893	$332,893
Other paid in capital	280,689	280,689
Retained earnings	1,125,206	1,082,983
Total Common Stock Equity	1,738,788	1,696,565
Preferred Stock - Cumulative		
Six Per Cent. Preferred Stock - $100 par value; authorized 45,000 shares; outstanding - 44,498 and 44,508 shares	4,450	4,451
Serial preferred stock - $100 par value; authorized 2,286,500 shares; outstanding - 3.60% Series - 260,000 shares	26,000	26,000
Total Preferred Stock (Note G)	30,450	30,451
Long-Term Debt		
First mortgage bonds		

Series	Due	1996	1995	Series	Due	1996	1995	1996	1995
4-1/2%	1996	$ -	$30,000	7-1/8%	2016	100,000	100,000		
5-7/8%	1997	130,000	130,000	6.85%	2021	9,000	9,000		
6-5/8%	1997	10,000	10,000	7-3/4%	2023	100,000	100,000		
5-1/8%	1998	60,000	60,000	7.05%	2024	60,000	60,000		
6-1/2%	1999	40,000	40,000	9-1/8%	2024	3,443	3,443		
6-5/8%	1999	51,000	51,000	8-3/8%	2026	100,000	100,000		
7-1/4%	2004	140,000	140,000	7.70%	2027	200,000	200,000	1,003,443	1,033,443

	1996	1995
Debentures (unsecured)		
6-1/8% Series due 1997	25,000	25,000
6-5/8% Series due 2006	200,000	-
9.47% Series due 2006	7,000	7,000
8-1/4% Series due 2022	25,000	25,000
6-7/8% Series due 2095	100,000	100,000
Notes (unsecured)		
Variable rate due 2006	1,000	1,000
Variable rate due 2015	17,350	17,350
Variable rate due 2016	67,000	67,000
Variable rate due 2030	80,000	80,000
Due 2006 (Note H)	12,052	-
Obligations under capital lease (Note F)	42,962	43,924
Unamortized discount - net	(25,726)	(23,129)
Long-term debt due currently	(183,635)	(51,419)
Total Long-Term Debt (Note H)	1,371,446	1,325,169
Total Capitalization	$3,140,684	$3,052,185

The notes are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY
COMMON STOCK EQUITY STATEMENT

	Common Stock				
	Shares	$10 Par Value	Other Paid In Capital	Retained Earnings	Total
			(Thousands of Dollars)		
Balance - December 31, 1993	33,289,327	$332,893	$220,689	$973,917	$1,527,499
Net income				181,754	181,754
Cash dividends					
Common stock				(150,951)	(150,951)
Preferred stock				(1,381)	(1,381)
Stockholder capital contribution			30,000		30,000
Other				(245)	(245)
Balance - December 31, 1994	33,289,327	332,893	250,689	1,003,094	1,586,676
Net income				240,668	240,668
Cash dividends					
Common stock				(159,576)	(159,576)
Preferred stock				(1,203)	(1,203)
Stockholder capital contribution			30,000		30,000
Balance - December 31, 1995	33,289,327	332,893	280,689	1,082,983	1,696,565
Net income				211,315	211,315
Cash dividends					
Common stock				(167,889)	(167,889)
Preferred stock				(1,203)	(1,203)
Balance - December 31, 1996	33,289,327	$332,893	$280,689	$1,125,206	$1,738,788

The notes are an integral part of the financial statements.

WISCONSIN ELECTRIC POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

A - Summary of Significant Accounting Policies

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

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

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

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

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

Regulatory Assets and Liabilities: Pursuant to Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, WE capitalizes, as regulatory assets, incurred costs which are expected to be recovered in future utility rates. WE also records, as regulatory liabilities, the current recovery in utility rates of costs which are expected to be paid in the future.

The following deferred regulatory assets and liabilities are reflected in the Balance Sheet.

	December 31	
	1996	1995
	(Thousands of Dollars)	
Deferred Regulatory Assets		
Deferred income taxes	$154,532	$155,944
Department of Energy assessments	29,022	31,638
Other	10,202	6,175
Total Deferred Regulatory Assets	$193,756	$193,757
Deferred Regulatory Liabilities		
Deferred income taxes	$155,720	$163,676
Tax and interest refunds	14,080	-
Other	6,143	3,807
Total Deferred Regulatory Liabilities	$175,943	$167,483

WE directs a variety of demand-side management programs to help foster energy conservation by its customers. As authorized by the PSCW, WE capitalized certain conservation program costs prior to 1995. Utility rates approved by the PSCW provide for a current return on these conservation investments. As of December 31, 1996 and 1995, there were $92.7 million and $115.5 million of conservation investments, respectively, on the Balance Sheet in Other Property and Investments. Through 1995, conservation investments were charged to operating expense over a ten-

year amortization period. Beginning in 1996, the capitalized conservation balance is charged to operating expense on a straight line basis over a five-year amortization period.

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

B - Mergers

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

Northern States Power Company: On April 28, 1995, WEC and Northern States Power Company, a Minnesota corporation ("NSP"), entered into an Agreement and Plan of Merger, which was amended and restated as of July 26, 1995 ("Merger Agreement"). The Merger Agreement provides for a strategic business combination involving WEC and NSP in a "merger-of-equals" transaction ("Transaction"). As a result, WEC will become a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended, and will change its name to Primergy Corporation ("Primergy"). Primergy will be the parent company of WE (which will be renamed Wisconsin Energy Company), of NSP (which, for regulatory reasons, will reincorporate in Wisconsin ("New NSP")), and of the other subsidiaries of WEC and NSP.

In connection with the Transaction, Northern States Power Company, a Wisconsin corporation ("NSP-WI"), currently a subsidiary of NSP, will be merged into Wisconsin Energy Company. At the time of the merger of NSP-WI into Wisconsin Energy Company, New NSP will acquire from NSP-WI certain gas utility assets in LaCrosse and Hudson, Wisconsin with a net historical cost at December 31, 1996 of $25.7 million.

The Transaction is intended to be tax-free for income tax purposes and to be accounted for as a pooling of interests. On September 13, 1995, stockholders of WEC and NSP voted to approve the Transaction.

The Merger Agreement is subject to various conditions, including the approval of various regulatory agencies. Two of four state regulatory commissions, the Michigan Public Service Commission and the North Dakota Public Service Commission, approved the Transaction during 1996. Also during 1996, the PSCW, the Minnesota Public Utilities Commission ("MPUC") and the FERC concluded hearings on the Transaction. WEC and NSP are hopeful that the PSCW, the MPUC and the FERC will rule on the Transaction in the second quarter of 1997. The PSCW, which was scheduled to rule on the Transaction in January 1997, has delayed a decision pending the results of an investigation of alleged prohibited conversations between one of the PSCW commissioners and WEC officials. WEC is unable to predict with certainty when the PSCW will rule on the Transaction, but is hopeful that the investigation will be completed by early in the second quarter of 1997. In late March 1997, the MPUC indicated that in April 1997 it would decide whether to adopt procedures in connection with its decision on the Transaction that include additional public hearings as well as additional written comments. If additional hearings or written comments are necessary, final deliberations in this matter would be scheduled for late June or early July 1997. Remaining regulatory applications and filings have either been submitted or approved.

The goal of WEC and NSP was to complete the Transaction by January 1, 1997. However, because all necessary regulatory approvals were not obtained by the end of 1996, the Transaction was not completed in 1996. WEC and NSP continue to pursue regulatory approvals, without unacceptable conditions, to facilitate completion of the Transaction as soon as possible in 1997.

Filings with regulatory agencies in the states where WEC and NSP provide utility services and in which such filings are required include a request for deferred accounting treatment and rate recovery of costs incurred associated with

the Transaction. As of December 31, 1996, WE has deferred $15.0 million of costs to achieve the merger as a component of Deferred Charges and Other Assets-Other.

The following summarized Wisconsin Energy Company unaudited pro forma financial information combines historical balance sheet and income statement information of WE and NSP-WI to give effect to the Transaction, including the transfer of the gas assets from NSP-WI to New NSP, and should be read in conjunction with the historical financial statements and related notes thereto of WE and NSP-WI. The unaudited pro forma income statement information does not reflect adjustments for 1996 revenues of $32.5 million and related expenses associated with the transfer of the gas assets from NSP-WI to New NSP. A $150 million pro forma adjustment has been made to conform the presentation of noncurrent deferred income taxes in the summarized unaudited pro forma combined balance sheet information as a net liability. The allocation between WEC and NSP and their customers of the estimated cost savings resulting from the Transaction, net of costs incurred to achieve such savings, will be subject to regulatory review and approval. None of the estimated cost savings, the costs to achieve such savings, nor transaction costs are reflected in the unaudited pro forma financial information. All other financial statement presentation and accounting policy differences are immaterial and have not been adjusted in the unaudited pro forma financial information.

The unaudited pro forma balance sheet information gives effect to the Transaction as if it had occurred at December 31, 1996. The unaudited pro forma income statement information gives effect to the Transaction as if it had occurred at January 1, 1996. The following information is not necessarily indicative of the financial position or operating results that would have occurred had the Transaction been consummated on the date or at the beginning of the period for which the Transaction is being given effect nor is it necessarily indicative of future operating results or financial position.

Wisconsin Energy Company: *	WE (As Reported)	NSP-WI (As Reported)	Unaudited Pro Forma Combined**
		(Millions of Dollars)	
As of December 31, 1996			
Utility plant-net	$ 3,058	$ 665	$ 3,703
Current assets	541	87	646
Other assets	908	57	814
Total Assets	$ 4,507	$ 809	$ 5,163
Common stockholder's equity	$ 1,739	$ 331	$ 2,070
Preferred stock and premium	30	-	30
Long-term debt	1,372	232	1,604
Total Capitalization	3,141	563	3,704
Current liabilities	488	89	577
Other liabilities	878	157	882
Total Equity & Liabilities	$ 4,507	$ 809	$ 5,163
For the Year Ended December 31, 1996			
Utility Operating Revenues	$ 1,774	$ 466	$ 2,240
Utility Operating Income	$ 306	$ 56	$ 362
Net Income, after Preferred Dividend Requirements	$ 210	$ 39	$ 249

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

** Includes a $150 million pro forma adjustment to conform the presentation of noncurrent deferred taxes as a net liability and a net $25.7 million pro forma adjustment for the transfer of selected gas assets from NSP-WI to New NSP.

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

C - Depreciation

Depreciation expense is accrued at straight line rates over the estimated useful lives of the assets. These rates are certified by the PSCW and include estimates for salvage and removal costs. Depreciation as a percent of average depreciable utility plant was 4.1% in 1996, 3.8% in 1995 and 3.9% in 1994. Nuclear plant decommissioning is accrued as depreciation expense (see Note F).

D - Income Taxes

Comprehensive interperiod income tax allocation is used for federal and state temporary differences. The federal investment tax credit is accounted for on the deferred basis and is reflected in income ratably over the life of the related property.

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

	1996	1995	1994
	(Thousands of Dollars)		
Current tax expense	$131,833	$149,249	$131,574
Investment tax credit-net	(2,430)	(4,482)	(4,625)
Deferred tax expense	(1,575)	(2,833)	(25,095)
Total Tax Expense	$127,828	$141,934	$101,854
Income Before Income Taxes and Preferred Dividend	$339,143	$382,602	$283,608
Expected tax at federal statutory rate	$118,700	$133,911	$ 99,263
State income tax net of federal tax benefit	17,624	18,943	14,087
Investment tax credit restored	(4,509)	(4,482)	(4,625)
Other (no item over 5% of expected tax)	(3,987)	(6,438)	(6,871)
Total Tax Expense	$127,828	$141,934	$101,854

Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ("FAS 109"), requires the recording of deferred assets and liabilities to recognize the expected future tax consequences of events that have been reflected in WE's financial statements or tax returns and the adjustment of deferred tax balances to reflect tax rate changes. Following is a summary of deferred income taxes under FAS 109.

	December 31	
	1996	1995
	(Thousands of Dollars)	
Deferred Income Tax Assets		
Decommissioning trust	$ 41,066	$ 43,759
Construction advances	45,906	43,052
Other	63,297	49,770
Total Deferred Income Tax Assets	$150,269	$136,581
Deferred Income Tax Liabilities		
Property related	$480,788	$445,878
Conservation investments	16,827	25,775
Other	10,230	8,175
Total Deferred Income Tax Liabilities	$507,845	$479,828

As detailed in Note A, WE has also recorded deferred regulatory assets and liabilities representing the future expected impact of deferred taxes on utility revenues.

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

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

As approved by the PSCW, AFUDC was capitalized on 50% of construction work in progress ("CWIP") at a rate of 10.17% during 1996. Prior to 1996, utility rates approved by the PSCW provided for a current return on investment for selected long-term projects included in CWIP. AFUDC was capitalized on the remaining CWIP at a rate of 10.83% in 1995 and 1994.

F - Nuclear Operations

Point Beach Nuclear Plant: WE operates two 500 megawatt electric generating units at its Point Beach Nuclear Plant ("Point Beach"). During 1996, Point Beach accounted for 25.4% of WE's net electric generation. The current operating licenses for the two units at Point Beach expire in 2010 and 2013 for Units 1 and 2, respectively.

In May 1996, WE received a written order from the PSCW ("PSCW Order") approving replacement of the Unit 2 steam generators and reaffirming its prior decision approving WE's construction and operation of an Independent Spent Fuel Storage Installation ("ISFSI") for dry storage of spent fuel at Point Beach. In July 1996, the PSCW denied a petition for rehearing filed by intervenors in the proceeding.

Failure by the PSCW to approve the steam generator replacement and reaffirm authorization for the ISFSI would have jeopardized the continued operation of Point Beach. The Unit 2 replacement steam generators were necessary due to the degradation of tubes within the steam generators and will permit operation of Unit 2 at least until its current operating license expires. The steam generator replacement was completed in January 1997. Subject to approval by the United States Nuclear Regulatory Commission ("NRC"), WE expects to restart Unit 2 in the second quarter of 1997. The ISFSI provides interim dry storage of spent fuel from Point Beach until the United States Department of Energy ("DOE") takes ownership of and removes spent fuel under an existing contract mandated by the Nuclear Waste Policy Act of 1982. The ISFSI is necessary because the spent fuel pool inside the plant is nearly full. Construction of the ISFSI was completed in 1995.

In August 1996, a group of intervenors in the PSCW Order proceedings filed in Dane County Circuit Court a petition for judicial review of the PSCW Order. The petition seeks reversal of the PSCW Order and a remand to the PSCW directing it to deny WE's request for authorization to replace the steam generators and to construct the ISFSI, or in the alternative, to correct the alleged errors in the PSCW Order. WE has intervened in the proceeding to vigorously oppose the petition. Final briefs have been filed in the proceeding, and WE is awaiting a decision by the court on the petition.

Two storage casks have been loaded with spent fuel and transferred to the ISFSI. During loading of a third cask in May 1996, hydrogen gas was ignited within the cask. Cask loading has been halted until actions are implemented by WE to prevent recurrence of such an event and until the NRC has reviewed and accepted such actions. WE hopes to receive agreement from the NRC that WE may resume loading of the casks in the summer of 1997.

In December 1996, WE paid the NRC $325,000 in civil penalties for performance deficiencies and violations of NRC requirements in various plant activities. In January 1997, the NRC informed WE of additional potential violations observed during a special inspection that could result in further civil penalties. Also, the NRC sent a letter on January 27, 1997 notifying WE of its assessment that Point Beach has experienced a recent declining trend in performance based upon these inspections and other ongoing regulatory interactions. The NRC issues trend letters to

provide an early notification of declining performance and to allow a utility, under the watchfulness of the NRC, to take early corrective actions. The NRC acknowledged in the letter that WE has made improvements in the identification and resolution of specific problems.

In early October 1996, the NRC requested all nuclear reactor licensees in the United States to describe the processes used to ensure the adequacy and integrity of the licensees' design bases for their plants and to ensure the plants continue to be operated and maintained in accordance with the design bases. WE responded to the NRC in February 1997.

Nuclear Fuel: WE has a nuclear fuel leasing arrangement with Wisconsin Electric Fuel Trust ("Trust"), which is treated as a capital lease. The nuclear fuel is leased for a period of 60 months or until the removal of the fuel from the reactor, if earlier. Lease payments include charges for the cost of fuel burned, financing costs and management fees. In the event WE or the Trust terminates the lease, the Trust would recover its unamortized cost of nuclear fuel from WE. Under the lease terms, WE is in effect the ultimate guarantor of the Trust's commercial paper and line of credit borrowings financing the investment in nuclear fuel.

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

	1996	1995	1994
	(Thousands of Dollars)		
Nuclear Fuel			
Under capital lease	$100,952	$ 89,840	
Accumulated provision for amortization	(61,408)	(50,532)	
In process/stock	35,932	19,952	
Total Nuclear Fuel	$ 75,476	$ 59,260	
Interest Expense on Nuclear Fuel Lease	$2,332	$2,40[illegible]	$1,896

The future minimum lease payments under the capital lease and the present value of the net minimum lease payments as of December 31, 1996 are as follows:

	(Thousands of Dollars)
1997	$19,141
1998	15,823
1999	7,011
2000	3,356
2001	418
Total Minimum Lease Payments	45,749
Less: Interest	(2,787)
Present Value of Net Minimum Lease Payments	$42,962

The estimated cost of disposal of spent fuel, based on a contract with the DOE, is included in nuclear fuel expense.

The Energy Policy Act of 1992 establishes a Uranium Enrichment Decontamination and Decommissioning Fund ("D&D Fund") for the DOE's nuclear fuel enrichment facilities. Deposits to the D&D Fund are derived in part from special assessments to utilities. As of December 31, 1996, WE has on its books a remaining estimated liability equal to the projected special assessments of $26.8 million. A corresponding deferred regulatory asset is detailed in Note A.

Effective in 1997, the PSCW has disallowed the recovery of D&D Fund assessments in Wisconsin utility retail rates as a result of a decision by the U.S. Court of Federal Claims in "Yankee Atomic Electric Company v. The United

States" ("Yankee Atomic") in which the court ruled that the payments were unlawful. WE has a similar contract with the DOE. The PSCW expects that the DOE will eventually refund the D&D Fund assessments paid by the affected utilities but has stated that it would be appropriate that WE be reimbursed if the Yankee Atomic decision is overturned or modified. The amount of the assessments related to the PSCW rate jurisdiction is approximately 85% of the assessments or $2.6 million in 1997 and will remain as a deferred regulatory asset. The portion of allowable costs will be amortized to nuclear fuel expense and included in utility rates over the next 11 years.

Nuclear Insurance: The Price-Anderson Act ("Act") provides an aggregate limitation of $8.9 billion on public liability claims arising out of a nuclear incident. WE has $200 million of liability insurance from commercial sources. The Act also establishes an industry-wide retrospective rating plan under which nuclear reactor owners could be assessed up to $79.3 million per reactor (WE owns two), but not more than $10 million in any one year for each reactor, in the event of a nuclear incident.

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

WE has property damage, decontamination and decommissioning insurance totaling $1.5 billion for loss from damage at Point Beach with Nuclear Mutual Limited ("NML") and Nuclear Electric Insurance Limited ("NEIL"). Under the NML and NEIL policies, WE has a potential maximum retrospective premium liability per loss of $5.4 million and $7.0 million, respectively.

WE also maintains additional insurance with NEIL covering extra expenses of obtaining replacement power during a prolonged accidental outage (in excess of 21 weeks) at Point Beach. This insurance coverage provides weekly indemnities of $3.5 million per unit for outages during the first year, declining to 80% of the amounts during the second and third years. Under the policy, WE's maximum retrospective premium liability is approximately $7.8 million.

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

Nuclear Decommissioning: Subject to resolution of the Point Beach Unit 2 steam generator replacement and ISFSI matters described above, WE expects to operate the two units at Point Beach to the expiration of their current operating licenses. The estimated cost to decommission the plant in 1996 dollars is $379 million based upon a site specific decommissioning cost study completed in 1994. Assuming plant shutdown at the expiration of the current operating licenses, prompt dismantlement and annual escalation of costs at specific inflation factors established by the PSCW, it is projected that approximately $1.7 billion will be spent over a twenty-year period, beginning in 2010, to decommission the plant.

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

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

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

	1996	1995	1994
		(Thousands of Dollars)	
Decommissioning costs	$15,418	$ 3,456	$ 3,456
Earnings	10,891	7,405	6,682
Depreciation Expense	$26,309	$10,861	$10,138
Total costs accrued to date	$261,729	$235,420	
Unrealized gain	60,356	39,705	
Accumulated Provision for Depreciation	$322,085	$275,125	

G - Preferred Stock

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

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

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

In 1994, WE called for redemption all of its 52,500 outstanding shares of 6.75% Series Preferred Stock at a redemption price of par.

H - Long-Term Debt

The maturities and sinking fund requirements through 2001 for the aggregate amount of long-term debt outstanding (excluding obligations under capital lease, see Note F) at December 31, 1996 are shown below.

	(Thousands of Dollars)
1997	$166,905
1998	61,905
1999	92,905
2000	1,905
2001	1,905

Sinking fund requirements for the years 1997 through 2001, included in the table above, are $9.5 million. Substantially all utility plant is subject to the applicable mortgage.

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

The fair value of WE's long-term debt was $1.6 billion and $1.5 billion at December 31, 1996 and 1995, respectively. The fair value of the first mortgage bonds and debentures is estimated based upon the market value of the same or similar issues. Book value approximates fair value for WE's unsecured notes. The fair value of WE's obligations under capital lease is the market value of the Trust's commercial paper.

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

In November 1996, WE issued $200 million of 6 5/8% unsecured debentures due 2006. In December 1995, WE issued $100 million of unsecured One Hundred Year 6 7/8% Debentures due 2095. Proceeds from both issues were added to WE's general funds and were applied to the repayment of short-term borrowings.

In December 1996, WE issued a promissory note in the amount of $12.05 million due 2006. The note was issued as part of the transaction to acquire the steam facilities from Milwaukee County. The note has been discounted to reflect the difference between the effective interest rate of 6.36% and the stated rate of 1.93%. This discount will be amortized over the life of the notes using the effective interest method.

At December 31, 1996, the interest rate for the $67 million variable rate note due 2016 was 4.15% and the interest rate for the $98.35 million variable rate notes due 2006-2030 was 4.20%.

I - Notes Payable

Short-term notes payable balances and their corresponding weighted average interest rates at December 31 consist of:

	1996		1995	
	Balance	Interest Rate	Balance	Interest Rate
	(Thousands of Dollars)			
Banks	$10,495	5.80%	$100,885	5.78%
Commercial paper	34,895	5.59%	49,809	5.88%
	$45,390		$150,694	

Unused lines of credit for short-term borrowing amounted to $99.3 million at December 31, 1996. In support of various informal lines of credit from banks, WE has agreed to maintain unrestricted compensating balances or to pay commitment fees; neither the compensating balances nor the commitment fees are significant.

J - Pension Plans

Prior to 1996, WE had several defined benefit noncontributory pension plans covering all eligible employees. Pension benefits were based on years of service and the employee's compensation. Effective January 1, 1996, plans covering all employees were converted to a single defined benefit noncontributory cash balance plan. Under the cash balance plan, pension benefits are determined by a combination of annual plan wages, a credit based upon WE's annual financial performance and individual account-based interest credits. Lump sum payout at termination of employment or retirement is available. Each employee's opening account balance was based on accrued pension benefits as of December 31, 1994 and converted to a lump-sum amount determined under the prior plan's provisions. The lump-sum amount was credited for an additional transition credit based on age and years of service. The cash balance plan includes a grandfather clause, where employees who retire during the 15 years following January 1, 1996 receive the greater of pension benefits calculated under their original pension plan or under the cash balance plan.

The majority of the plans' assets are equity securities; other assets include corporate and government bonds and real estate. The plans are funded to meet the requirements of the Employee Retirement Income Security Act of 1974.

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

Pension Cost calculated per FAS 87 *	1996	1995	1994
		(Thousands of Dollars)	
Components of Net Periodic Pension Cost, Year Ended December 31			
Cost of pension benefits earned by employees	$ 9,912	$ 8,985	$10,933
Interest cost on projected benefit obligation	41,454	41,586	38,736
Actual (return) loss on plan assets	(85,141)	(136,243)	7,634
Net amortization and deferral	34,600	88,493	(52,180)
Total pension cost calculated under FAS 87	$ 825	$ 2,821	$ 5,123
Actuarial Present Value of Accumulated Benefit Obligation, at December 31			
Vested benefits-employees' right to receive benefit no longer contingent upon continued employment	$560,801	$543,371	
Nonvested benefits-employees' right to receive benef . contingent upon continued employment	14,741	12,651	
Total obligation	$575,542	$556,022	
Funded Status of Plans: Pension Assets and Obligations at December 31			
Pension assets at fair market value	$687,482	$637,529	
Projected benefit obligation at present value	(601,213)	(584,785)	
Unrecognized transition asset	(19,566)	(22,034)	
Unrecognized prior service cost	36,027	23,194	
Unrecognized net gain	(96,344)	(54,780)	
Projected status of plans	$ 6,386	($ 876)	
Rates used for calculations (%)			
Discount rate-interest rate used to adjust for the time value of money	7.75	7.25	8.25
Assumed rate of increase in compensation levels	4.75 to 5.0	4.75	5.0
Expected long-term rate of return on pension assets	9.0	9.0	9.0

* Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions ("FAS 87").

K - Benefits Other Than Pensions

Postretirement Benefits: Effective in 1993, WE adopted prospectively Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions ("FAS 106"), and elected the 20 year option for amortization of the previously unrecognized accumulated postretirement benefit obligation.

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

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

Postretirement Benefit Cost calculated per FAS 106	1996	1995	1994
		(Thousands of Dollars)	
Components of Net Periodic Postretirement Benefit Cost, Year Ended December 31			
Cost of postretirement benefits earned by employees	$ 2,436	$ 2,276	$ 2,653
Interest cost on projected benefit obligation	10,456	10,458	10,148
Actual return on plan assets	(5,938)	(12,598)	(3,893)
Net amortization and deferral	6,745	13,951	5,648
Total postretirement benefit cost calculated under FAS 106	$13,699	$14,087	$14,556
Funded Status of Plans: Postretirement Obligations and Assets at December 31			
Accumulated Postretirement Benefit Obligation at December 31			
Retirees	($92,417)	($92,746)	
Fully eligible active plan participants	(9,938)	(10,304)	
Other active plan participants	(40,428)	(41,732)	
Total obligation	(142,783)	(144,782)	
Postretirement assets at fair market value	49,424	45,086	
Accumulated postretirement benefit obligation in excess of plan assets	(93,359)	(99,696)	
Unrecognized transition obligation	78,239	83,268	
Unrecognized prior service cost	(1,038)	(1,279)	
Unrecognized net gain	(14,583)	(6,102)	
Accrued Postretirement Benefit Obligation	($30,741)	($23,809)	
Rates used for calculations (%)			
Discount rate-interest rate used to adjust for the time value of money	7.75	7.25	8.25
Assumed rate of increase in compensation levels	4.75 to 5.0	4.75	5.0
Expected long-term rate of return on postretirement assets	9.0	9.0	9.0
Health care cost trend rate	10.0	declining to	
	5.0	in year 2002	

Changes in health care cost trend rates will affect the amounts reported. For example, a 1% increase in rates would increase the accumulated postretirement benefit obligation as of December 31, 1996 by $8.4 million and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by approximately $1 million.

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

Under ERIP, 403 employees elected to retire in 1994. Under SP, 651 and 75 employees enrolled in 1994 and 1995, respectively. ERIP Supplement costs are paid from pension plan trusts and medical/dental benefits from employee benefit trusts. Remaining ERIP and SP costs are paid from general corporate funds. The ultimate timing of cash flows for ERIP Supplement costs depends upon the funding limitations of WE's pension plans. With the exception of ERIP Supplement costs, approximately $35.8 million have been paid against the revitalization liability through December 31, 1996 and no liability remains outstanding at December 31, 1996.

L - Information By Segments of Business

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

Year ended December 31	1996	1995	1994
		(Thousands of Dollars)	
Electric Operations			
Operating revenues	$1,393,270	$1,437,480	$1,403,562
Operating income before income taxes	380,376	419,271	329,216
Depreciation	183,159	164,789	159,414
Construction expenditures	272,838	223,723	244,718
Gas Operations			
Operating revenues	364,875	318,262	324,349
Operating income before income taxes	47,720	47,022	30,993
Depreciation	18,246	17,722	16,856
Construction expenditures	22,851	24,851	25,481
Steam Operations			
Operating revenues	15,675	14,742	14,281
Operating income before income taxes	4,375	3,757	2,825
Depreciation	1,391	1,365	1,344
Construction expenditures	21,651	206	1,213
Total			
Operating revenues	1,773,820	1,770,484	1,742,192
Operating income before income taxes	432,471	470,050	363,034
Depreciation	202,796	183,876	177,614
Construction expenditures (including non-utility)	319,832	248,867	271,448
At December 31			
Net Identifiable Assets *			
Electric	$3,646,997	$3,449,822	$3,411,512
Gas	400,582	376,536	357,242
Steam	46,499	25,214	25,315
Non-utility	9,199	5,235	2,779
Total Identifiable Assets	4,103,277	3,856,807	3,796,848
Other corporate assets **	403,883	462,117	405,345
Total Assets	$4,507,160	$4,318,924	$4,20[illegible]3

* Prior years restated to reflect change in presentation.

** Primarily includes other property and investments, materials and supplies and deferred charges and other assets.

M - Commitments and Contingencies

Purchase Power Commitment: To meet a portion of WE's anticipated increase in future system energy supply needs, WE has entered into a 25 year power purchase contract with an unaffiliated independent power producer, LSP-Whitewater L.P. ("LS Power"). The contract is contingent upon the generating facility achieving commercial operation. Plant construction is currently on schedule to meet the planned start-up date of June 1, 1997. The contract includes no minimum take provisions for energy. WE's estimated unconditional obligations under the terms of the contract at December 31, 1996 are:

	(Thousands of Dollars)
1997	$ 17,000
1998	30,000
1999	31,000
2000	32,000
2001	33,000
Later Years	815,000
Total Minimum Obligations	958,000
Less: Interest	(569,000)
Total at Present Value	$389,000

Kimberly Cogeneration Facility: In 1993, a competitive bidding process conducted by the PSCW resulted in selection of a proposal submitted by LS Power to construct the generating facility discussed in Purchase Power Commitment above. Prior to the 1993 selection of the LS Power generating facility by the PSCW, WE had proposed to construct its own 220 megawatt cogeneration facility in Kimberly, Wisconsin, which was intended to provide process steam to Repap Wisconsin, Inc. ("Repap") starting in mid-1994. In its order, the PSCW selected the WE project as the second place conditional project if the LS Power project did not proceed. At December 31, 1996, a net investment of approximately $65.6 million remains in Other Deferred Charges and Other Assets for the Kimberly Cogeneration Facility equipment (the "Equipment"). This balance represents costs associated with the procurement of three combustion turbines, one steam turbine and three heat recovery boilers that were acquired in order to achieve the in-service dates as agreed to in a steam service contract with Repap.

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

Manufactured Gas Plant Sites: WE continues a voluntary program to investigate the remediation of a number of former manufactured gas plant ("MGP") sites. Approximately $1.7 million has been expended through December 31, 1996 for such activities. Future remediation costs to be incurred through the year 2001 have been estimated to be $12 million, but the actual costs are uncertain pending the result of further site specific investigation and the selection of site specific remediation. In its February 13, 1997 rate order, the PSCW amplified its position on the recovery of MGP remediation costs. It reiterated its position that such costs should be deferred and amortized and recovered, without carrying costs, in future rate cases. Since the timing and recovery of MGP remediation costs will be affected by the biennial rate case cycle and WE's proposed merger related rate freeze, the timing and magnitude of remediation expenditures, and their recovery during the period to 2001, may be affected.

N - Transactions with Associated Companies

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

Plans for the construction and financing of future additions to utility plant can be found elsewhere in this report in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - "LIQUIDITY AND CAPITAL RESOURCES - Capital Requirements 1997-2001."

DIRECTORS

The information under "Election of Directors" in Wisconsin Electric's definitive Information Statement dated April 3, 1997, attached hereto, is incorporated herein by reference.

EXECUTIVE OFFICERS

(Figures in parenthesis indicate age and years of service with Wisconsin Electric Power Company as of December 31, 1996.)

Richard A. Abdoo (52;21)
Chairman of the Board
and Chief Executive Officer

Richard R. Grigg (48;26)
President, Chief Operating Officer
and Chief Nuclear Officer

David K. Porter (53;27)
Senior Vice President

Calvin H. Baker (53;5)
Vice President - Finance
and Chief Financial Officer

Ann Marie Brady (44;8)
Corporate Secretary
and Vice President - External Affairs

Francis Brzezinski (45;7)
Vice President -
Business Development

Charles T. Govin, Jr. (50;18)
Vice President - Electric and Gas Operations

Kristine M. Krause (42;18)
Vice President - Fossil Operations

Kristine A. Rappé (40;14)
Vice President - Customer Services

Anne K. Klisurich (49;24)
Controller

100 East Wisconsin Avenue
Suite 1500
Milwaukee, WI 53202

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Price Waterhouse LLP

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying balance sheet and capitalization statement and the related statements of income, of common stock equity and of cash flows present fairly, in all material respects, the financial position of Wisconsin Electric Power Company at December 31, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

January 29, 1997