WISCONSIN ENERGY CORP
Form 10-Q
November 01, 2007

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

September 30, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ].

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 (September 30, 2007):

Common Stock, $.01 Par Value, 116,943,072 shares outstanding.

WISCONSIN ENERGY CORPORATION

FORM 10-Q REPORT FOR THE QUARTER ENDED SEPTEMBER 30, 2007

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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	
Edison Sault	Edison Sault Electric Company
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
Point Beach	Point Beach Nuclear Plant
PWGS	Port Washington Generating Station
PWGS 1	Port Washington Generating Station Unit 1
PWGS 2	Port Washington Generating Station Unit 2
Other Affiliates and Subsidiaries	
Minergy	Minergy Corp.
Wispark	Wispark LLC
Federal and State Regulatory Agencies	
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission
WDNR	Wisconsin Department of Natural Resources

Environmental Terms

BART	Best Available Retrofit Technology
BTA	Best Technology Available
CAIR	Clean Air Interstate Rule
CAVR	Clean Air Visibility Rule
CO_2	Carbon Dioxide
NO_X	Nitrogen Oxide
$PM_{2.5}$	Fine Particulate Matter
SO_2	Sulfur Dioxide
WPDES	Wisconsin Pollution Discharge Elimination System

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.

Other Terms and Abbreviations

ALJ	Wisconsin Administrative Law Judge
Compensation Committee	Compensation Committee of the Board of Directors
CPCN	Certificate of Public Convenience and Necessity
Fitch	Fitch Ratings
FPL	FPL Group, Inc.
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.
MISO Midwest Market	MISO bid-based energy market
Moody's	Moody's Investor Services
NEIL	Nuclear Electric Insurance Limited
PJM	PJM Interconnection, L.L.C.
PTF	Power the Future
PSEG	Public Service Enterprise Group
RCC	Replacement Capital Covenant dated May 11, 2007
RSG	Revenue Sufficiency Guarantee

S&P	Standard & Poor's Corporation
UI	The United Illuminating Company

Measurements

MW	Megawatt(s) (One MW equals one million watts)
MWh	Megawatt-hour(s)

Accounting Terms

AFUDC	Allowance for Funds Used During Construction
CWIP	Construction Work in Progress
FASB	Financial Accounting Standards Board
FIN	FASB Interpretation
GAAP	Generally Accepted Accounting Principles
OPEB	Other Post-Retirement Employee Benefits
SFAS	Statement of Financial Accounting Standards

Accounting Pronouncements

FIN 46	Consolidation of Variable Interest Entities
FIN 48	Accounting for Uncertainty in Income Taxes
SFAS 109	Accounting for Income Taxes
SFAS 123R	Share-Based Payment (Revised 2004)
SFAS 133	Accounting for Derivative Instruments and Hedging Activities
SFAS 149	Amendment of SFAS 133 on Derivative Instruments and Hedging Activities
SFAS 157	Fair Value Measurements
SFAS 159	The Fair Value Option for Financial Assets and Financial Liabilities

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in this report and other documents or oral presentations are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. 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 completion of construction projects, regulatory matters, fuel costs, sources of electric energy supply, use of the proceeds from the sale of Point Beach, 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," "intends," "may," "objectives," "plans," "possible," "potential," "projects" 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, including without limitation the Point Beach Nuclear Plant Power Purchase Agreement; environmental incidents; resolution of used nuclear fuel storage and disposal 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.

- Regulatory factors such as unanticipated changes in rate-setting policies or procedures; unanticipated changes in regulatory accounting policies and practices; industry restructuring initiatives; transmission or distribution system operation and/or administration initiatives; recovery of costs of previous investments made under traditional regulation; recovery of costs associated with adoption of changed accounting standards; required changes in facilities or operations to reduce the risks or impacts of potential terrorist activities; required approvals for new construction; changes in the United States Nuclear Regulatory Commission's regulations that may affect the operation of Point Beach and our ability to obtain power pursuant to the terms of the Point Beach Nuclear Plant Power Purchase Agreement; changes in the regulations of the EPA as well as the WDNR, the Michigan Department of Natural Resources or the Michigan Department of Environmental Quality, including but not limited to regulations relating to the release of emissions from fossil-fueled power plants such as CO_2, SO_2, NO_x, small particulates or mercury, water quality and lead paint, and regulations relating to the intake and discharge of water; the siting approval process for new generation and transmission facilities; recovery of costs associated with implementation of the MISO Midwest Market; or changes in the regulations from the WDNR related to the siting approval process for new pipeline construction.

- The changing 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.

- Unanticipated operational and/or financial consequences related to implementation of the MISO Midwest Market that started in April 2005.

- Consolidation of the industry as a result of the combination and acquisition of utilities in the Midwest, nationally and globally as a result of the repeal of the Public Utility Holding Company Act of 1935 or otherwise.

- Factors which impede execution of our PTF strategy, including receipt of necessary state and federal regulatory approvals, timely and successful resolution of legal challenges, local opposition to siting of new generating facilities, construction risks, including the adverse interpretation or enforcement of permit conditions by the permitting agencies, and obtaining the investment capital from outside sources necessary to implement the strategy.

- 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.

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

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

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

- Factors affecting the availability or cost of capital such as: changes in interest rates and other general capital market conditions; our capitalization structure; market perceptions of the utility industry, us or any of our 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; changes in the Price Anderson Act; changes in environmental laws and regulations; or changes in allocation of energy assistance, including state public benefits funds.

- Implementation of the Energy Policy Act of 2005 and the effect of state level proceedings and the development of regulations by federal and other agencies, including FERC.

- Authoritative GAAP or policy changes from such standard setting bodies as the FASB, the SEC and the Public Company Accounting Oversight Board.

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

- Possible risks associated with non-utility operations and investments, such as: general economic conditions; competition; operating risks; dependence upon certain suppliers and customers; the cyclical nature of property values that could affect real estate investments; unanticipated changes in environmental or energy regulations; and risks associated with minority investments, where there is a limited ability to control the development, management or operation of the project.

- 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 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, 2006.

Wisconsin Energy Corporation expressly disclaims 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 report, 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, Wisconsin Gas and 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 metro Milwaukee, Wisconsin; Wisconsin Gas, which serves gas customers in Wisconsin and water customers in suburban Milwaukee, Wisconsin; and Edison Sault, which serves electric customers in the Upper Peninsula of Michigan. Wisconsin Electric and Wisconsin Gas operate under the trade name of "We Energies".

Sale of Point Beach:

In September 2007, Wisconsin Electric completed the sale of Point Beach to an affiliate of FPL for approximately $924 million. In addition, the buyer assumed certain liabilities related to the plant, including responsibility to decommission Point Beach. Wisconsin Electric intends to use the net gain from the sale and certain decommissioning funds that it retained as a result of the sale to benefit customers, as determined by its regulators. See Note 4 -- Sale of Point Beach in the Notes to Consolidated Condensed Financial Statements in this report.

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 2006 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 2006 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

Nine Months Ended

September 30

September 30

2007

2006

2007

2006

(Millions of Dollars, Except Per Share Amounts)

Operating Revenues

$881.5

$839.8

$3,089.1

$2,901.2

Operating Expenses

Fuel and purchased power

254.3

229.8

716.1

583.8

Cost of gas sold

78.0

85.1

710.4

695.1

Other operation and maintenance

284.3

287.1

891.5

875.1

Depreciation, decommissioning

and amortization

85.6

82.0

250.9

243.4

Property and revenue taxes

26.2

24.6

77.5

73.9

Total Operating Expenses

728.4

708.6

2,646.4

	2,471.3
Operating Income	
	153.1
	131.2
	442.7
	429.9
Equity in Earnings of Transmission Affiliate	
	10.9
	9.7
	32.1
	28.7
Other Income, Net	
	14.8
	15.2
	47.8
	44.8
Interest Expense	
	42.5
	41.5
	127.2
	129.3
Income from Continuing Operations Before Income Taxes	
	136.3
	114.6

	395.4	374.1		
Income Taxes	53.2	43.8	153.5	139.2
Income from Continuing Operations	83.1	70.8	241.9	234.9
Income (Loss) from Discontinued Operations, Net of Tax	(0.2)	-	(0.6)	4.5
Net Income	$82.9	$70.8	$241.3	$239.4
Earnings Per Share (Basic)				
Continuing operations	$0.71			

$0.61

$2.07

$2.01

Discontinued operations

-

-

(0.01)

0.04

Total Earnings Per Share (Basic)

$0.71

$0.61

$2.06

$2.05

Earnings Per Share (Diluted)

Continuing operations

$0.70

$0.60

$2.04

$1.98

Discontinued operations

-

-

-

0.04

Total Earnings Per Share (Diluted)

$0.70

	$0.60
	$2.04
	$2.02
Weighted Average Common	
Shares Outstanding (Millions)	
Basic	
	116.9
	117.0
	116.9
	117.0
Diluted	
	118.2
	118.4
	118.5
	118.3
Dividends Per Share of Common Stock	
	$0.25
	$0.23
	$0.75
	$0.69

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

WISCONSIN ENERGY CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	September 30, 2007	December 31, 2006
	(Millions of Dollars)	
Assets		
Property, Plant and Equipment		
In service	$ 8,734.3	$ 9,265.4
Accumulated depreciation	(3,099.1)	(3,423.7)
	5,635.2	5,841.7
Construction work in progress	1,563.1	992.4
Leased facilities, net	83.3	87.5
Nuclear fuel, net	-	130.9

Net Property, Plant and Equipment

7,281.6

7,052.5

Investments

Restricted cash

969.1

-

Nuclear decommissioning trust fund

-

881.6

Equity investment in transmission affiliate

236.0

228.5

Other

35.6

54.7

Total Investments

1,240.7

1,164.8

Current Assets

Cash and cash equivalents

500.0

37.0

Accounts receivable

320.7

379.3

Accrued revenues	147.3	257.8
Materials, supplies and inventories	410.3	417.2
Prepayments and other	100.4	136.7
Total Current Assets	1,478.7	1,228.0
Deferred Charges and Other Assets		
Regulatory assets	1,154.0	1,091.0
Goodwill	441.9	441.9
Other	165.3	152.0
Total Deferred Charges and Other Assets	1,761.2	1,684.9
Total Assets		

	$ 11,762.2	$ 11,130.2

Capitalization and Liabilities

Capitalization		
Common equity	$ 3,034.6	$ 2,889.0
Preferred stock of subsidiary	30.4	30.4
Long-term debt	3,493.4	3,073.4
Total Capitalization	6,558.4	5,992.8
Current Liabilities		
Long-term debt due currently	282.3	296.7
Short-term debt	831.3	911.9
Accounts payable	364.5	404.5

Accrued liabilities	482.3	161.2
Other	99.1	113.7
Total Current Liabilities	2,059.5	1,888.0
Deferred Credits and Other Liabilities		
Regulatory liabilities	1,854.5	1,472.1
Asset retirement obligations	50.0	371.7
Deferred income taxes - long-term	242.7	572.9
Deferred revenue, net	301.5	186.2
Other	695.6	646.5

Total Deferred Credits and Other Liabilities

3,144.3

3,249.4

Total Capitalization and Liabilities

$ 11,762.2

$ 11,130.2

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)

Nine Months Ended September 30

2007

2006

(Millions of Dollars)

Operating Activities

Net income

$ 241.3

$ 239.4

Reconciliation to cash

Depreciation, decommissioning and amortization

258.2

		250.2
Nuclear fuel expense amortization	23.2	22.1
Equity in earnings of transmission affiliate	(32.1)	(28.7)
Distributions from transmission affiliate	24.7	22.9
Deferred income taxes and investment tax credits, net	(22.9)	(25.5)
Deferred revenue	117.4	53.2
Change in -		
Accounts receivable and accrued revenues	169.1	285.2
Inventories	(17.7)	23.9
Other current assets	36.4	(4.3)

Accounts payable	(31.4)	(151.3)
Accrued income taxes, net	16.3	28.7
Deferred costs, net	(60.5)	(29.4)
Other current liabilities and other	(89.3)	21.9
Cash Provided by Operating Activities	632.7	708.3
Investing Activities		
Capital expenditures	(842.2)	(664.0)
Investment in transmission affiliate	-	(14.6)
Proceeds from asset sales, net	957.6	69.0
Proceeds from liquidation of nuclear decommissioning trust		

	552.4	-
Cash designated as restricted cash	(969.1)	-
Nuclear fuel	(23.8)	(20.4)
Nuclear decommissioning funding	(11.7)	(13.2)
Proceeds from investments within nuclear decommissioning trust	1,528.7	430.8
Other activity within nuclear decommissioning trust	(1,528.7)	(430.8)
Other	(49.6)	(7.1)
Cash Used in Investing Activities	(386.4)	(650.3)
Financing Activities		
Exercise of stock options	30.6	

		12.5
Purchase of common stock	(55.7)	(21.8)
Dividends paid on common stock	(87.7)	(80.7)
Issuance of long-term debt	523.4	10.0
Retirement of long-term debt	(112.8)	(285.3)
Change in short-term debt	(80.6)	253.0
Other, net	(0.5)	2.3
Cash Provided by (Used in) Financing Activities	216.7	(110.0)
Change in Cash and Cash Equivalents	463.0	(52.0)
Cash and Cash Equivalents at Beginning of Period		

37.0

73.2

Cash and Cash Equivalents at End of Period

$ 500.0

$ 21.2

Supplemental Information - Cash Paid For

Interest (net of amount capitalized)

$ 98.2

$ 103.3

Income taxes (net of refunds)

$ 151.0

$ 139.1

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

financial statements.

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 2006 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 nine months ended September 30, 2007 are not necessarily indicative of the results which may be expected for the entire fiscal year 2007 because of seasonal and other factors.

2 -- NEW ACCOUNTING PRONOUNCEMENTS

Uncertainty in Income Taxes:

In July 2006, the FASB issued FIN 48, an interpretation of SFAS 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the enterprise's financial statements in accordance with SFAS 109. As of January 1, 2007, the adoption date for FIN 48, the amount of unrecognized tax benefits was approximately $41.7 million, which included estimated accrued interest and penalties of $5.4 million. The amount of unrecognized tax benefits excludes offsetting FIN 48 related deferred tax assets of $12.5 million. We recognize accrued interest and penalties in the provision for income taxes. The impact of adopting FIN 48 was not material. As of the date of adoption, the net amount of the unrecognized tax benefits that, if recognized, would impact the effective tax rate for continuing operations was approximately $10.5 million. We do not anticipate any significant increases or decreases in the total amounts of unrecognized tax benefits within the next 12 months. Our primary tax jurisdictions include federal and the State of Wisconsin. Currently, the tax years of 2004 through 2006 are subject to federal examination and the tax years of 2002 through 2006 are subject to examination by the State of Wisconsin.

Fair Value Measurements:

In September 2006, the FASB issued SFAS 157. SFAS 157 provides guidance for using fair value to measure assets and liabilities and also defines fair value, provides a framework for measuring fair value and expands disclosures related to fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the provisions of SFAS 157, and we expect to adopt it on January 1, 2008.

Fair Value Option

: In February 2007, the FASB issued SFAS 159. SFAS 159 permits an entity to measure certain financial assets and financial liabilities at fair value and also establishes presentation and disclosure requirements. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. We are currently evaluating the provisions of SFAS 159, and we expect to adopt it on January 1, 2008.

3 -- ACCOUNTING AND REPORTING FOR POWER THE FUTURE GENERATING UNITS

Background:

As part of our PTF strategy, our non-utility subsidiary, We Power, is building four new generating units (PWGS 1 and 2 and OC 1 and 2) that will be leased to our utility subsidiary, Wisconsin Electric, under long-term leases that have been approved by the PSCW, our primary regulator. The leases are designed to recover the capital costs of the plant including a return. PWGS 1 was placed in service in July 2005 and is being leased to Wisconsin Electric. Wisconsin Electric will be responsible for all of the operating costs, including fuel, of the PTF units once they are placed in service and we anticipate that we will recover the operating costs of these plants in rates. 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.

During Construction:

Under the terms of the leases, we collect in current rates amounts representing our pre-tax cost of capital (debt and equity) associated with capital expenditures for the 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 they will be amortized to revenue when the related assets are placed into service. During the construction of the PTF units, we capitalize interest costs at an overall weighted-average pre-tax cost of interest of approximately 6.0%. Capitalized interest is included in the total cost of the PTF units.

Cash Flows:

The following table identifies key pre-tax cash outflows and inflows for the nine months ended September 30, 2007 and 2006 related to the construction of our PTF units as compared to Wisconsin Energy overall.

	Capital Expenditures (Millions of Dollars)				Total	
	PWGS 1	PWGS 2	OC 1	OC 2	PTF	WEC
2007	$ -	$72.3	$334.6	$114.1	$521.0	$842.2
2006	$ -	$94.7	$189.9	$61.2	$345.8	$664.0

	Capitalized Interest (Millions of Dollars)				Total	
	PWGS 1	PWGS 2	OC 1	OC 2	PTF	WEC
2007	$ -	$11.0	$30.1	$9.6	$50.7	$52.0
2006	$ -	$5.5	$12.8	$4.6	$22.9	$27.1

	Deferred Revenue, net (Millions of Dollars)				Total	
	PWGS 1	PWGS 2	OC 1	OC 2	PTF	WEC
2007	$ -	$24.8	$69.9	$22.7	$117.4	$117.4
2006	$ -	$12.6	$29.9	$10.7	$53.2	$53.2

Balance Sheet:

As noted above, we collect in current rates carrying costs that are calculated based on the cash expenditures included in CWIP multiplied by our pre-tax cost of capital. The carrying costs are recorded as deferred revenue. Our total CWIP balance includes cash expenditures, capitalized interest and accruals. The following table identifies key amounts related to our PTF units that are recorded on our balance sheet as of September 30, 2007 and December 31, 2006:

CWIP - Cash Expenditures (Millions of Dollars)	Total

As of	PWGS 1	PWGS 2	OC 1	OC 2	PTF
September 30, 2007	$ -	$262.4	$811.2	$273.8	$1,347.4
December 31, 2006	$ -	$196.2	$487.7	$152.6	$836.5

	Total CWIP (Millions of Dollars)				Total	
As of	PWGS 1	PWGS 2	OC 1	OC 2	PTF	WEC
September 30, 2007	$ -	$284.9	$870.9	$294.4	$1,450.2	$1,563.1
December 31, 2006	$ -	$207.7	$517.3	$163.5	$888.5	$992.4

	Net Plant in Service (Millions of Dollars)				Total	
As of	PWGS 1	PWGS 2	OC 1	OC 2	PTF	WEC
September 30, 2007	$344.4	$ -	$ -	$ -	$344.4	$5,635.2
December 31, 2006	$350.1	$ -	$ -	$ -	$350.1	$5,841.7

	Deferred Revenue (Millions of Dollars)				Total	
As of	PWGS 1	PWGS 2	OC 1	OC 2	PTF	WEC
September 30, 2007	$66.2	$52.4	$135.9	$47.0	$301.5	$301.5
December 31, 2006	$68.3	$27.5	$66.0	$24.4	$186.2	$186.2

Income Statement:

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. The authorized cash costs are established by the PSCW. The authorized cash costs exclude capitalized interest because 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 establish 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 related to the lease payments that are included in our rates. In addition, our revenues will include the amortization of the deferred revenues that reflect the carrying costs that are collected during construction. The deferred revenue will be amortized on a straight line basis over the lease term. We will depreciate the units on a straight line basis over their expected service life.

In July 2005, PWGS 1 was placed in service. This asset had a cost of approximately $364.3 million, which included approximately $31.1 million of capitalized interest. The asset is being depreciated over its estimated useful life of approximately 37 years. The cost of this asset, plus a return, is expected to be recovered through Wisconsin Electric's rates over a 25 year period at an annual amount of approximately $48 million.

4 -- SALE OF POINT BEACH

On September 28, 2007, Wisconsin Electric sold Point Beach to an affiliate of FPL for approximately $924 million. Pursuant to the terms of the sale agreement, the buyer purchased Point Beach, its nuclear fuel and associated inventories and assumed the obligation to decommission the plant. Wisconsin Electric retained approximately $486 million of the sales proceeds, which represents the net book value of the assets sold and certain transaction costs. In addition, Wisconsin Electric has deferred the net gain on the sale of approximately $400 million as a regulatory liability and has deposited those proceeds in a restricted cash account.

In connection with the sale, Wisconsin Electric also transferred $390 million of decommissioning funds to the buyer. Wisconsin Electric then liquidated the balance of the decommissioning trust assets and

retained approximately $552 million of that cash. This cash was also placed in the restricted cash account. We intend to use the cash in the restricted cash account and the interest earned on the balance, for the benefit of our customers and to pay certain taxes related to the liquidation of the qualified decommissioning trust. Our regulators will decide the manner in which these proceeds will benefit customers in future rate proceedings. For further information on the 2008 Rate Case, see Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors Affecting Results, Liquidity and Capital Resources - Utility Rates and Regulatory Matters in this report.

A long-term power purchase agreement with the buyer became effective upon closing of the sale pursuant to which Wisconsin Electric will purchase all of the existing energy and capacity of Point Beach. The power purchase agreement extends through 2030 for Unit 1 and 2033 for Unit 2. Based on the agreement, we will be paying the buyer a price per MWh for energy delivered according to a schedule that is established in the agreement. Under the agreement, if our credit rating and the credit rating of Wisconsin Electric from either S&P or Moody's fall below investment grade, or if the holders of any indebtedness in excess of $100 million accelerate or have the right to accelerate the maturity of such indebtedness as a result of a default, we would need to provide collateral in the amount of $100 million (escalating at 3% per year commencing in 2024).

Wisconsin Electric maintains insurance with NEIL through which it can recover up to $1.0 million per week, subject to a total limit of $24.5 million, during any prolonged outage at Point Beach caused by accidental property damage which results in Wisconsin Electric's inability to receive power under its power purchase agreement with the new owner of Point Beach. Under policies issued by NEIL, the insured member may be liable for a retrospective premium in the event of catastrophic losses exceeding the full financial resources of NEIL. Wisconsin Electric's maximum retrospective liability under this policy is $2.6 million.

5 -- ASSET RETIREMENT OBLIGATIONS

The following table presents the change in our asset retirement obligations as of September 30, 2007.

	Balance at 12/31/06	Liabilities Incurred	Liabilities Settled	Accretion	Cash Flow Revisions	Balance at 9/30/07
			(Millions of Dollars)			
Asset Retirement Obligations	$371.7	$ -	($338.4)	$14.3	$2.4	$50.0

Our asset retirement obligations were significantly reduced due to the sale of Point Beach. Upon closing of the sale, the buyer assumed the liability to decommission the plant, including the asset retirement obligation, spent fuel and other requirements to return the site to greenfield status.

6 -- 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 2006 Annual Report on Form 10-K. Effective January 1, 2006, we adopted SFAS 123R using the modified prospective method. We utilize the straight-line attribution method for recognizing share-based compensation expense under SFAS 123R. 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 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 September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
		(Millions of Dollars)		
Stock options	$2.4	$1.9	$9.6	$5.7
Performance units	1.0	1.8	2.4	4.5
Restricted stock	0.3	0.3	0.8	0.9
Share-based compensation expense	$3.7	$4.0	$12.8	$11.1

Related Tax Benefit	$1.4	$1.7	$5.1	$4.5

Stock Option Activity:

During the first nine months of 2007, the Compensation Committee granted 1,371,590 options that had an estimated fair value of $8.72 per share. During the first nine months of 2006, the Compensation Committee granted 1,304,275 options that had an estimated fair value of $7.55 per share. The following assumptions were used to value the options using a binomial option pricing model:

	2007	2006
Risk free interest rate	4.7% - 5.1%	4.3% - 4.4%
Dividend yield	2.2%	2.4%
Expected volatility	13.0% - 20.0%	17.0% - 20.0%
Expected forfeiture rate	2.0%	2.0%
Expected life (years)	6.0	6.3

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 through the three and nine months ended September 30, 2007.

Stock Options	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (Millions)
Outstanding as of July 1, 2007	7,945,432	$33.98		
Granted	-	-		
Exercised	(23,147)	$23.53		
Forfeited	-	-		
Outstanding as of September 30, 2007	7,922,285	$34.01		
Outstanding as of January 1, 2007	7,721,826	$30.52		
Granted	1,371,590	$47.76		
Exercised	(1,160,167)	$27.03		
Forfeited	(10,964)	$35.66		
Outstanding as of September 30, 2007	7,922,285	$34.01	6.6	$91.0
Exercisable as of September 30, 2007	4,448,005	$28.85	5.3	$72.4

The intrinsic value of options exercised was $0.5 million and $24.7 million for the three and nine months ended September 30, 2007, and $3.8 million and $9.4 million for the same periods in 2006, respectively. Cash received from options exercised was $30.6 million and $12.5 million for the nine months ended September 30, 2007 and 2006, respectively. The related tax benefit for the same periods was approximately $9.1 million and $3.7 million, respectively.

The following table summarizes information about our non-vested options during the three and nine months ended September 30, 2007:

	Three Months		Nine Months	
Non-Vested Stock Options	Number of Options	Weighted Average Fair Value	Number of Options	Weighted-Average Fair Value
Non-vested - Beginning of Period	3,474,280	$8.21	2,587,849	$7.94
Granted	-	-	1,371,590	$8.72
Vested	-	-	(477,995)	$8.22
Forfeited	-	-	(7,164)	$8.18
Non-vested as of September 30, 2007	3,474,280	$8.21	3,474,280	$8.21

As of September 30, 2007, total compensation costs related to non-vested stock options not yet recognized was approximately $10.7 million, which is expected to be recognized over the next 21 months on a weighted-average basis.

The following table summarizes information about stock options outstanding as of September 30, 2007:

	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)
$12.79 to $23.05	1,133,389	$21.51	3.6	1,133,389	$21.51	3.6
$25.31 to $31.07	1,559,247	$27.03	4.9	1,559,247	$27.03	4.9
$33.44 to $47.76	5,229,649	$38.80	7.8	1,755,369	$35.20	6.7

7,922,285	$34.01	6.6	4,448,005	$28.85	5.3

Restricted Shares:

The Compensation Committee has also approved restricted stock grants to certain key employees and directors. The following restricted stock activity occurred during the three and nine months ended September 30, 2007:

	Three Months		Nine Months	
Restricted Shares	Number of shares	Weighted-Average Grant Date Fair Value	Number of shares	Weighted-Average Grant Date Fair Value
Outstanding - Beginning of Period	155,003		184,665	
Granted	-	-	14,139	$47.19
Released / Forfeited	(6,033)	$29.26	(49,834)	$27.06
Outstanding as of September 30, 2007	148,970		148,970	

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 $0.2 million and $2.7 million for the three and nine months ended September 30, 2007, respectively. The intrinsic value for the same periods in 2006 was $0.1 million and $0.4 million, respectively. The related tax benefit was zero and $0.9 million for the three and nine months ended September 30, 2007, respectively, and $0.1 million and $0.2 million for the same periods in 2006.

As of September 30, 2007, total compensation cost related to restricted stock not yet recognized was approximately $2.5 million, which is expected to be recognized over the next 44 months on a weighted-average basis.

Performance Units:

In January 2007 and 2006, the Compensation Committee granted 136,905 and 150,821 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. We are accruing compensation costs over the three year period based on our estimate of the final expected value of the award. Performance units vesting were approximately $0.9 million, with a related tax benefit of $0.3 million, during the nine months ended September 30, 2007. Performance shares earned as of December 31, 2006, vested and were distributed during the first quarter of 2007 and had a total intrinsic value of $7.2 million. The tax benefit realized due to the distribution of performance shares was approximately $2.1 million. As of September 30, 2007, total compensation cost related to performance units not yet recognized was approximately $6.7 million, which is expected to be recognized over the next 22 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 principal utility subsidiaries, Wisconsin Electric and Wisconsin Gas. 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 2006 Annual Report on Form 10-K for additional information on these restrictions.

We have the option to defer interest payments on the Junior Notes, from time to time, for one or more periods of up to 10 consecutive years per period. During any period in which we defer interest payments, we may not declare or pay any dividends or distributions on, or redeem, repurchase or acquire, our common stock.

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. We recorded the following total comprehensive income during the nine months ended September 30:

Comprehensive Income	2007	2006
	(Millions of Dollars)	
Net Income	$241.3	$239.4
Other Comprehensive Income		
Hedging	0.3	0.3
Total Other Comprehensive Income	0.3	0.3
Total Comprehensive Income	$241.6	$239.7

7 -- LONG-TERM DEBT

Wisconsin Electric had a nuclear fuel leasing arrangement with Wisconsin Electric Fuel Trust, which was treated as a capital lease. Under this arrangement, Wisconsin Electric leased and amortized nuclear fuel to fuel expense as power was generated. In connection with the sale of Point Beach, the nuclear fuel leasing arrangement with Wisconsin

Electric Fuel Trust was dissolved in September 2007. Wisconsin Electric terminated the lease and paid off all of Wisconsin Electric Fuel Trust's outstanding commercial paper, aggregating $76.2 million.

In May 2007, we issued $500 million of Junior Notes. Due to certain features of the Junior Notes, rating agencies consider them to be hybrid instruments with a combination of debt and equity characteristics. The Junior Notes bear interest at 6.25% per year until May 15, 2017. Beginning May 15, 2017, the Junior Notes bear interest at the three-month London Interbank Offered Rate (LIBOR) plus 2.1125%, reset quarterly. The proceeds from this issuance were used to repay short-term debt incurred to both fund PTF and for other working capital purposes.

In connection with the issuance of the Junior Notes, we executed the RCC for the benefit of persons that buy, hold or sell a specified series of long-term indebtedness (covered debt). Our 6.20% Senior Notes due April 1, 2033 have been initially designated as the covered debt under the RCC. The RCC provides that we may not redeem, defease or purchase and our subsidiaries may not purchase any Junior Notes on or before May 15, 2037, unless, subject to certain limitations described in the RCC, during the 180 days prior to the date of redemption, defeasance or purchase, we have received a specified amount of proceeds from the sale of qualifying securities.

8 -- DERIVATIVE INSTRUMENTS

We follow SFAS 133, as amended by SFAS 149, effective July 1, 2003, which requires that every derivative instrument be recorded on the balance sheet as an asset or liability measured at its fair value and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. For most energy related physical and financial contracts in our regulated operations that qualify as derivatives under SFAS 133, the PSCW allows the effects of the fair market value accounting to be offset to regulatory assets and liabilities. As of September 30, 2007, we recognized $14.9 million in regulatory assets and $1.6 million in regulatory liabilities related to derivatives.

9 -- BENEFITS

The components of our net periodic pension and OPEB costs for the three and nine months ended September 30, 2007 and 2006 were as follows:

	Pension Benefits		OPEB	
	2007	2006	2007	2006
	(Millions of Dollars)			
Three Months Ended September 30				
Net Periodic Benefit Cost				
Service cost	$7.5	$8.4	$2.9	$3.1
Interest cost	17.8	17.3	4.8	4.4

Expected return on plan assets	(21.2)	(20.2)	(3.8)	(3.7)
Amortization of:				
Transition obligation	-	-	-	0.1
Prior service cost (credit)	1.4	1.4	(3.3)	(3.3)
Actuarial loss	3.9	5.9	1.8	2.2
Net Periodic Benefit Cost	$9.4	$12.8	$2.4	$2.8

	Pension Benefits		OPEB	
	2007	2006	2007	2006
	(Millions of Dollars)			
Nine Months Ended September 30				
Net Periodic Benefit Cost				
Service cost	$22.6	$25.4	$8.7	$9.3
Interest cost	53.6	52.2	14.4	13.4
Expected return on plan assets	(63.4)	(61.2)	(11.4)	(11.2)
Amortization of:				
Transition obligation	-	-	0.2	0.3
Prior service cost (credit)	4.3	4.1	(10.0)	(10.1)
Actuarial loss	12.9	17.6	5.5	6.6
Net Periodic Benefit Cost	$30.0	$38.1	$7.4	$8.3

10 -- GUARANTEES

We enter into various guarantees to provide financial and performance assurance to third parties on behalf of our affiliates. As of September 30, 2007, we had the following guarantees:

	Maximum Potential Future Payments	Outstanding as of September 30, 2007	Liability Recorded as of September 30, 2007
		(Millions of Dollars)	
Wisconsin Energy			
Non-Utility Energy	$ -	$ -	$ -
Other	2.5	2.5	-
Wisconsin Electric	2.8	0.1	-

Subsidiary	6.1	6.1	0.9
Total	11.4	8.7	0.9

A non-utility energy segment guarantee in support of Wisvest-Connecticut, which we sold in December 2002 to PSEG, provides financial assurance for potential obligations relating to environmental

remediation under the original purchase agreement for Wisvest-Connecticut with UI. The potential obligations for environmental remediation, which are unlimited, are reimbursable by PSEG under the terms of the sale agreement in the event that we are required to perform under the guarantee.

Other guarantees support obligations of our affiliates to third parties under loan agreements and surety bonds. In the event our affiliates fail to perform, we would be responsible for the obligations.

Wisconsin Electric guarantees the potential retrospective premiums that could be assessed under Wisconsin Electric's nuclear insurance program (see Note 4 -- Sale of Point Beach in this report).

Subsidiary guarantees support loan obligations and surety bonds between our affiliates and third parties. In the event our affiliates fail to perform, our subsidiary would be responsible for the obligations.

Postemployment benefits:

Postemployment benefits provided to former or inactive employees are recognized when an event occurs. The estimated liability, excluding severance benefits, for such benefits was $13.5 million as of September 30, 2007 and $13.0 million as of December 31, 2006.

11 -- SEGMENT INFORMATION

Summarized financial information concerning our reportable operating segments for the three and nine months ended September 30, 2007 and 2006 is shown in the following table.

	Reportable Operating Segments			
	Energy		Corporate & Other (a) Reconciling Items (c)	Total Consolidated
Wisconsin Energy Corporation	Utility	Non-Utility		

	(Millions of Dollars)			
Three Months Ended				
September 30, 2007				
Operating Revenues (b)	$872.0	$21.1	($11.6)	$881.5
Operating Income	$136.9	$13.5	$2.7	$153.1
Interest Expense	$29.2	$1.8	$11.5	$42.5
Income Tax Expense (Benefit)	$52.4	$4.7	($3.9)	$53.2
Loss from Discontinued Operations, net	$ -	$ -	($0.2)	($0.2)
Net Income (Loss)	$80.6	$7.2	($4.9)	$82.9
Capital Expenditures	$98.9	$170.7	$0.1	$269.7
September 30, 2006				
Operating Revenues (b)	$835.7	$20.6	($16.5)	$839.8
Operating Income (Loss)	$121.6	$12.9	($3.3)	$131.2
Interest Expense	$25.6	$3.6	$12.3	$41.5
Income Tax Expense (Benefit)	$46.4	$4.0	($6.6)	$43.8
Net Income (Loss)	$72.7	$6.5	($8.4)	$70.8
Capital Expenditures	$104.0	$139.0	$0.1	$243.1

Wisconsin Energy Corporation	Reportable Operating Segments Energy Utility	Non-Utility	Corporate & Other (a) Reconciling Items (c)	Total Consolidated
	(Millions of Dollars)			
Nine Months Ended				
September 30, 2007				
Operating Revenues (b)	$3,076.4	$56.7	($44.0)	$3,089.1
Operating Income (Loss)	$409.1	$34.3	($0.7)	$442.7
Interest Expense	$86.4	$5.6	$35.2	$127.2
	$156.0	$11.2	($13.7)	$153.5

Income Tax Expense (Benefit)				
Loss from Discontinued Operations, net	$ -	$ -	($0.6)	($0.6)
Net Income (Loss)	$241.9	$17.8	($18.4)	$241.3
Capital Expenditures	$316.2	$524.1	$1.9	$842.2
Total Assets	$10,292.7	$1,807.4	($337.9)	$11,762.2

September 30, 2006				
Operating Revenues (b)	$2,895.2	$55.0	($49.0)	$2,901.2
Operating Income (Loss)	$405.7	$33.5	($9.3)	$429.9
Interest Expense	$80.2	$11.5	$37.6	$129.3
Income Tax Expense (Benefit)	$149.4	$9.8	($20.0)	$139.2
Income from Discontinued Operations, net	$ -	$ -	$4.5	$4.5
Net Income (Loss)	$241.9	$13.7	($16.2)	$239.4
Capital Expenditures	$317.1	$346.8	$0.1	$664.0
Total Assets	$9,538.9	$1,130.1	($44.8)	$10,624.2

(a) Other includes all other non-utility activities, primarily non-utility real estate investment and development by Wispark and non-utility investment in renewable energy and recycling technology by Minergy, as well as interest on corporate debt.

(b) An elimination for intersegment revenues is included in Operating Revenues of $17.2 million and $16.7 million for the three months ended September 30, 2007 and 2006, respectively, and $51.4 million and $49.8 million for the nine months ended September 30, 2007 and 2006, respectively.

(c) An elimination for the PWGS 1 lease between We Power and Wisconsin Electric is included in Total Assets of $307.5 million and $319.3 million at September 30, 2007 and 2006, respectively.

12 -- COMMITMENTS AND CONTINGENCIES

EPA - Consent Decree:

In April 2003, Wisconsin Electric and the EPA announced that a consent decree had been reached that resolved all issues related to a request for information that had been issued by the EPA. In July 2003, the consent decree was amended to include the State of Michigan. Under the consent decree, Wisconsin Electric agreed to significantly reduce its air emissions from its coal-fired generating facilities. The reductions are expected to be achieved by 2013 through a combination of installing new pollution control equipment, upgrading existing equipment and retiring certain older units. Through September 30, 2007, we have spent approximately $371.0 million associated with implementing the EPA agreement. The total cost of implementing this agreement is estimated to be $1.0 billion through the year 2013. The U.S. District Court for the Eastern District of Wisconsin approved the amended consent decree and entered it in

October 2007. Interveners in the case have the right to appeal the court's decision to the federal court of appeals.

Environmental Matters:

We periodically review our exposure for remediation costs as evidence becomes available indicating that our remediation liability has changed. Based on current information, we believe that future costs in excess of the amounts accrued and/or disclosed on all presently known and quantifiable environmental contingencies will not be material to our financial position or results of operations.

Divestitures:

Over the past several years, we have sold various businesses and assets, including Point Beach. In connection with these sales, we have agreed to provide the respective buyers with customary indemnification provisions including, but not limited to, certain environmental, asbestos and product liability matters. We have established reserves as deemed appropriate for these indemnification provisions.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS -- THREE MONTHS ENDED SEPTEMBER 30, 2007

CONSOLIDATED EARNINGS

The following table compares our net income during the third quarter of 2007 with the third quarter of 2006 including favorable (better (B)) or unfavorable (worse (W)) variances.

	Three Months Ended September 30		
	2007	B (W)	2006
	(Millions of Dollars)		
Operating Income by Segment			
Utility Energy	$136.9	$15.3	$121.6
Non-Utility Energy	13.5	0.6	12.9

Corporate and Other	2.7	6.0	(3.3)
Total Operating Income	153.1	21.9	131.2
Equity in Earnings of Transmission Affiliate	10.9	1.2	9.7
Other Income, Net	14.8	(0.4)	15.2
Interest Expense	42.5	(1.0)	41.5
Income From Continuing Operations Before Income Taxes	136.3	21.7	114.6
Income Taxes	53.2	(9.4)	43.8
Income From Continuing Operations	83.1	12.3	70.8
Loss From Discontinued Operations, Net of Tax	(0.2)	(0.2)	-
Net Income	$82.9	$12.1	$70.8
Diluted Earnings Per Share			
Continuing Operations	$0.70	$0.10	$0.60
Discontinued Operations	-	-	-
Total Diluted Earnings Per Share	$0.70	$0.10	$0.60

UTILITY ENERGY SEGMENT CONTRIBUTION TO OPERATING INCOME

Our utility energy segment contributed $136.9 million of operating income during the third quarter of 2007, an increase of $15.3 million, or 12.6%, compared with the third quarter of 2006. The following table summarizes the operating income of this segment between the comparative quarters.

	Three Months Ended September 30		
Utility Energy Segment	2007	B (W)	2006
		(Millions of Dollars)	
Operating Revenues			

Electric	$732.6	$43.5	$689.1
Gas	133.4	(7.8)	141.2
Other	6.0	0.6	5.4
Total Operating Revenues	872.0	36.3	835.7
Fuel and Purchased Power	255.4	(24.6)	230.8
Cost of Gas Sold	78.0	7.1	85.1
Gross Margin	538.6	18.8	519.8
Other Operating Expenses			
Other Operation and Maintenance	293.3	1.6	294.9
Depreciation, Decommissioning and Amortization	82.4	(3.5)	78.9
Property and Revenue Taxes	26.0	(1.6)	24.4
Operating Income	$136.9	$15.3	$121.6