WISCONSIN ENERGY CORP
Form 10-Q
July 30, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended **June 30, 2010**

Commission File Number	Registrant; State of Incorporation Address; and Telephone Number	IRS Employer Identification No.
001-09057	WISCONSIN ENERGY CORPORATION (A Wisconsin Corporation) 231 West Michigan Street P.O. Box 1331 Milwaukee, WI 53201 (414) 221-2345	39-1391525

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes[X] No[ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (June 30, 2010):

Common Stock, $.01 Par Value, 116,897,894 shares outstanding.

WISCONSIN ENERGY CORPORATION

FORM 10-Q REPORT FOR THE QUARTER ENDED JUNE 30, 2010

TABLE OF CONTENTS

DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

The abbreviations and terms set forth below are used throughout this report and have the meanings assigned to them below:

Wisconsin Energy Subsidiaries and Affiliates

Primary Subsidiaries	
We Power	W.E. Power, LLC
Wisconsin Electric	Wisconsin Electric Power Company
Wisconsin Gas	Wisconsin Gas LLC
Significant Assets	
OC 1	Oak Creek expansion Unit 1
OC 2	Oak Creek expansion Unit 2
PWGS	Port Washington Generating Station
PWGS 1	Port Washington Generating Station Unit 1
PWGS 2	Port Washington Generating Station Unit 2

Other Subsidiaries and Affiliates

ERGSS	Elm Road Generating Station Supercritical, LLC

Federal and State Regulatory Agencies

DOE	United States Department of Energy
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
MPSC	Michigan Public Service Commission
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission

Environmental Terms

CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
NO_x	Nitrogen Oxide
$PM_{2.5}$	Fine Particulate Matter
SO_2	Sulfur Dioxide

Other Terms and Abbreviations

AQCS	Air Quality Control Sytem
ARRs	Auction Revenue Rights
Bechtel	Bechtel Power Corporation
Compensation Committee	Compensation Committee of the Board of Directors
CPCN	Certificate of Public Convenience and Necessity
Edison Sault	Edison Sault Electric Company
ERISA	Employee Retirement Income Security Act of 1974
Fitch	Fitch Ratings
FTRs	Financial Transmission Rights
Junior Notes	Wisconsin Energy's 2007 Series A Junior Subordinated Notes due 2067 issued in May 2007
LMP	Locational Marginal Price
MISO	Midwest Independent Transmission System Operator, Inc.
Moody's	Moody's Investor Service
OTC	Over-the-Counter
Plan	The Wisconsin Energy Corporation Retirement Account Plan
Point Beach	Point Beach Nuclear Power Plant
PSEG	Public Service Enterprise Group
PTF	Power the Future
S&P	Standard & Poor's Ratings Services

DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

The abbreviations and terms set forth below are used throughout this report and have the meanings assigned to them below:

Measurements	
Btu	British Thermal Unit(s)
Dth	Dekatherm(s) (One Dth equals one million Btu)
MW	Megawatt(s) (One MW equals one million Watts)
MWh	Megawatt-hour(s)
Watt	A measure of power production or usage
Accounting Terms	
AFUDC	Allowance for Funds Used During Construction
GAAP	Generally Accepted Accounting Principles
OPEB	Other Post-Retirement Employee Benefits

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based upon management's current expectations and are subject to risks and uncertainties that could cause our actual results to differ materially from those contemplated in the statements. Readers are cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements include, among other things, statements concerning management's expectations and projections regarding earnings, completion of construction projects, regulatory matters, fuel costs, sources of electric energy supply, coal and gas deliveries, remediation costs, environmental and other capital expenditures, liquidity and capital resources and other matters. In some cases, forward-looking statements may be identified by reference to a future period or periods or by the use of forward-looking terminology such as "anticipates," "believes," "estimates," "expects," "forecasts," "guidance," "intends," "may," "objectives," "plans," "possible," "potential," "projects," "should" or similar terms or variations of these terms.

Actual results may differ materially from those set forth in forward-looking statements. In addition to the assumptions and other factors referred to specifically in connection with these statements, factors that could cause our actual results to differ materially from those contemplated in any forward-looking statements or otherwise affect our future results of operations and financial condition include, among others, the following:

- Factors affecting utility operations such as unusual weather conditions; catastrophic weather-related or terrorism-related damage; availability of electric generating facilities; unscheduled generation outages, or unplanned maintenance or repairs; unanticipated events causing scheduled generation outages to last longer than expected; unanticipated changes in fossil fuel, purchased power, coal supply, gas supply or water supply costs or availability due to higher demand, shortages, transportation problems or other developments; nonperformance by electric energy or natural gas suppliers under existing power purchase or gas supply contracts; environmental incidents; electric transmission or gas pipeline system constraints; unanticipated organizational structure or key personnel changes; collective bargaining agreements with union employees or work stoppages; or inflation rates.

- Factors affecting the economic climate in our service territories such as customer growth; customer business conditions, including demand for their products and services; and changes in market demand and demographic patterns.

- Timing, resolution and impact of pending and future rate cases and negotiations, including recovery for new investments as part of our *Power the Future (*PTF) strategy, environmental compliance, transmission service, fuel costs and costs associated with the Midwest Independent Transmission System Operator, Inc. (MISO) Energy and Operating Reserve Markets.

- Regulatory factors such as changes in rate-setting policies or procedures; changes in regulatory accounting policies and practices; industry restructuring initiatives; transmission or distribution system operation and/or administration initiatives; required changes in facilities or operations to reduce the risks or impacts of potential terrorist activities; required approvals for new construction; and the siting approval process for new generation and transmission facilities and new pipeline construction.

- Increased competition in our electric and gas markets and continued industry consolidation.

- Factors which impede or delay execution of our PTF strategy, including the adverse interpretation or enforcement of permit conditions by the permitting agencies; construction delays; and obtaining the investment capital from outside sources necessary to implement the strategy.

- The impact of recent and future federal, state and local legislative and regulatory changes, including electric and gas industry restructuring initiatives; changes to the Federal Power Act and related regulations under the Energy Policy Act of 2005 and enforcement thereof by the Federal Energy Regulatory Commission (FERC) and other regulatory agencies; changes in allocation of energy assistance, including state public benefits funds; changes in environmental, tax and other laws and regulations to which we are subject; changes in the application of existing laws and regulations; and changes in the interpretation or enforcement of permit conditions by the permitting agencies.

- Restrictions imposed by various financing arrangements and regulatory requirements on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances.

- The cost and other effects of legal and administrative proceedings, settlements, investigations, claims and changes in those matters.
- Events in the global credit markets that may affect the availability and cost of capital.
- Other factors affecting our ability to access the capital markets, including general capital market conditions; our capitalization structure; market perceptions of the utility industry, us or any of our subsidiaries; and our credit ratings.
- The investment performance of our pension and other post-retirement benefit trusts.
- The impact of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010.
- The effect of accounting pronouncements issued periodically by standard setting bodies, including any requirement for U.S. registrants to follow International Financial Reporting Standards instead of Generally Accepted Accounting Principles (GAAP).
- Unanticipated technological developments that result in competitive disadvantages and create the potential for impairment of existing assets.
- Changes in the creditworthiness of the counterparties with whom we have contractual arrangements, including participants in the energy trading markets and fuel suppliers and transporters.
- The cyclical nature of property values that could affect our real estate investments.
- Changes to the legislative or regulatory restrictions or caps on non-utility acquisitions, investments or projects, including the State of Wisconsin's public utility holding company law.
- Other business or investment considerations that may be disclosed from time to time in our Securities and Exchange Commission (SEC) filings or in other publicly disseminated written documents, including the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2009.

We expressly disclaim any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

INTRODUCTION

Wisconsin Energy Corporation is a diversified holding company which conducts its operations primarily in two operating segments: a utility energy segment and a non-utility energy segment. Unless qualified by their context when used in this document, the terms Wisconsin Energy, the Company, our, us or we refer to the holding company and all of its subsidiaries. Our primary subsidiaries are Wisconsin Electric Power Company (Wisconsin Electric), Wisconsin Gas LLC (Wisconsin Gas) and W.E. Power, LLC (We Power).

Utility Energy Segment:

Our utility energy segment consists of: Wisconsin Electric, which serves electric customers in Wisconsin and the Upper Peninsula of Michigan, gas customers in Wisconsin and steam customers in metropolitan Milwaukee, Wisconsin; and Wisconsin Gas, which serves gas customers in Wisconsin. Wisconsin Electric and Wisconsin Gas operate under the trade name of "We Energies".

In April 2010, Wisconsin Electric and Wisconsin Gas filed a joint application with the Public Service Commission of Wisconsin (PSCW) to merge Wisconsin Gas into Wisconsin Electric.

Non-Utility Energy Segment:

Our non-utility energy segment consists primarily of We Power. We Power was formed in 2001 to design, construct, own and lease to Wisconsin Electric the new generating capacity included in our PTF strategy. See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Annual Report on Form 10-K for more information on PTF.

We have prepared the unaudited interim financial statements presented in this Form 10-Q pursuant to the rules and regulations of the SEC. We have condensed or omitted some information and note disclosures normally included in financial statements prepared in accordance with GAAP pursuant to these rules and regulations. This Form 10-Q, including the financial statements contained herein, should be read in conjunction with our 2009 Annual Report on Form 10-K, including the financial statements and notes therein.

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WISCONSIN ENERGY CORPORATION

CONSOLIDATED CONDENSED INCOME STATEMENTS

(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
	(Millions of Dollars, Except Per Share Amounts)			
Operating Revenues	$890.9	$835.7	$2,139.5	$2,224.1
Operating Expenses				
Fuel and purchased power	258.4	252.5	535.8	517.4
Cost of gas sold	95.8	102.0	451.6	604.7

Other operation and maintenance	317.5	304.6	652.9	635.4
Depreciation and amortization	76.8	85.6	151.2	170.6
Property and revenue taxes	26.3	27.7	52.9	55.4
Total Operating Expenses	774.8	772.4	1,844.4	1,983.5
Amortization of Gain	47.2	55.1	96.6	119.3
Operating Income	163.3	118.4	391.7	359.9
Equity in Earnings of Transmission Affiliate	15.1	14.4	30.3	28.7
Other Income, net	9.7	7.4	15.9	13.8
Interest Expense, net	53.0	39.8	102.4	80.6
Income from Continuing Operations Before Income Taxes	135.1	100.4	335.5	321.8
Income Taxes	47.6	37.4	119.0	117.4
Income from Continuing Operations	87.5	63.0	216.5	204.4
Income from Discontinued Operations, Net of Tax	1.2	0.7	1.9	0.8
Net Income	$88.7	$63.7	$218.4	$205.2
Earnings Per Share (Basic)				
Continuing operations	$0.75	$0.54	$1.85	$1.75
Discontinued operations	0.01	-	0.02	-
Total Earnings Per Share (Basic)	$0.76	$0.54	$1.87	$1.75
Earnings Per Share (Diluted)				
Continuing operations	$0.74	$0.53	$1.83	$1.73
Discontinued operations	0.01	0.01	0.02	0.01
Total Earnings Per Share (Diluted)	$0.75	$0.54	$1.85	$1.74
Weighted Average Common Shares Outstanding (Millions)				
Basic	116.9	116.9	116.9	116.9
Diluted	118.3	117.8	118.3	117.9
Dividends Per Share of Common Stock	$0.40	$0.3375	$0.80	$0.6750

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these financial statements.

WISCONSIN ENERGY CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS

	(Unaudited) June 30, 2010	December 31, 2009
	(Millions of Dollars)	
Assets		
Property, Plant and Equipment		
In service	$ 11,444.7	$ 10,192.1
Accumulated depreciation	(3,538.9)	(3,431.9)
	7,905.8	6,760.2
Construction work in progress	1,316.5	2,185.1
Leased facilities, net	67.7	70.5
Net Property, Plant and Equipment	9,290.0	9,015.8
Investments		
Equity investment in transmission affiliate	323.9	314.6
Other	38.9	44.1
Total Investments	362.8	358.7
Current Assets		
Cash and cash equivalents	10.5	20.2
Restricted cash	112.7	194.5
Accounts receivable	317.3	298.7
Accrued revenues	177.2	288.7
Materials, supplies and inventories	390.2	378.1
Regulatory assets	54.4	58.9
Prepayments and other	210.7	290.2
Total Current Assets	1,273.0	1,529.3
Deferred Charges and Other Assets		
Regulatory assets	1,143.2	1,180.5
Goodwill	441.9	441.9
Other	182.6	171.7
Total Deferred Charges and Other Assets	1,767.7	1,794.1

Total Assets	$ 12,693.5	$ 12,697.9
Capitalization and Liabilities		
Capitalization		
Common equity	$ 3,677.1	$ 3,566.9
Preferred stock of subsidiary	30.4	30.4
Long-term debt	3,942.6	3,875.8
Total Capitalization	7,650.1	7,473.1
Current Liabilities		
Long-term debt due currently	493.3	295.7
Short-term debt	520.4	825.1
Accounts payable	270.5	290.6
Regulatory liabilities	121.3	222.8
Other	247.2	259.9
Total Current Liabilities	1,652.7	1,894.1
Deferred Credits and Other Liabilities		
Regulatory liabilities	890.7	876.0
Deferred income taxes - long-term	1,039.6	1,017.9
Deferred revenue, net	778.1	739.1
Pension and other benefit obligations	329.4	318.7
Other	352.9	379.0
Total Deferred Credits and Other Liabilities	3,390.7	3,330.7
Total Capitalization and Liabilities	$ 12,693.5	$ 12,697.9

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these financial statements.

WISCONSIN ENERGY CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

		Six Months Ended June 30	
		2010	2009
		(Millions of Dollars)	
Operating Activities			
Net income		$ 218.4	$ 205.2
Reconciliation to cash			
Depreciation and amortization		157.4	177.8
Amortization of gain		(96.6)	(119.3)
Equity in earnings of transmission affiliate		(30.3)	(28.7)
Distributions from transmission affiliate		24.8	22.8
Deferred income taxes and investment tax credits, net		7.3	14.6
Deferred revenue		55.0	97.5
Contributions to benefit plans		-	(289.3)
Change in -	Accounts receivable and accrued revenues	72.5	168.2
	Inventories	(12.1)	30.2
	Other current assets	20.4	18.0
	Accounts payable	(29.8)	(156.7)
	Accrued income taxes, net	(13.3)	99.5
	Deferred costs, net	13.0	23.1
	Other current liabilities	14.7	(11.9)
Other, net		22.3	(20.0)
Cash Provided by Operating Activities		423.7	231.0
Investing Activities			
Capital expenditures		(379.1)	(363.4)
Investment in transmission affiliate		(3.9)	(11.5)
Proceeds from asset sales, net		63.5	14.8
Change in restricted cash		81.8	103.1
Other, net		(37.6)	(47.8)
Cash Used in Investing Activities		(275.3)	(304.8)
Financing Activities			
Exercise of stock options		43.2	6.3
Purchase of common stock		(68.9)	(10.5)
Dividends paid on common stock		(93.5)	(78.9)
Issuance of long-term debt		530.0	11.5
Retirement and repurchase of long-term debt		(263.5)	(53.3)
Change in short-term debt		(304.7)	177.9
Other, net		(0.7)	0.9
Cash (Used in) Provided by Financing Activities		(158.1)	53.9

Change in Cash and Cash Equivalents	(9.7)	(19.9)
Cash and Cash Equivalents at Beginning of Period	20.2	31.7
Cash and Cash Equivalents at End of Period	$ 10.5	$ 11.8

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these financial statements.

10

WISCONSIN ENERGY CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1 -- GENERAL INFORMATION

Our accompanying unaudited consolidated condensed financial statements should be read in conjunction with Item 8, Financial Statements and Supplementary Data, in our 2009 Annual Report on Form 10-K. In the opinion of management, we have included all adjustments, normal and recurring in nature, necessary to a fair presentation of the results of operations, cash flows and financial position in the accompanying income statements, statements of cash flows and balance sheets. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of the results which may be expected for the entire fiscal year 2010 because of seasonal and other factors.

Reclassifications:

We have reclassified certain prior year financial statement amounts to conform to their current year presentation. These reclassifications had no effect on total assets, net income or earnings per share.

The reclassifications relate to the reporting of discontinued operations reflecting the sale of Edison Sault. The footnotes contained herein reflect continuing operations for all periods presented. For further information, see Note 5 -- Discontinued Operations and Divestitures.

2 -- NEW ACCOUNTING PRONOUNCEMENTS

Amendments to Variable Interest Entity Consolidation Guidance:

In June 2009, the Financial Accounting Standards Board issued new accounting guidance related to variable interest entity consolidation. The purpose of this guidance is to improve financial reporting by enterprises with variable interest entities. The new guidance is effective for all new and existing variable interest entities for fiscal years beginning after November 15, 2009. We adopted these provisions on January 1, 2010. This adoption did not have any impact on our financial condition, results of operations or cash flows. See Note 12 -- Variable Interest Entities for required disclosures.

3 -- Accounting and Reporting for Power the Future Generating Units

Background:

As part of our PTF strategy, our non-utility subsidiary, We Power, has built three new generating units, Port Washington Generating Station Unit 1 (PWGS 1), Port Washington Generating Station Unit 2 (PWGS 2) and Oak Creek expansion Unit 1 (OC 1)) and is in the process of building another new generating unit, Oak Creek expansion Unit 2 (OC 2), which are, and will be, leased to our utility subsidiary, Wisconsin Electric, under long-term leases that have been approved by the Public Service Commission of Wisconsin (PSCW). The leases are designed to recover the capital costs of the plant, including a return. PWGS 1, PWGS 2 and OC 1 were placed in service in July 2005, May 2008 and February 2010, respectively. The accompanying consolidated financial statements eliminate all intercompany transactions between We Power and Wisconsin Electric and reflect the cash inflows from Wisconsin Electric customers and the cash outflows to our vendors and suppliers.

The Oak Creek expansion includes common projects that will benefit the existing units at this site as well as the new units. These projects include a coal handling facility and a water intake system, which were placed into service in November 2007 and January 2009, respectively.

During Construction:

Under the terms of each lease, we collect in current rates amounts representing our pre-tax cost of capital (debt and equity) associated with capital expenditures for our PTF units. Our pre-tax cost of capital is approximately 14%. The carrying costs that we collect in rates are recorded as deferred revenue and will be amortized to revenue over the term of each lease once the respective unit is placed into service. During the construction of our PTF units, we capitalize interest costs at an overall weighted-average pre-tax cost of interest which was approximately 5% for the six months ended June 30, 2010 and for the twelve months ended December 31, 2009. Capitalized interest is included in the total cost of the PTF units.

Plant in Service:

Once the PTF units are placed in service, we expect to recover in rates the lease costs which reflect the authorized cash construction costs of the units plus a return on the investment. The authorized cash costs are established by the PSCW. The authorized cash costs exclude capitalized interest since carrying costs are recovered during the construction of the units. The lease payments are expected to be levelized, except that OC 1 and OC 2 will be recovered on a levelized basis that has a one time 10.6% escalation after the first five years of the leases. The leases established a set return on equity component of 12.7% after tax. The interest component of the return is determined up to 180 days prior to the date that the units are placed in service.

We recognize revenues (consisting of the lease payments included in rates and the amortization of the deferred revenue) on a levelized basis over the term of the lease. We depreciate the units on a straight-line basis over their expected service life.

4 -- COMMON EQUITY

Share-Based Compensation Expense:

For a description of share-based compensation, including stock options, restricted stock and performance units, see Note J -- Common Equity in our 2009 Annual Report on Form 10-K. We utilize the straight-line attribution method for recognizing share-based compensation expense. Accordingly, for employee awards, equity classified share-based compensation cost is measured at the grant date based on the fair value of the award, and is recognized as expense over the requisite service period. There were no modifications to outstanding stock options during the period. Shares purchased on the open market by our independent agents are currently used to satisfy share-based awards.

The following table summarizes recorded pre-tax share-based compensation expense and the related tax benefit for share-based awards made to our employees and directors:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
	(Millions of Dollars)			
Stock options	$1.9	$2.8	$3.8	$5.3
Performance units	7.9	0.1	10.6	3.9
Restricted stock	0.5	0.3	0.8	0.5
Share-based compensation expense	$10.3	$3.2	$15.2	$9.7
Related Tax Benefit	$4.1	$1.3	$6.1	$3.9

Stock Option Activity:

During the first six months of 2010, the Compensation Committee granted 274,750 stock options that had an estimated fair value of $6.72 per share. During the first six months of 2009, the Compensation Committee granted 1,216,625 stock options that had an estimated fair value of $8.01 per share. The following assumptions were used to value the options using a binomial option pricing model:

	2010	2009
Risk free interest rate	0.2% - 3.9%	0.3% - 2.5%
Dividend yield	3.7%	3.0%
Expected volatility	20.3%	25.9%
Expected forfeiture rate	2.0%	2.0%

Expected life (years)	5.9	6.2

The risk-free interest rate is based on the U.S. Treasury interest rate whose term is consistent with the expected life of the stock options. Dividend yield, expected volatility, expected forfeiture rate and expected life assumptions are based on our historical experience.

The following is a summary of our stock option activity for the three and six months ended June 30, 2010:

Stock Options	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (Millions)
Outstanding as of April 1, 2010	8,726,986	$39.34		
Granted	-	$ -		
Exercised	(711,921)	$32.74		
Forfeited	-	$ -		
Outstanding as of June 30, 2010	8,015,065	$39.93		
Outstanding as of January 1, 2010	9,087,315	$38.49		
Granted	274,750	$49.84		
Exercised	(1,342,000)	$32.22		
Forfeited	(5,000)	$45.70		
Outstanding as of June 30, 2010	8,015,065	$39.93	5.8	$86.7
Exercisable as of June 30, 2010	5,277,575	$36.93	4.6	$72.9

The intrinsic value of options exercised was $13.6 million and $25.1 million for the three and six months ended June 30, 2010, and $1.4 million and $3.9 million for the same periods in 2009, respectively. Cash received from options exercised was $43.2 million and $6.3 million for the six months ended June 30, 2010 and 2009, respectively. The actual tax benefit realized for the tax deductions from option exercises for the same periods was approximately $9.7 million and $1.6 million, respectively.

All outstanding stock options to purchase shares of common stock were included in the computation of diluted earnings per share during the second quarter of 2010.

The following table summarizes information about stock options outstanding as of June 30, 2010:

	Options Outstanding			Options Exercisable		
		Weighted-Average			Weighted-Average	
Range of Exercise Prices	Number of Options	Exercise Price	Remaining Contractual Life (Years)	Number of Options	Exercise Price	Remaining Contractual Life (Years)
$20.39 to $29.13	987,580	$24.83	2.2	987,580	$24.83	2.2
$33.44 to $39.48	2,827,277	$35.64	4.5	2,827,277	$35.64	4.5
$42.22 to $49.84	4,200,208	$46.37	7.6	1,462,718	$47.60	6.6
	8,015,065	$39.93	5.8	5,277,575	$36.93	4.6

The following table summarizes information about our non-vested options during the three and six months ended June 30, 2010:

Non-Vested Stock Options	Number of Options	Weighted-Average Fair Value
Non-vested as of April 1, 2010	2,779,545	$ 8.53
Granted	-	$ -
Vested	(42,055)	$ 8.62
Forfeited	-	$ -
Non-vested as of June 30, 2010	2,737,490	$ 8.53
Non-vested as of January 1, 2010	3,665,100	$ 8.73
Granted	274,750	$ 6.72
Vested	(1,197,360)	$ 8.72
Forfeited	(5,000)	$ 8.53
Non-vested as of June 30, 2010	2,737,490	$ 8.53

As of June 30, 2010, total compensation costs related to non-vested stock options not yet recognized was approximately $5.4 million, which is expected to be recognized over the next 13 months on a weighted-average basis.

Restricted Shares:

During the first six months of 2010, the Compensation Committee granted 46,740 restricted shares to certain key employees and directors. These awards have a three-year vesting period, with, typically, one-third of the award vesting on each anniversary of the grant date. During the vesting period, restricted share recipients have voting rights and are entitled to dividends in the same manner as other shareholders.

The following restricted stock activity occurred during the three and six months ended June 30, 2010:

Restricted Shares	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding as of April 1, 2010	133,261	
Granted	-	
Released	(6,181)	$24.08
Forfeited	(215)	$49.55
Outstanding as of June 30, 2010	126,865	
Outstanding as of January 1, 2010	99,649	
Granted	46,740	$49.55
Released	(19,249)	$39.59
Forfeited	(275)	$49.55
Outstanding as of June 30, 2010	126,865	

We record the market value of the restricted stock awards on the date of grant, and then we charge their value to expense over the vesting period of the awards. The intrinsic value of restricted stock vesting was $0.3 million and $1.0 million for the three and six months ended June 30, 2010, and $0.1 million and $0.7 million for the same periods in 2009. The actual tax benefits realized for the tax deductions from released restricted shares was $0.1 million and $0.2 million for the three and six months ended June 30, 2010, and $0.1 million and $0.3 million for the same periods in 2009, respectively.

As of June 30, 2010, total compensation cost related to restricted stock not yet recognized was approximately $2.9 million, which is expected to be recognized over the next 28 months on a weighted-average basis.

Performance Units:

In January 2010 and 2009, the Compensation Committee granted 277,915 and 333,220 performance units, respectively, to officers and other key employees under the Wisconsin Energy Performance Unit Plan. Under the grants, the ultimate number of units that will be awarded is dependent upon the achievement of certain financial performance of our stock over a three-year period. Under the terms of the award, participants may earn between 0% and 175% of the base performance unit award. All grants are settled in cash. We are accruing compensation costs over the three-year period based on our estimate of the final expected value of the awards. Performance units earned as of December 31, 2009 and 2008 vested and were settled during the first quarter of 2010 and 2009, and had a total intrinsic value of $9.8 million and $8.4 million, respectively. The actual tax benefit realized for the tax deductions from the settlement of performance units was approximately $3.4 million and $3.1 million, respectively. As of June 30, 2010, total compensation costs related to performance units not yet recognized was approximately $24.1 million, which is expected to be recognized over the next 23 months on a weighted-average basis.

Restrictions:

Wisconsin Energy's ability as a holding company to pay common dividends primarily depends on the availability of funds received from its non-utility subsidiary, We Power, and its utility subsidiaries. Various financing arrangements and regulatory requirements impose certain restrictions on the ability of our principal utility subsidiaries to transfer funds to us in the form of cash dividends, loans or advances. In addition, under Wisconsin law, Wisconsin Electric and Wisconsin Gas are prohibited from loaning funds, either directly or indirectly, to Wisconsin Energy. See Note J --Common Equity in our 2009 Annual Report on Form 10-K for additional information on these and other restrictions.

We do not believe that these restrictions will materially affect our operations or limit any dividend payments in the foreseeable future.

Comprehensive Income:

Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to owners.

Our total comprehensive income for the six months ended June 30, 2010 and 2009 was $218.6 million and $205.4 million, respectively, which approximates net income for each of those periods.

5 -- DISCONTINUED OPERATIONS and Divestitures

Edison Sault Electric Company (Edison Sault):

Effective May 4, 2010, we sold Edison Sault to Cloverland Electric Cooperative for approximately $63.0 million.

The assets and liabilities ($77.0 million and $15.1 million, respectively) associated with Edison Sault were reclassified as held for sale within other current assets and liabilities on our Consolidated Condensed Balance Sheet as of December 31, 2009. We also reclassified the income related to Edison Sault as discontinued operations in the accompanying Consolidated Condensed Income Statements. Discontinued Edison Sault operations had no significant impact on our Consolidated Condensed Statements of Cash Flows for the six months ended June 30, 2010 and 2009, respectively.

A summary of the components of Income from Discontinued Operations, Net of Tax in our Consolidated Condensed Income Statements follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2010 (a)	2009	2010 (a)	2009
	(Millions of Dollars)			

Operating revenues (b)	$1.9	$6.8	$9.3	$14.6
Operating expenses (b)	1.8	6.0	7.9	12.3
Income before income taxes	0.1	0.8	1.4	2.3
Income tax expense	0.1	0.4	0.7	1.8
Income (Loss) from discontinued Edison Sault operations, net of tax	-	0.4	0.7	0.5
Gain on Sale of Edison Sault, net of tax	1.1	-	1.1	-
Income from discontinued other operations, net of tax	0.1	0.3	0.1	0.3
Total Income from Discontinued Operations, Net of Tax	$1.2	$0.7	$1.9	$0.8

(a) As a result of its sale effective May 4, 2010, we owned Edison Sault for approximately one of the three months ended June 30, 2010 and for approximately four of the six months ended June 30, 2010.

(b) Amounts are net of intercompany activity.

Edgewater Generating Unit 5:

During the fourth quarter of 2009, we reached a contingent agreement to sell our 25% interest in Edgewater Generating Unit 5 to Wisconsin Power and Light Company, a subsidiary of Alliant Energy Corp., for our net book value, including working capital. In March 2010, the agreement became effective and we are in the process of receiving regulatory approvals. The completion of the sale is subject to approval by applicable regulatory bodies, including the PSCW and Michigan Public Service Commission (MPSC). In June 2010, we received approval for the sale from FERC. If approved by the remaining regulatory bodies, we expect the sale to close by the end of 2010 and to realize proceeds of between $40 million and $45 million depending on the working capital balances and our level of capital investment in the unit prior to the sale.

6 -- LONG-TERM DEBT

In February 2010, we issued a total of $530 million in long-term debt ($255 million aggregate principal amount of 5.209% Series A Senior Notes due February 11, 2030 and $275 million aggregate principal amount of 6.09% Series A Senior Notes due February 11, 2040) and used the net proceeds to repay debt incurred to finance the construction of OC 1.

7 -- FAIR VALUE MEASUREMENTS

Fair value measurements require enhanced disclosures about assets and liabilities that are measured and reported at fair value and establish a hierarchal disclosure framework which prioritizes and ranks the level of observable inputs used in measuring fair value.

Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We primarily apply the market approach for recurring fair value measurements and attempt to utilize the best available information. Accordingly, we also utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We are able to classify fair value balances based on the observability of those inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 -- Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Instruments in this category consist of financial instruments such as exchange-traded derivatives, cash equivalents and restricted cash investments.

Level 2 -- Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Instruments in this category include non-exchange-traded derivatives such as Over-the-Counter (OTC) forwards and options.

Level 3 -- Pricing inputs include significant inputs that are generally less observable from objective sources. The inputs in the determination of fair value require significant management judgment or estimation. At each balance sheet date, we perform an analysis of all instruments subject to fair value reporting and include in Level 3 all instruments whose fair value is based on significant unobservable inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the instrument.

The following tables summarize our financial assets and liabilities by level within the fair value hierarchy:

Recurring Fair Value Measures	As of June 30, 2010			
	Level 1	Level 2	Level 3	Total
	(Millions of Dollars)			
Assets:				
Restricted Cash	$112.7	$ -	$ -	$112.7
Derivatives	0.3	7.6	15.9	23.8
Total	$113.0	$7.6	$15.9	$136.5
Liabilities:				
Derivatives	$8.3	$5.4	$ -	$13.7
Total	$8.3	$5.4	$ -	$13.7

Recurring Fair Value Measures	As of December 31, 2009			
	Level 1	Level 2	Level 3	Total
	(Millions of Dollars)			
Assets:				
Restricted Cash	$194.5	$ -	$ -	$194.5
Derivatives	0.7	4.2	5.8	10.7
Total	$195.2	$4.2	$5.8	$205.2
Liabilities:				
Derivatives	$4.5	$4.8	$ -	$9.3
Total	$4.5	$4.8	$ -	$9.3

Restricted cash consists of certificates of deposit and government backed interest bearing securities and represents the remaining funds to be distributed to customers resulting from the net proceeds received from the sale of Point Beach Nuclear Power Plant (Point Beach). Derivatives reflect positions we hold in exchange-traded derivative contracts and OTC derivative contracts. Exchange-traded derivative contracts, which include futures and exchange-traded options, are generally based on unadjusted quoted prices in active markets and are classified within Level 1. Some OTC derivative contracts are valued using broker or dealer quotations, or market transactions in either the listed or OTC markets utilizing a mid-market pricing convention (the mid-point between bid and ask prices), as appropriate. In such cases, these derivatives are classified within Level 2. Certain OTC derivatives may utilize models to measure fair value. Generally, we use a similar model to value similar instruments. Valuation models utilize various inputs which include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs (i.e., inputs derived principally from or corroborated by observable market data by correlation or other means). Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain OTC derivatives are in less active markets with a lower availability of pricing information which might not be observable in or corroborated by the market. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3.

The following tables summarize the fair value of derivatives classified as Level 3 in the fair value hierarchy:

Quarter to Date	2010	2009
	(Millions of Dollars)	
Balance as of April 1	$1.9	$2.9
Realized and unrealized gains (losses)	-	-
Purchases, issuances and settlements	14.0	12.5
Transfers in and/or out of Level 3	-	-
Balance as of June 30	$15.9	$15.4
Change in unrealized gains (losses) relating to instruments still held as of June 30	$ -	$ -

Year to Date	2010	2009

	(Millions of Dollars)	
Balance as of January 1	$5.8	$8.8
Realized and unrealized gains (losses)	-	-
Purchases, issuances and settlements	10.1	6.6
Transfers in and/or out of Level 3	-	
Balance as of June 30	$15.9	$15.4
Change in unrealized gains (losses) relating to instruments still held as of June 30	$ -	$ -

Derivative instruments reflected in Level 3 of the hierarchy include MISO Financial Transmission Rights (FTRs) that are measured at fair value each reporting period using monthly or annual auction shadow prices from relevant auctions. Changes in fair value for Level 3 recurring items are recorded on our balance sheet. See Note 8 -- Derivative Instruments, for further information on the offset to regulatory assets and liabilities.

The carrying amount and estimated fair value of certain of our recorded financial instruments are as follows:

	June 30, 2010		December 31, 2009	
Financial Instruments	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions of Dollars)			
Preferred stock, no redemption required	$30.4	$21.7	$30.4	$20.2
Long-term debt including current portion	$4,316.3	$4,645.0	$4,049.8	$4,162.5

The carrying value of net accounts receivable, accounts payable and short-term borrowings approximates fair value due to the short-term nature of these instruments. The fair value of our preferred stock is estimated based upon the quoted market value for the same or similar issues. The fair value of our long-term debt, including the current portion of long-term debt, but excluding capitalized leases and unamortized discount on debt, is estimated based upon quoted market value for the same or similar issues or upon the quoted market prices of U.S. Treasury issues having a similar term to maturity, adjusted for the issuing company's bond rating and the present value of future cash flows.

8 -- DERIVATIVE INSTRUMENTS

We utilize derivatives as part of our risk management program to manage the volatility and costs of purchased power, generation and natural gas purchases for the benefit of our customers and shareholders. Our approach is non-speculative and designed to mitigate risk and protect against price volatility. Regulated hedging programs require prior approval by the PSCW.

We record derivative instruments on the balance sheet as an asset or liability measured at its fair value, and changes in the derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met or we receive regulatory treatment for the derivative. For most energy related physical and financial contracts in our regulated operations that qualify as derivatives, the PSCW allows the effects of the fair market value accounting to be offset to regulatory assets and liabilities. We do not offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivatives executed with the same counterparty under the same master netting arrangement. As of June 30, 2010, we recognized $22.5 million in regulatory assets and $23.6 million in regulatory liabilities related to derivatives in comparison to $19.1 million in regulatory assets and $10.3 million in regulatory liabilities as of December 31, 2009.

We record our current derivative assets on the balance sheet in Prepayments and other current assets and the current portion of the liabilities in Other current liabilities. The long-term portion of our derivative assets of $0.9 million is recorded in Other deferred charges and other assets and the long-term portion of our derivative liabilities of $0.9 million is recorded in Other deferred credits and other liabilities. Our Consolidated Condensed Balance Sheet as of June 30, 2010 and December 31, 2009 includes:

	June 30, 2010		December 31, 2009	
	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability
	(Millions of Dollars)			
Natural Gas	$4.8	$13.3	$2.2	$9.3
Energy	-	0.4	-	-
Fuel Oil	0.2	-	0.6	-
FTRs	15.9	-	5.8	-
Coal	2.9	-	2.1	-
Total	$23.8	$13.7	$10.7	$9.3

Our Consolidated Condensed Income Statements include gains (losses) on derivative instruments used in our risk management strategies under Fuel and purchased power for those commodities supporting our electric operations and under Cost of gas sold for the natural gas sold to our customers. Our estimated notional volumes and gain (losses) for the three and six months ended June 30, 2010 and 2009 follow:

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009	
	Volume	Gains (Losses)	Volume	Gains (Losses)
		(Millions of Dollars)		(Millions of Dollars)
Natural Gas	19.3 million Dth	($9.1)	23.3 million Dth	($28.7)
Energy	102,400 MWh	(0.2)	3,200 MWh	(0.1)
Fuel Oil	2.0 million gallons	-	1.3 million gallons	(1.0)
FTRs	6,657 MW	3.2	5,605 MW	3.7
Total		($6.1)		($26.1)

	Six Months Ended June 30, 2010		Six Months Ended June 30, 2009	
	Volume	Gains (Losses) (Millions of Dollars)	Volume	Gains (Losses) (Millions of Dollars)
Natural Gas	47.6 million Dth	($20.7)	45.7 million Dth	($54.0)
Energy	159,600 MWh	-	15,120 MWh	(0.6)
Fuel Oil	3.8 million gallons	-	2.2 million gallons	(1.3)
FTRs	12,088.4 MW	12.2	11,785 MW	4.2
Total		($8.5)		($51.7)

As of June 30, 2010 and December 31, 2009, we have posted collateral of $16.2 million and $9.3 million, respectively, in our margin accounts. These amounts are recorded on the balance sheet in Prepayments and other current assets.

9 -- BENEFITS

The components of our net periodic pension and Other Post-Retirement Employee Benefits (OPEB) costs for the three and six months ended June 30, 2010 and 2009 were as follows:

	Pension Costs			
	Three Months Ended June 30		Six Months Ended June 30	
Benefit Plan Cost Components	2010	2009	2010	2009
	(Millions of Dollars)			
Net Periodic Benefit Cost				
Service cost	$4.9	$6.4	$11.8	$11.7
Interest cost	16.4	17.9	33.8	36.1
Expected return on plan assets	(19.0)	(24.0)	(38.7)	(47.7)
Amortization of:				
Transition obligation	-	-	-	-
Prior service cost	0.5	0.5	1.1	1.1
Actuarial loss	6.7	4.2	13.3	9.4
Net Periodic Benefit Cost	$9.5	$5.0	$21.3	$10.6

	OPEB Costs	
	Three Months Ended June 30	Six Months Ended June 30

Benefit Plan Cost Components	2010	2009	2010	2009
		(Millions of Dollars)		
Net Periodic Benefit Cost				
Service cost	$2.8	$2.0	$5.6	$4.3
Interest cost	5.1	5.0	10.5	10.3
Expected return on plan assets	(3.6)	(3.3)	(7.2)	(6.8)
Amortization of:				
Transition obligation	0.1	-	0.2	0.1
Prior service (credit)	(2.9)	(3.1)	(5.9)	(6.3)
Actuarial loss	2.7	2.2	5.4	4.5
Net Periodic Benefit Cost	$4.2	$2.8	$8.6	$6.1

10 -- GUARANTEES

We enter into various guarantees to provide financial and performance assurance to third parties on behalf of our affiliates. As of June 30, 2010, we had the following guarantees:

Maximum Potential Future Payments	Outstanding	Liability Recorded