DOCKET NO.: A-125063
RESPONDENT OR APPLICANT: WPS ENERGY SERVICES INC
PARTY OR COMPLAINANT:

ENTRY	TYPE	DATE	BUREAU	PERSONNEL
1	N	12/01/99	SEC	FAHNESTOCK
APP OF WPS ENERGY SERVICES INC AS SUPPLIER,BRK,MKT & AGGREGATOR NATURAL GAS				
2	N	12/08/99	SEC	FAHNESTOCK
SEC MEMO TO FUS ASSIGNING APPLICATION				
3	N	12/08/99	SEC	FAHNESTOCK
SEC LTR TO APPLICANT ACKNOWLEDGING RECEIPT OF APPLICATION				
4	N	12/15/99	SEC	FRISCIA
RECEIPT OF $350.00 FILING FEE ISSUED				
5	N	01/27/00	SEC	HANCOCK
ORDER SERVED TO PARTIES				
6	N	01/27/00	SEC	HANCOCK
LICENSE FOR NATURAL GAS SUPPLIER DATED 1/27/00 ISSUED				
7	N	01/27/00	SEC	PATRICK
RECOM ADOPTED- LICENSE APPLICATION APPROVED CONDITIONALLY				
8	N	02/12/01	SEC	ADAMS
APPLICANT FILED NEW ADDRESS & CONTACT INFORMATION				
9	N	03/14/07	SEC	HENRYJAMIE
APPLICANT FILED REQUEST OF NAME CHANGE TO INTEGRYS ENERGY SERVICES, INC.				
10	N	03/20/07	SEC	HENRYJAMIE
SEC MEMO TO FUS ASSIGNING REQUEST FOR NAME CHANGE				

CAPTION SHEET CASE MANAGEMENT SYSTEM

1. REPORT DATE: 00/00/00
2. BUREAU: FUS
3. SECTION(S):
4. PUBLIC MEETING DATE: 00/00/00
5. APPROVED BY:
   DIRECTOR:
   SUPERVISOR:
6. PERSON IN CHARGE:
7. DATE FILED: 12/01/99
8. DOCKET NO: A-125063
9. EFFECTIVE DATE: 00/00/00

PARTY/COMPLAINANT:

RESPONDENT/APPLICANT: WPS ENERGY SERVICES INC

COMP/APP COUNTY: UTILITY CODE: 125063

ALLEGATION OR SUBJECT

APPLICATION OF WPS ENERGY SERVICES, INC., FOR APPROVAL TO OFFER, RENDER, FURNISH OR SUPPLY NATURAL GAS SERVICES AS A SUPPLIER, BROKER/MARKETER AND AGGREGATOR TO THE PUBLIC IN THE COMMONWEALTH OF PENNSYLVANIA, SPECIFICALLY IN THE SERVICE TERRITORIES OF NUI VALLEY CITIES GAS (NUI TRANSPORTATION SERVICES); NATIONAL FUEL GAS DISTRIBUTION CORP.; PENN FUEL (NORTH PENN GAS COMPANY & PENN FUEL GAS); THE PEOPLES NATURAL GAS COMPANY; T.W. PHILLIPS GAS AND OIL COMPANY; UGI; PG ENERGY; EQUITABLE GAS COMPANY; CARNEGIE NATURAL GAS COMPANY; COLUMBIA GAS OF PA, INC.; AND PECO.

DOCKETED

DEC 08 1999

DOCUMENT FOLDER

WPS ENERGY SERVICES, INC.
677 Baeten Road Green Bay, Wisconsin 54304 Telephone: 920-496-9000 Fax: 920-496-9399

December 1, 1999 ORIGINAL

RECEIVED

DEC 1 1999

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Mr. James J McNulty
Secretary of Commission
B20 North Office Building
Harrisburg PA 17120

A-125063

Re: Application to Supply Natural Gas in Pennsylvania

Dear Mr. McNulty:

Enclosed is the signed and verified original and eight copies of WPS Energy Services, Inc.'s application to operate as a Marketer and Aggregator supplying Natural Gas to retail customers in Pennsylvania. An electronic version of the application is included with the paper copies.

A copy of the application is also being mailed to the Small Business Advocate, the Office of the Attorney General, and Natural Gas Distribution Companies through whose facilities we intend to supply customers.

Also enclosed is a check for $350.00 to cover the licensing fee.

If you have any questions concerning this application please contact me at 920-490-6053.

Sincerely,

Mark A Radtke
President

Enclosures

MAR/slg

DOCUMENT FOLDER

41

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of WPS Energy Services, Inc., d/b/a FSG Energy Services, for approval to offer, render, furnish, or as a(n) [as specified in item #8 below] to the public in the Commonwealth of Pennsylvania.

To the Pennsylvania Public Utility Commission:

A-125063

1. **IDENTITY OF THE APPLICANT:** The name, address, telephone number, and FAX number of the Applicant are:

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DEC 1 1999

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

WPS Energy Services, Inc.
677 Baeten Road
Green Bay, Wisconsin 54304
920-496-9000
920-496-9399 fax

Please identify any predecessor(s) of the Applicant and provide other names under which the Applicant has operated within the preceding five (5) years, including name, address, and telephone number.

Packerland Energy Services, Inc.
2670 S. Ashland Avenue Suite 203
Green Bay, Wisconsin 54304
414-496-9000

ORIGINAL

2. a. **CONTACT PERSON:** The name, title, address, telephone number, and FAX number of the person to whom questions about this Application should be addressed are:

DOCKETED

DEC 08 1999

Mark A. Radtke
President
677 Baeten Road
Green Bay, WI 54304
920-490-6053
920-496-9399 fax

b. **CONTACT PERSON-PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY:** The name, title, address telephone number and FAX number of the person with whom contact should be made by PEMA:

Same as 2a

3.a. **ATTORNEY:** If applicable, the name, address, telephone number, and FAX number of the Applicant's attorney are:

Barth J. Wolf
700 North Adams
Green Bay, WI 54307-9002
920-433-1727
920-433-1526 fax

DOCUMENT FOLDER

b. **REGISTERED AGENT**: If the Applicant does not maintain a principal office in the Commonwealth, the required name, address, telephone number and FAX number of the Applicant's Registered Agent in the Commonwealth are:

CT Corporation System
1635 Market Street
Philadelphia, PA 19103
215-563-4474
215-563-7773 fax

4. **FICTITIOUS NAME:** (select and complete appropriate statement)

X The Applicant will be using a fictitious name or doing business as ("d/b/a"):

FSG Energy Services, a division of WPS Energy Services, Inc.

Attach to the Application a copy of the Applicant's filing with the Commonwealth's Department of State pursuant to 54 Pa. C.S. §311, Form PA-953.

Our application was filed on November 23, 1999. A copy of that application is attached as Exhibit C.

or

☐ The Applicant will not be using a fictitious name.

5. **BUSINESS ENTITY AND DEPARTMENT OF STATE FILINGS:** (select and complete appropriate statement)

☐ The Applicant is a sole proprietor.

If the Applicant is located outside the Commonwealth, provide proof of compliance with 15 Pa. C.S. §4124 relating to Department of State filing requirements.

or

☐ The Applicant is a:

- ☐ domestic general partnership (*)
- ☐ domestic limited partnership (15 Pa. C.S. §8511)
- ☐ foreign general or limited partnership (15 Pa. C.S. §4124)
- ☐ domestic limited liability partnership (15 Pa. C.S. §8201)
- ☐ foreign limited liability general partnership (15 Pa. C.S. §8211)
- ☐ foreign limited liability limited partnership (15 Pa. C.S. §8211)

Provide proof of compliance with appropriate Department of State filing requirements as indicated above.

Give name, d/b/a, and address of partners. If any partner is not an individual, identify the business nature of the partner entity and identify its partners or officers.

Exhibit C

Microfilm Number ____________ Filed with the Department of State on ____________

Entity Number ____________

____
Secretary of the Commonwealth

APPLICATION FOR REGISTRATION OF FICTITIOUS NAME

DSCB:54-311 (Rev 90)

In compliance with the requirements of 54 Pa.C.S. § 311 (relating to registration), the undersigned entity(ies) desiring to register a fictitious name under 54 Pa.C.S. Ch. 3 (relating to fictitious na mes), hereby state(s) that:

1. The fictitious **name** is: FSG Energy Services

2. A brief statement of the character or nature of the business or other activity to be carried on under or through the fictitious name is:

   natural gas and electricity sales and energy-related consulting and services

3. The **address**, including number and street, if any, of the principal place of business of the business or other activity to be carried on under or through the fictitious name is (P.O. Box alone is **not** acceptable):

   Suite 314, 6797 North High Street, Worthington, OH 43085
   Number and Street / City / State / Zip / County

4. The **name** and **address**, including number and street, if any, of each individual interested in the business is:

Name	Number and Street	City	State	Zip
N/A				

5. Each **entity**, other than an individual, interested in such business is (are):

Name	Form of Organization	Organizing Jurisdiction	Principal Office Address	Pa. Registered Office, if any
WPS Energy Services, Inc.	Corporation	Wisconsin	677 Baeten Road Green Bay, WI 54304	CT Corporation System 1635 Market Street Philadelphia, PA 19103

6. The applicant is familiar with the provisions of 54 Pa.C.S. § 332 (relating to effect of registration) and understands that filing under the Fictitious Names Act does not create any exclusive or other right in the fictitious name.

7. **(Optional):** The **name(s)** of the agent(s), if any, any one of whom is authorized to execute amendments to, withdrawals from or cancellation of this registration in behalf of all then existing parties to the registration, is (are):

____

Exhibit C

IN TESTIMONY WHEREOF, the undersigned have caused this Application for Registration of Fictitious Name to be executed this __________ day of ____________________, ______.

______________________ (Individual Signature)	______________________ (Individual Signature)
______________________ (Individual Signature)	______________________ (Individual Signature)
______________________ (Name of Entity)	WPS Energy Services, Inc. (Name of Entity)
BY: ______________________	BY: B. Wolf Barth J. Wolf
TITLE: ______________________	TITLE: Secretary

☐ * If a corporate partne[illegible]he Applicant's domestic partnership is no[illegible]miciled in Pennsylvania, attach a copy of the Applicant's Department of State filing pursuant to 15 Pa. C.S. §4124.

or

☐ The Applicant is a :

- ☐ domestic corporation (none)
- X foreign corporation (15 Pa. C.S. §4124)
- ☐ domestic limited liability company (15 Pa. C.S. §8913)
- ☐ foreign limited liability company (15 Pa. C.S. §8981)
- ☐ Other ______________________________

Provide proof of compliance with appropriate Department of State filing requirements as indicated above. Additionally, provide a copy of the Applicant's Articles of Incorporation.

See Exhibits A & B attached

Give name and address of officers.

Chief Executive Officer	Phillip M. Mikulsky	677 Baeten Road Green Bay, WI 54304
President	Mark A. Radtke	677 Baeten Road Green Bay, WI 54304
Vice President	Darrell W. Bragg	6797 N. High Street Worthington, OH 43085
Vice President	Ruqaiyah Z. Lolles	3 Westbrook Corp. Center Westchester, IL 60154
Vice President	Betty J. Merlina	6797 N. High Street Worthington, OH 43085
Vice President	Daniel J. Verbanac	677 Baeten Road Green Bay, WI 54304
Vice President	Larry L. Weyers	700 North Adams Green Bay, WI 54307
Secretary	Barth J. Wolf	700 North Adams Green Bay, WI 54307
Treasurer	Ralph G. Baeten	700 North Adams Green Bay, WI 54307

The Applicant is incorporated in the state of WISCONSIN.

6. **AFFILIATES AND PREDECESSORS WITHIN PENNSYLVANIA:** (select and complete appropriate statement)

X Affiliate(s) of the Applicant doing business in Pennsylvania are:

Give name and address of the affiliate(s) and state whether the affiliate(s) are jurisdictional public utilities.

WPS Power Development, Inc.
677 Baeten Road
Green Bay, WI 54304

This affiliate and its subsidiaries are not jurisdictional public utilities.

☐ Does the Applicant have any affiliation with or ownership interest in:

(a) any other Pennsylvania retail natural gas supplier licensee or licensee applicant,
(b) any other Pennsylvania retail licensed electric generation supplier or license applicant,
(c) any Pennsylvania natural gas producer and/or marketer,
(d) any natural gas wells or
(e) any local distribution companies (LDCs) in the Commonwealth

PENNSYLVANIA DEPARTMENT OF STATE
CORPORATION BUREAU
ROOM 308 NORTH OFFICE BUILDING
P.O. BOX 8722
HARRISBURG, PA 17105-8722

WPS ENERGY SERVICES INC

THE CORPORATION BUREAU IS HAPPY TO SEND YOU YOUR FILED DOCUMENT. PLEASE NOTE THE FILE DATE AND THE SIGNATURE OF THE SECRETARY OF THE COMMONWEALTH. THE CORPORATION BUREAU IS HERE TO SERVE YOU AND WANTS TO THANK YOU FOR DOING BUSINESS IN PENNSYLVANIA. IF YOU HAVE ANY QUESTIONS PERTAINING TO THE CORPORATION BUREAU, CALL (717) 787-1057.

ENTITY NUMBER: 2662028

MICROFILM NUMBER: 09567

1631-1632

WPS ENERGY SERVICES INC
2670 S ASHLAND AVE STE 203
GREEN BAY, WI 54302

Microfilm Number ____________ 7007 1001 Filed with the Department of State on ____________

Entity Number 2662028

Exhibit A
Page 2 of 3

Secretary of the Commonwealth

APPLICATION FOR CERTIFICATE OF AUTHORITY

DSCB: 15-4124/6124 (Rev 90)

Indicate type of corporation (check one):

X ___ **Foreign Business Corporation** (15 Pa.C.S. § 4124)

____ **Foreign Nonprofit Corporation** (15 Pa.C.S. § 6124)

In compliance with the requirements of the applicable provisions of 15 Pa.C.S. (relating to corporations and unincorporated associations) the undersigned association hereby states that:

1. The **name** of the corporation is: WPS Energy Services Inc.,

2. The **name** which the corporation adopts for use in this Commonwealth is (**complete only when the corporation must adopt a corporate designator for use in Pennsylvania**):

3. (**If the name set forth in paragraph 1 or 2 is not available for use in this Commonwealth, complete the following**):

   The **fictitious name** which the corporation adopts for use in transacting business in this Commonwealth is:

   The corporation shall do business in Pennsylvania **only** under such fictitious name pursuant to the attached resolution of the board of directors under the applicable provisions of 15 Pa.C.S. (relating to corporations and unincorporated associations) and the attached form DSCB:54-311 (Application for Registration of Fictitious Name).

4. The **name** of the jurisdiction under the laws of which the corporation is incorporated is:

   Wisconsin

5. The **address** of its principal office under the laws of the jurisdiction in which it is incorporated is:

   2870 South Ashland Ave Suite 203 Green Bay, WI 54304

Number and Street	City	State	Zip	County

PA DEPT. OF STATE

OCT 23 1995

6. The (a) **address** of this corporation's proposed registered office in this Commonwealth or (b) name of its commercial registered office provider and the county of venue is:

(a) ______________________________
Number and Street   City   State   Zip   County

(b) c/o: CT Corporation Systems 1635 Market St. Philadelphia, PA 19103 Philadelphia County
Name of Commercial Registered Office Provider   County

For a corporation represented by a commercial registered office provider, the county in (b) shall be deemed the county in which the corporation is located for venue and official publication purposes.

7. **(Check one of the following):**

x____ **(Business corporation):** The corporation is a corporation incorporated for a purpose or purposes involving pecuniary profit, incidental or otherwise.

____ **(Nonprofit corporation):** The corporation is a corporation incorporated for a purpose or purposes not involving pecuniary profit, incidental or otherwise.

IN TESTIMONY WHEREOF, the undersigned corporation has caused this Application for a Certificate of Authority to be signed by a duly authorized officer thereof this 14 day of October, 19 1998.

WPS Energy Services Inc.,
(Name of Corporation)

BY: Robert H Knuth
Robert /h. Knuth (Signature)

TITLE: Secretary

ARTICLES OF INCORPORATION

OF

WPS ENERGY SERVICES, INC.

The undersigned, acting as an incorporator of a corporation under the Wisconsin Business Corporation Law, Chapter 180 of the Wisconsin Statutes, adopts the following Articles of Incorporation for such corporation.

ARTICLE 1

The name of the Corporation is WPS Energy Services, Inc.

ARTICLE 2

The Corporation is organized for the purpose of engaging in any lawful activity within the purposes for which corporations may be organized under the Wisconsin Business Corporation Law.

ARTICLE 3

The aggregate number of shares which the Corporation shall have authority to issue is Ten Thousand (10,000), consisting of one class only, designated as "Common Stock," with a par value of one dollar ($1) per share.

ARTICLE 4

The number of directors constituting the Board of Directors shall initially be four (4) and thereafter such other number as may be designated from time to time by the Board of Directors. The names and addresses of the initial directors shall be:

Name	Address
Daniel A. Bollom	700 North Adams Street P. O. Box 19001 Green Bay, WI 54307
Patrick D. Schrickel	700 North Adams Street P. O. Box 19001 Green Bay, WI 54307
Daniel P. Bittner	700 North Adams Street P. O. Box 19001 Green Bay, WI 54307

OCT 12 P12:05

WIS SEC-STATE
FILE I.D. # W035 184

Name	Address
Richard A. Krueger	700 North Adams Street P. O. Box 19001 Green Bay, WI 54307

ARTICLE 5

The address of the initial registered office of the Corporation is 700 North Adams Street, P.O. Box 19001, Green Bay, Wisconsin, 54307. The name of the Corporation's initial registered agent at such address is R. H. Knuth.

ARTICLE 6

The name and address of the sole incorporator of this Corporation is Michael S. Nolan, c/o Foley & Lardner, 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202.

Executed on this 12th day of October, 1994.

Michael S. Nolan
Sole Incorporator

This instrument was drafted by and should be returned to Michael S. Nolan of Foley & Lardner, 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202.

STATE OF WISCONSIN
FILED
OCT 12 1994
DOUGLAS LA FOLLETTE
SECRETARY OF STATE

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If the response to parts a, b, c, or d above is affirmative, provide a detailed description and explanation of the affiliation and/or ownership interest.

☐ Provide specific details concerning the affiliation and/or ownership interests involving:
(a) any natural gas producer and/or marketers,
(b) any wholesale or retail supplier or marketer of natural gas, electricity, oil, propane or other energy sources.

WPS Power Development, Inc.
677 Baeten Road
Green Bay, WI 54304

This affiliate and its subsidiaries own and operate non-utility electric generation facilities within the Commonwealth of Pennsylvania. Output from the facilities is marketed to the non-regulated energy marketplace by WPS Energy Services, Inc.

☐ Provide the Pa PUC Docket Number if the applicant has ever applied:
(a) for a Pennsylvania Natural Gas Supplier license, or
(b) for a Pennsylvania Electric Generation Supplier license.
Electric Generation Supplier Docket Number: A-110110

X If the Applicant or an affiliate has a predecessor who has done business within Pennsylvania, give name and address of the predecessor(s) and state whether the predecessor(s) were jurisdictional public utilities.

Fuel Services Group
6740 Huntly Road
Suite 103
Columbus, OH 43229

This company was not a jurisdictional public utility.

or

☐ The Applicant has no affiliates doing business in Pennsylvania or predecessors which have done business in Pennsylvania.

7. **APPLICANT'S PRESENT OPERATIONS:** (select and complete the appropriate statement)

X The Applicant is presently doing business in Pennsylvania as a

☐ natural gas interstate pipeline.
☐ municipal providing service outside its municipal limits.
☐ local gas distribution company
X retail supplier of natural gas services in the Commonwealth
☐ a natural gas producer
☐ Other. (Identify the nature of service being rendered.)

or

☐ The Applicant is not presently doing business in Pennsylvania.

8. **APPLICANT'S PROPOSED OPERATIONS:** The Applicant proposes to operate as a:

X supplier of natural gas services.
☐ Municipal supplier of natural gas services.
☐ Cooperative supplier of natural gas services.
X Broker/Marketer engaged in the business of supplying natural gas services.
X Aggregator engaged in the business of supplying natural gas services.
☐ Other (Describe):

9. **PROPOSED SERVICES:** Generally describe the natural gas services which the Applicant proposes to offer.

WPS Energy Services will offer, render, furnish or supply natural gas and energy related services to retail customers that can benefit from energy products designed to meet their specific energy needs.

10. **SERVICE AREA:** Generally describe the geographic area in which Applicant proposes to offer services.

The entire Commonwealth of Pennsylvania.

11. **CUSTOMERS:** Applicant proposes to initially provide services to:

☐ Residential Customers
☐ Commercial Customers - (Less than 6,000 Mcf annually)
X Commercial Customers - (6,000 Mcf or more annually)
X Industrial Customers
X Governmental Customers
☐ All of above
☐ Other (Describe):

12. **START DATE:** The Applicant proposes to begin delivering services on [deliveries are currently underway, and have been since October 1995].

13. **NOTICE:** Pursuant to Section 5.14 of the Commission's Regulations, 52 Pa. Code §5.14, serve a copy of the signed and verified Application with attachments on the following:

Irwin A. Popowsky Office of Consumer Advocate 5th Floor, Forum Place 555 Walnut Street Harrisburg, PA 17120-1921	Office of the Attorney General Bureau of Consumer Protection Strawberry Square, 14th Floor Harrisburg, PA 17120
Bernard A. Ryan, Jr. Commerce Building, Suite 1102 Small Business Advocate 300 North Second Street Harrisburg, PA 17101	Commonwealth of Pennsylvania Department of Revenue Bureau of Compliance Harrisburg, PA 17128-0946

Any of the following Natural Gas Distribution Companies through whose transmission and distribution facilities the applicant intends to supply customers:

NUI Valley Cities Gas (NUI Transportation Services) Mike Vogel PO Box 3175 Union, NJ 07083-1975 PH: 908.289.5000 ext. 5441 FAX: 908.2898.6444	**National Fuel Gas Distribution Corp.** James E. Patterson 10 Lafayette Square Buffalo, NY 14203 PH: 716.857.7130 FAX: 716.857-7823
Penn Fuel [North Penn Gas Company & Penn Fuel Gas] Jim Evans <u>or</u> Tom Olsen 2 North 9th Street GENA94 Allentown, PA 18101 PH: 610.774.7981 610.774.4975 FAX: 610.774.5694 610.774.4975 e-mail: jevans@papl.com <u>or</u> teolson@papl.com	**The Peoples Natural Gas Company** Joe Gregorini <u>or</u> Bill McKeown 625 Liberty Avenue Pittsburgh, PA 15222 e-mail: jgregorini@png.cng.com PH: 412.497.6851 <u>or</u> 412.497.6840 FAX: 412.497.6630
T. W. Phillips Gas and Oil Company Robert M. Hovanec 205 North Main Street Butler, PA 16001 PH: 724.287.2725 FAX: 724.287.5021 e-mail: rhovanec@twphillips.com	**UGI** David Beaston <u>or</u> Bob Krieger PO Box 12677 <u>or</u> 225 Morgantown Rd Reading, PA 15222 Reading, PA 15222 PH: 610.796.3425 PH: 610.796.3516 FAX: 610.796.3559
PG Energy Richard N. Marshall <u>or</u> Wendy K. Saxe One PEI Center Wilkes-Barre, PA 18711-0601 e-mail: marshall@pgenergy.com <u>or</u> saxe@pgenergy.com PH: 570.829.8795 FAX: 570.829.8652	**Equitable Gas Company** Antionette Litchy 200 Allegheny Center Mall Pittsburgh, PA 15212-5352 PH: 412.395.3117 FAX: 412.395.3156
Carnegie Natural Gas Company Donald A. Melzer 800 Regis Avenue Pittsburgh, PA 19236 PH: 412.655.8510 ext. 331 FAX: 412.655.0335	**Columbia Gas of PA, Inc.** Paula Frauen <u>or</u> Shirley Bardes-Hasson 650 Washington Road Pittsburgh, PA 15228 e-mail: pfrauen@columbiaenergygroup.com PH: 412.572.7131 FAX: 412.572.7161
	PECO Kevin Carrabine 300 Front Street Building 2 Conshohocken, PA 19428 PH: 610.832.6413

Pursuant to Sections 1.57 and 1.58 of the Commission's Regulations, 52 Pa. Code §§1.57 and 1.58, attach Proof of Service of the Application and attachments upon the above named parties. Upon review of the Application, further notice may be required pursuant to Section 5.14 of the Commission's Regulations, 52 Pa. Code §5.14.

14. **TAXATION:** Complete the <u>T[illegible]CERTIFICATION STATEMENT</u> attached [illegible]ppendix B to this application.
Attached as Appendix A

15. **COMPLIANCE:** State specifically whether the Applicant, an affiliate, a predecessor of either, or a person identified in this Application has been convicted of a crime involving fraud or similar activity. Identify all proceedings, by name, subject and citation, dealing with business operations, in the last five (5) years, whether before an administrative body or in a judicial forum, in which the Applicant, an affiliate, a predecessor of either, or a person identified herein has been a defendant or a respondent. Provide a statement as to the resolution or present status of any such proceedings.

Neither the applicant, an affiliate, a predecessor of either, or person identified in this application have been convicted of a crime involving fraud or similar activity.

16. **STANDARDS, BILLING PRACTICES, TERMS AND CONDITIONS OF PROVIDING SERVICE AND CONSUMER EDUCATION:** All services should be priced in clearly stated terms to the extent possible. Common definitions should be used. All consumer contracts or sales agreements should be written in plain language with any exclusions, exceptions, add-ons, package offers, limited time offers or other deadlines prominently communicated. Penalties and procedures for ending contracts should be clearly communicated.

a. Contacts for Consumer Service and Complaints: Provide the name, title, address, telephone number and FAX number of the person and an alternate person responsible for addressing customer complaints. These persons will ordinarily be the initial point(s) of contact for resolving complaints filed with Applicant, the Distribution Company, the Pennsylvania Public Utility Commission or other agencies.

	Alternate
Darrell Bragg	Betty Merlina
Vice President, FSG	Vice President, FSG
6797 N. High Street	6797 N. High Street
Suite 314	Suite 314
Worthington, OH 43085	Worthington, OH 43085
614-846-7888	614-846-7888
614-846-7833 fax	614-846-7833 fax

b. Provide a copy of all standard forms or contracts that you use, or propose to use, for service provided to residential customers.
We are not pursuing Residential customers at this time.

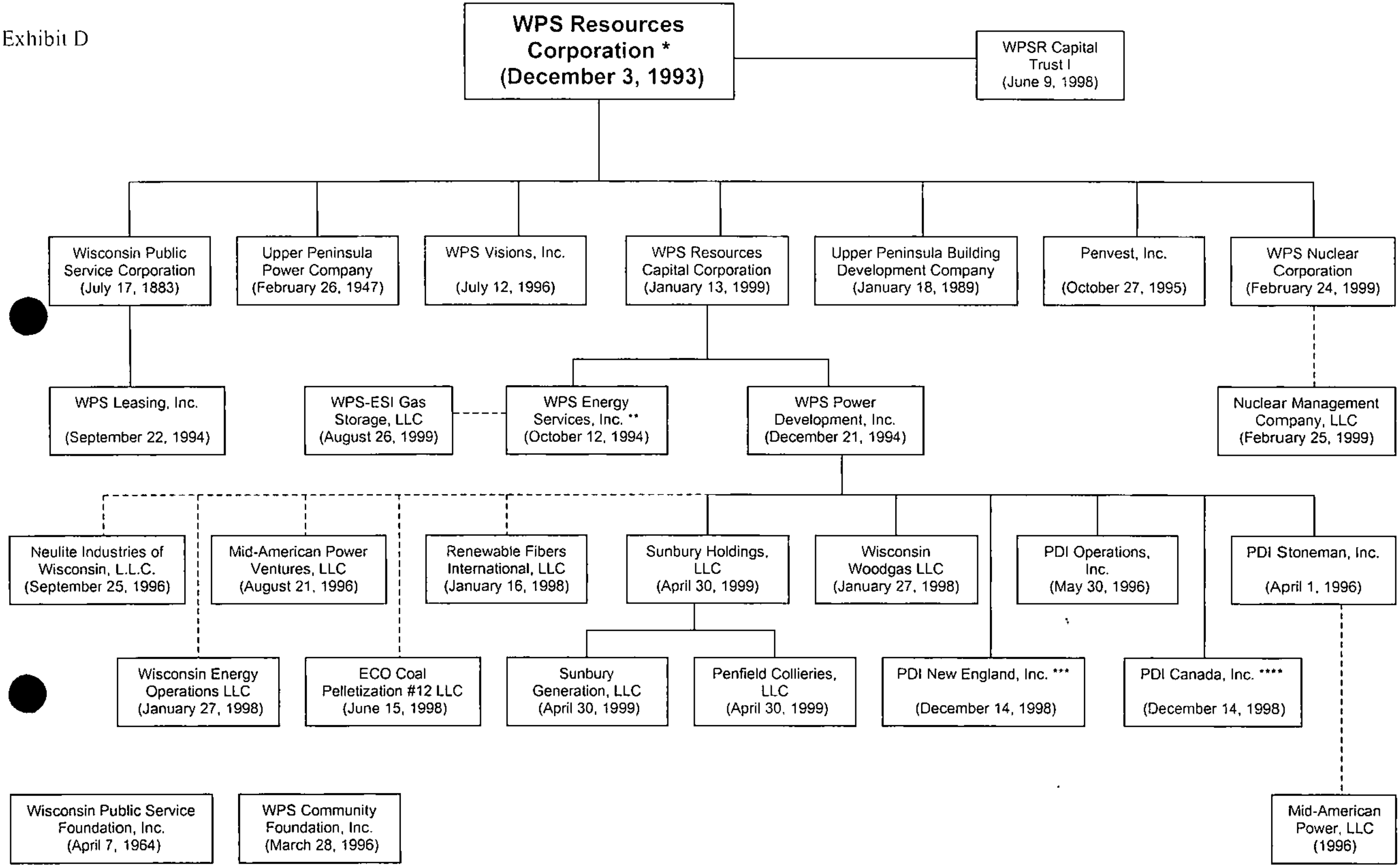
c. If proposing to serve Residential and/or Small Commercial customers, provide a disclosure statement. A sample disclosure statement is provided as Appendix B to this Application.
We are not pursuing Residential / Small Commercial customers at this time.

17. **FINANCIAL FITNESS:**

A. Applicant shall provide sufficient information to demonstrate financial fitness commensurate with the service proposed to be provided. Examples of such information which may be submitted include the following:

- *Actual (or proposed) organizational structure including parent, affiliated or subsidiary companies.*
  Exhibit D
- Published parent company financial and credit information.
  1998 Annual Report
- Applicant's balance sheet and income statement for the most recent fiscal year. Published financial information such as 10K's and 10Q's may be provided, if available.
  December 31, 1998 10K and September 30, 1999 10Q
- Evidence of Applicant's credit rating. Applicant may provide a copy of its Dun and Bradstreet Credit Report and Robert Morris and Associates financial form or other independent financial service reports.
  Dun & Bradstreet Report
- A description of the types and amounts of insurance carried by Applicant which are specifically intended to provide for or support its financial fitness to perform its obligations as a licensee.

Exhibit D



* Holding company structure became effective on September 9, 1994.
** FSG Energy Services is a division of WPS Energy Services, Inc.
*** Doing business in Maine under the assumed name of WPS New England Generation, Inc.
**** Doing business in Maine under the assumed name of WPS Canada Generation, Inc.

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10-01-99

Exhibit E

- Audited financial statements

  Contained in Annual Report and 10K filing
- *Such other information that demonstrates Applicant's financial fitness.*

B. Applicant must provide the following information:

- Identify Applicant's chief officers including names and their professional resumes.

  Exhibit F
- Provide the name, title, address, telephone number and FAX number of Applicant's custodian for its accounting records.

  Exhibit F

18. **TECHNICAL FITNESS:** To ensure that the present quality and availability of service provided by natural gas *utilities does not deteriorate, the Applicant shall provide sufficient information to demonstrate technical fitness* commensurate with the service proposed to be provided. Examples of such information which may be submitted include the following:

- The identity of the Applicant's officers directly responsible for operations, including names and their professional resumes.

  See Exhibit F

- A copy of any Federal energy license currently held by the Applicant.

  See Exhibit G – FERC Power Marketer License

- Proposed staffing and employee training commitments.

  Pennsylvania business is serviced out of our Columbus, Ohio office. We hire experienced individuals, and provide on the job training through our existing personnel.
- Business plans.

  We intend to continue to provide reliable, cost effective energy solutions to our natural gas transportation customer base, as we have since 1995. We will continue to evaluate the small commercial and residential segments, and file a revision to our application should we choose to pursue those market segments.

19. **TRANSFER OF LICENSE:** The Applicant understands that if it plans to transfer its license to another entity, *it is required to request authority from the Commission for permission prior to transferring the license. See 66* Pa. C.S. Section 2208(D). Transferee will be required to file the appropriate licensing application.

20. **UNIFORM STANDARDS OF CONDUCT AND DISCLOSURE:** As a condition of receiving a license, Applicant agrees to conform to any Uniform Standards of Conduct and Disclosure as set forth by the Commission.

21. **REPORTING REQUIREMENTS**: Applicant agrees to provide the following information to the Commission or the Department of Revenue, as appropriate:

    a. Reports of Gross Receipts: Applicant shall report its Pennsylvania intrastate gross receipts to the *Commission on an annual basis no later than 30 days following the end of the calendar year.*

    Applicant will be required to meet periodic reporting requirements as may be issued by the Commission to fulfill the Commission's duty under Chapter 22 pertaining to reliability and to inform the Governor and Legislature of the progress of the transition to a fully competitive natural gas market.

Director & Officers Liability

EIM
$25 Million

Policy #
900330-96DO

AEGIS
$25 Million

Policy #
DO215B1A97

Self Insured
$500,000

AEGIS Policy Named Insured: WPSR
and
Subsidiaries as defined in AEGIS policy
(i.e. <$100 Million Assets or <10% of the Company's Total Assets)

AEGIS Endorsement #6B names:

WPS Energy Services, Inc.

Fiduciary Liability

EIM
$65 Million
(Follow Form Policy)

Policy #
500530-95GL

AEGIS
$35 Million

Policy #
F0215A1A96

Self Insured
$200,000

AEGIS Policy Named Insured: WPSC

Subsidiaries covered under AEGIS policy if notification provided within 60 days of inception date

Liability

EIM
$65 Million
(Follow Form Policy)

Policy #
500530-95GL

AEGIS
$35 Million

Policy #
XO215A1A95

Self Insured
$200,000

AEGIS Policy Named Insured: WPSC

AEGIS Endorsement 1E names:

WPS Energy Services, Inc.

Worker's Compensation

Wausau
Insurance
Company

Policy #
0118-00-099395

Bodily Injury

$ 1 Million Each Accident

Bodily Injury By Disease

$ 1 Million each Employee

$1 Million Policy Limit

Named Insureds:

WPS Energy Services, Inc.

States Listed:	State Funds:
Wisconsin (ESI)	Ohio (FSG)
Pennsylvania (ESI & FSG)	West Virginia (FSG)
New Jersey (FSG)	
Michigan (ESI)	
Texas (ESI)	
Illinois (ESI)	

Exhibit F

WPS Energy Services, Inc.
and its
FSG Energy Services division

Directly Responsible Officer Professional Resumes
and
Custodian for Accounting Records

Phillip M. Mikulsky, Sr. VP Development WPS Resources Corporation, CEO WPS Energy Services, Inc.
Mr. Mikulsky's current focus is on the development and deployment of the unregulated entities under the WPS Resources Holding Company. He has over 29 years of gas and electric experience, including 21 years in a leadership/management capacity, in both the regulated and unregulated energy markets. He has also had significant involvement with the Federal Energy Regulatory Commission and State Regulatory Commissions.

Mark A. Radtke, President
Mr. Radtke has overall responsibility for WPS Energy Services, Inc. His current focus includes the unregulated energy markets and development of energy products and services that meet the strategic and operational needs of customers in a rapidly evolving energy marketplace. He has over 16 years of gas and electric industry experience, including nine years in a leadership/management capacity in supply, generation and transmission control, and development of hardware and software energy management products.

Darrell W. Bragg, Vice President
Mr. Bragg has corporate responsibility for marketing, financial planning and growth strategies for WPS Energy Services eastern U.S. division FSG Energy Services. He has over 19 years of natural gas experience, including 9 with major pipelines, where he held various positions in the accounting and marketing departments. He plans to take the full line of WPS Energy Services' products and to increase services to existing accounts and to increase customer growth by providing products and services unparalleled in the industry.

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Ms. Merlina has corporate responsibility for supply acquisition and supply operations for WPS Energy Services eastern U.S. division FSG Energy Services. She has over 16 years of natural gas experience including 9 with a major local distributor company, where she held various positions including IT design, GISB representation, contracts and gas procurement. Her current and past experience insures that customer service, customer pricing and customer growth will continue at the highest level WPS Energy Services customers have grown to expect.

Daniel J. Verbanac, Vice President
Mr. Verbanac has corporate responsibility for the energy trading and supply operations of WPS Energy Services, Inc. He has over 15 years of gas and electric industry experience, including eight years in a leadership/management capacity in energy supply and trading, and the technical development of systems associated with regulated and unregulated energy business operations. This includes development of energy management systems required of energy supply companies, and the systems necessary to accommodate pipeline nominations, customer transactions and unbundling functions required to implement FERC Order 636.

Custodian for Accounting Records
Joseph W. Peikert
Accounting Manager
WPS Energy Services, Inc.
677 Baeten Road
Green Bay, Wisconsin 54304
920-490-6047 920-499-9399 fax

opie

WPS ENERGY SERVICES, INC
677 BAETEN ROAD
GREEN BAY, WI 54304

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Elizabeth Anne Moler, Chair;
Vicky A. Bailey, James J. Hoecker,
William L. Massey, and Donald F. Santa, Jr.

Wisconsin Public Service Corporation WPS Energy Services, Inc. WPS Power Development, Inc.	Docket No. ER96-1088-000
Wisconsin Public Service Corporation	Docket No. ER95-1528-002

ORDER ACCEPTING FOR FILING PROPOSED TRANSMISSION TARIFFS,
CONDITIONALLY ACCEPTING FOR FILING PROPOSED MARKET-BASED
RATES, ESTABLISHING HEARING PROCEDURES,
AND GRANTING REHEARING

(Issued April 16, 1996)

Introduction

In this order, we will accept for filing and suspend proposed open access transmission tariffs to become effective April 17, 1996, subject to refund and, as to non-rate terms and conditions, subject to the outcome of the final rule in the Open Access NOPR proceeding. 1/ We will make the proposed transmission tariff rates subject to the outcome of the ongoing rate proceeding in a related case (rather than set the proposed transmission rates for separate hearing). In addition, we will accept for filing proposed market-based power sales rates, upon the condition that the applicants revise their code of conduct and power sales tariffs in certain respects, and set them for limited hearing as discussed below.

We will also grant one request for rehearing pending in a related docket, Docket No. ER95-1528-002.

1/ Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, Notice and Supplemental Notice of Proposed Rulemaking, 60 Fed. Reg. 17,662 (April 7, 1995), IV FERC Stats. & Regs. ¶ 32,514 (1995) (Open Access NOPR).

22. **FURTHER DEVELOPMEN[illegible]** Applicant is under a continuing obl[illegible]on to amend its application if substantial changes occur in the information upon which the Commission relied in approving the original filing.

23. **FALSIFICATION:** *The Applicant understands that the making of false statement(s) herein may be grounds* for denying the Application or, if later discovered, for revoking any authority granted pursuant to the Application. This Application is subject to 18 Pa. C.S. §§4903 and 4904, relating to perjury and falsification in official matters.

24. **FEE:** *The Applicant has enclosed the required initial licensing fee of $350.00 payable to the Commonwealth* of Pennsylvania.

Applicant:: WPS Energy Services, Inc.

By: [signature]

Title: President

AFFIDAVIT

State of Wisconsin :

: ss.

County of Brown :

Mark A. Radtke, Affiant, being duly sworn according to law, deposes and says that:

He is the President of WPS Energy Services, Inc.;

That he is authorized to and does make this affidavit for said Applicant;

That WPS Energy Services, Inc., the Applicant herein, acknowledges that WPS Energy Services, Inc. may have obligations pursuant to this Application consistent with the Public Utility Code of the Commonwealth of Pennsylvania, Title 66 of the Pennsylvania Consolidated Statutes; or with other applicable statutes or regulations including Emergency Orders which may be issued verbally or in writing during any emergency situations that may unexpectedly develop from time to time in the course of doing business in Pennsylvania.

That WPS Energy Services, Inc., the Applicant herein, asserts that he possesses the requisite technical, managerial, and financial fitness to render natural gas supply service within the Commonwealth of Pennsylvania and that the Applicant will abide by all applicable federal and state laws and regulations and by the decisions of the Pennsylvania Public Utility Commission.

That WPS Energy Services, Inc., *the Applicant herein, certifies to the Commission that it is subject to , will pay,* and in the past has paid, the full amount of taxes imposed by Articles II and XI of the Act of March 4, 1971 (P.L. 6, No. 2), known as the Tax Reform Act of 1971 and any tax imposed by Chapter 22 of Title 66. The Applicant acknowledges that failure to pay such taxes or otherwise comply with the taxation requirements of, shall be cause for the Commission to revoke the license of the Applicant. The Applicant acknowledges that it shall report to the Commission its jurisdictional natural gas sales for ultimate consumption, for the previous year or as otherwise required by the Commission. The Applicant also acknowledges that it is subject to 66 Pa. C.S. §506 (relating to the inspection of facilities and records).

Applicant, by filing of this application waives confidentiality with respect to its state tax information in the possession of the Department of Revenue, regardless of the source of the information, and shall consent to the Department of Revenue providing that information to the Pennsylvania Public Utility Commission.

That WPS Energy Services, Inc., the Applicant herein, acknowledges that it has a statutory obligation to conform with 66 Pa. C.S. §506, and the standards and billing practices of 52 PA. Code Chapter 56.

That the Applicant agrees to provide all consumer education materials and information in a timely manner as requested by the Commission's Office of Communications or other Commission bureaus. Materials and information requested may be analyzed by the Commission to meet obligations under applicable sections of the law.

That the facts above set forth are true and correct to the best of his knowledge, information, and belief.

Signature of Affiant

Sworn and subscribed before me this 1 day of DECEMBER, 1999.

Margaret Orendorff

Signature of official administering oath

My commission expires OCTOBER 8, 2000.

Notice of Application Intention

WPS Energy Services, Inc. intends to publish a notice of application in the following newspapers:

- Erie Daily Times
- Patriot-News
- Philadelphia Inquirer
- Pittsburgh Post-Gazette
- Scranton Times
- Williamsport Sun Gazette

When notices are published, and affidavit to that effect will be completed and supplied.

AFFIDAVIT

State of Wisconsin :

: ss.

County of Brown :

Mark A. Radtke, Affiant, being duly sworn according to law, deposes and says that:

He is the President of WPS Energy Services, Inc.;

That he is authorized to and does make this affidavit for said Applicant;

That the Applicant herein, WPS Energy Services, Inc. has the burden of producing information and supporting documentation demonstrating its technical and financial fitness to be licensed as a natural gas supplier pursuant to 66 Pa. C.S. §2208(c)(1).

That the Applicant herein, WPS Energy Services, Inc. has answered the questions on the application correctly, truthfully, and completely and provided supporting documentation as required.

That the Applicant herein, WPS Energy Services, Inc. acknowledges that it is under a duty to update information provided in answer to questions on this application and contained in supporting documents.

That the Applicant herein, WPS Energy Services, Inc. acknowledges that it is under a duty to supplement information provided in answer to questions on this application and contained in supporting documents as requested by the Commission.

That the facts above set forth are true and correct to the best of his/her knowledge, information, and belief, and that he/she expects said Applicant to be able to prove the same at hearing.

____
Signature of Affiant

Sworn and subscribed before me this 1 day of DECEMBER, 1999.

Margaret Clreivdorff
Signature of official administering oath

My commission expires OCTOBER 8, 2000.

APPENDIX A

COMMONWEALTH OF PENNSYLVANIA PUBLIC UTILITY COMMISSION	TAX CERTIFICATION STATEMENT

A completed Tax Certification Statement must accompany all applications for new licenses, renewals or transfers. Failure to provide the requested information and/or any outstanding state income, corporation, and sales (including failure to file or register) will cause your application to be rejected. If additional space is needed, please use white 81/2" x 11" paper. Type or print all information requested.

1. CORPORATE OR APPLICANT NAME

WPS Energy Services, Inc.

2. BUSINESS PHONE NO. (920-433-1103)
CONTACT PERSON(S) FOR TAX ACCOUNTS:
John R. Wilde

3. TRADE/FICTITIOUS NAME (IF ANY)

FSG a Division of WPS Energy Services, Inc.

4. LICENSED ADDRESS (STREET, RURAL ROUTE, P.O. BOX NO.) (POST OFFICE) STATE) (ZIP)

PO Box 19001 Green Bay WI 54307-9001

5. TYPE OF ENTITY ☐ SOLE PROPRIETOR ☐ PARTNERSHIP ☒ CORPORATION

8. LIST OWNER(S), GENERAL PARTNERS, OR CORPORATE OFFICER(S)

NAME (PRINT)	SOCIAL SECURITY NUMBER (OPTIONAL)
Phillip M. Mikulsky Chief Executive Officer	___-__-____
Mark A. Radtke President	___-__-____
Larry W. Weyers Vice President	___-__-____
Ralph Baeten Treasurer	___-__-____
Barth Wolf Seceretary	___-__-____

9. LIST THE FOLLOWING STATE TAX IDENTIFICATION NUMBERS. (ALL ITEMS: A, B, AND C MUST BE COMPLETED).

		APPLICATION PENDING	N/A
A. SALES TAX LICENSE (8 DIGITS)	99-66667-4	☐	☐
C. CORPORATE BOX NUMBER (7 DIGITS)	2662-028	☐	☐
B. EMPLOYER ID (EIN) (9 DIGITS:	39-1802356	☐	☐

10. Do you have PA employes either resident or non-resident? ☐ YES ☒ NO

11. Do you own any assets or have an office in PA? ☐ YES ☒ NO

NAME AND PHONE NUMBER OF PERSON(S) RESPONSIBLE FOR FILING TAX RETURNS

John R. Wilde (920) 433-1103 PA SALES AND USE TAX	John R. Wilde (920) 433-1103 EMPLOYER TAXES	John R. Wilde (920) 433-1103 CORPORATE TAXES

Telephone inquiries about this form may be directed to the Pennsylvania Department of Revenue at the following numbers: (717) 772-2673, TDD# (717) 772-2252 (Hearing Impaired Only)

Exhibit F

WPS Energy Services, Inc.
and its
FSG Energy Services division

Directly Responsible Officer Professional Resumes
and
Custodian for Accounting Records

Phillip M. Mikulsky, Sr. VP Development WPS Resources Corporation, CEO WPS Energy Services, Inc.
Mr. Mikulsky's current focus is on the development and deployment of the unregulated entities under the WPS Resources Holding Company. He has over 29 years of gas and electric experience, including 21 years in a leadership/management capacity, in both the regulated and unregulated energy markets. He has also had significant involvement with the Federal Energy Regulatory Commission and State Regulatory Commissions.

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Joseph W. Peikert
Accounting Manager
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677 Baeten Road
Green Bay, Wisconsin 54304
920-490-6047 920-499-9399 fax

FORM 10-K ANNUAL REPORT

For The Year Ended December 31, 1998

EEF

WPS Resources Corporation
and
Wisconsin Public Service Corporation

(A wholly-owned subsidiary of WPS Resources Corporation)

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

OR

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

For the transition period from _______________ to _______________

Commission file number	Registrant; State of Incorporation Address; and Telephone Number	IRS Employer Identification No.
1-11337	WPS RESOURCES CORPORATION (A Wisconsin Corporation) 700 North Adams Street P. O. Box 19001 Green Bay, WI 54307-9001 920-433-4901	39-1775292
1-3016	WISCONSIN PUBLIC SERVICE CORPORATION (A Wisconsin Corporation) 700 North Adams Street P. O. Box 19001 Green Bay, WI 54307-9001 920-433-1598	39-0715160

Securities registered pursuant to Section 12(b) of the Act:

	Title of each class	Name of each exchange on which registered
WPS RESOURCES CORPORATION	Common Stock, $1 par value	New York Stock Exchange
	Rights to purchase Common Stock pursuant to Rights Agreement dated December 12, 1996	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

WISCONSIN PUBLIC SERVICE CORPORATION

Preferred Stock, Cumulative, $100 par value

5.00% Series	6.76% Series
5.04% Series	6.88% Series
5.08% Series	

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

State the aggregate market value of the voting stock held by nonaffiliates of the Registrant.

WPS RESOURCES CORPORATION

$806,498,927 as of March 22, 1999

WISCONSIN PUBLIC SERVICE CORPORATION

None

Number of shares outstanding of each class of common stock, as of December 31, 1998

WPS RESOURCES CORPORATION	Common Stock, $1 par value, 26,551,405 shares
WISCONSIN PUBLIC SERVICE CORPORATION	Common Stock, $4 par value, 23,896,962 shares. WPS Resources Corporation is the sole holder of Wisconsin Public Service Corporation Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Definitive proxy statement for the WPS Resources Corporation Annual Meeting of Shareholders on May 6, 1999 is incorporated into Parts I and III.

WPS RESOURCES CORPORATION
and
WISCONSIN PUBLIC SERVICE CORPORATION

FORM 10-K
ANNUAL REPORT TO THE SECURITIES AND EXCHANGE COMMISSION
For the Year Ended December 31, 1998

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PART IV

EXHIBITS

GLOSSARY

The following abbreviations and acronyms are used in the text of this Form 10-K:

Btu	British thermal unit
ESI	WPS Energy Services, Inc.
FERC	Federal Energy Regulatory Commission
ISO	Independent system operator
MPSC	Michigan Public Service Commission
PDI	WPS Power Development, Inc.
PSCW	Public Service Commission of Wisconsin
UPEN	Upper Peninsula Energy Corporation
UPPCO	Upper Peninsula Power Company
WPSR	WPS Resources Corporation
WPSC	Wisconsin Public Service Corporation

PART I

ITEM 1. BUSINESS

A. GENERAL

WPS Resources Corporation

WPS Resources Corporation ("WPSR"), a Wisconsin Corporation, was incorporated on December 3, 1993 and operates as a holding company with both regulated utility and nonregulated business units. WPSR's principal wholly-owned subsidiaries are: Wisconsin Public Service Corporation ("WPSC"), a regulated electric and gas utility; Upper Peninsula Power Company ("UPPCO"), a regulated electric utility; and WPS Energy Services, Inc. ("ESI") and WPS Power Development, Inc. ("PDI"), both nonregulated subsidiaries. WPSC, ESI, and PDI are Wisconsin corporations, while UPPCO is a Michigan corporation. WPSC, UPPCO, ESI, and PDI represent approximately 61%, 6%, 33%, and .5% of WPSR's consolidated revenues for 1998 and 84%, 8%, 5%, and 2% of WPSR's consolidated assets at December 31, 1998, respectively. All of WPSR's net income for 1998 was derived from WPSC and UPPCO.

Effective September 29, 1998, Upper Peninsula Energy Corporation ("UPEN") merged with and into WPSR, and UPPCO, UPEN's utility and major subsidiary, as well as other nonregulated subsidiaries, became wholly-owned subsidiaries of WPSR. Each of the 2,950,001 outstanding shares of UPEN common stock (no par value) were converted into the right to receive 0.90 shares of WPSR common stock ($1.00 par value), subject to adjustment for fractional shares, as provided in the merger agreement.

On January 12, 1999, WPS Resources Capital Corporation was formed as a wholly-owned subsidiary of WPSR. As an intermediate holding company, WPS Resources Capital Corporation became the parent of ESI and PDI and a vehicle to provide financing for ESI and PDI.

On a stand-alone basis, WPSR incurred a net loss in 1998 of $2.0 million, compared with a net loss of $2.7 million in 1997. The 1998 and 1997 WPSR stand-alone losses were attributable primarily to expenses associated with the merger with UPEN and increased interest expense resulting from additional financing of subsidiary projects.

Within this report, the term "utility" refers to the regulated activities of WPSC and UPPCO, while the term "nonutility" refers to the activities of WPSC and UPPCO which are not regulated. The term "nonregulated" refers to activities other than those of WPSC and UPPCO.

Wisconsin Public Service Corporation

At December 31, 1998, WPSC served 381,136 electric retail customers and 224,058 gas retail customers in an 11,000 square-mile service territory in northeastern and central Wisconsin and an adjacent part of Upper Michigan. Additionally, WPSC provides wholesale (full or partial requirements) electric service, either directly or indirectly, to seven municipal utilities, three electric cooperatives, ten investor-owned utilities, six marketers, and one municipal joint action agency. Operating revenues in the year 1998 were derived 97% from Wisconsin customers and 3% from Michigan customers. Of total revenues in 1998, 75% were from electric operations and 25% were from gas operations. Of total electric revenues, 89% were from retail sales and 11% were from wholesale sales.

WPSC's retail service areas are principally protected by indeterminate permits secured by statute in Wisconsin and through franchises granted by municipalities in Michigan.

Upper Peninsula Power Company

At December 31, 1998, UPPCO served 48,272 electric customers in a 4,000 square-mile area of primarily rural countryside in Upper Michigan. Additionally, UPPCO provides wholesale (full or partial requirements) electric service, either directly or indirectly, to five municipal utilities, two electric cooperatives, and two investor-owned utilities. UPPCO derives 100% of its revenues from electric operations. Of total revenues, 92% were from retail sales and 8% were from wholesale sales.

Regulatory Oversight

WPSR is exempt from registration under the Public Utility Holding Company Act of 1935, as amended, but is subject to the various requirements and prohibitions of the Wisconsin Public Utility Holding Company Act.

Utility rates, service, and securities issues of WPSC are subject to regulation by the Public Service Commission of Wisconsin ("PSCW"); and WPSC and UPPCO are both subject to the jurisdiction of the Michigan Public Service Commission ("MPSC"). WPSC and UPPCO are also subject to regulation of their wholesale electric rates, hydroelectric projects, and certain other matters by the Federal Energy Regulatory Commission ("FERC"). Both WPSC and UPPCO are subject to limited regulation by local authorities. WPSC and UPPCO follow Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," and, therefore, their financial statements reflect the different ratemaking principles of the various jurisdictions. The impacts of utility regulation also are reflected, through consolidation, in the financial statements of WPSR. Utility revenues by jurisdiction include: the PSCW 81%, the MPSC 11%, and the FERC 8%. The operation of the Kewaunee Nuclear Power Plant is subject to the jurisdiction of the Nuclear Regulatory Commission.

An Overview of Industry Restructuring

General

In April 1994, the FERC issued Order 888 on open access electric transmission and stranded cost recovery due to wholesale competition. Order 888 directs the creation of power pools and independent system operators ("ISOs") to meet the open access requirements and principles.

An ISO is an independent third party that would regulate on a "real-time" basis the operation of the transmission systems in a defined geographic area.. With most ISOs, the transmission system assets may be retained by the electric utilities. The ISO would monitor the generation, transmission, and distribution systems, direct the operations of transmission facilities, administer open access transmission tariffs, and direct generation redispatch. Some believe that an ISO may also own transmission assets.

An independent transmission company is an alternative to an ISO. An independent transmission company would perform functions that are similar to an ISO; however, an independent transmission company would also own the transmission assets. The FERC has jurisdiction in setting prices for both ISOs and independent transmission companies.

In April 1994, the FERC also issued Order 889 which requires that public utilities develop a system to communicate information about their transmission systems and services electronically to all potential customers at the same time. WPSC is included in the system created by the Mid-America Interconnected Network, commonly known as MAIN, one of the existing electric reliability regions in the United States.

Effect on Operations

Industry restructuring will create competitive markets which could make the recovery of investment dollars in customer rates less certain. Management, however, believes that its utility assets will continue to be recoverable under such conditions.

Management expects that increased competition in a deregulated environment will put greater emphasis on managing costs and put pressure on operating margins at WPSC and UPPCO. Management also believes that no significant changes to depreciable lives of WPSC's and UPPCO's capital assets would be necessary in a competitive environment. At this time, management cannot predict the ultimate results of deregulation.

Regional Merger Activities

Industry restructuring has been accompanied by merger activity in the region which could impact the competitive environment. Mergers and acquisitions may be a means to gain an advantage in a competitive environment. Recently, mergers have occurred between WPSR and UPEN, as previously described, and between WPL Holdings, Inc., IES Industries, Inc., and Interstate Power Company. Additionally, Wisconsin Energy Corporation acquired ESELCO, Inc., the parent company of the Edison Sault Electric Company. No new Wisconsin utility mergers or acquisitions were announced in 1998.

Year 2000 Compliance

The Year 2000 issue arises because date sensitive computer software or embedded chips may not recognize a date using "00" as 2000. This may result in system failures or disruption of operations.

WPSR has undertaken a program to assess the Year 2000 issue and to bring computer systems into compliance by the year 2000. All systems, including energy production and delivery systems, other embedded systems, and third party systems of suppliers are being evaluated to identify and resolve potential problems.

A Year 2000 plan has been developed and communicated to employees, customers, suppliers, and other affected parties which includes awareness, inventory and assessment, remediation, testing, and implementation. The inventory and assessment phase has been completed. Action plans for remediation have been completed. Five major systems of the company (customer information, finance, human resources, materials management, and facility management) are currently Year 2000 compliant. Other critical systems are expected to be compliant by the end of the first quarter of 1999. Worst case scenarios and contingency plans are being developed.

The most recent estimated future internal labor and third party cost of Year 2000 compliance is approximately $9.0 million. See further discussion regarding Year 2000 compliance in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION on page 72.

Forwarding-Looking Statements

This report includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. The statements speak of plans, goals, beliefs, or expectations of WPSR, WPSC, and their subsidiaries, refer to estimates, or use similar terms. Although WPSR, WPSC, and their subsidiaries believe that their expectations are based on reasonable assumptions, no assurance can be given that actual results may not differ materially from those in the forward-looking statements included in this report for reasons that include: the speed and degree to which competition enters the electric and natural gas industries; state and federal legislative and regulatory initiatives that increase competition, affect cost and investment recovery, and have an impact on rate structures; the economic climate and industrial, commercial, and residential growth in areas served by WPSC, UPPCO, and ESI; the weather and other natural phenomena; the timing and extent of changes in commodity prices and interest rates; conditions in the capital markets; growth in opportunities for ESI and PDI; and the impact of the Year 2000 issue.

A forward-looking statement speaks only as of the date on which such statement is made, and WPSR does not undertake to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for WPSR, WPSC, or their subsidiaries to predict all such factors, nor can it assess the impact of each such factor or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

B. ELECTRIC MATTERS

Electric Operations

The largest Wisconsin communities served by WPSC at the electric retail level are the cities of Green Bay, Oshkosh, Wausau, and Stevens Point. The largest Michigan community served by UPPCO at the electric retail level is the area of Houghton/Hancock.

Generating Capacity

In 1998, WPSC reached a firm net design peak of 1,606 megawatts on July 14. Net design peak relates to the 10:00 a.m. to 3:00 p.m. period which is the period most relevant for capacity planning purposes. WPSC reached a firm net actual peak of 1,685 megawatts on July 13. During the actual peak, transactions outside WPSC included firm purchases of 132 megawatts and firm sales of 38 megawatts. Planned generator capability for the 1998 summer period was 1,780 megawatts. WPSC's future supply reserves are estimated to be above the planning criteria of 18% minimum reserves for 1999 and 2000.

See "UTILITY" in Part I, Item 2, PROPERTIES, at page 32 for information concerning the generation facilities of WPSC and UPPCO.

During 1997, the PSCW authorized De Pere Energy LLC, an affiliate of Polsky Energy Corporation, an independent power producer, to build the De Pere Energy Center, a 179-megawatt combustion turbine generating facility that is scheduled to be operational on June 1, 1999. The energy center will be converted to a combined-cycle unit with a summer rating of 233 megawatts on or after the fifth year of operation, pursuant to the requirements of WPSC's 25-year contract with De Pere Energy LLC to purchase capacity and energy from the center. A combined-cycle unit is a type of combustion turbine in which the hot exhaust gases pass through a heat recovery steam generator to produce steam that drives a steam turbine generator which produces approximately one-third of the power generated. WPSC will furnish the natural gas fuel for the facility pursuant to existing gas tariffs. The energy center will be operated by SkyGen Services LLC, an operating subsidiary of Polsky Energy Corporation. See NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Note 10, Commitments and Contingencies, at page 101, regarding "Long-Term Power Supply." WPSC has contracted for combustion turbine peaking capacity from the De Pere Energy Center beginning June 1, 1999.

In 1998, 89% of UPPCO's total energy requirements were purchased; the remainder was supplied by hydroelectric and combustion turbine facilities owned by UPPCO. During 1998, UPPCO purchased firm power of 50 megawatts and 15 megawatts from Commonwealth Edison and WPSC, respectively. In addition, UPPCO purchased non-firm power from WPSC, WP&L, and others. The purchase from Commonwealth represented 50% of UPPCO's total energy requirements in 1998. The purchase contracts are effective through December 31, 1999. UPPCO has contracted for 65 megawatts of capacity and energy from WPSC for the years 2000, 2001, and 2002.

WPSC has begun construction of a 9-megawatt wind plant. The project consists of 14 wind turbines installed on private farmlands located in the Town of Lincoln in Kewaunee County, Wisconsin. The wind plant is expected to be on-line by June 30, 1999 at an estimated cost of $10.3 million.

WPSC owns 33.1% of the outstanding capital stock of Wisconsin River Power Company which owns and operates two dams and related hydroelectric plants on the Wisconsin River having an aggregate installed capacity of approximately 39 megawatts.

Kewaunee Nuclear Power Plant

General

The Kewaunee Nuclear Power Plant is a pressurized water reactor plant with a name plate capacity of 562 megawatts. It is operated by WPSC and is jointly owned by WPSC (41.2%), Wisconsin Power and Light Company (41.0%), and Madison Gas and Electric Company (17.8%). The plant's operating license expires in 2013.

Kewaunee has achieved the Institute of Nuclear Power Operations' top rating for the seventh time. The Institute of Nuclear Power Operations is an industry group formed in 1979 to promote excellence in the nuclear industry.

Steam Generator Replacement

On April 7, 1998, the PSCW approved WPSC's application for the replacement of the two steam generators at the Kewaunee Nuclear Power Plant. The total cost of replacing the steam generators could be approximately $90.7 million. Pending settlement of ownership issues with Madison Gas and Electric Company, WPSC's share of the cost may be as much as $53.5 million. The replacement work is being planned for mid-year of 2000 and will take approximately 60 days.

On October 17, 1998, the plant was shut down for a planned maintenance and refueling outage. Inspection of the plant's two steam generators showed that the repairs made to the tubes in 1997 are holding up well and few additional repairs were needed. In addition to the inspection and repair of the steam generators, a major overhaul was performed on the main turbine generator. After an outage duration of 42 days, the plant was restarted and returned to service on November 27, 1998.

Ownership

On September 29, 1998, WPSC and Madison Gas and Electric Company finalized an agreement in which WPSC will acquire Madison Gas and Electric Company's 17.8% share of the Kewaunee Nuclear Power Plant. This agreement, the closing of which is contingent upon regulatory approvals and steam generator replacement, will give WPSC 59.0% ownership in the plant. The other co-owner, Wisconsin Power and Light Company, will maintain its current ownership interest in Kewaunee and will support the replacement of the steam generators.

The agreement provides for WPSC to pay Madison Gas and Electric Company its depreciated book value for its share of the plant. Madison Gas and Electric Company will also provide to WPSC a fully funded decommissioning account. WPSC will then assume responsibility for 59% of the costs of decommissioning the plant. Madison Gas and Electric Company retains its obligation for its share of the costs of final disposal of spent nuclear fuel created up to the time of ownership transfer. The agreement also provides Madison Gas and Electric Company an option to purchase power from WPSC for two years following the date of ownership transfer. The amount of power involved in this option is approximately equal to Madison Gas and Electric Company's current share of the power generated by the plant.

WPSC has also entered into an agreement with Madison Gas and Electric Company whereby WPSC will construct and operate for Madison Gas and Electric Company an 83-megawatt combustion turbine at WPSC's West Marinette site in northeastern Wisconsin. In entering this agreement, the utilities agreed that the amount owed by WPSC to Madison Gas and Electric Company for the Kewaunee Nuclear Power Plant asset transfer could be credited against the purchase price of the combustion turbine. The construction of the combustion turbine is expected to be completed in the second quarter of 2000. WPSC will supply gas to this unit pursuant to existing gas tariffs. If, for some reason, the Marinette station is not completed, the agreement calls for WPSC to pay for

Madison Gas and Electric Company's share of the Kewaunee Nuclear Power Plant with a combination of cash and notes.

Formation of Nuclear Management Company

On February 25, 1999, Northern States Power Company, Wisconsin Electric Power Company, and WPSC announced the formation of a nuclear management company. Alliant Energy, the parent company of Wisconsin Power and Light Company, is seeking approval from the Securities and Exchange Commission to join the management company at a later date. Combined, the four utilities operate seven nuclear generating plants at five locations for a combined generating capacity of approximately 3,760 megawatts, representing between 12% and 25% of the electricity generated by the individual utilities.

The new company was formed to sustain long-term safety, optimize reliability, and improve the operational performance of the individual nuclear generating plants. Overall plant operations will continue to be provided by the same plant personnel. The utilities will continue to own their respective plants, be entitled to energy generated at the plants, and retain the financial obligations for their safe operation, maintenance, and decommissioning. Each utility will obtain required state or federal regulatory approvals prior to its participation in the nuclear management company.

Low-Level Radioactive Waste Storage

The Midwest Compact Commission, on June 26, 1997, halted development in Ohio of a six-state, regional disposal facility for low-level radioactive waste. The Midwest Compact Commission, established to implement the federal Low Level Radioactive Waste Policy Act of 1980, cited dwindling regional waste volumes, continued access to existing disposal facilities, and potentially high development costs as the primary reasons for the decision. The Midwest Compact Commission continues to monitor the availability of disposal for the low-level radioactive waste created by all Midwest generators. A site at Barnwell, South Carolina, continues to be available for the storage of low-level radioactive waste from the Kewaunee Nuclear Power Plant. In addition, because of technology advances, waste compaction, and the reduction of waste generated, the Kewaunee plant has on-site low-level radioactive waste storage capacity sufficient to store the amount of low-level waste expected to be generated over a 10-year period.

Depreciation and Decommissioning

In 1997, the PSCW directed the owners of the Kewaunee Nuclear Power Plant to develop depreciation and decommissioning cost levels based on full recovery by the end of 2002, whereas previous decommissioning estimates were based on 2013, the year in which the operating license expires. The order was prompted by the uncertainty regarding the expected useful life of the plant without steam generator replacement. In 1998, after the approval of the project to replace the steam generators, the PSCW ruled that, until the replacement steam generators are installed, WPSC should continue to depreciate and collect decommissioning funds at rates such that costs are recovered in full by 2002. Once the replacement steam generators are installed, the PSCW has directed WPSC to depreciate and collect decommissioning funds such that costs are recovered in full by 2008. Further, the PSCW decided that an accelerated depreciation method should be utilized for calculating depreciation expense. The steam generators are expected to be replaced by mid-2000. A review of the depreciation and decommissioning costs and their rate of recovery will be made in late 1999.

At December 31, 1998, the net carrying amount of WPSC's investment in Kewaunee was approximately $35.2 million. The current cost of WPSC's share of the estimated costs to decommission Kewaunee, assuming early retirement, is $192.6 million. Decommissioning trust assets at December 31, 1998 totaled $171.4 million. WPSC's customers in the Wisconsin jurisdiction are responsible for approximately 91% of WPSC's share of the plant's costs.

During 1998, $8.2 million of depreciation expense related to unrecovered plant investment was recognized compared with $7.5 million recognized in 1997. During 1998, the decommissioning funding level was $17.2 million compared with $16.1 million in 1997. Customer rates, which became effective in the Wisconsin jurisdiction on February 21, 1997, are designed to recover the accelerated plant depreciation and to provide funds for decommissioning. The increase from 1997 to 1998 reflects the impact of a full year's accrual at the higher rates.

During 1998, a new site-specific decommissioning cost study was completed assuming shutdown of the plant in 2013. This study indicates WPSC's share of Kewaunee decommissioning costs to be $190.7 million and forms the basis for a revised decommissioning funding plan that reduces decommissioning funding levels to $8.3 million starting in 1999.

Additional discussion of Kewaunee Nuclear Power Plant matters is included in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION at pages 60 and 65, and the NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Notes 1(h), 1(j), 1(k), and 10 at pages 85, 86, 87, and 102, respectively.

Fuel Supply

Electric Generation Mix

WPSC's electric generation mix in 1998 compared with 1997 was: steam plants (coal), 69.2%, up from 68.9%; steam plant (nuclear), 12.5%, up from 8.2%; hydro, 1.7%, down from 3.0%; combined natural gas and fuel oil, 1.8%, up from 1.3%; and purchased power, 14.8%, down from 18.6%. Purchased power represents short-term energy purchases.

Fuel Costs

Fuel costs in 1998 compared with 1997, expressed in dollars per million British thermal unit ("Btu"), were: nuclear, $0.42, down from $0.43; coal, $1.04, down from $1.09; natural gas, $2.59, down from $2.96; and No. 2 fuel oil, $3.89, down from $4.27.

Coal

WPSC's primary fuel source is coal. In 1998, 99% of this coal came from Powder River Basin mines located in Wyoming and Montana. This coal is very low in sulfur and meets the standards of the 1990 Clean Air Act for the Year 2000 and beyond. Further, this coal is the least-cost coal for WPSC from any of the subbituminous coal-producing regions in the United States.

The majority of coal for WPSC's wholly-owned plants and the jointly-owned Edgewater and Columbia plants is purchased under relatively short-term contracts of up to three years duration. WPSC has one long-term contract which covers approximately 16% of total requirements and has take-or-pay obligations totaling $130.8 million for the years 1999 through 2016. Coal transportation for these plants is purchased under contracts of up to five years duration. Over 90% of the coal transported to these plants is moved under competitive transportation market conditions which are expected to continue to yield competitive fuel costs for WPSC for the long term.

See NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Note 10, COMMITMENTS AND CONTINGENCIES, at page 101, regarding "Coal Contracts."

Nuclear Fuel Cycle

WPSC purchases uranium concentrates, conversion services, enrichment services, and fabrication services for nuclear fuel assemblies at the Kewaunee Nuclear Power Plant. New fuel assemblies replace used assemblies that are removed from the reactor every 18 months and placed in storage at the plant site pending removal by the United States Department of Energy.

Uranium concentrates, conversion services, and enrichment services are purchased at spot market prices, through a bidding process, or using existing contracts.

A uranium inventory policy requires that sufficient inventory exist for up to two reactor reloads of fuel. As of December 31, 1998, 947,000 pounds of yellowcake or its equivalent were held in inventory for the plant.

Two contracts are in place to provide conversion services for nuclear fuel reloads in 2000 and 2001.

A fixed quantity of enrichment services are contracted for through the year 2004. Additional enrichment services will be acquired under a contract which is in effect for the life of the plant or by purchases on the spot market.

Fuel fabrication services are contracted well into the next decade and contain contractual clauses covering force majeure and termination provisions.

If, for any reason, the Kewaunee plant were forced to suspend operations permanently, fuel-related obligations are as follows: (1) no financial penalties associated with the present uranium supply, conversion service, and enrichment agreements exist, and (2) the fuel fabrication contract contains force majeure and termination for convenience provisions. As of the end of 1998, the maximum exposure would not be expected to exceed $274,000. Uranium inventories could be sold on the spot market.

Spent Nuclear Fuel Disposal

The federal government has the responsibility to dispose of or permanently store spent nuclear fuel. Spent nuclear fuel is currently being stored at the Kewaunee Nuclear Power Plant. With minor plant modifications planned for 2001, Kewaunee should have sufficient fuel storage capacity until the end of its licensed life in 2013. Legislation is being considered on the federal level to provide for the establishment of an interim storage facility.

On January 31, 1998, the United States Department of Energy failed to comply with its obligation to begin removing spent nuclear fuel as required by the Nuclear Waste Policy Act of 1982. WPSC joined other utilities in a motion to enforce the July 1996 mandate of the United States Court of Appeals for the District of Columbia that the Department of Energy had an unconditional obligation to begin accepting, transporting, and disposing of spent nuclear fuel by January 31, 1998.

On May 5, 1998, the United States Court of Appeals for the District of Columbia issued a decision denying the motion to enforce the Court's 1996 mandate. The denial centered on the question of whether the Department of Energy could properly use the Nuclear Waste Fund as a source to pay damages the utilities have incurred as a result of the Department of Energy's breach of its obligation and the fact that the question is not ready for review. The Court also indicated that certain items fall outside the scope of the Court's mandate including (1) compelling the Department of Energy to submit a detailed program for disposing of spent fuel from utilities and (2) declaring that the utilities are relieved of their obligation to pay fees to the Nuclear Waste Fund for a permanent spent fuel repository and are authorized to place such fees into escrow until the Department of Energy commences with disposing of spent fuel pursuant to its obligation. The scope of the Court's mandate was limited to defining the nature of the Department of Energy's statutory obligations and did not extend to requiring the Department of Energy to perform under its contracts with the utilities. WPSC is currently evaluating the decision to determine how to proceed with contract remedies.

Funding Decontamination and Decommissioning of Federal Facilities

A surcharge was imposed by the Energy Policy Act of 1992 which requires nuclear power companies to fund the decontamination and decommissioning of certain Department of Energy facilities. Pursuant to the provisions of the Energy Policy Act, WPSC is required to pay a surcharge on uranium enrichment services purchased from the federal government prior to October 23, 1992. WPSC's obligation is approximately $600,000 per year (adjusted for inflation) through the year 2007.

WPSC and a number of other nuclear power companies sued the Department of Energy in the United States Court of Federal Claims seeking a refund of the previously paid decontamination and decommissioning surcharge payments. The suits had been stayed pending the outcome of the petition for review filed with the United States Supreme Court by Yankee Atomic Electric Company.

Yankee Atomic Electric Company contended that the government should not have the power to impose retroactive financial liability, stating it was a breach of the fixed-price enrichment contracts that Yankee Atomic Electric Company signed prior to enactment of the Energy Policy Act of 1992. Yankee Atomic Electric Company filed suit in the United States Court of Federal Claims and received a favorable decision, only to have it overturned by the Federal Circuit Court of Appeals in May 1997.

The United States Supreme Court, on June 26, 1998, declined to review the decision of the United States Court of Appeals for the Federal Circuit, thereby letting stand the decision that held that nuclear power companies must pay a retroactive surcharge on enrichment services purchased from the Department of Energy.

Subsequent to the United States Supreme Court's refusal to grant review, WPSC joined with a number of other nuclear power companies in challenging the constitutionality of the Energy Policy Act of 1992 in a Federal District Court in New York.

Regulatory Matters in the Wisconsin Jurisdiction

Industry Restructuring

In Wisconsin, electric reliability has replaced restructuring and retail competition as the issue of current focus. The PSCW's first priority is to develop the utility infrastructure necessary to assure reliable electric service and to remove the barriers to competition at the wholesale level.

In 1998, the PSCW and the major utilities in Wisconsin, including WPSC, made legislative proposals which address the planning and approval by the PSCW of electric power generation and transmission facilities, regional management of the transmission system, new electric power generation, including the ownership and operation of wholesale merchant plants, new electric power transmission facilities, out-of-state retail electric sales, service standards for electric generation, transmission and distribution facilities, and the allowable assets of public utility holding companies. These proposals resulted in the enactment of the Electric Reliability Act (1997 Wis. Laws 204).

Independent System Operator

The Electric Reliability Act requires all Wisconsin utilities that own transmission facilities to transfer control of the operation of their transmission systems to a FERC-approved ISO or to divest their transmission assets by June 30, 2000.

WPSC has been working with a number of groups that are attempting to form ISO organizations. The Mid American Power Pool, one of ten National Electric Reliability Council regions, attempted to develop an ISO that would include utilities in portions of Illinois, Minnesota, North Dakota, South Dakota, and Wisconsin. In late 1998, this effort failed to receive the approval of current Mid American Power Pool members.

Another group of utilities is attempting to form what is known as the "Midwest ISO." The group filed a FERC application for approval of its ISO in mid-1998. The FERC approved the ISO in part, required a compliance filing for certain issues, and set the rates for hearing. This ISO is presently the only alternative to meet the requirements of the Electric Reliability Act requiring Wisconsin utilities to join a FERC-approved ISO by June 30, 2000.

Northern States Power Company and Alliant Energy intend to file with the FERC in the spring of 1999 for approval of an independent transmission company. If approved, this independent transmission company could also meet the requirements of the Electric Reliability Act.

In 1998, the PSCW reopened a docket to investigate and determine the structure and benefits of ISOs. The PSCW considered several proposals including the Midwest ISO and the Northern States Power Company independent transmission company, as well as one known as the "Customer ISO" which was submitted by Wisconsin Public Power, Inc. The PSCW order established minimum Wisconsin standards and approved the Customer ISO indicating that the Midwest ISO, as formulated at that time, did not meet all of Wisconsin's standards. The PSCW also rejected the Northern States Power Company independent transmission company as being insufficiently developed, at that time, to determine if it meets the Wisconsin standards.

Utility Affiliates

During 1998, the PSCW opened a docket to develop standards of conduct between public utilities and their affiliates. This docket consists of three phases. Phase I will develop policies on the extent that diversification into nonutility activities by utilities should be regulated, limited, or prohibited by the PSCW. Phase I will also form the basis for Phases II and III, which will deal with administrative rulemaking and statutory revisions.

In Phase I, a heating, ventilating, and air conditioning alliance is recommending a "separation" approach which restricts the types of allowable activities that can be provided by utilities the costs of which can be recovered in customers rates. Under the separation position, utilities may only engage in activities that are considered to be essential utility services, such as those required by law as well as those services that are provided in response to circumstances which reasonably appear to endanger public or individual human life, health, or safety. Other activities would be allowable if they are: (1) related to utility business, (2) incidental to the utility's business, (3) not provided by others in the market to any significant degree, and (4) their costs can be reasonably allocated. The costs associated with these other activities would not be recovered in customer utility rates. The alliance's position is to restrict regulated utilities to only the delivery of natural gas and electricity, with any other services to be provided by nonregulated affiliates. Principal concerns being considered include cross-subsidization practices and the shift of the cost of competitive goods and services of the utility to utility customers.

The utilities' position is that an allocation method could be used. This approach would allow utilities to engage in nonutility activities that utilize the assets, operations, and expertise associated with the offering of utility service, provided that the associated costs are determined on an incremental basis and are not borne by utility ratepayers.

A PSCW order on Phase I is anticipated late in the first quarter of 1999.

Advance Plan and Strategic Energy Assessment

The PSCW's Advance Plan process required electric utilities to submit to the PSCW, on a biennial basis, their plans for developing generation and transmission resources for a 20-year period. Advance Plan 8 was filed with the PSCW on January 15, 1998. An Advance Plan 8 order was issued by the PSCW on January 19, 1999. The PSCW ordered that generation and transmission planning continue, that certain reports and information be filed with the PSCW, that a certain amount of generation from renewable sources be constructed, that a state-wide wind siting study be funded, and that certain requirements concerning electromagnetic fields be modified.

The Electric Reliability Act repealed the Advance Plan process. In its place, state law now requires that the PSCW biennially prepare a Strategic Energy Assessment which will evaluate the reliability of Wisconsin's current and future electric supply for a three-year forecasted period.

Supply Issues

In late June of 1998, high temperatures, outages at out-of-state nuclear units, tornado damage to significant transmission systems, and scarce generation resources in the region resulted in unprecedented high prices for wholesale energy. However, WPSC maintained its normal reserve levels and, for the most part, was unaffected. The relatively warm summer and the addition of market-based pricing in the wholesale market resulted in higher energy market prices in 1998 and increased hours of economic buyouts or interruptions for WPSC's large industrial customers who chose to be served at interruptible rates. An economic buyout is an option given interruptible customers who wish to continue to have service in lieu of interruption whereby the customers choose to pay higher rates in return for which they receive continued service.

Customer Rates

In the Wisconsin jurisdiction, of the major investor-owned utilities, WPSC is the low-cost electric provider (based on the Edison Electric Institute Summer 1998 Typical Bill Rate Report) with rates being 84% of the state average for residential rates, 79% for commercial rates, and 82% for large industrial rates.

WPSC filed for increases in rates on April 1, 1998, in compliance with the PSCW's biennial rate case schedule. On January 14, 1999, the PSCW ordered a $26.9 million (or 6.3%) increase in electric rates for 1999, effective January 15, 1999. The PSCW also allowed a 12.1% return on equity, an increase from the previously authorized return of 11.8%.

The electric rates for 2000 will be determined by a rate case reopener in the fall of 1999 to resolve several issues, including certain Kewaunee Nuclear Power Plant issues regarding ownership, depreciation and decommissioning cost recovery after steam generator replacement, the construction of a combustion turbine for Madison Gas and Electric Company, recovery of certain deferred Pulliam 3 generation costs, and anticipated changes in fuel transportation contract costs.

The PSCW had approved the deferral of anticipated 1998 Kewaunee steam generator repair costs. During the 1998 refueling outage, inspections found little additional steam generator degradation, and a Nuclear Regulatory Commission technical specification change resulted in minimal steam generator repair costs during this refueling.

Regulatory Matters in the Michigan Jurisdiction

Industry Restructuring

On June 5, 1997, the MPSC ordered utilities under its jurisdiction to file electric open access plans and related tariffs. This action followed two years of public hearings and the inability to reach consensus among the interested parties. The MPSC order called for generation open access in increments of 2.5% of retail load each year starting in 1997 and ending in

2001. Generation open access is the ability of customers to purchase electric generation from any supplier and to use existing transmission and distribution lines to transport the energy to the purchaser's facilities at the same price that the local supplier would charge itself for such transportation services. Based on MPSC orders, there would be full generation open access for retail load in 2002.

Although the MPSC has issued a number of generation open access orders, including orders requiring open access pilot programs in Lower Michigan, little progress has been made on permanent open access in Michigan to date. On February 2, 1999, the MPSC closed out its open access orders affecting the Upper Peninsula utilities, including WPSC and UPPCO. On March 11, 1999, the Michigan Supreme Court heard oral arguments on a challenge to the MPSC's authority to order utilities to provide generation open access on a pilot basis. A decision is expected, later in 1999, which could require the enactment of enabling legislation before generation open access can be implemented. The Upper Peninsula utilities, including WPSC and UPPCO, may file an agreement with the MPSC this spring calling for open access for all Upper Peninsula customers by January 1, 2002. This agreement may include a condition setting the agreement aside if the Supreme Court decides the MPSC does not have the authority to order open access.

Customer Rates

WPSC is the lowest cost provider of electric service in Michigan for all customer classes. WPSC's electric rates are 80% of the Michigan residential customer average rate and 87% of the large industrial average rate.

Other than power supply cost recovery, WPSC has not had an electric rate increase in Michigan since 1987.

UPPCO's retail base rates are frozen until January 1, 2001 as part of the merger agreement between WPSC and UPPCO. This rate freeze does not affect power supply cost recovery. UPPCO is required to obtain MPSC approval each year to recover projected power supply costs. Over or under recovery amounts are deferred on UPPCO's balance sheet, and such deferrals are relieved as refunds or additional billings are recorded.

Regulatory Matters in the FERC Jurisdiction

Wholesale Status

WPSC procures, packages, markets, and sells electric energy, capacity, ancillary services, and other associated energy-related products and services primarily to municipal electric utilities and electric distribution cooperatives. In 1998, WPSC provided 27 wholesale electric customers with either all or a portion of their power supply needs. The customer mix in 1998 included seven municipal customers, three electric cooperatives, ten investor-owned utilities, six marketers, and one municipal joint action agency. The total wholesale sales for resale in 1998 were approximately 2.0 million megawatts of firm and various levels of interruptible service. The total wholesale sales for resale represented 17% of WPSC's electric sales volume in 1998 compared with 16% in 1997.

Forces that continue to influence the wholesale electric market are: transmission availability, including transfer capability; the availability of reliable and economically-priced capacity and energy in the region; changing market participation (both suppliers and consumers); state and federal regulatory and legislative agendas; and uncertainties regarding the timing and pace of deregulation.

Industry Restructuring

As part of the FERC's approval of the WPSR/UPEN merger, UPPCO's wheeling tariff filed in response to FERC Order 888 was set for review and approval by the FERC. Settlement discussions with the FERC staff have been ongoing since mid-year 1998. The final tariff will result in a combined WPSC/UPPCO document, with zonal rates for service to delivery points within each utility's service area.

The FERC waiver of UPPCO's need to comply with Order 889 was rescinded and, as a result, the power marketing and transmission operations functions for UPPCO will be separated, using WPSC operating personnel.

Customer Rates

WPSC has not had a FERC wholesale rate case since 1987.

UPPCO's wholesale tariff rates include a base rate charge and are subject to a fuel clause (such clause includes certain purchased power costs), with a 30-day billing lag without reconciliation provisions. Most of UPPCO's wholesale customers are now taking service under special contracts.

In 1998, the FERC approved WPSC's settlement with its wholesale customers in regard to open access transmission rates filed in response to FERC Order 888. The open access transmission rates settlement will be in effect for two years beginning with their implementation in 1997. The FERC also approved WPSC's request for authority to use market-based rates.

Transmission Interface

Wisconsin Public Power, Inc. requested transmission service across the WPSC and Wisconsin Power and Light Company portions of the constrained Minnesota to eastern Wisconsin interface to serve five of Wisconsin Public Power, Inc.'s municipal customers (Sturgeon Bay, Algoma, Eagle River, New Holstein, and Two Rivers) in the Wisconsin Power and Light Company control area. The interface is owned by Wisconsin Electric Power Company (52%), Wisconsin Power and Light Company (28%), and WPSC (20%). Due to disagreements between the parties as to who had rights to the use of the constrained interface pursuant to the FERC's recently developed first-come, first-served transmission scheduling process, complaints were filed by WPSC, Wisconsin Public Power, Inc. and Madison Gas and Electric Company, who also joined the complaint process in connection with previous applications. The FERC determined that WPSC had legitimate network service contracts but had made an error in applying its rights to extend use of the interface, and granted Wisconsin Public Power, Inc. the requested interface capacity. Wisconsin Public Power, Inc. eventually took the interface capacity from Wisconsin Power and Light Company which was also under FERC orders to provide this transmission service.

The complaint included a claim that WPSC used the Capacity Benefit Margin in determining its available transmission capacity. Capacity Benefit Margin is the use of the transmission system to provide reserve generation capacity for reliability of the system. The FERC is expected to address this issue on a national basis during 1999.

Hydroelectric Licenses

All of WPSC's hydroelectric facility licenses, issued by FERC, are current.

All of the licenses for UPPCO's hydroelectric facilities, except for Bond Falls and Dead River, are current. In 1998, UPPCO reached agreement on the term of a settlement agreement with federal and state agencies and special interest groups with regard to the Bond Falls license. This agreement will provide the basis for the new FERC license which will have a term of 40 years. The new license is expected to be issued in 1999. The Dead River project licensing is progressing. A long-term water lease agreement was reached with the adjacent landowners. The FERC license for the Dead River project is expected in the last quarter of 1999, with a 40-year term from August 1991, the date the FERC claimed jurisdiction over the project.

Other Matters

Research and Development

Electric research and development expenditures totaled $1.5 million for 1998, $1.3 million for 1997, and $1.9 million for 1996. These expenditures were made for WPSC sponsored projects and were primarily charged to electric operations.

Customer Segmentation

Twenty-eight paper mills account for 12% of WPSC's electric revenues. There is no single customer, or small group of customers, the loss of which would have a materially adverse effect on the electric business of WPSC under the current regulatory environment.

Electric Financial Summary

The following table sets forth the revenues, net income, and assets attributable to electric utility operations:

Electric Utility Operations (WPSC and UPPCO)

(Thousands)	Year Ended December 31		
	1998	1997	1996
Consolidated Electric Operating Revenues	$ 543,260	$ 536,885	$ 548,701
Net Income	$ 50,488	$ 53,294	$ 59,907
Total Assets	$1,117,438	$1,089,875	$1,095,996

See Note 13 in Notes to Consolidated Financial Statements at pages 107 and 108. The consolidated electric operating revenues, above, reflect the elimination of intercompany sales and do not agree with regulated electric operating revenues shown in Note 13, Segments of Business, which do not reflect such elimination.

ELECTRIC OPERATING STATISTICS

WISCONSIN PUBLIC SERVICE CORPORATION

	1998	1997	1996
Operating revenues (Thousands)			
Residential and farm	$164,961	$163,766	$169,587
Small commercial and industrial	141,203	138,949	144,055
Large commercial and industrial	119,601	120,312	118,997
Resale and other	61,575	56,361	57,867
Total	$487,340	$479,388	$490,506
Kilowatt-hour sales (Thousands)			
Residential and farm	2,627,496	2,565,432	2,570,397
Small commercial and industrial	3,004,134	2,876,832	2,761,278
Large commercial and industrial	3,977,829	3,943,275	3,744,153
Resale and other	1,990,705	1,873,788	1,936,014
Total	11,600,164	11,259,327	11,011,842
Customers served (End of period)			
Residential and farm	339,881	334,134	328,522
Small commercial and industrial	40,247	39,400	38,376
Large commercial and industrial	211	197	168
Resale and other	853	836	826
Total	381,192	374,567	367,892
Annual average use (Kilowatt-hours)			
Residential and farm	7,803	7,751	7,905
Small commercial and industrial	75,537	74,082	72,995
Large commercial and industrial	18,978,191	21,606,984	22,115,491
Average kilowatt-hour price (Cents)			
Residential and farm	6.28	6.38	6.60
Small commercial and industrial	4.70	4.83	5.22
Large commercial and industrial	3.01	3.05	3.18
Production capacity (Summer - kilowatts)			
Steam	1,307,800	1,326,000	1,325,400
Nuclear	205,200	212,200	213,800
Hydraulic	53,000	53,000	53,100
Combustion turbine	206,340	205,930	208,600
Other	7,800	7,800	4,200
Purchased capacity	14,750	14,750	27,250
Total system capacity	1,794,890	1,819,680	1,832,350
Generation and purchases (Thousands of kilowatt-hours)			
Steam	8,513,537	8,213,518	7,956,378
Nuclear	1,526,702	973,485	1,305,751
Hydraulic	212,607	351,034	359,750
Purchases and other	1,994,826	2,327,334	2,050,762
Total	12,247,672	11,865,371	11,672,641
Steam fuel costs (Cents per million Btu)			
Fossil	105.353	110.124	115.132
Nuclear	41.565	43.174	46.674
Total	95.735	103.093	105.439
System peak - firm (kilowatts)	1,685,000	1,607,000	1,578,000
Annual load factor	78.35%	79.42%	78.20%

ELECTRIC OPERATING STATISTICS

UPPER PENINSULA POWER COMPANY

	1998	1997	1996
Operating revenues (Thousands)			
Residential and farm	$21,894	$22,626	$23,554
Small commercial and industrial	16,688	16,611	16,833
Large commercial and industrial	9,773	9,271	8,405
Resale and other	14,310	11,694	9,586
Total	$62,665	$60,202	$58,378
Kilowatt-hour sales (Thousands)			
Residential and farm	241,517	252,897	259,807
Small commercial and industrial	223,282	223,040	220,609
Large commercial and industrial	225,565	222,143	188,722
Resale and other	148,153	147,297	152,173
Total	838,517	845,377	821,311
Customers served (End of period)			
Residential and farm	42,783	42,551	42,315
Small commercial and industrial	5,286	5,254	5,155
Large commercial and industrial	9	8	8
Resale and other	194	190	190
Total	48,272	48,003	47,668
Annual average use (Kilowatt-hours)			
Residential and farm	5,646	5,945	6,140
Small commercial and industrial	42,239	42,454	42,800
Large commercial and industrial	25,062,778	26,708,834	23,072,194
Average kilowatt-hour price (Cents)			
Residential and farm	9.07	8.95	9.07
Small commercial and industrial	7.48	7.45	7.63
Large commercial and industrial	4.34	4.17	4.45
Production capacity (Summer - kilowatts)			
Steam	17,700	17,700	17,700
Hydraulic	30,000	30,000	30,000
Combustion turbine	55,000	55,000	55,000
Purchased capacity	55,000	65,000	65,000
Total system capacity	157,700	167,700	167,700
Generation and purchases (Thousands of kilowatt-hours)			
Steam	4,029	(298)	(327)
Hydraulic	97,988	138,923	172,391
Purchases and other	5,230	795,599	722,614
Total	107,247	934,224	894,678
Steam fuel costs (Cents per million Btu)			
Fossil	2.67943	-	-
System peak - firm (kilowatts)	137,000	138,600	137,000
Annual load factor	74.44%	73.23%	73.23%

C. GAS MATTERS

Wisconsin Public Service Corporation's Gas Market

As of December 31, 1998, WPSC provided natural gas distribution service to 218,857 customers in 221 cities, villages, and towns in northeastern and central Wisconsin, and 5,201 customers in and around the city of Menominee, Michigan, for a total of 224,058 gas distribution customers. This represents an increase of 5,759 customers, or 2.6%, compared to December 31, 1997. The principal cities served by WPSC include Green Bay, Oshkosh, Sheboygan, Two Rivers, Marinette, Stevens Point, and Rhinelander, all in Wisconsin, and the city of Menominee in Michigan.

WPSC's gas distribution business has a significant seasonal component and is impacted by varying weather conditions from year-to-year. In 1998, 66.0% of WPSC's gas sales and 58.3% of WPSC's total gas system throughput (i.e., total gas delivered by WPSC--includes gas sales and gas delivered for transportation customers) occurred during the five winter months of November through March. Competition with other forms of energy exists in varying degrees, particularly for large commercial and industrial customers who have the ability to switch between natural gas and alternate fuels. WPSC offers interruptible gas sales and gas transportation service for these customers to enable them to reduce their energy costs and use natural gas instead of other fuels. There are currently 282 gas transportation customers on the WPSC system. These customers purchase their gas from other suppliers and contract with WPSC to transport the gas from ANR Pipeline Company to the customer's facilities. Another 134 customers still purchase their gas commodity from WPSC but have elected to do so on an interruptible basis. Additional customers are switching from firm system supply to either interruptible system supply or transportation service each year as the economics and service options become attractive for them.

WPSC's gas operations also provide interruptible gas service to WPSC's electric operations for power generation in combustion turbine peaking generators and for start-up, flame stabilization, and peaking use at WPSC's Weston and Pulliam coal-fired steam plants.

Gas sales for customer-owned power generation use are provided on an interruptible basis, with the power plants maintaining alternate fuel capability. In 1999, WPSC will begin to provide interruptible gas supplies to the De Pere Energy Center, and in 2000, WPSC will also provide interruptible gas supplies to a combustion turbine owned by Madison Gas and Electric Company.

Total gas deliveries by WPSC in 1998, including customer-owned gas transported by WPSC, were 60,944,394 dekatherms, a 9.4% decrease as compared with 1997 due to warmer than normal weather. A dekatherm is equivalent to 10 therms or 1 million Btu of energy. Of the total gas delivered, 26,557,300 dekatherms, or approximately 43.6%, was gas transported for end-user transport customers.

WPSC's peak day gas throughput in 1998 occurred on January 13 with 390,971 dekatherms total gas throughput at an average Green Bay temperature of minus 1.6 degrees Fahrenheit. This compares with WPSC's record gas system throughput of 432,928 dekatherms set on February 2, 1996 at an average Green Bay temperature of minus 23.8 degrees Fahrenheit.

Gas Supply

General

Since the implementation of FERC Order 636 in November 1993, WPSC has had full responsibility for the design, acquisition, and management of gas supplies and the pipeline transportation and storage services required to meet the varying daily, seasonal, and annual load requirements of its customers. WPSC manages a portfolio of gas supply contracts, pipeline transportation, and storage services designed to reliably meet WPSC's varying load pattern at the lowest reasonable cost.

Pipeline Capacity and Storage

WPSC is presently directly served by a single interstate pipeline, ANR Pipeline Company. Because ANR Pipeline Company's pipeline system in Wisconsin has reached its maximum capacity, and because lower prices are generally available in other areas where there is competition for pipeline services, WPSC is investigating potential suppliers of pipeline services in addition to those offered by ANR Pipeline Company.

Previously, WPSC had contemplated the construction of natural gas laterals to connect the WPSC gas distribution system to a proposed Viking Voyageur gas pipeline. However, in May of 1998, that pipeline was placed on hold at the FERC with the Viking Voyageur partners instead contemplating replacing the proposed gas pipeline from Canada with a pipeline from Chicago to Wisconsin. Subsequently, that project was withdrawn. However, similiar projects are being studied by other third parties. At this time, it is not known whether WPSC will be connecting to any pipeline from the Chicago area. WPSC, however, continues to study various options to bring a competitive gas pipeline into the WPSC gas service territory.

ANR Pipeline Company's system serving WPSC directly or indirectly accesses three major gas producing areas of North America: (1) the Gulf of Mexico, (2) the mid-continent areas of Oklahoma, Texas, and Kansas, and (3) the Province of Alberta in western Canada. WPSC holds firm long-term transportation capacity on ANR Pipeline Company in roughly equal proportions from each of these three supply areas. The term of these ANR Pipeline Company firm transportation contracts from the Gulf Coast and mid-continent areas extends through October 2003. WPSC holds firm transportation capacity with Viking Gas Transmission Company, to deliver gas on a firm basis from Viking Gas Transmission Company's interconnection with TransCanada Pipelines at Emerson, in the Canadian Province of Manitoba, to the interconnection with ANR Pipeline Company at Marshfield, Wisconsin. The Canadian suppliers, from whom WPSC purchases gas, hold firm capacity on TransCanada Pipelines from Emerson back into the production areas in Alberta, Canada.

In 1998, WPSC entered into a project with Wisconsin Electric Power Company - Gas Operations for construction of a pipeline. This jointly-owned eight-inch pipeline is interconnected with Great Lakes Gas Transmission Company in the Upper Peninsula of Michigan near Watersmeet and provides an alternate source of supply into northern Wisconsin. In order to serve this pipeline, WPSC modified and extended the term of portions of its existing pipeline capacity and storage contracts with ANR Pipeline Company and added a new transportation service on Great Lakes Transmission Company's pipeline to deliver up to 7,000 dekatherms per day into the jointly-owned pipeline system during the winter periods.

Because of the substantial daily and seasonal swings in gas usage in WPSC's service territory, WPSC also has contracted with ANR Pipeline Company for firm underground storage capacity located in Michigan. There are no known geological formations in Wisconsin capable of being developed into underground storage facilities.

Besides providing WPSC the ability to manage significant changes in daily gas demand, storage also provides WPSC the ability to purchase gas from the production areas at high load factors, thus minimizing supply costs. During the summer, gas purchased in excess of market demand is injected into storage. During the winter, gas is withdrawn from storage and combined with gas purchased in the production areas to meet the increased winter demand. Gas from storage provides up to 65% of WPSC's supply on winter peak days, approximately 34% of WPSC's winter sales volumes, and approximately 23% of WPSC's total annual sales volumes. WPSC's total firm storage capacity with ANR Pipeline Company is 11.3 million dekatherms.

For peak day needs, WPSC also contracts with third-party suppliers for high deliverability storage in the Gulf Coast and/or mid-continent production areas during the winter. This storage capacity provides a back-up supply of gas into WPSC's transportation contracts when other supplies cannot be delivered due to production supply losses caused by extremely cold weather in the production areas.

Supply Contracts

WPSC contracts for firm term supplies with approximately 12 to 16 suppliers each year for gas produced in each of the 3 production areas. WPSC initially designed its supply portfolio with terms ranging from one to ten years so that only a portion of WPSC's supply contracts expired in any given year. As long-term contracts expire, WPSC has been replacing them with contracts of a one-year term or less due to the current uncertainty regarding the role of the gas utility in continuing the gas supply function. This will minimize potential stranded gas supply contract costs if retail gas deregulation should proceed quickly in Wisconsin. WPSC's supply portfolio, as of December 31, 1998, contained contracts with remaining terms ranging from five months to five years.

Additional supplies are purchased on the monthly spot market as required to supplement supplies from long-term firm contracts. WPSC has been an active spot market purchaser since 1985 and has contracts in place with a number of suppliers of spot market gas.

Regulatory Matters in the Wisconsin Jurisdiction

Industry Restructuring

During 1998, there was little progress on gas restructuring issues in Wisconsin because the PSCW's primary focus was on electric reliability issues.

The PSCW has an ongoing investigation into gas industry restructuring. Phase I of this investigation addresses the issues of unbundling rates, pricing of contracted service in potential utility bypass situations, and separation of the gas distribution function from the gas supply function. Phase II establishes standards of conduct regarding how gas utilities can interact with their marketing affiliates. Phase III explores the issue of how to determine when a competitive market exists for various segments of customers. This investigation could find that a regulated utility in the Wisconsin jurisdiction cannot sell natural gas in a market which is considered to be competitive.

Because of the complexity of the issues involved, industry work groups were formed to study particular issues and bring recommendations back to the PSCW. The work groups will study issues regarding: (1) pipeline capacity, (2) market-based pricing for interruptible customers, (3) end-user price reporting, (4) marketer certification, (5) changes needed in the form of legislation or administrative rules, and (6) essential natural gas services and gas consumer protections. The study is expected to be completed in November of 1999.

A separate docket was opened to assist the work group dealing with essential natural gas services and gas consumer protection issues to ensure a customer safety net in the transition to and within a restructured gas industry environment. The work group's report is expected to be completed in early 1999. Based on this report, the PSCW will forward recommendations to the legislature for proposed changes in the law.

Cost Recovery Mechanism

The PSCW investigated alternatives to gas cost recovery mechanisms in light of the evolving natural gas market. In November 1996, the PSCW issued an order which gave gas utilities a choice between continuing under a modified one-for-one gas cost recovery mechanism, or switching to a mechanism called performance-based rates. Under performance-based rates, gas utilities may keep a portion of any cost savings relative to a gas cost target value. WPSC elected to continue under a modified one-for-one mechanism. This mechanism returns all savings to customers and maintains appropriate regulatory oversight. In December 1998, the PSCW issued an order authorizing WPSC's modified one-for-one gas cost recovery mechanism with a start date of January 1, 1999.

Customer Rates

On January 14, 1999, the PSCW authorized a $10.3 million, or 5.1%, increase in WPSC's retail natural gas rates. The rates are effective January 15, 1999. WPSC has among the lowest gas rates in Wisconsin with rates being 93% of the state average for residential rates and 91% for commercial rates.

WPSC anticipates filing an application with the PSCW on April 1, 2000, for new gas rates to be effective for the years 2001 and 2002.

Regulatory Matters in the Michigan Jurisdiction

Industry Restructuring

The MPSC is also investigating the deregulation of retail gas markets and expansion of gas transportation service in Michigan. The MPSC decided it would be appropriate to conduct a series of pilot projects to test the development of competitive retail gas markets in Michigan. Michigan's four largest gas utilities were approached by the MPSC regarding development and implementation of pilot programs.

Because of the small size and limited number of customers in WPSC's Michigan service territory and the service territories of two other utility companies, the MPSC did not conduct pilot transportation programs for these three utilities.

Customer Rates

WPSC has not had a natural gas rate case in Michigan since 1986.

Regulatory Matters in the FERC Jurisdiction

WPSC's involvement in federal regulatory activities in the natural gas area has been through the Wisconsin Distributor Group which is made up of several Wisconsin gas utilities. Over the past several years, the Wisconsin Distributor Group has participated in numerous dockets filed by ANR Pipeline Company, Viking Gas Transmission Company, and the FERC. Although Wisconsin Distributor Group members may file individual interventions, the bulk of the interventions have been done through the group. Past successes by the Wisconsin Distributor Group in various FERC dockets have resulted in substantial refunds for natural gas customers in Wisconsin as well as lower pipeline transportation rates charged by ANR Pipeline Company.

WPSC and Wisconsin Distributor Group are participating in several FERC dockets as described below.

Viking Gas Transmission Company, supported by its incremental shippers, is seeking rolled-in rate treatment for recent expansions on its pipeline system in a rate case. The impact of this rate treatment would result in a rate increase for existing shippers, such as WPSC, and a rate decrease for incremental shippers. The Wisconsin Distributor Group and existing shippers on Viking Gas Transmission Company's pipeline are proposing phase-in of system expansion costs to minimize rate shock and minimize overall costs to their customers.

In a notice of proposed rulemaking on short-term natural gas transportation services, the FERC is seeking to eliminate cost-based regulation in the short-term market and to foster competition as a way to protect against the exercise of market power. The FERC's main focus has been a proposed daily auction of pipeline capacity. Currently, the Wisconsin Distributor Group and WPSC do not support the FERC's proposed mandatory auction. Instead, the Wisconsin Distributor Group and WPSC believe increased reporting and disclosure requirements may be enough to meet the FERC's goal of stimulating competition.

In a notice of inquiry on regulation of interstate natural gas transportation services, the FERC is seeking comments on its pricing policies in the existing long-term market and on its pricing policies for new capacity. The Wisconsin Distributor Group and WPSC support the FERC's efforts to formulate pro-competitive, long-term pricing policies to ensure that the FERC continues to fulfill its statutory obligation to protect consumers while also encouraging the evolution of a competitive natural gas industry.

Gas Financial Summary

The following table sets forth the amounts of revenues, net income, and assets attributable to gas utility operations:

Gas Utility Operations (WPSC)

(Thousands)	Year Ended December 31		
	1998	1997	1996
Consolidated Gas Operating Revenues	$165,111	$211,090	$211,357
Net Income	$ 5,912	$ 7,878	$ 2,350
Total Assets	$246,365	$246,842	$268,622

See Note 13 in Notes to Consolidated Financial Statements at pages 107 and 108.

GAS OPERATING STATISTICS

WISCONSIN PUBLIC SERVICE CORPORATION

	1998	1997	1996
Operating revenues (Thousands)			
Residential	$ 96,223	$122,782	$122,224
Small commercial and industrial	19,333	23,790	22,392
Large commercial and industrial	37,482	53,517	55,211
Other	12,073	11,001	11,530
Total	$165,111	$211,090	$211,357
Therms delivered (Thousands)			
Residential	172,007	202,558	216,963
Small commercial and industrial	38,104	43,056	46,614
Large commercial and industrial	103,226	127,132	142,033
Other	29,182	21,148	9,709
Total therm sales	342,519	393,894	415,319
Transportation	265,573	268,114	251,279
Total	608,092	662,008	666,598
Customers served (End of period)			
Residential	203,665	198,524	192,947
Small commercial and industrial	17,656	16,770	16,133
Large commercial and industrial	2,454	2,780	2,846
Other	1	1	1
Transportation customers	282	224	167
Total	224,058	218,299	212,094
Average annual use (Therms)			
Residential	858.0	1,037.3	1,146.6
Small commercial and industrial	2,207.5	2,619.4	2,937.2
Large commercial and industrial	40,792.7	45,558.7	51,882.4
Average therm price (Cents)			
Residential	55.94	60.62	56.33
Small commercial and industrial	50.74	55.25	48.04
Large commercial and industrial	36.31	42.10	38.87

D. NONREGULATED BUSINESS ACTIVITIES

General

The energy marketplace in the United States is moving toward deregulation and a competitive, commodity-driven environment which is leading to a significant change for vertically integrated utilities in general and for WPSR specifically. WPSR has a strategy to participate nationally in both the existing and the new energy marketplaces.

WPSR is transitioning from a monopoly environment to a competitive, commodity-driven environment. This involves significant investment in technical support systems such as billing, communications, software, and hardware, in addition to addressing human resource issues relating to training, hiring, and retaining qualified employees and also aligning benefit and incentive packages with a competitive environment.

At the end of 1998, WPSR had two principal nonregulated subsidiaries: ESI and PDI. These subsidiaries were formed in 1994 and 1995, respectively, for the purpose of positioning WPSR strategically for participation in nonregulated energy markets.

WPS Energy Services, Inc.

ESI is a diversified energy company. ESI targets retail energy sales and related services in midwestern and eastern states with an emphasis on serving commercial, industrial, and wholesale customers. Principal operations are located in Illinois, Michigan, Ohio, and Wisconsin. ESI also is participating in retail pilot projects in each of these states. Wholesale energy sales and related services are provided nationwide.

ESI provides electric, natural gas, and alternate fuel products; real-time energy management services; and project management and energy utilization consulting.

The gas markets in which ESI participates are characterized by strong competition, narrow margins, and volatile commodity and transportation prices. ESI uses various financial instruments to minimize the risks present in energy markets. See NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Note 1(e) at page 84 regarding "Price Risk Management Activities."

Revenues at ESI were $351.3 million in 1998 compared with $189.4 million in 1997, an increase of 85.5%. Electric retail access has been slow to develop in ESI's target market areas. ESI's strategy is to bring electric products and services to existing gas customers.

ESI experienced a loss of $6.9 million in 1998 compared with a loss of $4.9 million in 1997, an increase of 40.8%. The primary reasons for the loss at ESI were increased electric and gas trading losses primarily due to market volatility, and higher operating expenses due to expansion of the energy trading business. Partially offsetting these factors was an increase in the gas margin.

WPS Power Development, Inc.

PDI develops and owns electric generation projects and provides services to the electric power generation industry nationwide. PDI's services include acquisition and investment analysis, project development, engineering and management services, and operations and maintenance services. PDI's areas of expertise include cogeneration, distributed generation, generation from renewables, and generation plant repowering projects.

An emerging trend in the restructuring of the electric utility industry is the divestiture of generation facilities. PDI is continually monitoring and assessing investment opportunities in this area. PDI owns a two-thirds interest in the Stoneman Power Plant, a 55-megawatt merchant steam plant located in Cassville, Wisconsin. The redevelopment of the plant as a 300-megawatt to 500-megawatt gas-fired combined cycle facility is planned for the 2002 time period.

PDI was the successful bidder for the purchase of approximately 92 megawatts of hydroelectric and oil-fired facilities from Maine Public Service Company. PDI is awaiting regulatory approvals required to conclude this transaction. The asset acquisition is expected to close in the second quarter of 1999.

In 1998, PDI entered into a joint venture with an affiliate of Earthco, a Nevada corporation, to turn residue from coal mining at the Alabama Land & Minerals site in Jasper County, Alabama into briquettes. The project began operation in June 1998 and is eligible to receive federal tax credits because of the briquette's status as a synthetic fuel.

PDI experienced a loss of $2.4 million in 1998 compared with a $1.9 million loss in 1997, an increase of 26.3%. The increased loss at PDI was primarily due to additional expenses incurred in 1998 for the start up of new projects.

See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION at page 65 for additional information regarding nonregulated operations.

E. ENVIRONMENTAL MATTERS

General

WPSC is subject to regulation with regard to the impact of its operations on air and water quality and solid waste disposal, and may be subject to regulation with regard to other environmental considerations by various federal, state, and local authorities. The application of federal and state restrictions to protect the environment involves or may involve review, certification, or issuance of permits by various federal and state authorities, including the United States Environmental Protection Agency and the Wisconsin Department of Natural Resources. Such restrictions (particularly in regard to emissions into the air and water, and solid waste disposal) may limit, prevent, or substantially increase the cost of the operation of WPSC's generating facilities and may require substantial investments in new equipment at existing installations. Such restrictions may also require substantial additional investments for any new projects and may delay or prevent authorization and completion of the projects. WPSC cannot forecast the effects of such regulation upon its generation, transmission, and other facilities, or its operations, but WPSC believes that it is presently meeting existing requirements.

Air Quality

WPSC's generation plants are in compliance with all current sulfur dioxide, nitrogen oxide, and particulate emission standards.

The Federal Clean Air Act Amendments of 1990, hereinafter referred to as the Clean Air Act, required reductions in sulfur dioxide in 1995 (Phase I) to meet limitations based on an emission rate of 2.5 pounds per Btu multiplied by a historical generation baseline for Pulliam Unit 8 and Edgewater Unit 4 generation units. The Clean Air Act requires further reductions beginning in the year 2000 (Phase II). The year 2000 limits are based on an emission rate of 1.2 pounds per million Btu multiplied by a historical generation baseline for all generation units. WPSC's generation facilities met the year 2000 standard in 1995. WPSC achieved compliance with Wisconsin and federal sulfur dioxide emission limitations by switching to low sulfur coal.

Because of the emission allowance system included in the Clean Air Act, operations during Phase I produce surplus allowances which will be available to aid in compliance with the requirements of Phase II. To the extent WPSC determines that it will have allowances available beyond its own requirements in both Phase I and Phase II, it will consider the sale of the excess allowances. The PSCW has ordered that profits from the sale of allowances be used to benefit utility customers.

The Clean Air Act also requires the installation of low nitrogen oxide burners on several units. Low nitrogen oxide burners were installed at Pulliam Unit 8 early in 1994. Phase I of the Clean Air Act allows units smaller than 100 megawatts, such as Pulliam Unit 7, to be designated Phase I units, thus building up sulfur dioxide credits. Having made this election, low nitrogen oxide burners were installed on Pulliam Unit 7 in 1994. Low nitrogen oxide emissions from Pulliam Units 7 and 8 and Weston Unit 3 are averaged with Weston Units 1 and 2. This averaging plan generates additional emission allowances in Phase I and locks in Phase I nitrogen oxide limits for these units. This should reduce Phase II compliance costs.

Expenditures of $1.0 million to $2.0 million for Phase II of the Acid Rain Program are projected through 1999 to assure nitrogen oxide emission compliance at the Pulliam and Weston plants.

In September of 1998, the Environmental Protection Agency required certain states, including Wisconsin, to develop plans to reduce the emissions of nitrogen oxides from sources within the state by May of 2003. On a preliminary basis, WPSC projects potential capital costs of between $37.0 million and $96.0 million to comply with possible future regulations. The cumulative incremental annual operating and maintenance expense associated with these possible future regulations projected to be incurred by 2010 range from $29.0 million to $106.0 million. The costs will depend on the state-specific compliance method to be adopted in the future as well as the effectiveness of the various technologies available for nitrogen oxide emission control. Under WPSC's current practice, the capital costs (as reflected in depreciation expenses) and the annual operating costs are anticipated to be recovered through rates charged to customers. On December 24, 1998, WPSC and five other parties filed a petition challenging the Environmental Protection Agency's regulations that required Wisconsin to prepare and submit the Nitrogen Oxide State Implementation Plan (Wisconsin Paper Council v. U.S. Environmental Protection Agency, Case No. 98-4269 (7th Cir. 1998)). On January 22, 1999, the State of Wisconsin moved to intervene in the litigation and challenged the geographic scope of the rule (as applied to Wisconsin) and the time by which nitrogen oxide controls must be implemented by facilities in the state. No decisions have been rendered on the merits of the case.

Toxic air provisions in the Act will not be applied until the Environmental Protection Agency determines if those standards need to be applied to utilities.

Water Quality

WPSC is subject to regulation by the Environmental Protection Agency and the Department of Natural Resources with respect to thermal and other discharges into Lake Michigan and other waters of Wisconsin from WPSC's power plants. Wastewater discharge permits with a term of five years were reissued by the Department of Natural Resources to WPSC for the Kewaunee Nuclear Power Plant in 1995 and for the Pulliam and Weston power plants in 1996. No new permit conditions or associated material costs were imposed compared to permits issued during earlier renewals. Revisions to state water quality rules as a result of the Great Lakes Initiative should not result in any significant changes when wastewater permits are reissued in 2000 for Kewaunee and in 2001 for the Pulliam and Weston plants.

Gas Plant Cleanup

WPSC is investigating the cleanup of eight manufactured gas plant sites which it previously operated in Green Bay, Two Rivers, Oshkosh, Marinette, Sheboygan (two sites), Stevens Point, and Menominee (Michigan). In general, WPSC is proceeding with these projects as the designated responsible party for cleanup, although for two sites, Sheboygan II and Oshkosh, formal agreements have been executed with the Department of Natural Resources covering the investigation and restoration activities. The agreement for Sheboygan II allows WPSC to work with Wisconsin on restoration. The site is not associated with the larger Sheboygan River and Harbor Superfund site. The agreement for Oshkosh was entered into in order to resolve a unilateral administrative order that was issued by the Department of Natural Resources.

Work at the Stevens Point site was substantially completed in 1998 with monitoring of the site continuing. Cleanup costs were within the range expected for this site. Total costs of cleanup for the remaining seven sites, as estimated by an environmental consultant, should be in the range of \$33.9 million to \$41.0 million. The estimates assume removal of significantly contaminated soil and groundwater treatment and monitoring for up to 25 years, depending on site conditions. The cost estimates for five of the sites include removal and disposal of contaminated river sediments. As remedial feasibility studies and initial remedial activities are completed, remediation cost estimates may be adjusted and these adjustments could be significant. Other factors that can affect these estimates are changes in remedial technology, regulatory requirements, and experience gained through cleanup activities.

Expenditures for the gas plant sites are estimated to be made over the next 32 years. An initial liability for cleanup of $41.7 million had been established with an offsetting regulatory asset (i.e., a deferred charge). Expenditures have reduced the liability to $39.0 million at December 31, 1998. Based on discussions with regulators and a Wisconsin rate order, management believes that these costs, but not the carrying costs associated with the deferred charges, will be recoverable in future customer rates. WPSC filed with and received an order from the MPSC authorizing WPSC to defer the Michigan portion of these costs, using Wisconsin methods for future cost recovery.

The cost estimates presented above do not take into consideration any recovery from insurance carriers or other third parties which WPSC has obtained. Insurance recoveries are deferred as a reduction to the regulatory asset; therefore, neither adjustments to the estimated liability nor insurance recoveries have an immediate impact on net income. To date, WPSC has received insurance settlements of approximately $12.6 million, thereby reducing the regulatory asset to $29.0 million at December 31, 1998.

Ash Disposal Site

The ash disposal site for UPPCO's John H. Warden Station was closed to receiving ash in 1993. Subsequent groundwater testing indicated elevated levels of boron and lithium. Supplemental remedial investigations were performed and a revised remedial action plan was developed. The plan will be submitted to the Michigan Department of Environmental Quality for approval in 1999. An estimated liability of $1.5 million and a regulatory asset of $1.3 million has been recorded for future costs associated with this site.

F. CAPITAL REQUIREMENTS

WPSR's principal utility subsidiary, WPSC, makes large investments in capital assets. Construction expenditures for WPSC are expected to be approximately $250.0 million in the aggregate for the 1999 through 2001 period. This includes expenditures for the replacement of the Kewaunee Nuclear Power Plant's steam generators.

In addition, other capital requirements for WPSC for the three-year period include Kewaunee decommissioning trust fund contributions of $16.8 million.

WPSC's agreement to purchase electricity from the De Pere Energy Center will be accounted for as a capital lease. While not a capital expenditure, the $77.8 million lease will affect the capital structure beginning in 1999.

WPSR's other utility subsidiary, UPPCO, will incur construction expenditures of approximately $23.0 million for the period 1999 through 2001, primarily for electric distribution improvements.

Investment expenditures for nonregulated projects are uncertain since there are few firm commitments at this time. Approximately $38.0 million will be incurred in 1999 to purchase generating units located in the State of Maine and in the Canadian Province of New Brunswick. Financing for most nonregulated projects is expected to be obtained through a subsidiary, WPS Resources Capital Corporation, which was formed in January 1999 to obtain funding for those projects.

WPSR will use internally-generated funds and short-term borrowing to satisfy most of its capital requirements. WPSR may periodically issue medium-term debt, additional long-term debt, and common stock to reduce short-term debt and to maintain desired capitalization ratios.

The specific forms of financing, amounts, and timing will depend on the availability of projects, market conditions, and other factors. At this time, however, it is anticipated that common stock will be issued by WPSR in mid-1999. WPSR began issuing new shares of common stock for the Stock Investment Plan in January 1999. WPSR may also expand its leveraged employee stock ownership plan during the three-year period.

See NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Note 10 at page 104 regarding "Future Utility Expenditures."

G. EMPLOYEES

At December 31, 1998, WPSR, including all of its subsidiaries, employed 2,673 persons. Of this number, 2,372 employees were employed by WPSC and 195 were employed by UPPCO.

Of the employees of WPSC, 1,876 were considered electric utility employees and 496 were considered gas utility employees. Local 310 of the International Union of Operating Engineers represents 1,184 of WPSC's employees.

On April 24, 1998, WPSC signed a contract with IUOE Local 310. That contract will expire on October 28, 2000.

Of the employees of UPPCO, 131 are represented by Local 510 of the International Brotherhood of Electrical Workers, AFL-CIO. The current collective bargaining agreements for Local 510 expire on April 30, 1999.

ITEM 2. PROPERTIES

A. UTILITY

WPSC's Facilities

The following table includes information about the electric generation facilities of WPSC, including jointly-owned facilities:

Type	Name	Location	Fuel	Rated Capacity (a) (Kilowatts)
Steam	Pulliam	Green Bay, WI	Coal	402,400 (b)
	Weston	Wausau, WI	Coal or Gas	480,100 (c)
	Kewaunee	Kewaunee, WI	Nuclear	210,500 (d)
	Columbia - Units No. 1 & 2	Portage, WI	Coal	340,200 (d)
	Edgewater Unit No. 4	Sheboygan, WI	Coal	110,700 (d)
Total Steam				1,543,900
Hydro	Various (15 Plants)			68,400 (e)
Combustion Turbine & Diesel	Various (8 Plants)		Gas, Oil, or Diesel	267,096 (f)
Total System				1,879,396

(a) Based on winter 1998-1999 capacity ratings.

(b) This plant has six units.

(c) This plant has three units. Two units burn only coal and the other unit can burn coal or natural gas.

(d) These facilities are jointly-owned by WPSC, Wisconsin Power and Light Company, and Madison Gas and Electric Company. The Kewaunee Nuclear Power Plant is operated by WPSC. The Columbia and Edgewater units are operated by Wisconsin Power and Light Company. The capacity indicated is WPSC's portion of total plant capacity based on the percent of ownership. The Kewaunee Nuclear Power Plant's ownership is based on the percent of ownership before the proposed acquisition by WPSC of Madison Gas and Electric Company's share of the plant.

(e) Includes 12,900 kilowatts purchased from Wisconsin River Power Company.

(f) WPSC and the Marshfield Electric and Water Department jointly own 112,200 kilowatts of combustion turbine peaking capacity which WPSC operates.

WPSC owns 56 transmission substations with a transformer capacity of 5,649,710 kilovolt-amperes, 111 distribution substations with a transformer capacity of 3,018,420 kilovolt-amperes, 1,549 miles of electric transmission lines, and 19,556 miles of electric distribution lines.

Gas properties include approximately 4,774 miles of main, 70 gate and city regulator stations, and 209,419 lateral services. All gas facilities are located in Wisconsin except for distribution facilities in and near the city of Menominee, Michigan.

Substantially all of WPSC's utility plant is subject to a first mortgage lien.

UPPCO's Facilities

The following table includes information about the electric generation facilities at UPPCO:

Type	Name	Location	Fuel	Rated Capacity (a) (Kilowatts)
Steam	Warden (b)	L'Anse, MI	Coal/Gas	17,700
Hydro	Various (9 plants) (c)		Hydro	37,910
Combustion Turbine	Portage	Houghton, MI	Oil	27,500
	Gladstone	Gladstone, MI	Oil	27,500
Total System				110,610

(a) Based on winter-rated capacity.

(b) The J. H. Warden station is capable of burning gas and/or coal in any combination. The station was taken out of service on January 1, 1994 and is in standby or inactive reserve status.

(c) Included in the nine hydro plants are Escanaba 1, Escanaba 3 and Boney Falls, a total of 7,850 kilowatts. All energy produced at these facilities is sold directly to a paper industry customer located in Escanaba, Michigan.

UPPCO owns 806 miles of electric transmission and 2,753 miles of electric distribution lines.

Substantially all of UPPCO's utility plant is subject to a first mortgage lien.

B. NONREGULATED

The following table includes information about the jointly-owned electric generation facilities of PDI:

Type	Name	Location	Fuel	Rated Capacity (Kilowatts)
Steam	Stoneman	Cassville, WI	Coal	55,000 (a)

(a) The Stoneman facility is owned by Mid-American Power, LLC. PDI Stoneman, Inc. (a wholly-owned subsidiary of WPS Power Development, Inc.) and B. M. Stoneman, Inc., (a wholly-owned subsidiary of Burns and McDonnell) own 66-2/3% and 33-1/3%, respectively, of Mid-American Power, LLC.

ITEM 3. LEGAL PROCEEDINGS

Spent Nuclear Fuel Disposal

See the section titled Spent Nuclear Fuel Disposal under Part I, Item 1B, ELECTRIC MATTERS, Fuel Supply, at page 9 for a description of various proceedings relating to spent nuclear fuel.

Funding Decontamination and Decommissioning of Federal Facilities

See the section titled Funding Decontamination and Decommissioning of Federal Facilities under Part I, Item 1B, ELECTRIC MATTERS, Fuel Supply, at page 10 for a description of various proceedings relating to decontamination and decommissioning liabilities.

Environmental

See Part I, Item 1E, ENVIRONMENTAL MATTERS, at page 27 for a description of various proceedings relating to environmental matters.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year.

ITEM 4A. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information about outside directors is omitted for the reason that such information will be included in a proxy statement for the Annual Meeting of Shareholders of WPSR which is scheduled to be held on May 6, 1999.

A. EXECUTIVE OFFICERS OF WPS RESOURCES CORPORATION ("WPSR")

Name and Age		Current Position and Business Experience During Past Five Years	Effective Date
Larry L. Weyers	53	Chairman, President, and Chief Executive Officer	02-12-98
		President and Chief Executive Officer	05-01-97
		President and Chief Operating Officer	01-01-96
Patrick D. Schrickel	54	Executive Vice President	12-29-96
		Vice President	12-09-93
Phillip M. Mikulsky	50	Senior Vice President-Development	02-12-98
		Vice President-Development	09-01-95
		Manager-System Operations	10-01-91 *
		Director-System Operations	09-28-91 *
Daniel P. Bittner	55	Vice President and Chief Financial Officer	05-01-97
		Vice President	12-29-96
Richard E. James	45	Vice President-Corporate Planning	12-29-96
		Vice President-Corporate Planning	08-01-95 *
		Assistant Vice President-Corporate Planning	05-09-94 *
		Assistant Vice President-Rates and Economic Evaluation	03-01-92 *
Thomas P. Meinz	52	Vice President-Public Affairs	02-12-98
Bernard J. Treml	49	Vice President-Human Resources	02-12-98
Neil A. Siikarla	51	Vice President	06-01-98
		Treasurer, Northern States Power - Wisconsin	06-01-92
Glen R. Schwalbach	53	Assistant Vice President-Corporate Planning	12-29-96
		Assistant Vice President-Corporate Planning	07-28-96 *
		Assistant Vice President-Gas Engineering and Supply	06-01-90 *
Francis J. Kicsar	59	Secretary	01-01-96
Ralph G. Baeten	55	Treasurer	12-09-93
Diane L. Ford	45	Controller and Chief Accounting Officer	05-01-97
		Controller	12-15-93
Barth J. Wolf	41	Assistant Secretary and Manager-Legal Services	07-12-98
George R. Wiesner	41	Assistant Controller	12-15-96
		Director-Financial Accounting ESI/PDI	08-25-96 *
		Financial Reporting Supervisor	05-01-87 *

* Identifies experience with Wisconsin Public Service Corporation ("WPSC") for Richard E. James, Phillip M. Mikulsky, Glen R. Schwalbach, and George R. Wiesner. The other listed officers of WPSR, except for Neil A. Siikarla, are also officers of WPSC and their experience with WPSC is indicated below.

B. EXECUTIVE OFFICERS OF WISCONSIN PUBLIC SERVICE CORPORATION ("WPSC")

Name and Age		Current Position and Business Experience During Past Five Years	Effective Date
Larry L. Weyers	53	Chairman and Chief Executive Officer	02-12-98
		President and Chief Executive Officer	05-04-97
		President and Chief Operating Officer	01-01-96
		Senior Vice President-Power Supply and Engineering	08-01-95
		Vice President-Power Supply and Engineering	05-09-94
		Vice President-Energy Supply	01-01-92
Patrick D. Schrickel	54	President and Chief Operating Officer	02-12-98
		Executive Vice President	12-29-96
		Senior Vice President-Finance and Corporate Services	05-09-94
		Senior Vice President-Operations	06-01-89
Daniel P. Bittner	55	Senior Vice President-Finance	05-17-98
		Senior Vice President-Finance and Corporate Services	12-29-96
		Senior Vice President-Customer Service	05-09-94
		Senior Vice President-Finance	03-01-92
Clark R. Steinhardt	57	Senior Vice President-Nuclear Power	06-01-91
Charles A. Schrock	45	Senior Vice President-Energy Supply	12-13-98
		Vice President-Energy Supply	05-31-98
		Manager-Kewaunee Nuclear Power Plant	02-20-95
		Manager-Nuclear Engineering	10-01-91
Bradley W. Andress	44	Vice President-Marketing	09-01-98
		Vice President-Marketing, Lund Holding Intrntl.	10-28-95
		Vice President-Sales, Plastics Inc, Div. of Newell	11-01-94
		Vice President-Marketing, Anchor Plastics Division of Newell	08-01-91
Ralph G. Baeten	55	Vice President-Treasurer	08-01-95
		Treasurer	03-01-92
Mark L. Marchi	51	Vice President-Nuclear	12-13-98
		Site Vice President-Kewaunee Nuclear Power Plant	05-03-98
		Manager-Nuclear Business Group	02-20-95
		Manager-Kewaunee Nuclear Power Plant	10-01-91
Thomas P. Meinz	52	Vice President-Public Affairs	02-12-98
		Vice President-Power Supply and Engineering	02-23-97
		Power Supply and Engineering Executive	01-14-96
		Senior Corporate Planning Executive	05-09-94
		Manager-System Planning and Licensing	03-01-91
Wayne J. Peterson	40	Vice President-Distribution and Customer Service	02-12-98
		Assistant Vice President-Customer Service	02-23-97
		Manager-System Operations	10-01-95
		Site Leader	10-01-94
		Electric Superintendent	04-01-92
Bernard J. Treml	49	Vice President-Human Resources	05-09-94
		Assistant Vice President-Human Resources	07-01-93
Francis J. Kicsar	59	Secretary	01-01-96
		Assistant Secretary	03-01-92
Diane L. Ford	45	Controller	03-01-92

Name and Age		Current Position and Business Experience During Past Five Years	Effective Date
Barth J. Wolf	41	Assistant Secretary and Manager-Legal Services	07-12-98
		Manager-Legal and Risk Management	05-19-96 *
		Administrator-Risk Management	03-01-92 *

NOTE: All ages for the officers of WPSR and WPSC are as of December 31, 1998. None of the executives listed above for WPSR or for WPSC are related by blood, marriage, or adoption to any of the other officers listed or to any director of the Registrant. Each officer shall hold office until his or her successor shall have been duly elected and qualified, or until his or her death, resignation, disqualification, or removal. Clark R. Steinhardt retired on January 31, 1999.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

WPS Resources Corporation Common Stock Two-Year Comparison

Share Data	Dividends Per Share*	Price Range High	Price Range Low
1998			
1st Quarter	$ .485	33-13/16	32
2nd Quarter	.485	34	29-15/16
3rd Quarter	.495	35-3/4	31-5/8
4th Quarter	.495	37-1/2	33
Total	$1.960		
1997			
1st Quarter	$ .475	28-3/4	26-1/8
2nd Quarter	.475	27-7/8	23-3/8
3rd Quarter	.485	29-1/4	26-3/4
4th Quarter	.485	34-1/4	28-1/16
Total	$1.920		

* Dividend rates are those of WPS Resources Corporation.

Dividend Restrictions

WPSC, WPSR's principal subsidiary, is restricted by a PSCW order to paying normal common stock dividends of no more than 109% of the previous year's common stock dividend without prior notice to the PSCW. Also, Wisconsin law prohibits WPSC from making loans to WPSR and its nonregulated subsidiaries and from guaranteeing their obligations.

At December 31, 1998, WPSR had $328.5 million of retained earnings available for dividends.

UPPCO's indentures relating to first mortgage bonds contain certain limitations on the payment of cash dividends on common stock. Under the most restrictive of these provisions, approximately $7.9 million of consolidated retained earnings were available at December 31, 1998, for the payment of common stock cash dividends by UPPCO.

WPSR made a $34.0 million equity infusion into WPSC during the second quarter of 1998. In December 1998, WPSC paid to WPSR a special common dividend of $20.0 million. The special dividend allowed WPSC's average common equity capitalization ratio to remain at approximately 54.0%, the level approved by the PSCW for ratemaking purposes.

Common Stock

Listed: New York Stock Exchange

Ticker Symbol: WPS

Transfer Agent and Registrar: Firstar Bank Milwaukee, N.A.
P. O. Box 2077
Milwaukee, Wisconsin 53201

As of December 31, 1998, there were 26,319 common stock shareholders of record.

ITEM 6. SELECTED FINANCIAL DATA

WPS RESOURCES CORPORATION
COMPARATIVE FINANCIAL STATEMENTS AND
FINANCIAL STATISTICS (1994 TO 1998)

A. CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (1)

Consolidated Statements of Income and Comprehensive Income					
Year Ended December 31 (Thousands, except share amounts)	1998	1997	1996	1995	1994
Operating revenues					
Electric utility	$ 543,260	$536,885	$548,701	$550,105	$543,346
Gas utility	165,111	211,090	211,357	174,693	182,058
Nonregulated energy and other	355,365	187,862	156,391	56,155	10,921
Total operating revenues	1,063,736	935,837	916,449	780,953	736,325
Operating expenses					
Electric production fuels	110,809	107,988	105,449	105,085	111,240
Purchased power	56,447	63,947	55,844	59,339	58,570
Gas purchased for resale	105,908	147,755	149,388	116,253	126,351
Nonregulated energy cost of sales	346,663	182,863	155,133	53,983	10,663
Other operating expenses	172,876	165,982	183,768	169,067	164,981
Maintenance	52,813	44,325	51,782	54,658	53,988
Depreciation and decommissioning	86,274	83,441	70,762	71,345	61,879
Taxes other than income	31,902	31,375	31,671	30,555	30,577
Total operating expenses	963,692	827,676	803,797	660,285	618,249
Operating income	100,044	108,161	112,652	120,668	118,076
Other income and (deductions)					
Allowance for equity funds used during construction	173	154	255	180	116
Other, net	2,505	11,952	(903)	5,852	4,338
Total other income and (deductions)	2,678	12,106	(648)	6,032	4,454
Income before interest expense	102,722	120,267	112,004	126,700	122,530
Interest on long-term debt	23,987	26,273	25,494	26,839	27,404
Other interest	4,827	4,910	3,922	2,677	1,856
Allowance for borrowed funds used during construction	(177)	(167)	(299)	(80)	(149)
Total interest expense	28,637	31,016	29,117	29,436	29,111
Distributions - preferred securities of subsidiary trust	1,488	-	-	-	-
Income before income taxes	72,597	89,251	82,887	97,264	93,419
Income taxes	23,445	31,106	27,216	33,494	32,157
Minority interest	(611)	(797)	(348)	-	-
Preferred stock dividends of subsidiary	3,132	3,133	3,134	3,136	3,140
Net income	46,631	55,809	52,885	60,634	58,122
Other comprehensive income	-	-	-	-	-
Comprehensive income	$ 46,631	$ 55,809	$ 52,885	$ 60,634	$ 58,122
Shares of common stock					
Outstanding at December 31	26,502	26,518	26,537	26,551	26,551
Average	26,511	26,527	26,545	26,551	26,551
Basic and diluted earnings per average share of common stock	$1.76	$2.10	$1.99	$2.28	$2.19
Dividend per share of common stock (2)	1.96	1.92	1.88	1.84	1.80

(1) These statements give effect to the merger with Upper Peninsula Energy Corporation.
(2) Dividend rates are those of WPS Resources Corporation.

ITEM 6. SELECTED FINANCIAL DATA

WPS RESOURCES CORPORATION
COMPARATIVE FINANCIAL STATEMENTS AND
FINANCIAL STATISTICS (1994 TO 1998)

B. CONSOLIDATED BALANCE SHEETS (1)

Consolidated Balance Sheets

Assets					
At December 31 (Thousands)	1998	1997	1996	1995	1994
Utility plant					
Electric	$1,715,882	$1,685,413	$1,639,490	$1,603,632	$1,567,346
Gas	267,892	251,603	240,791	228,346	202,903
Total	1,983,774	1,937,016	1,880,281	1,831,978	1,770,249
Less - Accumulated depreciation and decommissioning	1,206,123	1,113,142	1,028,266	977,163	913,423
Total	777,651	823,874	852,015	854,815	856,826
Nuclear decommissioning trusts	171,442	134,108	100,570	82,109	64,147
Construction in progress	42,424	11,776	24,827	18,508	20,577
Nuclear fuel, net	18,641	19,062	19,381	14,275	19,417
Net utility plant	1,010,158	988,820	996,793	969,707	960,967
Current assets	240,712	213,453	233,933	202,399	185,582
Net nonutility and nonregulated plant	41,235	28,188	28,470	9,033	5,878
Regulatory and other assets	218,282	205,343	204,120	212,769	186,544
Total assets	$1,510,387	$1,435,804	$1,463,316	$1,393,908	$1,338,971

Capitalization and Liabilities					
Capitalization					
Common stock equity	$ 517,190	$ 518,764	$ 510,642	$ 505,178	$ 486,682
Preferred stock of subsidiaries	51,200	51,645	51,656	51,703	51,776
Long-term debt	393,921	347,015	349,054	350,098	353,679
Total capitalization	962,311	917,424	911,352	906,979	892,137
Liabilities					
Short-term borrowings	60,293	40,466	63,192	27,425	22,708
Deferred income taxes	122,642	131,197	135,904	141,518	131,541
Other liabilities and credits	365,141	346,717	352,868	317,986	292,585
Total liabilities	548,076	518,380	551,964	486,929	446,834
Total capitalization and liabilities	$1,510,387	$1,435,804	$1,463,316	$1,393,908	$1,338,971

(1) These statements give effect to the merger with Upper Peninsula Energy Corporation.

ITEM 6. SELECTED FINANCIAL DATA

WPS RESOURCES CORPORATION
COMPARATIVE FINANCIAL STATEMENTS AND
FINANCIAL STATISTICS (1994 TO 1998)

C. FINANCIAL STATISTICS

Year Ended December 31	1998	1997	1996	1995	1994
Stock price	$35-1/4	$33-13/16	$28-1/2	$34	$26-3/4
Book value per share	$19.52	$19.56	$19.24	$19.03	$18.33
Return on average equity	9.0%	10.8%	10.3%	12.2%	12.0%
Number of common stock shareholders	26,319	27,369	27,922	28,416	29,629
Number of employees	2,673	2,902	3,032	3,002	3,077
Capitalization ratios					
Common equity including ESOP	53.8	56.6	56.0	55.7	54.6
Preferred stock of subsidiaries	5.3	5.6	5.7	5.7	5.8
Trust preferred securities of subsidiary trust	5.2	-	-	-	-
Long-term debt of subsidiaries	35.7	37.8	38.3	38.6	39.6
Weather information					
Cooling degree days	519	255	352	808	519
Cooling degree days as a percent of normal	107.0%	53.3%	73.6%	170.1%	107.0%
Heating degree days	6,530	8,099	8,566	7,813	7,578
Heating degree days as a percent of normal	82.4%	101.6%	107.5%	98.0%	95.5%

Common Stock Comparison (by quarter)	Dividends Per Share*	High	Low
1998			
1st quarter	$ .485	33-13/16	32
2nd quarter	.485	34	29-15/16
3rd quarter	.495	35-3/4	31-5/8
4th quarter	.495	37-1/2	33
	$1.96		
1997			
1st quarter	$ .475	28-3/4	26-1/8
2nd quarter	.475	27-7/8	23-3/8
3rd quarter	.485	29-1/4	26-3/4
4th quarter	.485	34-1/4	28-1/16
	$1.92		

* Dividend rates are those of WPS Resources Corporation.

ITEM 6. SELECTED FINANCIAL DATA

WISCONSIN PUBLIC SERVICE CORPORATION
COMPARATIVE FINANCIAL STATEMENTS AND
FINANCIAL STATISTICS (1996 TO 1998)

D. SELECTED FINANCIAL DATA

(Millions)	1998	1997	1996
Operating revenues	$ 652.5	$ 690.5	$ 701.9
Net income	57.2	64.7	60.4
Total assets (at December 31)	1,267.6	1,234.0	1,258.9
Long-term debt, net (at December 31)	304.0	307.6	310.8

ITEM 6. SELECTED FINANCIAL DATA

WISCONSIN PUBLIC SERVICE CORPORATION
COMPARATIVE FINANCIAL STATEMENTS AND
FINANCIAL STATISTICS (1996 TO 1998)

E. FINANCIAL STATISTICS

(Millions)	1998	1997	1996
Coverage			
Times interest earned before income taxes	4.48	4.48	4.36
Times interest earned after income taxes	3.29	3.30	3.21
Times interest and preferred dividends earned after income taxes	2.93	2.97	2.88
Capitalization ratios			
Common equity including ESOP	57.6	56.0	55.3
Preferred stock	6.1	6.3	6.3
Long-term debt	36.3	37.7	38.4
Percent long-term debt to net utility plant	33.5	34.7	34.8
Average rate			
Bonds	7.2	7.0	7.0
Preferred stock	6.1	6.1	6.1
Number of preferred stock shareholders	2,501	2,734	2,965
Weather information			
Cooling degree days	519	255	352
Cooling degree days as a percent of normal	107.0%	53.3%	73.6%
Heating degree days	6,530	8,099	8,566
Heating degree days as a percent of normal	82.4%	101.6%	107.5%

ITEM 6. SELECTED FINANCIAL DATA

UPPER PENINSULA POWER COMPANY
COMPARATIVE FINANCIAL STATEMENTS AND
FINANCIAL STATISTICS (1996 TO 1998)

F. SELECTED FINANCIAL DATA

(Millions)	**1998**	1997	1996
Operating revenues	**$ 62.7**	$ 60.2	$ 58.4
Net income	**3.5**	3.7	5.2
Total assets (at December 31)	**127.3**	131.3	124.9
Long-term debt, net (at December 31)	**38.8**	38.9	39.0

ITEM 6. SELECTED FINANCIAL DATA

UPPER PENINSULA POWER COMPANY
COMPARATIVE FINANCIAL STATEMENTS AND
FINANCIAL STATISTICS (1996 TO 1998)

G. FINANCIAL STATISTICS

(Millions)	1998	1997	1996
Coverage			
Times interest earned before income taxes	2.31	2.34	3.05
Times interest earned after income taxes	1.81	1.87	2.32
Times interest and preferred dividends earned after income taxes	-	1.87	2.31
Capitalization ratios			
Common equity	47.6	50.4	50.4
Preferred stock	-	0.6	0.6
Long-term debt	52.4	49.0	49.0
Percent long-term debt to net utility plant	38.2	37.9	37.5
Average rate			
Bonds	8.9	8.9	8.9
Preferred stock	-	4.9	5.0
Number of preferred stock shareholders	-	48	53

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

RESULTS OF OPERATIONS - WPS RESOURCES CORPORATION

WPS Resources Corporation ("WPSR") is a holding company. Approximately 69% of WPSR's assets at December 31, 1998, approximately 52% of its 1998 revenues, and 87% of its 1998 net income were derived from electric utility operations. WPSR's wholly-owned subsidiaries include two regulated utilities, Wisconsin Public Service Corporation ("WPSC"), an electric and gas utility, and Upper Peninsula Power Company ("UPPCO"), an electric utility, and two primary nonregulated subsidiaries, WPS Energy Services, Inc. ("ESI"), and WPS Power Development, Inc. ("PDI").

1998 Compared with 1997

WPS Resources Corporation Overview

WPSR's results of operations and financial position for 1998 and 1997 include the effects of the merger with Upper Peninsula Energy Corporation ("UPEN") which was effective September 29, 1998, and accounted for as a pooling of interests. In accordance with the terms of the merger, each of the 2,950,001 outstanding shares of UPEN common stock (no par value) were converted into 0.90 shares of WPSR common stock, subject to adjustment for cash payments for fractional shares. In conjunction with this merger, WPSR expensed transaction charges of approximately $1.6 million in 1998 and $2.7 million in 1997. These merger transaction charges consist of the following:

Merger Charges (Millions)

	1998	1997
Investment Bankers	$0.8	$0.9
Legal	0.7	0.9
Accounting	-	0.2
Other	0.1	0.7
Total	$1.6	$2.7

In addition, UPPCO, UPEN's primary subsidiary, recorded severance costs of $1.1 million and an additional $0.5 million in other merger-related expenses in 1998.

WPSR consolidated operating revenues were $1.1 billion in 1998 compared with $935.8 million in 1997, an increase of 13.7%. Net income was $46.6 million in 1998 and $55.8 million in 1997, a decrease of 16.5%. Basic and diluted earnings per share were $1.76 in 1998 compared with $2.10 in 1997, a decrease of 16.2%. The primary reasons for the decrease in earnings, as explained below, were the impact of unusually warm winter weather, the effects of a full year electric rate decrease at WPSC, higher maintenance expenses at WPSC, decreased other income, higher other operating expenses, and a decrease in WPSC's gas margin. Partially offsetting these factors were an increase in electric utility margins and an increase in nonregulated margins.

Overview of Utility Operations (WPSC and UPPCO)

Revenues at WPSC were $652.5 million in 1998 compared with $690.5 million in 1997, a decrease of 5.5%. Earnings were $54.1 million in 1998 and $61.6 million in 1997, a decrease of 12.2%. The primary reasons for the decrease in earnings at WPSC were the impact of unusually warm winter weather, increased maintenance expenses, a decrease in other income, an increase in other operating expenses, and a decrease in the gas margin. Partially offsetting these factors were an increase in the electric utility margin and a decrease in interest expense.

Revenues at UPPCO were $62.7 million in 1998 compared with $60.2 million in 1997, an increase of 4.2%. Earnings were $3.5 million in 1998 compared with $3.7 million in 1997, a decrease of 5.4%. The primary reasons for the decrease in earnings at UPPCO were higher maintenance and other operating expenses partially offset by an increase in the electric margin.

Electric Utility Operations (WPSC and UPPCO)

WPSR consolidated electric utility margins increased $11.1 million, or 3.0%, primarily due to increased kilowatt-hour ("kWh") sales of 3.0% to WPSC customers as a result of a 103.5% increase in cooling degree days in 1998. Partially offsetting the increase in electric margins in 1998 was the impact on WPSC of a Public Service Commission of Wisconsin ("PSCW") rate order which was effective for the entire year in 1998 but was only effective in 1997 for the period after February 21, 1997. This order authorized an 8.1% electric revenue reduction.

WPSR Consolidated Electric Margins *(Thousands)*	**1998**	1997	1996
Revenues	**$543,260**	$536,885	$548,701
Fuel and purchased power	**167,256**	171,935	161,293
Margin	**$376,004**	$364,950	$387,408
Sales in kWh (Thousands)*	**12,172,432**	11,993,358	11,828,788

* Does not include UPPCO unbilled kWh.

WPSR consolidated electric utility revenues increased $6.4 million, or 1.2%, largely due to increased revenues of $4.8 million from WPSC's wholesale customers and $1.5 million from WPSC's commercial and industrial customers as a result of the warmer weather. Also included in 1998 electric revenues are surcharge revenues at WPSC of $3.8 million related to the recovery of the deferred costs for the 1997 Kewaunee Nuclear Power Plant ("Kewaunee") steam generator repairs. Partially offsetting these increases to revenues were the electric rate reduction and a $1.0 million refund of WPSC's transmission revenues as the result of a 1998 Federal Energy Regulatory Commission ("FERC") settlement related to open access transmission tariff rates.

WPSR consolidated electric production fuel expense increased $2.8 million, or 2.6%, primarily as a result of increased generation expense. Kewaunee was out of service for the first six months of 1997 as the result of an extended outage to repair steam generators, thus, in comparison, the higher generation expense in 1998. WPSC is currently the operator and 41.2% owner of Kewaunee.

WPSR consolidated purchased power expense decreased $7.5 million, or 11.7%, primarily due to decreased purchase requirements at WPSC in the first half of 1998. Purchase requirements at WPSC in the first half of 1997 were higher due to lack of production at Kewaunee in the first and second quarters of 1997 as a result of an extended outage. Kewaunee was also off-line in 1998 for a six-week scheduled refueling outage. Also contributing to lower purchased power expense at WPSC was a $1.2 million credit to purchased power expense in the fourth quarter of 1998 related to the settlement of litigation involving a contract with a power supplier.

The PSCW allows WPSC to pass changes in the cost of fuel and purchased power, within a specified range, on to its customers through a fuel adjustment clause.

Gas Utility Operations (WPSC)

WPSR consolidated gas margin decreased $4.1 million in 1998, or 6.5%, primarily due to a 19.4% reduction in heating degree days.

WPSR Consolidated Gas Margins *(Thousands)*

	1998	1997	1996
Revenues	**$165,111**	$211,090	$211,357
Purchase costs	**105,908**	147,755	149,388
Margin	**$ 59,203**	$ 63,335	$ 61,969
Volume in therms (Thousands)	**608,092**	662,008	666,598

Gas operating revenues decreased $46.0 million, or 21.8%. This decrease was due to unusually mild weather in 1998 resulting in lower gas therm sales for 1998 of 8.1%. Also contributing to the decrease in gas operating revenues was a reduction in revenues of $7.5 million for refunds from ANR Pipeline Company which WPSC passed on to its gas customers in the second quarter of 1998.

Gas purchase costs decreased $41.8 million, or 28.3%. This decrease was due to reduced customer demand as a result of the mild weather during 1998. Also contributing to the decrease in gas costs was a $7.5 million refund from ANR Pipeline Company which was credited to gas expense in the second quarter of 1998. Under current regulatory practice, the PSCW allows WPSC to pass changes in the cost of gas on to customers through a purchased gas adjustment clause ("PGAC").

Other Utility Expenses/Income (WPSC and UPPCO)

Other operating expenses at WPSC increased $4.1 million, or 3.1%, primarily due to higher benefit costs in 1998.

Other operating expenses at UPPCO increased $0.6 million, or 3.6%, primarily as the result of the accrual of $1.1 million in merger-related severance expense in 1998. Other operating expenses at UPPCO in 1997 included costs incurred related to the termination of UPPCO's Presque Isle Plant Operating Agreement with Wisconsin Electric Power Company ("WEPCO"). UPPCO had staffed and operated WEPCO's Presque Isle Power Plant through December 31, 1997, at which time the operating agreement was terminated.

Maintenance expense at WPSC increased $7.8 million, or 18.6%, primarily as a result of increased expenses at Kewaunee during the second and fourth quarters of 1998. This increase was partly due to the recognition in the second quarter of 1998 of the 1997 deferred expenses for Kewaunee steam generator repairs. The PSCW approved deferral of the repairs in 1997, the cost of which has been collected in the second quarter of 1998 through a $3.8 million electric revenue surcharge. In addition, maintenance expense at Kewaunee increased in the fourth quarter of 1998 due to a scheduled refueling outage.

Depreciation and decommissioning expenses at WPSC increased $2.4 million, or 3.1%, due to an increased plant base and to the accelerated recovery of investment in Kewaunee and accelerated funding of Kewaunee decommissioning costs. Accelerated recovery of investment and funding began on February 21, 1997 and, therefore, was effective for all of 1998 but only a portion of 1997.

Other income at WPSC decreased $5.8 million, or 46.3%, primarily due to one-time gains on sales of nonutility property which occurred in 1997. These gains represented an increase in earnings for 1997 of approximately $0.11 per share.

Overview of Nonregulated Operations

Nonregulated operations primarily consist of the gas and electric sales at ESI, an energy marketing subsidiary. Nonregulated operations also include those of WPSR as a holding company and those of PDI which develops electric generation projects, invests in generating projects, and provides services to the electric power generation industry.

Nonregulated operations experienced a loss of $11.0 million in 1998 compared with a loss of $9.5 million in 1997. Although nonregulated margins continue to grow, losses are being experienced due to gas and electric trading losses and expenses associated with the expansion of customer base.

Overview of WPS Energy Services, Inc.

Revenues at ESI were $351.3 million in 1998 compared with $189.4 million in 1997, an increase of 85.5%. ESI experienced a loss of $6.9 million in 1998 compared with a loss of $4.9 million in 1997. The primary reasons for the increased loss at ESI were increased electric and gas trading losses primarily due to market volatility, and higher operating expenses due to expansion of the energy trading business. Partially offsetting these factors was an increase in the gas margin.

Nonregulated Margins (ESI)

Gas margins at ESI were $4.0 million in 1998 compared with $1.9 million in 1997, an increase of 110.5%. Electric margins at ESI remained fairly stable. Gas revenues at ESI were $330.0 million in 1998 compared with $182.3 million in 1997, an increase of $147.7 million, or 81.0%. This increase was the result of sales volume growth and expansion to additional geographic areas. Electric revenues at ESI were $20.5 million in 1998 and $6.4 million in 1997, an increase of $14.1 million, or 220.3%. This increase was also the result of sales volume growth.

ESI's cost of sales were $346.4 million in 1998 and $186.6 million in 1997, an increase of $159.8 million, or 85.6%. This increase was primarily due to increased gas purchases and purchased power of $145.6 million and $14.2 million, respectively, as a result of customer growth and higher costs of purchases.

Other Nonregulated Expenses/Income (ESI)

Other operating expenses at ESI increased $1.1 million, or 13.6%, due to expansion of the business. ESI experienced gas trading losses of $4.9 million in 1998 and $1.4 million in 1997 largely due to market volatility. ESI also experienced electric trading losses of $1.2 million in 1998 primarily due to losses in the third quarter related to the unprecedented market volatility in the electric trading market.

Price Risk Management Activities (ESI)

WPSR has not experienced significant price risk activities at its utility operations which are not recoverable through customer rates; however, price risk is experienced at ESI.

ESI utilizes derivative financial and commodity instruments ("derivatives"), including futures and forward contracts, to reduce market risk associated with fluctuations in the price of natural gas and electricity sold under firm commitments with certain of its customers. ESI also utilizes derivatives, including price swap agreements, call and put option contracts, and futures and forward contracts, to manage market risk associated with a portion of its anticipated supply requirements. In addition, ESI utilizes derivatives, within specified guidelines, for trading purposes.

Gains or losses on derivatives associated with firm commitments are recognized as adjustments to the cost of sales or to revenues when the related transactions affect earnings. Gains and losses on derivatives associated with forecasted transactions are recognized when such forecasted transactions affect earnings. At December 31, 1998, $7.2 million in losses related to firm commitments and forecasted transactions were deferred. If it is no longer probable that a forecasted transaction will occur, any gain or loss on the derivative instrument as of such date is immediately recognized in earnings. Derivatives for trading purposes are marked to market each accounting period, and gains and losses are recognized as a component of other income at that time. In 1998 and 1997, trading losses of $6.1 million and $1.4 million, respectively, were recognized.

At December 31, 1998, ESI had outstanding 22.0 million notional dekatherms of natural gas under futures and option agreements and 1.3 million notional dekatherms of natural gas under basis swap agreements for purposes of managing market risk. The financial instruments outstanding at December 31, 1998 expire at various times through August 2000. ESI has certain gas sales commitments through August 2000 with a range of sale prices from $2.36 to $2.38 per dekatherm and a range of associated gas purchase costs of $2.29 to $2.31 per dekatherm.

As of December 31, 1998, the fair value of trading instruments included assets of $0.7 million. Except for a minimal level of electric trading instruments, financial instruments used for trading in 1998 and 1997 were natural gas derivatives. At December 31, 1998, ESI had outstanding 13.6 million notional dekatherms of natural gas under futures and option agreements and 1.6 million notional dekatherms of natural gas under basis swap agreements for trading purposes.

Gas Commodity Position *(contract amounts in millions)*

	Carrying Amount	Fair Value
Inventory	$5.9	$5.9
Fixed-price purchase obligations		$115.0
Fixed-price sales obligations		$99.8

Related Derivatives

	Expected Maturity 1999	Expected Maturity 2000	Total	Fair Value
Futures NYMEX - Hedging				
Long (billion cubic feet)	34.8	2.2		
Weighted average settlement price (per dekatherm)	$2.26	$2.32		
Contract amount	$78.8	$5.1	$83.9	$70.5
Short (billion cubic feet)	18.4	0.8		
Weighted average settlement price (per dekatherm)	$2.18	$2.50		
Contract amount	$40.0	$2.1	$42.1	$35.9
Futures NYMEX - Trading				
Long (billion cubic feet)	33.5			
Weighted average settlement price (per dekatherm)	$2.28			
Contract amount	$76.3		$76.3	$61.0
Short (billion cubic feet)	37.0			
Weighted average settlement price (per dekatherm)	$2.25			
Contract amount	$83.2		$83.2	$67.2

Related Derivatives (continued)

	Expected Maturity 1999	2000	Total	Fair Value
Fixed-Float Futures Swap - Hedging				
Long (billion cubic feet)	7.2	3.4		
Weighted average settlement price (per dekatherm)	$2.21	$2.28		
Contract amount	$15.9	$7.8	$23.7	$22.2
Short (billion cubic feet)	1.5	0.1		
Weighted average settlement price (per dekatherm)	$2.12	$2.18		
Contract amount	$3.1	$0.3	$3.4	$3.0
Fixed-Float Futures Swap - Trading				
Long (billion cubic feet)	6.0			
Weighted average settlement price (per dekatherm)	$2.21			
Contract amount	$13.1		$13.1	$11.3
Short (billion cubic feet)	3.1	0.1		
Weighted average settlement price (per dekatherm)	$2.15	$1.85		
Contract amount	$6.8	$0.2	$7.0	$6.0
Options - Hedging				
Long calls (billion cubic feet)	0.6			
Weighted average strike price (per dekatherm)	$2.46			
Contract amount	$1.6		$1.6	$0.2
Long puts (billion cubic feet)	0.6			
Weighted average strike price (per dekatherm)	$1.87			
Contract amount	$1.1		$1.1	$0.0
Short calls (billion cubic feet)	0.7			
Weighted average strike price (per dekatherm)	$2.43			
Contract amount	$1.7		$1.7	$0.2
Short puts (billion cubic feet)	0.8	0.5		
Weighted average strike price (per dekatherm)	$2.25	$2.43		
Contract amount	$1.8	$1.1	$2.9	$0.3

Related Derivatives (continued)

	Expected Maturity 1999	2000	Total	Fair Value
Options - Trading				
Long calls (billion cubic feet)	2.2			
Weighted average strike price (per dekatherm)	$2.27			
Contract amount	$5.1		$5.1	$0.3
Long puts (billion cubic feet)	5.9			
Weighted average strike price (per dekatherm)	$2.05			
Contract amount	$12.0		$12.0	$0.7
Short calls (billion cubic feet)	1.5			
Weighted average strike price (per dekatherm)	$2.17			
Contract amount	$3.2		$3.2	$0.2
Short puts (billion cubic feet)	5.0	0.5		
Weighted average strike price (per dekatherm)	$2.14	$2.30		
Contract amount	$10.7	$1.0	$11.7	$0.9
Basis Swaps - Hedging				
Long (billion cubic feet)	12.2	0.9		
Weighted average settlement price (per dekatherm)	$0.17	$0.29		
Contract amount	$2.1	$0.3	$2.4	$1.5
Short (billion cubic feet)	13.5	0.5		
Weighted average settlement price (per dekatherm)	$0.20	$0.09		
Contract amount	$2.7		$2.7	$1.5
Basis Swaps - Trading				
Long (billion cubic feet)	80.5	2.6		
Weighted average settlement price (per dekatherm)	$0.25	$0.24		
Contract amount	$20.9	$0.6	$21.5	$9.3
Short (billion cubic feet)	82.1	3.8		
Weighted average settlement price (per dekatherm)	$0.25	$0.23		
Contract amount	$20.4	$0.9	$21.3	$9.7

Other Nonregulated Operations

Losses at PDI were $2.4 million in 1998 compared with $1.9 million in 1997. The increase in losses at PDI was primarily due to additional expenses incurred in 1998 for the start-up of new projects. Other operating expenses at PDI increased $1.1 million, or 25.4%, due to higher project expenses. Other income at WPSR included a dividend on a venture capital investment of

$2.0 million in the first quarter of 1998 compared with $0.2 million in the first quarter of 1997.

1997 Compared With 1996

WPS Resources Corporation Overview

WPSR consolidated operating revenues were $935.8 million in 1997 and $916.4 million in 1996, an increase of 2.1%. Net income increased 5.5% to $55.8 million in 1997 from $52.9 million in 1996. Basic and diluted earnings per share were $2.10 in 1997 compared with $1.99 in 1996, an increase of 5.5%. The primary reasons for the increase in earnings were decreased operating and maintenance expenses, increased other income, an increased nonregulated energy margin, and an increased gas utility margin. Partially offsetting these factors were a decrease in the electric utility margin, an increase in depreciation and decommissioning expense, and an increase in income tax expense.

Overview of Utility Operations (WPSC and UPPCO)

Revenues at WPSC were $690.5 million in 1997 compared with $701.9 million in 1996, a decrease of 1.6%. Earnings were $61.6 million in 1997 and $57.3 million in 1996, an increase of 7.5%. The primary reasons for the increase in earnings at WPSC were a decrease in operating and maintenance expenses, an increase in other income, and an increase in the gas utility margin. Offsetting these factors were a decrease in the electric utility margin, an increase in depreciation and decommissioning expense, and an increase in income tax expense.

Revenues at UPPCO were $60.2 million in 1997 compared with $58.4 million in 1996, an increase of 3.1%. Earnings were $3.7 million in 1997 and $5.2 million in 1996, a decrease of 28.8%. The primary reason for the decrease in earnings at UPPCO was a decrease in the electric utility margin.

Electric Utility Operations (WPSC and UPPCO)

WPSR consolidated electric utility margins decreased $22.5 million, or 5.8%, primarily due to implementation of a PSCW rate order at WPSC which authorized a $35.5 million, or 8.1%, electric revenue reduction. A second factor contributing to decreased margins was increased replacement power costs as a result of an extended outage at Kewaunee. A surcharge authorized by the PSCW partially offset increases in replacement power costs in the latter part of the first quarter and in the second quarter of 1997.

In spite of a 27.6% decrease in cooling degree days, WPSR consolidated electric kWh sales increased by 1.5% primarily due to increased demand by WPSC's commercial and industrial customers. WPSC's commercial and industrial kWh sales increased 4.8%, while wholesale kWh sales decreased 3.4%. WPSR consolidated electric utility revenues decreased $11.8 million, or 2.2%, primarily due to the electric rate decrease at WPSC.

WPSR consolidated electric production fuel expense increased $2.5 million, or 2.4%. Nuclear fuel expense at WPSC was $2.0 million lower than in 1996 due to decreased generation at Kewaunee in the first and second quarters of 1997 as a result of an extended outage. Steam fuel expense at WPSC was higher by $1.0 million and combustion turbine generation expense was higher by $3.2 million due to increased generation requirements from these sources during the extended outage at Kewaunee.

WPSR consolidated purchased power expense increased $8.1 million, or 14.5%, primarily due to increased purchase requirements and higher costs of purchased power at WPSC during the extended outage at Kewaunee.

The PSCW allows WPSC to pass changes in the cost of fuel and purchased power, within a specified range, on to its customers through a fuel adjustment clause. WPSC is required to file an application to adjust rates either higher or lower when costs are plus or minus 2% from forecasted costs on an annual basis. The additional fuel costs in 1997 did not result in WPSC being outside this 2% window.

Gas Utility Operations (WPSC)

WPSR consolidated gas margin increased $1.4 million, or 2.2%, primarily due to WPSC's implementation of a PSCW rate order which authorized a $5.7 million, or 2.7%, increase in gas revenues.

Gas operating revenues remained relatively stable reflecting the rate increase offset by a 5.5% reduction in heating degree days. Gas revenues also reflect a one-time reduction of $0.9 million in the first quarter of 1997 as a result of a PSCW directive to change the accounting treatment for previous customer line extensions. This reduction represented a decrease of approximately $.02 per share after income tax effects.

Gas purchase costs showed a net decrease of $1.6 million, or 1.1%, primarily due to reduced purchases because of decreased demand as a result of the reduction in heating degree days. The PSCW allows WPSC to pass changes in the cost of gas on to customers through a PGAC.

Other Utility Expenses/Income (WPSC and UPPCO)

Other operating expenses at WPSC decreased $24.1 million, or 15.2%. Cost saving initiatives and decreased amortization of deferred demand-side management expenditures resulted in lower customer service and sales expenses of $9.5 million. Administrative expenses decreased $5.8 million due to cost saving measures and reduced postretirement medical, dental, and other benefit expenses. Generation operating expenses were lower by $7.3 million primarily as a result of the completion in 1996 of an amortization of deferred expenses related to a previous coal contract settlement. Gas operating expenses decreased $1.5 million as the result of a PSCW directive requiring gas servicing revenues and expenses to be classified as other income and deductions beginning in 1997.

Maintenance expense at WPSC decreased $7.1 million, or 14.5%. Electric transmission and distribution expenses decreased $3.4 million as a result of cost saving initiatives and less maintenance of overhead lines in 1997 due to less storm damage. Maintenance expenses were $1.9 million lower at Kewaunee in 1997 because Kewaunee was out of service in 1996 for scheduled maintenance. Gas distribution expenses were lower by $0.9 million due to cost saving initiatives and decreased maintenance activities. Steam costs decreased $0.6 million at WPSC's coal-fired plants due to changes in maintenance schedules as a result of the extended outage at Kewaunee.

Depreciation and decommissioning expenses at WPSC increased $12.0 million, or 18.8%, largely due to the accelerated recovery of investment in Kewaunee and accelerated funding of Kewaunee decommissioning costs.

Other income at WPSC increased $7.5 million, or 141.7%, primarily due to gains in 1997 on the sale of nonutility property of $4.8 million which represented an increase of approximately $.11 per share after income tax effects. Also included in other income in 1997 was interest of $2.2 million resulting from an income tax audit settlement. Income tax expense increased $1.9 million reflecting higher net income in 1997.

Overview of Nonregulated Operations

Nonregulated operations experienced a loss of $9.5 million in 1997 compared with a loss of $9.6 million in 1996. Operating losses at the nonregulated subsidiaries were anticipated by management as the companies developed infrastructure and financed additional working capital needed to support growth. Losses were also incurred at the WPSR holding company in 1997 due to expenses incurred as a result of the merger with UPEN.

Overview of WPS Energy Services, Inc.

Revenues at ESI were $189.4 million in 1997 compared with $161.8 million in 1996, an increase of 17.1%.

ESI incurred a loss of $4.9 million in 1997 and a loss of $6.3 million in 1996.

Nonregulated Margins (ESI)

Gas margins at ESI were a positive $2.1 million in 1997 and a negative $1.1 million in 1996, an increase of $3.2 million. In 1996, customer commitments at ESI were not fully hedged during a period of volatile gas commodity markets and certain gas suppliers defaulted which negatively impacted margins. Electric margins at ESI increased $0.9 million in 1997.

Gas sales at ESI increased $26.2 million in 1997, or 17.1%, as a result of customer growth. Electric sales at ESI increased $5.6 million in 1997, or 716.0%, also as a result of customer growth.

Gas purchases and purchased power expense increased $20.5 million and $4.7 million, respectively, in 1997.

Other Nonregulated Expenses/Income (ESI)

Other operating expenses at ESI increased $1.3 million, or 19.4%, due to expansion of the business and the development of infrastructure as ESI positions itself for the future. Although increased margins more than offset other operating expenses, interest costs increased due to the financing of additional working capital needed to support the growth of ESI.

ESI experienced trading losses of $1.4 million in 1997 and $2.5 million in 1996.

Other Nonregulated Operations

PDI incurred a loss of $1.9 million in 1997 and a loss of $4.0 million in 1996. Other operating expenses at PDI increased $0.4 million as a result of expansion of the business and operation of the Stoneman Power Plant ("Stoneman"). Project revenues at PDI partially offset costs related to the investigation of possible energy-related investments and a loss from Stoneman operations. PDI also experienced a loss of $4.0 million in 1996 related to the write-off of an investment in an industrial processing facility. This write-off represented a decrease in 1996 earnings of $.09 per share after income tax effects.

Other operating expenses at WPSR increased $2.7 million in 1997 due to expenses associated with the UPEN merger.

BALANCE SHEET - WPSR

1998 Compared With 1997

Nuclear decommissioning trusts increased $37.3 million due to continued funding and favorable investment returns. Construction in progress increased $30.6 million largely as a result of construction expenditures related to the Kewaunee steam generator replacement project, the combustion turbine project at West Marinette, and the transmission line for the De Pere Energy Center project. Customer receivables increased $21.1 million primarily as a result of increased sales at ESI. Net nonutility and nonregulated plant increased $13.0 million as a result of the acquisition of additional assets at PDI. Investments and other assets increased $18.5 million primarily due to an increased unrealized gain on the nuclear decommissioning trust at WPSC and an increased unrealized loss on hedging activities at ESI.

Commercial paper increased $26.9 million due to increased operational cash needs at WPSC and WPSR. Cash requirements exceeded internally generated funds at both WPSC and WPSR. Accounts payable increased $25.7 million due to increased payables at WPSC related to the 1998 Kewaunee refueling outage and other construction projects, and higher payables at ESI as a result of increased sales activity.

FINANCIAL CONDITION - WPSR

Investments and Financing

WPSR made a $34.0 million equity infusion into WPSC during the second quarter of 1998. WPSC retired $50.0 million of first-mortgage bonds on July 1, 1998 and issued $50.0 million of senior notes secured by first-mortgage bonds on December 14, 1998. A special common stock dividend of $20.0 million was paid by WPSC to WPSR in December 1998. The special dividend allowed WPSC's average equity capitalization ratio to remain at approximately 54%, the level approved by the PSCW for ratemaking.

Short-term borrowings increased $26.9 million during 1998 as a result of cash requirements in excess of internally generated funds. Pretax interest coverage was 4.48 times for the 12 months ended December 31, 1998 for WPSC. WPSC's bond ratings are AA+ (Standard & Poor's and Duff & Phelps) and Aa2 (Moody's).

WPSR will use internally-generated funds and short-term borrowing to satisfy most of its capital requirements. WPSR may periodically issue additional long-term debt and common stock to reduce short-term debt and to maintain desired capitalization ratios.

The specific forms of financing, amounts, and timing will depend on the availability of projects, market conditions, and other factors. At this time, however, it is anticipated that common stock will be issued by WPSR in mid-1999. WPSR began issuing new shares of common stock for the Stock Investment Plan in January 1999. WPSR may also expand its leveraged employee stock ownership plan during the next three-year period.

WPSC makes large investments in capital assets. Construction expenditures for WPSC are expected to be approximately $250.0 million in the aggregate for the 1999 through 2001 period. This includes expenditures for the replacement of Kewaunee steam generators.

In addition, other capital requirements for WPSC for the three-year period will include Kewaunee decommissioning trust fund contributions of $16.8 million.

WPSC's agreement to purchase electricity from the De Pere Energy Center, a gas-fired cogeneration facility, will be accounted for as a capital lease. The De Pere Energy Center lease will be capitalized at $77.8 million in 1999. While not a capital expenditure, this will affect the capital structure.

UPPCO will incur construction expenditures of about $23.0 million in the aggregate for the period 1999 through 2001, primarily for electric distribution improvements.

Investment expenditures for nonregulated projects are uncertain since there are few firm commitments at this time. Approximately $38.0 million will be incurred in 1999 to purchase generating units located in the State of Maine and the Canadian Province of New Brunswick. Financing for most nonregulated projects is expected to be obtained through a new subsidiary, WPS Resources Capital Corporation, which was formed in January 1999 to obtain funding for those projects.

On July 30, 1998, WPSR Capital Trust I ("Trust"), a Delaware business trust of which WPSR owns all of the outstanding $1.5 million trust common securities, issued $50.0 million of trust preferred securities to the public. The sole asset of the Trust is $51.5 million of WPSR subordinated debentures due in 2038. The terms and interest payments on these debentures correspond to the terms and distributions on the trust preferred securities.

Regulatory

WPSC received a rate order in the Wisconsin jurisdiction on January 15, 1999. The impact is a $26.9 million increase in electric revenues and a $10.3 million increase in gas revenues on an annual basis. The new rates will be effective for 1999 and 2000. The PSCW authorized a 12.1% return on WPSC equity for 1999 and 2000.

Merger

On September 29, 1998, UPEN merged with and into WPSR, and UPPCO, UPEN's utility subsidiary, became a wholly-owned subsidiary of WPSR. The exchange of stock qualifies as a tax-free transaction and the transaction has been accounted for as a pooling of interests.

Kewaunee

On September 29, 1998, WPSC and Madison Gas and Electric Company ("MG&E") finalized an arrangement in which WPSC will acquire MG&E's 17.8% share of Kewaunee. This agreement, the closing of which is contingent upon regulatory approvals and steam generator replacement scheduled for the spring of 2000, will give WPSC 59.0% ownership in Kewaunee.

The arrangement provides that the book value of MG&E's share of Kewaunee at the time of the transfer could be credited against the purchase price of a planned 83-megawatt, natural gas-fired, combustion-turbine electric generation station to be built near Marinette, Wisconsin. WPSC had previously agreed to build this station for MG&E. If, for some reason, the Marinette station is not completed, the arrangement calls for WPSC to pay for MG&E's share of Kewaunee with a combination of cash and notes.

MG&E has agreed to retain certain of its obligations related to the period of time that it had been an owner of Kewaunee. MG&E will effectively transfer its nuclear decommissioning funds to WPSC to pay for MG&E's share of the currently estimated decommissioning costs of the plant at the closing for the asset swap. WPSC and Wisconsin Power and Light Company, the joint owners of the plant after the described change in ownership, will be responsible for the decommissioning of the plant.

Year 2000 Compliance

The Year 2000 issue arises because software programs, computer hardware, and equipment that have date sensitive software or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000. This may result in system failures or other disruptions of operations.

WPSR and its subsidiary companies are committed to eliminating or minimizing adverse effects of the Year 2000 computer compliance issue on their business operations, including the products and services provided to customers, and to maintaining WPSR's reputation as an efficient and reliable supplier of energy. WPSR, however, is unable to guarantee that there will be no adverse effects as a result of the Year 2000 computer compliance issue because many aspects of compliance are beyond WPSR's direct control.

WPSR has undertaken a program to assess Year 2000 compliance and to bring computer systems into compliance by the year 2000. All systems, including energy production and delivery systems, other embedded systems, and third party systems of suppliers are being evaluated to identify and resolve potential problems.

A Year 2000 project plan which includes awareness, inventory and assessment, remediation, testing, and implementation has been developed. The formal awareness phase of the Year 2000 project which includes understanding and communication of the issue to employees, customers, suppliers, and other affected parties has essentially been completed. The Year 2000 issue has been communicated to WPSR employees and customers via several media. All WPSR business unit leaders have been made aware of the Year 2000 project plan and their roles in implementing the plan. Communication and response to Year 2000 inquiries continue.

The inventory and assessment phase which includes identification of all information and non-information technology systems and of non-compliant systems, applications, and hardware, has been completed. Action plans for remediation, which includes modifications to bring systems into compliance, and action plans for testing including validation of compliance have been completed.

Modifications of major in-house supported systems to correct Year 2000 problems have been underway since 1996. WPSR's Information Technology Department has identified five major systems. All of these systems (customer information, finance, human resources, materials management, and facility management) are currently Year 2000 compliant.

In addition, non-information technology systems have been identified and ranked as to the risk posed by non-compliance. Non-information technology systems include computer and embedded systems related to WPSR's power plant operating, system operating, hydraulic, transmission, and other operating functions. All systems ranked as "critical," "severe," or "high" are scheduled to be Year 2000 compliant by the end of the first quarter of 1999.

WPSR has hired an external consulting group to monitor the progress of its Year 2000 compliance activities. The consulting group's responsibilities include performing a status check on WPSR's ability to achieve Year 2000 compliance.

In addition, WPSR is identifying, contacting, and assessing suppliers and other business partners for Year 2000 readiness, as these external parties may have the potential to impact WPSR's Year 2000 readiness. WPSR is also working to address Year 2000 issues related to all joint ownership facilities. At the present time, WPSR is not aware of problems that would materially impact the company's operations. However, WPSR has no means of ensuring that all third parties will be Year 2000 compliant in a timely manner, and the inability of these parties to resolve successfully their Year 2000 issues could have a material impact on the operations of WPSR's subsidiaries.

Due to fewer expenditures for hardware and software than originally anticipated, the estimate of total Year 2000 project costs has been reduced to $9.0 million. This estimate is considered reasonable and has been approved for rate recovery by the PSCW. This estimate includes internal labor costs of $4.5 million, software replacement costs for non-compliant products of $2.0 million, and contract labor costs of $2.5 million. Expenditures for the Year 2000 project incurred through December 31, 1998, are $2.2 million. Major expenditures for hardware, software, and other equipment were made in the fourth quarter of 1998 and additional expenditures will be made in the first quarter of 1999.

The failure to correct a material Year 2000 problem could result in an interruption in, or the failure of, certain normal business activities or operations which could materially affect WPSR's results of operations. However, due to the general uncertainty inherent in the Year 2000 issue, WPSR is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on operations. A preliminary identification of potential risks related to the failure to be in compliance by the Year 2000 has been made. A better understanding of actual risks will be developed during the remediation, testing, and contingency planning processes. The development of WPSR's contingency planning process is intended to minimize the problems associated with these risks.

WPSR is assessing the potential impact of failure to achieve Year 2000 compliance with respect to each of the following:

- Generation availability
- System monitoring and control functions
- Ability to restart generators that are out of service for planned or unplanned outages
- Company-owned voice/data communications
- Transmission facilities
- System protection
- Critical operating data (i.e., generation plant data)
- Electric and gas distribution systems
- Pipelines' constraints to the supply or pressure of natural gas
- Major support systems

Contingency plans for dealing with Year 2000 issues will be developed by April 1999 for each application that has been identified as "critical" or "severe." In addition, a proposal for a "quick response team" concept has been drafted, and a process for handling unexpected Year 2000 problems will be formalized in early 1999. A most reasonably likely worst case Year 2000 scenario will be identified and addressed by a crisis management team in early 1999. The team plans to conduct a crisis management drill using a Year 2000 scenario.

TRENDS - WPSR

Accounting Standards

WPSC and UPPCO follow Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation," and their financial statements reflect the effects of the different ratemaking principles followed by the various jurisdictions regulating each utility. For WPSC these include the PSCW, 89% of revenues; the Michigan Public Service Commission ("MPSC"), 3% of revenues; and the FERC, 8% of revenues. In addition, Kewaunee is regulated by the Nuclear Regulatory Commission. Environmental matters are primarily governed by the United States Environmental Protection Agency and the Wisconsin Department of Natural Resources.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires all derivatives to be measured at fair value and recognized as either assets or liabilities in the statement of financial position. The accounting for changes in the fair value of a derivative is dependent upon the use of the derivative and its resulting designation. Unless specific hedge accounting criteria are met, changes in the derivative's fair value must be recognized currently in earnings. This statement is effective for fiscal periods beginning after June 15, 1999. WPSR will be adopting the requirements of this statement on January 1, 2000, and has not yet determined the method of adoption or its impact. However, the requirements of this statement could increase volatility in earnings and other comprehensive income.

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This statement requires the capitalization of certain costs related to software developed or obtained for internal use. The statement is effective for periods beginning after December 15, 1998. WPSR will be adopting the requirements of this statement in January 1999. Although the total impact of WPSR's adoption of this statement has not been determined, WPSC's adoption of this statement is expected to result in a reduction in operating expenses which will be considered in the ratemaking process. The capitalized software costs will then be charged to amortization expense in future years.

In April 1998, the AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-up Activities." This statement provides guidance on the financial reporting of start-up costs and organization costs. Costs of start-up activities and organization costs are required to be expensed as incurred. The statement is effective for periods beginning after December 15, 1998. WPSR will be adopting the requirements of this statement in 1999 and does not anticipate any material impact to its financial statements.

Utility Restructuring

Electric reliability issues have replaced restructuring and retail competition issues in Wisconsin, and the PSCW announced that its first priority is to develop the utility infrastructure necessary to assure reliable electric service and to remove the barriers to competition at the wholesale level. In 1998, the PSCW and the major utilities in Wisconsin, including WPSC, made legislative proposals to address reliability and restructuring concerns, including market power, among other issues. This resulted in the Electric Reliability Bill (1997 Wis. Laws 204) ("Act 204"). Act 204 contains provisions which relate to the planning and approval by the PSCW of electric power generation and transmission facilities, the regional management of the transmission system, new electric power generation, including the ownership and operation of wholesale merchant plants, new electric power transmission facilities, out-of-state retail electric sales, service standards for electric generation, transmission, and distribution facilities, and the allowable assets of public utility holding companies.

On June 5, 1997, the MPSC ordered utilities under its jurisdiction to file electric open access plans and related tariffs. The MPSC order called for generation open access in increments of 2.5% of retail load each year starting in 1997 and ending in 2001. The MPSC order requires full generation open access for retail load in 2002. WPSC and UPPCO submitted plans which provide retail open access starting in 2000 when the MPSC order requires open access for 10% of retail load. The plans then continue on the MPSC schedule including full open access in 2002.

Should electric deregulation occur such that WPSC and UPPCO would no longer qualify to reflect the effects of ratemaking under SFAS No. 71 in their financial statements, no impairment of significant recorded assets or reduction in reported equity is anticipated. WPSC and UPPCO do not have any significant assets which are foreseen as being potentially stranded and no potential disparity between the depreciable lives of capital assets and those lives applicable to a competitive environment has been identified. Increased competition is likely to put pressure on electric utility margins. At this time, however, management cannot predict the ultimate results of deregulation.

Part of electric utility restructuring involves establishing independent system operators ("ISOs"). An ISO is an independent third party which potentially owns the transmission facilities, oversees the operations of transmission facilities, administers open access transmission tariffs, and directs power dispatch. WPSC is working with several groups which are attempting to form ISOs.

Both the PSCW and the MPSC continue to review gas industry restructuring. In a current docket, the PSCW is addressing gas restructuring issues including unbundling of rates, pricing of contracted services in potential utility bypass situations, and the separation of gas utilities from their nonregulated gas marketing affiliates. The MPSC is conducting pilot studies to test the development of competitive retail gas markets in Michigan.

WPSC has historically recovered gas costs through a PGAC. The PSCW has recently allowed utilities to select either an incentive gas cost recovery mechanism or a modified one-for-one mechanism for gas cost recovery. WPSC has selected the modified one-for-one gas cost recovery plan, and implementation of the new mechanism, which is similar to the recovery received under the existing PGAC, began in January 1999.

Environmental

WPSC continues to investigate the environmental cleanup of eight manufactured gas plant sites. The cleanup of WPSC's Stevens Point manufactured gas plant site has been substantially completed with monitoring of the site continuing. Costs of this cleanup were within the range expected for this site. Future investigation and cleanup costs for the remaining seven sites is estimated to be in the range of $33.9 million to $41.0 million. These estimates may be adjusted in the future contingent upon remedial technology, regulatory requirements, and experience gained through cleanup activities.

An initial liability for cleanup of $41.7 million had been established with an offsetting regulatory asset (deferred charge). Of this amount, approximately $2.7 million has been spent to date. Management believes that cleanup costs net of insurance recoveries, but not the carrying costs associated with the cleanup expenditures, will be recoverable in current and future customer rates. WPSC has received $12.6 million in insurance recoveries which have been recorded as a reduction in the regulatory asset.

WPSC is in compliance with both the Phase I and II sulfur dioxide and nitrogen oxide emission limits established by the Federal Clean Air Act Amendments of 1990. Additional capital expenditures of $1.0 million to $2.0 million are projected through 1999 for Wisconsin and for federal air quality compliance. Management believes that all costs incurred for additional compliance will be recoverable in future customer rates.

In late September 1998, the United States Environmental Protection Agency ("EPA") required certain states, including Wisconsin to develop plans to reduce the emissions of nitrogen oxides ("NOx") from sources within the state by late 2003. On a preliminary basis, WPSC projects potential capital costs of between $37.0 million and $96.0 million to comply with possible future regulations. The cumulative incremental annual operating and maintenance expense associated with these possible future regulations projected to be incurred by 2010 range from $29.0 million to $106.0 million. The costs will depend on the state-specific compliance method to be adopted in the future as well as the effectiveness of the various technologies available for NOx emission control. Under WPSC's current practice, the capital costs (as reflected in depreciation expenses) and the annual operating costs are anticipated to be recovered through future customer rates.

On December 24, 1998, WPSC joined other parties in a petition challenging the EPA's regulations that require Wisconsin to prepare and submit a NOx implementation plan. On January 22, 1999, the State of Wisconsin intervened in the litigation and challenged the geographic scope of the rule and the required timing for implementation of NOx controls within the state. No decisions have yet been rendered.

Kewaunee

On September 29, 1998, WPSC and MG&E finalized an arrangement in which WPSC will acquire MG&E's 17.8% share of Kewaunee. This agreement, the closing of which is contingent upon regulatory approval and steam generator replacement scheduled for the spring of 2000, will give WPSC 59.0% ownership in Kewaunee.

On October 17, 1998, Kewaunee was shut down for a planned maintenance and refueling outage. Inspection of the plant's two steam generators showed that the repairs made in 1997 were holding up well and few additional repairs were needed. In addition to the inspection and repair of the steam generators, a major overhaul was performed on the main turbine generator. The plant was back in operation on November 27, 1998.

Nonregulated Activities

ESI incurred a $6.9 million loss in 1998 and a $4.9 million loss in 1997. A primary strategy for ESI is to gain market presence which is reflected in a 117.1% growth in revenues during the three-year period 1996 through 1998, from $161.8 million in 1996 to $351.3 million in 1998. To support this growth, significant expenditures were made for personnel additions and system improvements. These expenditures, coupled with extreme gas market volatility, contributed to the losses incurred at ESI. Gas market volatility was reflected in the NYMEX gas futures prices per dekatherm which, in 1998, ranged from a high of $2.73 to a low of $1.61. In 1997, gas futures prices ranged from a high of $3.55 to a low of $1.82. Gas market volatility has a direct impact on revenue and trading income.

PDI expects to improve the overall performance of its investment in Stoneman due to a multi-year capacity sales agreement. Stoneman was also grandfathered by the PSCW as a merchant plant which increases the probability that PDI will repower the plant as a 300-megawatt to 500-megawatt gas-fired combined cycle generating facility. Operational problems related to the bonding process at ECO Coal Pelletization #12, LLC are being addressed with expected resolution before the second quarter of 1999.

IMPACT OF INFLATION - WPSR

WPSR's current financial statements are prepared in accordance with generally accepted accounting principles and report operating results in terms of historic cost. They provide a reasonable, objective, and quantifiable statement of financial results; but they do not evaluate the impact of inflation. Under rate treatment prescribed by utility regulatory commissions, WPSC's and UPPCO's projected operating costs are recoverable in revenues. Because forecasts are prepared assuming inflation, the majority of inflationary effects on normal operating costs are recoverable in rates. However, in these forecasts, WPSC and UPPCO are only allowed to recover the historic cost of plant via depreciation.

RESULTS OF OPERATIONS - WISCONSIN PUBLIC SERVICE CORPORATION

WPSC is a regulated electric and gas utility. Electric operations accounted for 75% of 1998 revenues, while gas contributed 25% to 1998 revenues.

1998 Compared with 1997

Wisconsin Public Service Corporation Overview

Revenues at WPSC were $652.5 million in 1998 compared with $690.5 million in 1997, a decrease of 5.5%. Earnings were $54.1 million in 1998 and $61.6 million in 1997, a decrease of 12.2%. The primary reasons for the decrease in earnings at WPSC were the impact of unusually warm winter weather, increased maintenance expenses, a decrease in other income, an increase in other operating expenses, and a decrease in the gas margin. Partially offsetting these factors were an increase in the electric utility margin and a decrease in interest expense.

Electric Utility Operations

WPSC's electric utility margins increased $8.6 million, or 2.6%, primarily due to increased kWh sales of 3.0% to WPSC customers as a result of a 103.5% increase in cooling degree days in 1998. Partially offsetting the increase in electric margins in 1998 was the impact of a PSCW rate order on WPSC which was effective for the entire year in 1998 but was only effective in 1997 for the period after February 21, 1997. This order authorized an 8.1% electric revenue reduction.

WPSC Electric Margins *(Thousands)*

	1998	1997	1996
Revenues	$487,340	$479,388	$490,506
Fuel and purchased power	152,783	153,414	143,155
Margin	$334,557	$325,974	$347,351
Sales in kWh (Thousands)	11,600,164	11,259,327	11,011,842

Electric utility revenues increased $8.0 million, or 1.7%, largely due to increased revenues of $4.8 million from WPSC's wholesale customers and $1.5 million from WPSC's commercial and industrial customers as a result of the warmer weather. Also included in 1998 electric revenues are surcharge revenues at WPSC of $3.8 million related to the recovery of the deferred costs for the 1997 Kewaunee steam generator repairs. Partially offsetting these increases to revenues were the electric rate reduction and a $1.0 million refund of WPSC's transmission revenues as the result of a FERC settlement related to open access transmission tariff rates.

Electric production fuel expense increased $2.9 million, or 2.7%, primarily as a result of increased generation expense. Kewaunee was out of service for the first six months of 1997 as the result of an extended outage to repair steam generators, thus, in comparison, the higher generation expense in 1998.

Purchased power expense decreased $3.5 million, or 7.7%, primarily due to decreased purchase requirements in the first half of 1998. Purchase requirements in the first half of 1997 were higher due to lack of production at Kewaunee in the first and second quarters of 1997 as a result of an extended outage. Also contributing to lower purchased power expense was a $1.2 million credit to purchased power expense in the fourth quarter of 1998 related to the settlement of litigation involving a contract with a power supplier.

The PSCW allows WPSC to pass changes in the cost of fuel and purchased power, within a specified range, on to its customers through a fuel adjustment clause.

Gas Utility Operations

WPSC's gas margin decreased $3.1 million in 1998, or 4.9%, primarily due to a 19.4% reduction in heating degree days.

WPSC Gas Margins *(Thousands)*	1998	1997	1996
Revenues	$165,111	$211,090	$211,357
Purchase costs	104,608	147,493	149,388
Margin	$ 60,503	$ 63,597	$ 61,969
Volume in therms (Thousands)	608,092	662,008	666,598

Gas operating revenues decreased $46.0 million, or 21.8%. This decrease was due to unusually mild weather in 1998 resulting in lower gas therm sales for 1998 of 8.1%. Also contributing to the decrease in gas operating revenues was a reduction in revenues of $7.5 million for refunds from ANR Pipeline Company which WPSC passed on to its gas customers in the second quarter of 1998.

Gas purchase costs decreased $42.9 million, or 29.1%. This decrease was due to reduced customer demand as a result of the mild weather during 1998. Also contributing to the decrease in gas costs was a $7.5 million refund from ANR Pipeline Company which was credited to gas expense in the second quarter of 1998. Under current regulatory practice, the PSCW allows WPSC to pass changes in the cost of gas on to customers through a PGAC.

Other Utility Expenses/Income

Other operating expenses at WPSC increased $4.1 million, or 3.1%, primarily due to higher benefit costs in 1998.

Maintenance expense increased $7.8 million, or 18.6%, primarily as a result of increased expenses at Kewaunee during the second and fourth quarters of 1998. This increase was partly due to the recognition in the second quarter of 1998 of the 1997 deferred expenses for Kewaunee steam generator repairs. The PSCW approved deferral of the repairs in 1997, the cost of which has been collected in the second quarter of 1998 through a $3.8 million electric revenue surcharge. In addition, maintenance expense at Kewaunee increased in the fourth quarter of 1998 due to a scheduled refueling outage.

Depreciation and decommissioning expenses increased $2.4 million, or 3.1%, due to an increased plant base and to the accelerated recovery of investment in Kewaunee and accelerated funding of Kewaunee decommissioning costs. Accelerated recovery of investment and funding began on February 21, 1997 and, therefore, was effective for all of 1998 but only a portion of 1997.

Other income decreased $5.8 million, or 46.3%, primarily due to one-time gains on sales of nonutility property which occurred in 1997. These gains represented an increase in earnings for 1997 of approximately $0.11 per share.

1997 Compared With 1996

Wisconsin Public Service Corporation Overview

Revenues at WPSC were $690.5 million in 1997 compared with $701.9 million in 1996, a decrease of 1.6%. Earnings were $61.6 million in 1997 and $57.3 million in 1996, an increase of 7.5%. The primary reasons for the increase in earnings were a decrease in operating and maintenance expenses, an increase in other income, and an increase in the gas utility margin. Offsetting these factors were a decrease in the electric utility margin, an increase in depreciation and decommissioning expense, and an increase in income tax expense.

Electric Utility Operations

WPSC's electric utility margins decreased $21.4 million, or 6.2%, primarily due to implementation of a PSCW rate order which authorized a $35.5 million, or 8.1%, electric revenue reduction. A second factor contributing to decreased margins was increased replacement power costs as a result of an extended outage at Kewaunee. A surcharge authorized by the PSCW partially offset increases in replacement power costs in the latter part of the first quarter and in the second quarter of 1997.

In spite of a 27.6% decrease in cooling degree days, electric kWh sales increased by 2.2% primarily due to increased demand by WPSC's commercial and industrial customers. Commercial and industrial kWh sales increased 4.8%, while wholesale kWh sales decreased 3.4%. Electric operating revenues decreased $11.1 million, or 2.3%, primarily due to the electric rate decrease.

Electric production fuel expense increased $2.1 million, or 2.0%. Nuclear fuel expense was $2.0 million lower than in 1996 due to decreased generation at Kewaunee in the first and second quarters of 1997 as a result of an extended outage. Steam fuel expense was higher by $1.0 million and combustion turbine generation expense was higher by $3.2 million due to increased generation requirements from these sources during the extended outage at Kewaunee.

Purchased power expense increased $8.1 million, or 21.6%, primarily due to increased purchase requirements and higher costs of purchased power during the extended outage at Kewaunee.

The PSCW allows WPSC to pass changes in the cost of fuel and purchased power, within a specified range, on to its customers through a fuel adjustment clause. WPSC is required to file an application to adjust rates either higher or lower when costs are plus or minus 2% from forecasted costs on an annual basis. The additional fuel costs in 1997 did not result in WPSC being outside this 2% window.

Gas Utility Operations

WPSC's gas margin increased $1.4 million, or 2.2%, primarily due to the implementation of a PSCW rate order which authorized a $5.7 million, or 2.7%, increase in gas revenues.

Gas operating revenues remained relatively stable reflecting the rate increase offset by a 5.5% reduction in heating degree days. Gas revenues also reflect a one-time reduction of $0.9 million in the first quarter of 1997 as a result of a PSCW directive to change the accounting treatment for previous customer line extensions. This reduction represented a decrease of approximately $.02 per share after income tax effects.

Gas purchase costs showed a net decrease of $1.6 million, or 1.1%, primarily due to reduced purchases because of decreased demand as a result of the reduction in heating degree days. The PSCW allows WPSC to pass changes in the cost of gas on to customers through a PGAC.

Other Utility Expenses/Income

Other operating expenses decreased $24.1 million, or 15.2%. Cost saving initiatives and decreased amortization of deferred demand-side management expenditures resulted in lower customer service and sales expenses of $9.5 million. Administrative expenses decreased $5.8 million due to cost saving measures and reduced postretirement medical, dental, and other benefit expenses. Generation operating expenses were lower by $7.3 million primarily as a result of the completion in 1996 of an amortization of deferred expenses related to a previous coal contract settlement. Gas operating expenses decreased $1.5 million as the result of a PSCW directive requiring gas servicing revenues and expenses to be classified as other income and deductions beginning in 1997.

Maintenance expense decreased $7.1 million, or 14.5%. Electric transmission and distribution expenses decreased $3.4 million as a result of cost saving initiatives and less maintenance of overhead lines in 1997 due to less storm damage. Maintenance expenses were $1.9 million lower at Kewaunee in 1997 because Kewaunee was out of service in 1996 for scheduled maintenance. Gas distribution expenses were lower by $0.9 million due to cost saving initiatives and decreased maintenance activities. Steam costs decreased

$0.6 million at WPSC's coal-fired plants due to changes in maintenance schedules as a result of the extended outage at Kewaunee.

Depreciation and decommissioning expenses increased $12.0 million, or 18.8%, largely due to the accelerated recovery of investment in Kewaunee and accelerated funding of Kewaunee decommissioning costs.

Other income increased $7.5 million, or 141.7%, primarily due to gains in 1997 on the sale of nonutility property of $4.8 million which represented an increase of approximately $.11 per share after income tax effects. Also included in other income in 1997 was interest of $2.2 million resulting from an income tax audit settlement. Income tax expense increased $1.9 million reflecting higher net income in 1997.

BALANCE SHEET - WPSC

1998 Compared With 1997

Nuclear decommissioning trusts increased $37.3 million due to continued funding and favorable investment returns. Construction in progress increased $28.7 million largely as a result of construction expenditures related to the Kewaunee steam generator replacement project, the combustion turbine project at West Marinette, and the transmission line for the De Pere Energy Center project.

Commercial paper increased $9.5 million due to increased operational cash needs at WPSC. Cash requirements exceeded internally generated funds. Accounts payable increased $14.2 million due to increased payables related to the 1998 Kewaunee refueling outage and other construction projects, and other long-term liabilities increased $20.2 million due to an increased liability for postretirement health care and higher deposits from the joint owners of Kewaunee as a result of the refueling outage.

FINANCIAL CONDITION - WPSC

Investments and Financing

WPSR made a $34.0 million equity infusion in WPSC during the second quarter of 1998. WPSC retired $50.0 million of first-mortgage bonds on July 1, 1998 and issued $50.0 million of senior notes secured by first-mortgage bonds on December 14, 1998. A special common stock dividend of $20.0 million was paid by WPSC to WPSR in December 1998. The special dividend allowed WPSC's average equity capitalization ratio to remain at approximately 54%, the level approved by the PSCW for ratemaking.

Short-term borrowings increased $9.5 million during 1998 as a result of cash requirements in excess of internally generated funds. Pretax interest coverage was 4.48 times for the 12 months ended December 31, 1998. WPSC's bond ratings are AA+ (Standard & Poor's and Duff & Phelps) and Aa2 (Moody's).

WPSC makes large investments in capital assets. Construction expenditures for WPSC are expected to be approximately $250.0 million in the aggregate for the 1999 through 2001 period. This includes expenditures for the replacement of Kewaunee steam generators.

In addition, other capital requirements for WPSC for the three-year period include Kewaunee decommissioning trust fund contributions of $16.8 million.

WPSC's agreement to purchase electricity from the De Pere Energy Center, a gas-fired cogeneration facility, will be accounted for as a capital lease. The De Pere Energy Center lease will be capitalized at $77.8 million in 1999. At the same time, a capital lease obligation of the same amount will be recorded which will affect WPSC's capital structure.

Regulatory

WPSC received a rate order in the Wisconsin jurisdiction on January 15, 1999. The impact is a $26.9 million increase in electric revenues and a $10.3 million increase in gas revenues on an annual basis. The new rates will be effective for 1999 and 2000. The PSCW authorized a 12.1% return on WPSC equity for 1999 and 2000.

Kewaunee

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In addition, non-information technology systems have been identified and ranked as to the risk posed by non-compliance. Non-information technology systems include computer and embedded systems related to WPSC's power plant operating, system operating, hydraulic, transmission, and other operating functions. All systems ranked as "critical," "severe," or "high" are scheduled to be Year 2000 compliant by the end of the first quarter of 1999.

WPSC has hired an external consulting group to monitor the progress of its Year 2000 compliance activities. The consulting group's responsibilities include performing a status check on WPSC's ability to achieve Year 2000 compliance.

In addition, WPSC is identifying, contacting, and assessing suppliers and other business partners for Year 2000 readiness, as these external parties may have the potential to impact WPSC's Year 2000 readiness. WPSC is also working to address Year 2000 issues related to all joint ownership facilities. At the present time, WPSC is not aware of problems that would materially impact the company's operations. However, WPSC has no means of ensuring that all third parties will be Year 2000 compliant in a timely manner, and the inability of these parties to successfully resolve their Year 2000 issues could have a material impact on company operations.

Due to fewer expenditures for hardware and software than originally anticipated, the estimate of total Year 2000 project costs has been reduced to $9.0 million. This estimate is considered reasonable and has been approved for rate recovery by the PSCW. This estimate includes internal labor costs of $4.5 million, software replacement costs for non-compliant products of

$2.0 million, and contract labor costs of $2.5 million. Expenditures for the Year 2000 project incurred through December 31, 1998, are $2.2 million. Major expenditures for hardware, software, and other equipment were made in the fourth quarter of 1998 and additional expenditures will be made in the first quarter of 1999.

The failure to correct a material Year 2000 problem could result in an interruption in, or the failure of, certain normal business activities or operations which could materially affect WPSC's results of operations. However, due to the general uncertainty inherent in the Year 2000 issue, WPSC is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on operations. A preliminary identification of potential risks related to the failure to be in compliance by the Year 2000 has been made. A better understanding of actual risks will be developed during the remediation, testing, and contingency planning processes. The development of WPSC's contingency planning process is intended to minimize the problems associated with these risks.

WPSC is assessing the potential impact of failure to achieve Year 2000 compliance with respect to each of the following:

- Generation availability
- System monitoring and control functions
- Ability to restart generators that are out of service for planned or unplanned outages
- Company-owned voice/data communications
- Transmission facilities
- System protection
- Critical operating data (i.e., generation plant data)
- Electric and gas distribution systems
- Pipelines' constraints to the supply or pressure of natural gas
- Major support systems

Contingency plans for dealing with Year 2000 issues will be developed by April 1999 for each application that has been identified as "critical" or "severe." In addition, a proposal for a "quick response team" concept has been drafted, and a process for handling unexpected Year 2000 problems will be formalized in early 1999. A most reasonably likely worst case Year 2000 scenario will be identified and addressed by a crisis management team in early 1999. The team plans to conduct a crisis management drill using a Year 2000 scenario.

TRENDS - WPSC

Accounting Standards

WPSC follows SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," and its financial statements reflect the effects of the different ratemaking principles followed by the various jurisdictions regulating the utility. For WPSC these include the PSCW, 89% of revenues; the MPSC, 3% of revenues; and the FERC, 8% of revenues. In addition, Kewaunee is regulated by the Nuclear Regulatory Commission. Environmental matters are primarily governed by the United States Environmental Protection Agency and the Wisconsin Department of Natural Resources.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires all derivatives to be measured at fair value and recognized as either assets or liabilities in the statement of financial position. The accounting for changes in the fair value of a derivative is dependent upon the use of the derivative and its resulting designation. Unless specific hedge accounting criteria are met, changes in the derivative's fair value must be recognized currently in earnings. This statement is effective for fiscal periods beginning after June 15, 1999. WPSC will be adopting the requirements of this statement on January 1, 2000, and has not yet determined the method of adoption or its impact. However, the requirements of this statement could increase volatility in earnings and other comprehensive income.

In March 1998, the AICPA issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This statement requires the capitalization of certain costs related to software developed or obtained for internal use. The statement is effective for periods beginning after December 15, 1998. WPSC will be adopting the requirements of this statement in January 1999. While the total impact of WPSC's adoption of this statement has not been determined, WPSC's adoption of this statement is expected to result in a reduction in operating expenses which will be considered in the ratemaking process. The capitalized software costs will then be charged to amortization expense in future years.

In April 1998, the AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-up Activities." This statement provides guidance on the financial reporting of start-up costs and organization costs. Costs of start-up activities and organization costs are required to be expensed as incurred. The statement is effective for periods beginning after December 15, 1998. WPSC will be adopting the requirements of this statement in 1999 and does not anticipate any material impact to its financial statements.

Utility Restructuring

Electric reliability issues have replaced restructuring and retail competition issues in Wisconsin, and the PSCW announced that its first priority is to develop the utility infrastructure necessary to assure reliable electric service and to remove the barriers to competition at the wholesale level. In 1998, the PSCW and the major utilities in Wisconsin, including WPSC, made legislative proposals to address reliability and restructuring concerns, including market power, among other issues. This resulted in the Electric Reliability Bill (1997 Wis. Laws 204) ("Act 204"). Act 204 contains provisions which relate to the planning and approval by the PSCW of electric power generation and transmission facilities, the regional management of the transmission system, new electric power generation, including the ownership and operation of wholesale merchant plants, new electric power transmission facilities, out-of-state retail electric sales, service standards for electric generation, transmission, and distribution facilities, and the allowable assets of public utility holding companies.

On June 5, 1997, the MPSC ordered utilities under its jurisdiction to file electric open access plans and related tariffs. The MPSC order called for generation open access in increments of 2.5% of retail load each year starting in 1997 and ending in 2001. The MPSC order requires full generation open access for retail load in 2002. WPSC submitted a plan which provides retail open access starting in 2000 when the MPSC order requires open access for 10% of retail load. The plan then continues on the MPSC schedule including full open access in 2002.

Should electric deregulation occur such that WPSC would no longer qualify to reflect the effects of ratemaking under SFAS No. 71 in its financial statements, no impairment of significant recorded assets or reduction in reported equity is anticipated. WPSC does not have any significant assets which are foreseen as being potentially stranded and no potential disparity between the depreciable lives of capital assets and those lives applicable to a competitive environment has been identified. Increased competition is likely to put pressure on electric utility margins. At this time, however, management cannot predict the ultimate results of deregulation.

Part of electric utility restructuring involves establishing ISOs. An ISO is an independent third party which oversees the operations of transmission facilities, administers open access transmission tariffs, and directs power dispatch. WPSC is working with several groups which are attempting to form ISOs.

Both the PSCW and the MPSC continue to review gas industry restructuring. In a current docket, the PSCW is addressing gas restructuring issues including unbundling of rates, pricing of contracted services in potential utility bypass situations, and the separation of gas utilities from their nonregulated gas marketing affiliates. The MPSC is conducting pilot studies to test the development of competitive retail gas markets in Michigan.

WPSC has historically recovered gas costs through a PGAC. The PSCW has recently allowed utilities to select either an incentive gas cost recovery mechanism or a modified one-for-one mechanism for gas cost recovery. WPSC has selected the modified one-for-one gas cost recovery plan and implementation of the new mechanism, which is similar to the recovery received under the existing PGAC, began in January 1999.

Environmental

WPSC continues to investigate the environmental cleanup of eight manufactured gas plant sites. The cleanup of WPSC's Stevens Point manufactured gas plant site has been substantially completed with monitoring of the site continuing. Costs of this cleanup were within the range expected for this site. Future investigation and cleanup costs for the remaining seven sites is estimated to be in the range of $33.9 million to $41.0 million. These estimates may be adjusted in the future contingent upon remedial technology, regulatory requirements, and experience gained through cleanup activities.

An initial liability for cleanup of $41.7 million had been established with an offsetting regulatory asset (deferred charge). Of this amount, approximately $2.7 million has been spent to date. Management believes that cleanup costs net of insurance recoveries, but not the carrying costs associated with the cleanup expenditures, will be recoverable in current and future customer rates. WPSC has received $12.6 million in insurance recoveries which have been recorded as a reduction in the regulatory asset.

WPSC is in compliance with both the Phase I and II sulfur dioxide and nitrogen oxide emission limits established by the Federal Clean Air Act Amendments of 1990. Additional capital expenditures of $1.0 million to

$2.0 million are projected through 1999 for Wisconsin and federal air quality compliance. Management believes that all costs incurred for additional compliance will be recoverable in future customer rates.

In late September 1998, the EPA required certain states, including Wisconsin to develop plans to reduce the emissions of NOx from sources within the state by late 2003. On a preliminary basis, WPSC projects potential capital costs of between $37.0 million and $96.0 million to comply with possible future regulations. The cumulative incremental annual operating and maintenance expense associated with these possible future regulations projected to be incurred by 2010 range from $29.0 million to $106.0 million. The costs will depend on the state-specific compliance method to be adopted in the future as well as the effectiveness of the various technologies available for NOx emission control. Under WPSC's current practice, the capital costs (as reflected in depreciation expenses) and the annual operating costs are anticipated to be recovered through future customer rates.

On December 24, 1998, WPSC joined other parties in a petition challenging the EPA's regulations that require Wisconsin to prepare and submit a NOx implementation plan. On January 22, 1999, the State of Wisconsin intervened in the litigation and challenged the geographic scope of the rule and the required timing for implementation of NOx controls within the state. No decisions have yet been rendered.

Kewaunee

On September 29, 1998, WPSC and MG&E finalized an arrangement in which WPSC will acquire MG&E's 17.8% share of Kewaunee. This agreement, the closing of which is contingent upon regulatory approval and steam generator replacement scheduled for the spring of 2000, will give WPSC 59.0% ownership in Kewaunee.

On October 17, 1998, Kewaunee was shut down for a planned maintenance and refueling outage. Inspection of the plant's two steam generators showed that the repairs made in 1997 were holding up well and few additional repairs were needed. In addition to the inspection and repair of the steam generators, a major overhaul was performed on the main turbine generator. The plant was back in operation on November 27, 1998.

IMPACT OF INFLATION - WPSC

WPSC's current financial statements are prepared in accordance with generally accepted accounting principles and report operating results in terms of historic cost. They provide a reasonable, objective, and quantifiable statement of financial results; but they do not evaluate the impact of inflation. Under rate treatment prescribed by utility regulatory commissions, WPSC's projected operating costs are recoverable in revenues. Because forecasts are prepared assuming inflation, the majority of inflationary effects on normal operating costs are recoverable in rates. However, in these forecasts, WPSC is only allowed to recover the historic cost of plant via depreciation.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WPS RESOURCES CORPORATION

A. CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME, AND RETAINED EARNINGS (1)

Year Ended December 31 (Thousands, except share amounts)	1998	1997	1996
Operating revenues			
Electric utility	$ 543,260	$536,885	$548,701
Gas utility	165,111	211,090	211,357
Nonregulated energy and other	355,365	187,862	156,391
Total operating revenues	1,063,736	935,837	916,449
Operating expenses			
Electric production fuels	110,809	107,988	105,449
Purchased power	56,447	63,947	55,844
Gas purchased for resale	105,908	147,755	149,388
Nonregulated energy cost of sales	346,663	182,863	155,133
Other operating expenses	172,875	165,982	183,768
Maintenance	52,813	44,325	51,782
Depreciation and decommissioning	86,274	83,441	70,762
Taxes other than income	31,902	31,375	31,671
Total operating expenses	963,692	827,676	803,797
Operating income	100,044	108,161	112,652
Other income and (deductions)			
Allowance for equity funds used during construction	173	154	255
Other, net	2,505	11,952	(903)
Total other income and (deductions)	2,678	12,106	(648)
Income before interest expense	102,722	120,267	112,004
Interest on long-term debt	23,987	26,273	25,494
Other interest	4,827	4,910	3,922
Allowance for borrowed funds used during construction	(177)	(167)	(299)
Total interest expense	28,637	31,016	29,117
Distributions - preferred securities of subsidiary trust	1,488	-	-
Income before income taxes	72,597	89,251	82,887
Income taxes	23,445	31,106	27,216
Minority interest	(611)	(797)	(348)
Preferred stock dividends of subsidiaries	3,132	3,133	3,134
Net income	46,631	55,809	52,885
Other comprehensive income	-	-	-
Comprehensive income	46,631	55,809	52,885
Retained earnings at beginning of year	339,508	333,375	329,150
Cash dividends on common stock	(50,985)	(49,676)	(48,660)
Retained earnings at end of year	$ 335,154	$339,508	$333,375
Average shares of common stock	26,511	26,527	26,545
Basic and diluted earnings per average share of common stock	$1.76	$2.10	$1.99
Dividend per share of common stock (2)	1.96	1.92	1.88

(1) These statements give effect to the merger with Upper Peninsula Energy Corporation.
(2) Dividend rates are those of WPS Resources Corporation.

The accompanying notes are an integral part of these statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WPS RESOURCES CORPORATION

B. CONSOLIDATED BALANCE SHEETS (1)

Assets		
At December 31 (Thousands)	1998	1997
Utility plant		
Electric	$1,715,882	$1,685,413
Gas	267,892	251,603
Total	1,983,774	1,937,016
Less - Accumulated depreciation and decommissioning	1,206,123	1,113,142
Total	777,651	823,874
Nuclear decommissioning trusts	171,442	134,108
Construction in progress	42,424	11,776
Nuclear fuel, less accumulated amortization	18,641	19,062
Net utility plant	1,010,158	988,820
Current assets		
Cash and equivalents	7,134	8,495
Customer and other receivables, net of reserves	117,206	96,100
Accrued utility revenues	34,175	30,750
Fossil fuel, at average cost	13,152	10,622
Gas in storage, at average cost	20,795	22,080
Materials and supplies, at average cost	21,788	20,761
Prepayments and other	26,462	24,645
Total current assets	240,712	213,453
Regulatory assets	70,041	79,849
Net nonutility and nonregulated plant	41,235	28,188
Pension assets	60,018	55,790
Investments and other assets	88,223	69,704
Total	$1,510,387	$1,435,804

(1) These statements give effect to the merger with Upper Peninsula Energy Corporation.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WPS RESOURCES CORPORATION

B. CONSOLIDATED BALANCE SHEETS CONTINUED (1)

Capitalization and Liabilities

At December 31 (Thousands)	1998	1997
Capitalization		
Common stock equity	$ 517,190	$ 518,764
Preferred stock of subsidiary with no mandatory redemption	51,200	51,200
Preferred stock of subsidiary with mandatory redemption	-	445
Company-obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely WPSR 7.00% subordinated debentures	50,000	-
Long-term debt	343,037	347,015
Total capitalization	961,427	917,424
Current liabilities		
Long-term debt due within one year	884	260
Notes payable	12,703	19,500
Commercial paper	47,590	20,706
Accounts payable	115,490	89,747
Accrued taxes	2,838	10,114
Accrued interest	7,594	8,711
Other	9,095	12,415
Total current liabilities	196,194	161,453
Long-term liabilities and deferred credits		
Accumulated deferred income taxes	122,642	131,197
Accumulated deferred investment tax credits	27,150	29,461
Regulatory liabilities	50,474	56,487
Environmental remediation liabilities	40,478	40,848
Other long-term liabilities	112,022	98,934
Total long-term liabilities and deferred credits	352,766	356,927
Commitments and contingencies (See Note 10)	-	-
Total	$1,510,387	$1,435,804

(1) These statements give effect to the merger with Upper Peninsula Energy Corporation.

The accompanying notes are an integral part of these statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WPS RESOURCES CORPORATION

C. CONSOLIDATED STATEMENTS OF CAPITALIZATION (1)

At December 31 (Thousands, except share amounts)			1998	1997
Common stock equity				
Common stock, $1 par value, 100,000,000 shares authorized; 26,551,405 shares outstanding			$ 26,551	$ 26,551
Premium on capital stock			163,438	163,454
Retained earnings			335,154	339,508
Shares in deferred compensation trust, 49,477 and 33,430 shares at an average cost of $30.42 and $28.44 per share at December 31, 1998 and 1997, respectively			(1,505)	(951)
ESOP loan guarantees			(6,448)	(9,798)
Total common stock equity			517,190	518,764
Preferred stock - Wisconsin Public Service Corporation				
Cumulative, $100 par value, 1,000,000 shares authorized; with no mandatory redemption				
Series	Shares Outstanding			
5.00%	132,000		13,200	13,200
5.04%	30,000		3,000	3,000
5.08%	50,000		5,000	5,000
6.76%	150,000		15,000	15,000
6.88%	150,000		15,000	15,000
Total preferred stock of subsidiary with no mandatory redemption			51,200	51,200
Preferred stock - Upper Peninsula Power Company				
Cumulative redeemable, $100 par value, 300,000 shares authorized (issuable in series), issued and outstanding				
	Shares Outstanding			
Series	1998	1997		
5.25%	-	853	-	85
4.70%	-	3,600	-	360
Total preferred stock of subsidiary with mandatory redemption			-	445
Company-obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely WPSR 7.00% subordinated debentures			50,000	-
Long-term debt				
First mortgage bonds - Wisconsin Public Service Corporation				
Series	Year Due			
5-1/4%	1998		-	50,000
7.30%	2002		50,000	50,000
6.80%	2003		50,000	50,000
6-1/8%	2005		9,075	9,075
6.90%	2013		22,000	22,000
8.80%	2021		53,100	53,100
7-1/8%	2023		50,000	50,000
6.08%	2028		50,000	-
First mortgage bonds - Upper Peninsula Power Company				
Series	Year Due			
7.94%	2003		15,000	15,000
10.0%	2008		6,000	6,000
9.32%	2021		18,000	18,000
Installment sales contract for air pollution control equipment - Upper Peninsula Power Company				
Term Bonds	Year Due			
6.90%	1999		120	230
Total			323,295	323,405
Unamortized discount and premium on bonds, net			(817)	(890)
Total first mortgage bonds			322,478	322,515
ESOP loan guarantees			6,448	9,798
Notes payable to bank, secured by nonregulated plant			10,943	10,710
Senior secured note			3,886	4,037
Other long-term debt			166	215
Total long-term debt			343,921	347,275
Less amounts due within one year			(884)	(260)
Net long-term debt			343,037	347,015
Total capitalization			$961,427	$917,424

(1) These statements give effect to the merger with Upper Peninsula Energy Corporation.

The accompanying notes are an integral part of these statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WPS RESOURCES CORPORATION

D. CONSOLIDATED STATEMENTS OF CASH FLOWS (1)

Year Ended December 31 (Thousands)	1998	1997	1996
Cash flows from operating activities			
Net income	$ 46,631	$ 55,809	$ 52,885
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and decommissioning	86,274	83,441	70,762
Amortization of nuclear fuel and other	16,257	14,665	28,691
Deferred income taxes	(11,940)	(6,220)	(7,579)
Investment tax credit restored	(2,311)	(1,949)	(1,961)
Allowance for equity funds used during construction	(173)	(154)	(255)
Pension income	(9,669)	(12,548)	(12,953)
Postretirement liability	4,491	6,424	8,047
Other, net	(9,220)	(7,535)	5,329
Changes in			
Customer and other receivables	(21,106)	17,343	(27,316)
Accrued utility revenues	(3,425)	4,636	2,200
Fossil fuel inventory	(2,530)	(2,112)	477
Gas in storage	1,285	(2,093)	(9,911)
Accounts payable	25,743	(10,794)	30,184
Accrued taxes	(7,276)	1,937	(594)
Environmental remediation insurance recovery	-	12,374	200
Miscellaneous current and accrued liabilities	(4,004)	(3,373)	(4,352)
Gas refunds	684	(318)	(6,175)
Net cash from operating activities	109,711	149,533	127,679
Cash flows from (used for) investing activities			
Construction of utility plant and nuclear fuel expenditures	(94,734)	(58,258)	(84,750)
Purchase of other property and equipment	(16,075)	(8,057)	(29,441)
Decommissioning funding	(17,239)	(16,059)	(8,978)
Purchase of investments and acquisitions	-	-	(728)
Other	4,046	5,086	(270)
Net cash used for investing activities	(124,002)	(77,288)	(124,167)
Cash flows from (used for) financing activities			
Issuance of long-term debt	50,233	1,789	15,296
Redemption of long-term debt	(53,660)	-	(6,900)
Issuance of notes payable	196,353	97,260	145,525
Redemption of notes payable	(203,150)	(109,360)	(129,625)
Issuance of mandatorily redeemable trust preferred securities	50,000	-	-
Issuance of commercial paper	2,157,808	700,540	345,339
Redemption of commercial paper	(2,130,924)	(711,184)	(325,489)
Cash dividends on common stock	(50,985)	(49,698)	(48,683)
Other	(2,745)	(1,139)	(715)
Net cash from (used for) financing activities	12,930	(71,792)	(5,252)
Net increase (decrease) in cash and equivalents	(1,361)	453	(1,740)
Cash and equivalents at beginning of year	8,495	8,042	9,782
Cash and equivalents at end of year	$ 7,134	$ 8,495	$ 8,042
Cash paid during year for			
Interest, less amount capitalized	$ 26,879	$ 26,669	$ 26,146
Income taxes	44,553	37,366	34,210
Preferred stock dividends of subsidiary	3,132	3,133	3,134

(1) These statements give effect to the merger with Upper Peninsula Energy Corporation.

The accompanying notes are an integral part of these statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WPS RESOURCES CORPORATION AND
WISCONSIN PUBLIC SERVICE CORPORATION

E. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) **Nature of Operations**--WPS Resources Corporation ("WPSR") is a holding company. Approximately 67% of WPSR's 1998 revenues, 92% of WPSR's assets, and all of its 1998 net income were derived from WPSR's utility subsidiaries. WPSR's primary wholly-owned subsidiary, Wisconsin Public Service Corporation ("WPSC"), is an electric and gas utility engaged in the supply and distribution of electric power and natural gas in its franchised service territory. WPSR's other wholly-owned utility subsidiary, Upper Peninsula Power Company ("UPPCO"), is an electric utility engaged in the supply and distribution of electric energy in the Upper Peninsula of Michigan. WPSR also provides gas and electric marketing and energy-related services in nonregulated markets through its wholly-owned subsidiary, WPS Energy Services, Inc. ("ESI"). WPS Power Development, Inc. ("PDI"), another wholly-owned subsidiary of WPSR, participates in the development of electric generation projects, provides service to the electric power generation industry, and owns a two-thirds interest in a merchant generating plant, the Stoneman Power Plant ("Stoneman"). PDI also has signed agreements to purchase hydro, steam, and diesel generation facilities from Maine Public Service Company pending approval by the Maine Public Service Commission. WPSR's other nonregulated subsidiaries include Upper Peninsula Building Development Company and Penvest, Inc. In January 1999, WPSR formed a new subsidiary, WPS Resources Capital Corporation, which will obtain the financing for most nonregulated projects.

Effective September 29, 1998, Upper Peninsula Energy Corporation ("UPEN") merged with and into WPSR, and UPPCO, UPEN's major subsidiary, became a wholly-owned subsidiary of WPSR. The consolidated financial statements have been restated to give effect to the merger as if the companies had been combined in the earliest period presented. See Note 12 for additional information related to the merger.

The term "utility" refers to the regulated activities of WPSC and UPPCO, while the term "nonutility" refers to the activities of WPSC and UPPCO which are not regulated. The term "nonregulated" refers to activities other than those of WPSC and UPPCO.

(b) **Use of Estimates**--The preparation of WPSR's financial statements is in conformity with generally accepted accounting principles. Management may make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) **Acquisitions and Nonregulated Investments**--At ESI, the price paid in excess of the fair value of identifiable assets acquired in 1995 is being amortized over a five-year period.

(d) **Consolidation**--WPSR consolidates all majority-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated.

(e) **Price Risk Management Activities**--WPSR has not experienced significant price risk activities at its utility operations which are not recoverable through customer rates, however, price risk is experienced at ESI.

ESI utilizes derivative financial and commodity instruments ("derivatives"), including futures and forward contracts, to reduce market risk associated with fluctuations in the price of natural gas and electricity sold under firm commitments with certain of its customers. ESI also utilizes derivatives, including price swap agreements, call and put option contracts, and futures and forward contracts, to manage market risk associated with a portion of its anticipated supply requirements. In addition, ESI utilizes derivatives, within specified guidelines, for trading purposes.

Gains or losses on derivatives associated with firm commitments are recognized as adjustments to the cost of sales or to revenues when the related transactions affect earnings. Gains and losses on derivatives associated with forecasted transactions are recognized when such forecasted transactions affect earnings. At December 31, 1998, $7.2 million in losses related to firm commitments and forecasted transactions were deferred. If it is no longer probable that a forecasted transaction will occur, any gain or loss on the derivative instrument as of such date is immediately recognized in earnings. Derivatives for trading purposes are marked to market each accounting period, and gains and losses are recognized as a component of other income at that time. In 1998 and 1997, trading losses of $6.1 million and $1.4 million, respectively, were recognized.

At December 31, 1998, ESI had outstanding 22.0 million notional dekatherms of natural gas under futures and option agreements and 1.3 million notional dekatherms of natural gas under basis swap agreements for purposes of managing market risk. The financial instruments outstanding at December 31, 1998 expire at various times through August 2000. ESI has certain gas sales commitments through August 2000 with a range of sale prices from $2.36 to $2.38 per dekatherm and a range of associated gas purchase costs of $2.29 to $2.31 per dekatherm.

As of December 31, 1998, the fair value of trading instruments included assets of $0.7 million. Except for a minimal level of electric trading instruments, financial instruments used for trading in 1998 and 1997 were natural gas derivatives. At

December 31, 1998, ESI had outstanding 13.6 million notional dekatherms of natural gas under futures and option agreements and 1.6 million notional dekatherms of natural gas under basis swap agreements for trading purposes.

(f) **Utility Plant**--Utility plant is stated at the original cost of construction which includes an allowance for funds used during construction ("AFUDC"). Approximately 50% of WPSC's retail jurisdictional construction work in progress ("CWIP") expenditures are subject to AFUDC using a rate based on WPSC's overall cost of capital. Major new generating facilities earn AFUDC on total CWIP expenditures. For 1998, WPSC's AFUDC retail rate was approximately 10.4%.

AFUDC is recorded on WPSC's wholesale jurisdictional electric CWIP at debt and equity percentages specified in the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts. For 1998, WPSC's AFUDC wholesale rate was approximately 5.5%.

UPPCO has not had significant construction projects in recent years and, therefore, has not capitalized AFUDC.

Substantially all of WPSC's and UPPCO's utility plant assets are subject to first mortgage liens.

(g) **Property Additions, Maintenance, and Retirements of Utility Plant**--The cost of renewals and betterments of units of property (as distinguished from minor items of property) is capitalized as an addition to the utility plant accounts. Except for land, no gain or loss is recognized in connection with ordinary retirements of utility property units. The cost of units of property retired, sold, or otherwise disposed of, plus removal cost, less salvage, are charged to the accumulated provision for depreciation. Maintenance and repair costs and replacement and renewal costs associated with items not qualifying as units of property are generally charged to operating expense.

Nonutility property and nonregulated property follow a similar policy except that gains and losses are recognized in connection with retirements.

(h) **Depreciation**--Straight-line composite depreciation expense is recorded over the estimated useful life of utility property and includes estimated salvage and cost of removal. Except for the Kewaunee Nuclear Power Plant ("Kewaunee"), WPSC's rates approved by the Public Service Commission of Wisconsin ("PSCW") on January 1, 1994, and by the Michigan Public Service Commission ("MPSC") on January 1, 1994 remained in effect through 1998. New rates have been approved by the PSCW to be effective January 1, 1999. The estimated effect of the new rates on 1999 depreciation expense is a decrease of approximately $1.0 million.

UPPCO's depreciation rates approved by the MPSC on January 1, 1994 remain in effect through 2001. A new depreciation study will be filed with the MPSC in late 2000, with new rates effective January 1, 2002.

Depreciation expense includes accruals for nuclear decommissioning which are not included in the annual composite rates shown below. An explanation of this item is included in Note 1(k).

WPSR	*1998*	*1997*	*1996*
Annual composite depreciation rates			
Electric	**3.57%**	3.55%	3.36%
Gas	**3.26%**	3.26%	3.35%
WPSC			
Annual composite depreciation rates			
Electric	**3.55%**	3.52%	3.33%
Gas	**3.26%**	3.26%	3.35%

Nonutility property and nonregulated property are depreciated using straight-line depreciation. Most assets have depreciation lives ranging from five to ten years.

Property at Stoneman is depreciated using various lives, certain of which are as long as 40 years.

Depreciation for Kewaunee is presently being accrued based on a 1997 PSCW order allowing for full cost recovery of the remaining unrecovered investment in Kewaunee by the end of 2002. The PSCW depreciation rate order authorizing new rates for 1999 also includes a change in methodology for recovery of Kewaunee investment after new steam generators have been installed, estimated to be mid-year 2000. At that time, the unrecovered basis of Kewaunee, including the new steam generators, will be recovered over an 8.5 year remaining life through 2008 using the sum-of-the-years depreciation method.

(i) **Impairment**--WPSR follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS No. 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment losses resulting from application of this statement are reported in income in the period in which the recognition criteria are first applied and met. This statement does not have a material impact on the current carrying amount of WPSR's assets.

(j) **Nuclear Fuel**--The cost of nuclear fuel is amortized to electric production fuel expense based on the quantity of heat produced for the generation of electric energy by Kewaunee. Costs amortized to electric fuel expense (which assume no salvage values for uranium and plutonium) include an amount for ultimate disposal and are recovered through current customer rates. As required by the

Nuclear Waste Policy Act of 1982, a contract has been signed with the United States Department of Energy ("DOE") for the ultimate storage of the fuel; and quarterly payments, based on generation, are made to the DOE for fuel storage. Interim storage space for spent nuclear fuel is provided at Kewaunee, and expenses associated with this storage are recognized as current operating costs. Currently, there is on-site storage capacity for spent fuel through the year 2013. As of December 31, 1998 and 1997, the accumulated provisions for nuclear fuel totaled $156.6 million and $151.2 million, respectively.

(k) **Nuclear Decommissioning**--Nuclear decommissioning costs to date have been accrued over the estimated service life of Kewaunee, recovered currently from customers in rates, and deposited in external trusts. Such costs totaled $17.2 million in 1998, $16.1 million in 1997, and $9.0 million in 1996. The increase in 1997 was the result of the PSCW's approval of the acceleration of Kewaunee depreciation and decommissioning funding as described in Note 1(h).

Based on the standard cost escalation assumptions required by a July 1994 PSCW order, the undiscounted amount of WPSC's decommissioning costs forecasted to be expended between the years 2003 and 2039 is $614.0 million under the revised funding plan which became effective in 1997. In developing the funding plan, a long-term after-tax earnings rate of approximately 5.5% was assumed.

WPSC's share of Kewaunee decommissioning is estimated to be $192.6 million in current dollars based on a site-specific study. The study, which was performed in 1992, uses immediate dismantlement as the method of decommissioning beginning after a dormant period extending from 2002 until 2015. As of December 31, 1998, the market value of the external nuclear decommissioning trusts totaled $171.4 million. A new site-specific study, which assumed shutdown in 2013, was completed during 1998 with WPSC's share of Kewaunee decommissioning estimated to be $190.7 million. Based on that study, WPSC's contributions for 1999 under the 1999 PSCW rate order will be $8.3 million.

Depreciation expense includes future decommissioning costs collected in customer rates and an offsetting charge for earnings from external trusts. As of December 31, 1998, the accumulated provision for depreciation and decommissioning included accumulated provisions for decommissioning totaling $171.4 million. Realized trust earnings totaled $3.3 million, $3.7 million, and $3.0 million, and unrealized trust earnings totaled $16.8 million, $13.8 million, and $6.5 million for the years ended December 31, 1998, 1997, and 1996, respectively. Unrealized gains, net of tax, in external trusts are reflected as an increase to the decommissioning reserve, since decommissioning expense will be recognized as the gains are realized, in accordance with regulatory requirements.

Investments in the nuclear decommissioning trusts are recorded at market value. The investments classified as utility plant are presented net of related income tax effects on unrealized gains and represent the amount of assets available to accomplish decommissioning. The nonqualified trust investments designated to pay income taxes when unrealized gains become realized are classified as other assets. An offsetting regulatory liability reflects the expected reduction in future rates as unrealized gains in the nonqualified trust are realized.

(l) **Cash and Equivalents**--WPSR considers short-term investments with an original maturity of three months or less to be cash equivalents.

(m) **Revenue and Customer Receivables**--WPSR accrues revenues related to electric and gas service, including estimated amounts for service rendered but not billed.

Automatic fuel adjustment clauses are used for FERC wholesale-electric and MPSC retail-electric portions of WPSC's and UPPCO's businesses.

The PSCW retail-electric portion of WPSC's business uses a "cost variance range" approach. This range is based on a specific estimated fuel cost for the forecast year. If WPSC's actual fuel costs fall outside this range, a hearing may be held and an adjustment to future rates may result. WPSC has a purchased gas adjustment clause ("PGAC") which allows it to pass changes in the cost of gas purchased from its suppliers on to system gas customers, subject to PSCW and MPSC review. The continued use of a PGAC for all Wisconsin utilities has been reexamined by the PSCW, and utilities were given the choice between continuing under a modified one-for-one gas cost recovery plan or switching to an incentive gas cost recovery mechanism. The PSCW has approved a modified one-for-one gas cost recovery plan for WPSC which is similar to the gas cost recovery under the existing PGAC. Implementation of the modified one-for-one gas cost recovery plan began in January 1999.

Billings to UPPCO's customers under MPSC jurisdiction include base rate charges and a power supply cost recovery ("PSCR") factor. Approximately 40% of UPPCO's operating expense is power supply costs. UPPCO receives MPSC approval each year to recover projected power supply costs by establishment of PSCR factors. These factors are subject to annual reconciliation to actual costs and permit 100% recovery of allowed power supply costs. Any over or under recovery is deferred on UPPCO's balance sheet, and such deferrals are relieved as refunds or additional billings are made.

WPSC and UPPCO are required to provide service and grant credit to customers within their service territories and are precluded from discontinuing service to residential customers during certain periods of the year. WPSC and UPPCO continually review their customers' credit-worthiness and obtain deposits or refund deposits accordingly.

Approximately 11% of WPSR's total revenues are from companies in the paper products industry.

(n) **Regulatory Assets and Liabilities**--WPSC and UPPCO are subject to the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." Regulatory assets represent probable future revenue associated with certain incurred costs which will be recovered from customers through the ratemaking process. Regulatory liabilities represent costs previously collected that are refundable in future customer rates. The following regulatory assets and liabilities were reflected in the Consolidated Balance Sheets as of December 31:

WPSR *(Thousands)*	***1998***	*1997*
Regulatory assets		
Demand-side management expenditures	**$23,860**	$31,360
Environmental remediation costs (net of insurance recoveries)	**30,285**	29,882
Coal and rail contract buy-out costs	**616**	2,293
Debt refinancing costs	**1,810**	2,078
Enrichment facility fee	**5,056**	5,544
Kewaunee steam generator resleeving costs	**-**	3,577
Other	**8,414**	5,115
Total	**$70,041**	$79,849
Regulatory liabilities		
Income tax related items	**$29,617**	$32,596
Pensions	**-**	2,443
Conservation costs	**(2,866)**	6,491
Unrealized gain on decommissioning trust	**16,397**	11,348
Kewaunee deferred revenue	**4,009**	2,518
Deferred gain on emission allowance sales	**3,304**	1,352
Other	**13**	(261)
Total	**$50,474**	$56,487

WPSC *(Thousands)*	*1998*	*1997*
Regulatory assets		
Demand-side management expenditures	**$23,860**	$31,360
Environmental remediation costs		
(net of insurance recoveries)	**29,021**	29,249
Coal and rail contract buy-out costs	**616**	2,293
Debt refinancing costs	**1,623**	1,859
Enrichment facility fee	**5,056**	5,544
Kewaunee steam generator		
resleeving costs	**-**	3,577
Other	**8,159**	4,662
Total	**$68,335**	$78,544
Regulatory liabilities		
Income tax related items	**$22,734**	$26,119
Pensions	**-**	2,443
Conservation costs	**(2,866)**	6,491
Unrealized gain on decommissioning		
trust	**16,397**	11,348
Kewaunee deferred revenue	**4,009**	2,518
Deferred gain on emission		
allowance sales	**3,304**	1,352
Other	**13**	8
Total	**$43,591**	$50,279

As of December 31, 1998, the majority of WPSC's regulatory assets are being recovered through rates charged to customers over periods ranging from two to ten years. Recovery periods for UPPCO's regulatory assets are up to 26 years. Carrying costs for all WPSC's regulatory assets are being recovered except for those associated with environmental costs. No carrying costs are being recovered for UPPCO's regulatory assets. Based on prior and current rate treatment of such costs, management believes it is probable that WPSC and UPPCO will continue to recover from ratepayers the regulatory assets described above.

See Notes 8 and 9 for specific information on pension and deferred tax regulatory liabilities. See Note 10 for information on environmental remediation deferred costs.

(o) **Investments and Other Assets**--Investments include ownership interests in Wisconsin River Power Company and Wisconsin Valley Improvement Company. Income related to these investments is included in other income and deductions using the equity method of accounting. Other assets include operating deposits for jointly-owned plants, the cash surrender value of life insurance policies, the long-term portion of energy conservation loans to customers, and the decommissioning trust investments designated for payment of income taxes.

(p) **Reclassifications**--Certain prior year financial statement amounts have been reclassified to conform to current year presentation.

(q) **Retirement of Debt**--Historically, gains or losses resulting from the settlement of long-term utility debt obligations have been deferred and amortized concurrent with rate recovery as required by regulators.

(r) **Derivative Instruments and Hedging Activities**--In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires all derivatives to be measured at fair value and recognized as either assets or liabilities in the statement of financial position. The accounting for changes in the fair value of a derivative is dependent upon the use of the derivative and its resulting designation. Unless specific hedge accounting criteria are met, changes in the derivative's fair value must be recognized currently in earnings. This statement is effective for fiscal periods beginning after June 15, 1999. WPSR will be adopting the requirements of this statement on January 1, 2000, and has not yet determined the method of adoption or its impact. However, the requirements of this statement could increase volatility in earnings and other comprehensive income.

(s) **Internally-Developed Software**--In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This statement requires the capitalization of certain costs related to software developed or obtained for internal use. The statement is effective for periods beginning after December 15, 1998. WPSR will be adopting the requirements of this statement in 1999. While the total impact of WPSR's adoption of this statement has not been determined, WPSC's adoption of this statement is expected to result in a reduction in operating expenses, which has been substantially considered in the ratemaking process. The capitalized software costs will then be amortized to operating expense in future years.

(t) **Costs of Start-up Activities**--In April 1998, the AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-up Activities." This statement provides guidance on the financial reporting of start-up costs and organization costs. Costs of start-up activities and organization costs are required to be expensed as incurred. The statement is effective for periods beginning after December 15, 1998. WPSR will be adopting the requirements of this statement in 1999 and does not anticipate any material impact to its financial statements.

NOTE 2--JOINTLY-OWNED UTILITY FACILITIES

Information regarding WPSC's share of major jointly-owned electric generating facilities in service at December 31, 1998 is set forth below:

WPSC (Thousands, except for percentages)	*West Marinette Unit No. 33*	*Columbia Energy Center*	*Edgewater Unit No. 4*	*Kewaunee*
Ownership	68%	31.8%	31.8%	41.2%
Plant capacity (Megawatts)	83.5	335.2	104.9	221.0
Utility plant in service	$15,917	$112,307	$22,542	$133,099
Accumulated depreciation	$ 2,774	$ 63,592	$13,504	$ 97,930
In-service date	1993	1975 and 1978	1969	1974

WPSC's share of direct expenses for these plants is included in the corresponding operating expenses in the consolidated statements of income. WPSC has supplied its own financing for all jointly-owned projects.

Upon closing of an agreement with Madison Gas and Electric Company ("MG&E"), which is contingent upon steam generator replacement, WPSC will acquire MG&E's 17.8% share of Kewaunee. This will increase WPSC's ownership in Kewaunee to 59.0%. See Note 10 for additional information regarding Kewaunee.

NOTE 3--SHORT-TERM DEBT AND LINES OF CREDIT

To provide short-term borrowing flexibility and security for commercial paper outstanding, WPSR and its subsidiaries maintain bank lines of credit. Most of these lines of credit require a fee.

The information in the table below relates to short-term debt and lines of credit for the years indicated:

(Thousands, except for percentages)	***1998***	*1997*	*1996*
As of end of year			
Commercial paper outstanding	**$47,590**	$20,706	$31,350
Average discount rate on outstanding commercial paper	**4.84%**	6.55%	5.73%
Notes payable outstanding	**$12,703**	$19,500	$31,600
Average interest rate on notes payable	**5.88%**	7.06%	6.16%
Available lines of credit	**$62,102**	$27,500	$55,900
For the year			
Maximum amount of short-term debt	**$102,033**	$80,017	$75,250
Average amount of short-term debt	**$50,939**	$37,609	$31,254
Average interest rate on short-term debt	**5.93%**	6.06%	5.18%

NOTE 4--LONG-TERM DEBT

First mortgage bonds are secured by utility plant assets. In July 1998, WPSC retired the entire $50.0 million issue of the 5-1/4% First Mortgage Bonds. In December 1998, WPSC issued $50.0 million of 6.08% senior notes due in 2028 secured by a pledge of first mortgage bonds. The 1998 notes become unsecured if WPSC were to call all of its outstanding first mortgage bonds. These notes would then be secured by WPSC's general credit and not by WPSC's assets.

As of December 31, 1998, $8.1 million has been drawn against PDI's revolving credit note of $11.5 million which is secured by the assets of Stoneman. An additional $3.3 million, which is to be paid in the year 2000, has been committed against this note. The note, which is guaranteed by WPSR, is due in the year 2000 or when the plant is converted to a 300-megawatt to 500-megawatt gas-fired combined cycle facility.

NOTE 5--COMPANY-OBLIGATED MANDATORILY REDEEMABLE TRUST PREFERRED SECURITIES OF SUBSIDIARY TRUST

On July 30, 1998, WPSR Capital Trust I ("Trust"), a Delaware business trust of which WPSR owns all of the outstanding trust common securities, issued $50.0 million of trust preferred securities to the public. The sole asset of the Trust is $51.5 million principal amount of subordinated debentures due June 30, 2038, and bearing interest at 7.0% per annum, issued by WPSR. The terms and interest payments on these debentures correspond to the terms and distributions on the trust preferred securities. The Trust has been consolidated into the WPSR financial statements. The interest payments are reflected as distributions - preferred securities of subsidiary trust in the Consolidated Statement of Income and are tax deductible by WPSR. WPSR may elect to defer interest payments on the debentures for a period up to 20 consecutive quarters, causing distributions on the trust preferred securities to be deferred as well.

In case of a deferral, interest and distributions will continue to accrue, along with quarterly compounding interest on the deferred amounts. WPSR may redeem all or a portion of the debentures after July 30, 2003, requiring an equal amount of trust securities to be redeemed at face value plus accrued and unpaid distributions. WPSR has entered into a limited guarantee of payment of distributions, redemption payments, and payments in liquidation with respect to the trust preferred securities. This guarantee, when considered together with WPSR's obligations under the related debentures and indenture and the applicable declaration of trust, provide a full and unconditional guarantee by WPSR of amounts due on the outstanding trust preferred securities.

NOTE 6--COMMON EQUITY

Under WPSR's Stock Investment Plan, WPSR's common stock has been purchased in the open market to satisfy shareholder and employee purchase requirements. Beginning in January 1999, WPSR began issuing new shares for the Stock Investment Plan.

In December 1996, WPSR adopted a Shareholder Rights Plan designed to enhance the ability of the Board of Directors to protect shareholders and WPSR if efforts are made to gain control of WPSR in a manner that is not in the best interests of WPSR and its shareholders. The plan gives existing shareholders, under certain circumstances, the right to purchase stock at a discounted price. The rights expire on December 11, 2006.

At December 31, 1998, WPSR had $328.5 million of retained earnings available for dividends. WPSC is restricted by a PSCW order to paying normal common stock dividends of no more than 109.0% of the previous year's common stock dividend without PSCW approval. Also, Wisconsin law prohibits WPSC from making loans to WPSR and its subsidiaries and from guaranteeing their obligations.

UPPCO's indentures relating to first mortgage bonds contain certain limitations on the payment of cash dividends on common stock. Under the most restrictive of these provisions, approximately $7.9 million of consolidated retained earnings were available at December 31, 1998, for the payment of common stock cash dividends by UPPCO.

WPSR made a $34.0 million equity infusion into WPSC during the second quarter of 1998. In December 1998, WPSC paid to WPSR a special common dividend of $20.0 million. The special dividend allowed WPSC's average common equity capitalization ratio to remain at approximately 54.0%, the level approved by the PSCW for ratemaking.

NOTE 7--FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash, Short-Term Investments, Energy Conservation Loans, Notes Payable, and Outstanding Commercial Paper: The carrying amount approximates fair value due to the short maturity of those investments and obligations.

Nuclear Decommissioning Trusts: The value of WPSC's nuclear decommissioning trust investments is recorded at market value.

Long-Term Debt, Preferred Stock, and ESOP Loan Guarantees: The fair value of WPSC's long-term debt, preferred stock, and ESOP loan guarantees is estimated based on the quoted market price for the same or similar issues or on the current rates offered to WPSC for debt of the same remaining maturity.

The estimated fair values of WPSR's financial instruments as of December 31 were:

(Thousands)	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 7,134	$ 7,134	$ 8,495	$ 8,495
Energy conservation loans	7,810	7,810	7,195	7,195
Nuclear decommissioning trusts - utility plant	171,442	171,442	134,108	134,108
Nuclear decommissioning trusts - other assets	16,397	16,397	11,348	11,348
Notes payable	12,703	12,703	19,500	19,500
Commercial paper	47,590	47,590	20,706	20,706
ESOP loan guarantees	6,448	6,702	9,798	10,243
Trust preferred securities	50,000	50,250	-	-
Long-term debt	337,473	366,038	337,477	360,506
Preferred stock	51,200	53,026	51,645	49,040
Gas commodity instruments	41,800	34,600	504	436

NOTE 8--EMPLOYEE BENEFIT PLANS

WPSC and UPPCO have non-contributory retirement plans covering substantially all employees under which annual contributions may be made to an irrevocable trust established to provide retired employees with a monthly payment if conditions relating to age and length of service have been met. The WPSC pension plans are fully funded, and no contributions were made in 1998, 1997, or 1996. The WPSC and UPPCO pension plans and other benefit plans were merged effective December 31, 1998. The net accrued benefit liability assumed by WPSC at December 31, 1998 was $5.7 million.

WPSC and UPPCO also currently offer medical, dental, and life insurance benefits to employees, retirees, and their dependents. The expenses for active employees are expensed as incurred. The company funds these benefits through irrevocable trusts as allowed for income tax purposes. These funded amounts have been expensed and recovered through customer rates. The non-administrative plan is a collectively bargained plan and, therefore, is tax exempt. The investments in the trust covering administrative employees are subject to federal unrelated business income taxes at a 39.6% tax rate.

All pension costs and postretirement plan costs are accounted for under SFAS Nos. 87 and 106, respectively, which require the cost of these benefits to be accrued as expense over the period in which the employee renders service. The transition obligation for current and future retirees is recognized over 20 years beginning in 1993.

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the three one-year periods ending December 31, 1998, 1997, and 1996, and a statement of the funded status as of December 31, of each year:

(Thousands)	1998	1997	1996
Reconciliation of benefit obligation - pension			
Obligation at January 1	$350,669	$299,587	$301,840
Service cost	9,014	7,019	7,404
Interest cost	25,264	22,919	22,493
Participant contributions	-	-	-
Plan amendments	5,762	7,224	-
Actuarial (gain) loss	26,085	28,989	(17,296)
Acquisitions	-	-	-
Benefit payments	(17,430)	(15,911)	(14,854)
Curtailments	-	842	-
Obligation at December 31	$399,364	$350,669	$299,587
Reconciliation of benefit obligation - other			
Obligation at January 1	$127,705	$116,354	$123,665
Service cost	3,874	3,500	3,816
Interest cost	9,126	9,496	9,594
Participant contributions	-	-	-
Plan amendments	-	6,803	-
Actuarial (gain) loss	2,599	34	(16,418)
Acquisitions	-	-	-
Benefit payments	(4,489)	(4,174)	(4,303)
Curtailments	-	(4,308)	-
Obligation at December 31	$138,815	$127,705	$116,354

(Thousands)	1998	1997	1996
Reconciliation of fair value of plan assets - pension			
Fair value of plan assets at January 1	$537,756	$470,176	$431,130
Actual return on plan assets	89,618	79,731	51,833
Acquisitions	-	-	-
Employer contributions	539	3,783	2,067
Participant contributions	-	-	-
Plan expenses paid	-	(23)	-
Benefit payments	(17,430)	(15,911)	(14,854)
Fair value of plan assets at December 31	$610,483	$537,756	$470,176
Funded status at December 31	$211,119	$187,087	$170,589
Unrecognized transition (asset) obligation	(13,467)	(17,043)	(20,620)
Unrecognized prior-service cost	19,336	15,523	9,467
Unrecognized (gain) loss	(156,972)	(132,227)	(116,172)
Net amount recognized	$ 60,016	$ 53,340	$ 43,264
Reconciliation of fair value of plan assets - other			
Fair value of plan assets at January 1	$121,930	$104,367	$ 88,950
Actual return on plan assets	21,161	20,376	18,198
Acquisitions	-	-	-
Employer contributions	1,239	1,361	1,522
Participant contributions	-	-	-
Plan expenses paid	-	-	-
Benefit payments	(4,489)	(4,174)	(4,303)
Fair value of plan assets at December 31	$139,841	$121,930	$104,367
Funded status at December 31	$ 1,026	$ (5,776)	$(11,986)
Unrecognized transition (asset) obligation	39,434	42,286	47,663
Unrecognized prior-service cost	4,259	4,583	(1,897)
Unrecognized (gain) loss	(87,011)	(78,496)	(64,432)
Net amount recognized	$(42,292)	$(37,403)	$(30,652)

The net amounts recognized for 1997 and 1996 pension benefits have been reduced for an additional unrecognized regulatory liability related to pension costs. The entire regulatory liability was recognized by year-end 1998.

The following table provides the amounts recognized in the statement of financial position as of December 31 of each year:

(Thousands)	1998	1997	1996
Prepaid benefit cost - pension			
Prepaid benefit cost	$ 60,016	$ 52,867	$ 43,877
Accrued benefit liability	-	(2,525)	(2,208)
Intangible asset	-	2,998	1,595
Accumulated other income	-	-	-
Net amount recognized	$ 60,016	$ 53,340	$ 43,264
Prepaid benefit cost - other			
Prepaid benefit cost	$ -	$ -	$ -
Accrued benefit liability	(42,292)	(37,403)	(30,652)
Intangible asset	-	-	-
Accumulated other income	-	-	-
Net amount recognized	$(42,292)	$(37,403)	$(30,652)

The following table provides the components of net periodic benefit cost for the plans for fiscal years 1998, 1997, and 1996:

(Thousands)	1998	1997	1996
Net periodic benefit cost - pension			
Service cost	$ 9,014	$ 7,019	$ 7,404
Interest cost	25,264	22,919	22,493
Expected return on plan assets	(38,282)	(33,883)	(33,283)
Amortization of transition (asset) obligation	(3,576)	(3,576)	(3,576)
Amortization of prior-service cost	1,950	921	1,023
Amortization of net (gain) loss	(507)	(781)	(122)
Net periodic benefit cost	$ (6,137)	$ (7,381)	$ (6,061)
Curtailment (gain) loss	-	1,088	-
Net periodic benefit cost after curtailments	$ (6,137)	$ (6,293)	$ (6,061)
Net periodic benefit cost - other			
Service cost	$ 3,874	$ 3,500	$ 3,816
Interest cost	9,126	9,496	9,594
Expected return on plan assets	(7,356)	(6,378)	(6,076)
Amortization of transition (asset) obligation	2,852	3,010	3,010
Amortization of prior-service cost	324	324	(131)
Amortization of net (gain) loss	(2,692)	(2,196)	(670)
Net periodic benefit cost	$ 6,128	$ 7,756	$ 9,543
Curtailment (gain) loss	-	356	-
Net periodic benefit cost after curtailments	$ 6,128	$ 8,112	$ 9,543

Under a contract with Wisconsin Electric Power Company ("WEPCO"), UPPCO had operated WEPCO's Presque Isle Power Plant in Michigan since 1988. This contract terminated on December 31, 1997, and all employees at the plant became employees of WEPCO. In 1997, UPPCO recognized a $1.1 million pension curtailment loss and a $0.4 million other benefit plan curtailment loss from the termination of the Presque Isle Power Plant operating agreement.

The assumptions used in the measurement of WPSR's benefit obligation are shown in the following table:

	1998	1997	1996
Weighted average assumptions as of December 31 - pension			
Discount rate	6.75%	7.25%	7.75%
Expected return on plan assets	8.75%	8.75%	8.50%
Rate of compensation increase	5.50%	5.50%	5.50%
Weighted average assumptions as of December 31 - other			
Discount rate	6.75%	7.25%	7.75%
Expected return on plan assets	8.75%	8.75%	8.50%
Rate of compensation increase	N/A	N/A	N/A

The assumed health care cost trend rates for 1998 are 8.0% for medical and 7.5% for dental, both decreasing to 5.0% by the year 2006. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1.0% change in assumed health care cost trend rates would have the following effects:

(Thousands)	1.0% Increase	1.0% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ 2,521	$ (1,955)
Effect on the health care component of the accumulated postretirement benefit obligation	$24,684	$(19,591)

WPSC has a leveraged Employee Stock Ownership Plan and Trust ("ESOP") that held 1,955,468 shares of WPSR common stock (market value of approximately $68.9 million) at December 31, 1998. At that date, the ESOP also had one loan guaranteed by WPSC and secured by common stock. Principal and interest on the loan are to be paid using contributions from WPSC and dividends on WPSR common stock held by the ESOP. Shares in the ESOP are allocated to participants as the loan is repaid. Tax benefits from dividends paid to the ESOP are recognized as a reduction in WPSC's cost of providing service to customers. The PSCW has allowed WPSC to include in cost of service an additional employer contribution to the plan. The net effect of the tax benefits and of the employer contribution is an approximately equal sharing of the tax benefits of the program between customers and employees.

NOTE 9--INCOME TAXES

WPSR accounts for income taxes using the liability method as prescribed by SFAS No. 109, "Accounting for Income Taxes." Under the liability method, deferred income tax liabilities are established for all temporary differences in the book and tax bases of assets and liabilities based upon enacted tax laws and rates applicable to the periods in which the taxes become payable. Taxes provided in prior years at rates greater than current rates are being refunded to customers prospectively as the temporary differences reverse. The net regulatory liability totaled $29.6 million as of December 31, 1998.

As of December 31, 1998 and 1997, WPSR had the following significant temporary differences that created deferred tax assets and liabilities:

(Thousands)	***1998***	*1997*
Deferred tax assets		
Plant related	**$ 76,400**	$ 68,175
Customer advances	**10,599**	8,187
Conservation escrow	**(1,057)**	2,859
Capital losses/state net operating losses	**3,652**	1,345
Employee benefits	**28,021**	22,772
Other	**9,351**	3,019
Total	**$126,966**	$106,357
Deferred tax liabilities		
Plant related	**$210,418**	$201,239
Demand-side management expenditures	**9,421**	12,383
Employee benefits	**24,009**	17,786
Other	**5,760**	6,146
Total	**$249,608**	$237,554
Net deferred tax liabilities	**$122,642**	$131,197

Previously deferred investment tax credits are being amortized as a reduction to income tax expense over the life of the related utility plant. The components of income tax expense are set forth in the tables below:

(Thousands, except for percentages)	*1998*		*1997*		*1996*	
	Rate	*Amount*	*Rate*	*Amount*	*Rate*	*Amount*
Statutory federal income tax	35.0%	$25,623	35.0%	$31,525	35.0%	$29,140
State income taxes, net	5.9	4,344	5.4	4,862	5.1	4,275
Investment tax credit restored	(2.6)	(1,924)	(2.2)	(1,949)	(2.4)	(1,961)
Rate difference on reversal of income tax temporary differences	(2.4)	(1,761)	(2.1)	(1,888)	(1.9)	(1,579)
Dividends paid to ESOP	(1.9)	(1,414)	(1.5)	(1,381)	(1.7)	(1,424)
Section 29 credits	(1.0)	(751)	(0.2)	(220)	(0.3)	(220)
Other differences, net	(1.0)	(672)	0.2	157	(1.1)	(1,015)
Effective income tax	32.0%	$23,445	34.6%	$31,106	32.7%	$27,216
Current provision						
Federal		$29,492		$31,444		$28,478
State		7,779		7,527		7,729
Total current provision		37,271		38,971		36,207
Deferred (benefit) provision		(11,902)		(5,916)		(7,030)
Investment tax credit restored, net		(1,924)		(1,949)		(1,961)
Total income tax expense		$23,445		$31,106		$27,216

NOTE 10--COMMITMENTS AND CONTINGENCIES

Coal Contracts

To ensure a reliable, low-cost supply of coal, WPSC entered into a long-term contract that has take-or-pay obligations totaling $130.8 million from 1999 through 2016. The obligations are subject to force majeure provisions which provide WPSC other options if the specified coal does not meet emission limits which may be mandated in future legislation. In the opinion of management, any amounts paid under the take-or-pay obligations described above would be considered costs of service subject to recovery in customer rates.

Purchased Power

WPSC has several take-or-pay contracts for either capacity or energy related to purchased power. These contracts total $68.2 million through April 2003. UPPCO has purchased power contracts with external suppliers for 50 megawatts totaling $12.3 million through 1999. Management expects to recover these costs in future customer rates.

Long-Term Power Supply

In November 1995, WPSC signed a 25-year agreement to purchase power from SkyGen Energy LLC, an independent power producer proposing to build a cogeneration facility and sell electrical power to WPSC. In October 1997, the PSCW issued a Certificate of Public Convenience and Necessity authorizing construction of the project. Phase I of the project, which is expected to be operational during 1999, will be accounted for as a capitalized lease with the capitalized amount being approximately $77.8 million. If Phase II becomes operational (Phase II is currently projected to be operational within five years of the start of Phase I), an additional plant asset of approximately $76.0 million will be recorded.

Future Nonregulated Commitments

PDI has signed agreements with Maine Public Service Company to purchase, for approximately $38.0 million, hydro, steam, and diesel units in the State of Maine and in New Brunswick, Canada, with a total capacity of approximately 92 megawatts. PDI is currently awaiting approval of the purchase by the Maine Public Service Commission.

Gas Costs

WPSC has natural gas supply and transportation contracts that require total estimated demand payments of $186.2 million through October 2008.

In April 1992, the FERC issued Order No. 636 which required natural gas pipelines to restructure their sales and transportation services. As a result, WPSC was obligated to pay for a portion of ANR Pipeline Company's transition costs through various FERC approved surcharges. Though there may be additional transition costs, which could be significant, the amount and timing of these costs are unknown at this time. Management fully expects to recover these costs in future customer rates since the PSCW and MPSC have allowed such recovery to date.

Nuclear Liability

The Price-Anderson Act provides for the payment of funds for public liability claims arising out of a nuclear incident. In the event of a nuclear incident involving any of the nation's licensed reactors, WPSC is subject to a proportional assessment which is approximately $36.3 million per incident, not to exceed $4.1 million per incident, per calendar year. These amounts represent WPSC's 41.2% ownership share in Kewaunee.

Nuclear Plant Operation

On September 29, 1998, WPSC and MG&E finalized an arrangement in which WPSC will acquire, at MG&E's book value, MG&E's 17.8% share of Kewaunee including MG&E's decommissioning trust assets and assuming MG&E's share of the decommissioning obligation. This agreement, the closing of which is contingent upon regulatory approval and steam generator replacement scheduled for the spring of 2000, will give WPSC 59.0% ownership in Kewaunee.

The net book value of WPSC's share of Kewaunee at December 31, 1998 is $35.2 million. In addition, the current cost of WPSC's share of the estimated costs to decommission Kewaunee, assuming early retirement, exceeds the trust assets at December 31, 1998 by $21.2 million. If retired early, Kewaunee would be placed in a dormant state following the transfer of spent fuel to temporary storage facilities. Under this plan, Kewaunee would remain intact with minimal monitoring and maintenance until physical decommissioning begins. Actual decommissioning would probably not begin until approximately 2015. On January 3, 1997, the PSCW accepted WPSC's recommendation to accelerate recovery of the Wisconsin retail portion of both the current undepreciated plant balance and the unfunded decommissioning costs over a six-year period, 1997 through 2002. The PSCW depreciation rate order authorizing new rates for 1999 includes a change in methodology for recovery of Kewaunee investment after new steam generators have been installed, estimated to be mid-year 2000. At that time, the unrecovered basis of the Kewaunee plant, including the new steam generators, will be recovered over an 8.5 year remaining life through 2008 using the sum-of-the-years depreciation method.

On October 17, 1998, Kewaunee was shut down for a planned maintenance and refueling outage. Inspection of the plant's two steam generators showed that the repairs made in 1997 were holding up well and few additional repairs were needed. In addition to the inspection and repair of the steam generators, a major overhaul was performed on the main turbine generator. The plant was back in operation on November 27, 1998.

Clean Air Regulations

WPSC is in compliance with both the Phase I and Phase II sulfur dioxide and nitrogen oxide emission limits established by the Federal Clean Air Act Amendments of 1990. Additional capital expenditures of $1.0 million to $2.0 million are projected through 1999 for Wisconsin and federal air quality compliance. Management believes that all costs incurred for additional compliance will be recoverable in future customer rates.

In late September 1998, the United States Environmental Protection Agency ("EPA") required certain states, including Wisconsin, to develop plans to reduce the emissions of nitrogen oxides ("NOx") from sources within the state by late 2003. On a preliminary basis, WPSC projects potential capital costs of between $37.0 million and $96.0 million to comply with possible future regulations. The cumulative incremental annual operating and maintenance expense associated with these possible future regulations projected to be incurred by 2010 range from $29.0 million to $106.0 million. The costs will depend on the state-specific compliance method to be adopted in the future as well as the effectiveness of the various technologies available for NOx emission control. Under WPSC's current practice, the capital costs (as reflected in depreciation expenses) and the annual operating costs are anticipated to be recovered through future customer rates.

On December 24, 1998, WPSC joined other parties in a petition challenging the EPA's regulations that require Wisconsin to prepare and submit a NOx implementation plan. On January 22, 1999, the State of Wisconsin intervened in the litigation and challenged the geographic scope of the rule and the required timing for implementation of NOx controls within the state. No decisions have yet been rendered.

Manufactured Gas Plant Remediation

WPSC continues to investigate the environmental cleanup of eight manufactured gas plant sites. The cleanup of WPSC's Stevens Point manufactured gas plant site has been substantially completed with monitoring of the site continuing. Costs of this cleanup were within the range expected for this site. Future investigation and cleanup costs for the remaining seven sites is estimated to be in the range of $33.9 million to $41.0 million. These estimates may be adjusted in the future contingent upon remedial technology, regulatory requirements, and experience gained through cleanup activities.

An initial liability for cleanup of $41.7 million had been established with an offsetting regulatory asset (deferred charge). Of this amount, approximately $2.7 million has been spent to date. Management believes that cleanup costs net of insurance recoveries, but not the carrying costs associated with the cleanup expenditures, will be recoverable in current and future customer rates. WPSC has received $12.6 million in insurance recoveries which have been recorded as a reduction in the regulatory asset.

Future Utility Expenditures

Management estimates 1999 utility plant construction expenditures at WPSC to be approximately $107.4 million and construction expenditures at UPPCO to be approximately $6.7 million. Demand-side management ("DSM") expenditures at WPSC are estimated to be $11.1 million. No additional DSM expenditures will be deferred in 1999, and the outstanding deferred asset balance at December 31, 1998 of $23.9 million will be amortized over the next four years consistent with rate recovery.

NOTE 11--REGULATORY ENVIRONMENT

WPSC received a rate order in the Wisconsin retail jurisdiction on January 15, 1999. The impact is a $26.9 million increase in electric revenues and a $10.3 million increase in gas revenues on an annual basis. The new rates will be effective for 1999 and 2000. WPSC was granted a 12.1% return on equity for 1999 and 2000.

UPPCO is subject to a rate freeze through 2000.

NOTE 12--MERGER WITH UPPER PENINSULA ENERGY CORPORATION

Effective September 29, 1998, UPEN merged with and into WPSR, and UPPCO, UPEN's utility and major subsidiary, as well as UPEN's other nonregulated subsidiaries, became wholly-owned subsidiaries of WPSR. The merger qualifies as a tax-free transaction and the transaction has been accounted for as a pooling of interests.

The foregoing consolidated financial statements have been restated to give effect to the merger as if the companies had combined in the earliest period presented. Certain adjustments have been made to conform the presentation of UPEN's financial information with that of WPSR. In accordance with the terms of the merger, each of the 2,950,001 outstanding shares of UPEN common stock (no par value) were converted into the right to receive 0.90 shares of WPSR common stock. Taking into account the cash paid for fractional shares, an additional 2,654,443 shares are being issued pursuant to the merger.

The summary below depicts selected unaudited financial data for 1998 and 1997 as reported prior to the consummation of the merger and restated to reflect the effect of the merger under the pooling of interests method.

Selected Restated Financial Data (Quarterly Data, Unaudited) (In thousands, except per share data)	WPSR (prior to restatement for pooling)	UPEN (prior to restatement for pooling)	WPSR (restated for pooling of interests)
First Quarter 1997			
Operating revenues (1)	$263,013	$16,303	$279,199
Net income	$ 18,235	$ 1,924	$ 20,159
Average outstanding shares	23,880	2,969	26,534
Basic and diluted earnings per share	$0.76	$0.65	$0.76
Second Quarter 1997			
Operating revenues (1)	$191,360	$13,796	$204,820
Net income	$ 9,571	$ 666	$ 10,237
Average outstanding shares	23,875	2,969	26,529
Basic and diluted earnings per share	$0.40	$0.22	$0.39
Third Quarter 1997			
Operating revenues (1)	$185,225	$14,893	$198,843
Net income	$ 12,903	$ (147)	$ 12,756
Average outstanding shares	23,870	2,954	26,524
Basic and diluted earnings per share	$0.54	$ (0.05)	$0.48
Fourth Quarter 1997			
Operating revenues (1)	$238,742	$15,112	$252,975
Net income	$ 13,033	$ (376)	$ 12,657
Average outstanding shares	23,866	2,950	26,520
Basic and diluted earnings per share	$0.55	$(0.12)	$0.47
Year-End December 31, 1997			
Operating revenues (1)	$878,340	$60,104	$935,837
Net income	$ 53,742	$ 2,067	$ 55,809
Average outstanding shares	23,873	2,960	26,527
Basic and diluted earnings per share	$2.25	$0.70	$2.10
First Quarter 1998			
Operating revenues (1)	$276,809	$15,573	$291,226
Net income	$ 17,101	$ 851	$ 17,952
Average outstanding shares	23,862	2,950	26,516
Basic and diluted earnings per share	$0.72	$0.29	$0.68
Second Quarter 1998			
Operating revenues (1)	$219,620	$13,889	$232,054
Net income	$ 9,879	$ 586	$ 10,465
Average outstanding shares	23,858	2,950	26,512
Basic and diluted earnings per share	$0.41	$0.20	$0.39
Third Quarter 1998			
Operating revenues			$247,928
Net income			$ 11,799
Average outstanding shares			26,508
Basic and diluted earnings per share			$0.45
Fourth Quarter 1998			
Operating revenues			$292,528
Net income			$ 6,415
Average outstanding shares			26,505
Basic and diluted earnings per share			$0.24
Year-End December 31, 1998			
Operating revenues			$1,063,736
Net income			$ 46,631
Average outstanding shares			26,511
Basic and diluted earnings per share			$1.76

(1) Restatement includes adjustment for intercompany sales.

NOTE 13--SEGMENTS OF BUSINESS

Effective December 31, 1998, WPSR adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." WPSR's reportable segments are managed separately due to their different operating and regulatory environments. WPSR's principal business segments are the regulated electric utility operations of WPSC and UPPCO and the regulated gas utility operations of WPSC. The other reportable business segment, ESI, participates in nonregulated energy marketing operations.

The tables below and on the following page present information for the respective years pertaining to WPSR's operations segmented by lines of business.

Segments of Business (Thousands)	Regulated Utilities		Nonutility and Nonregulated Operations	
1998	Electric	Gas	ESI	PDI and Other
Income Statement				
Operating revenues	$ 550,004	$165,111	$351,258	$ 9,506
Depreciation and decommissioning	75,974	7,751	1,148	1,401
Other income (expense)	5,461	114	(5,765)	4,791
Interest expense	22,820	4,323	592	4,914
Income taxes	27,534	4,429	(4,783)	(3,735)
Net income (loss)	50,488	5,912	(6,869)	(2,900)
Balance Sheet				
Total assets	1,117,438	246,365	71,839	175,123
Cash expenditures for long-lived assets	64,444	30,537	291	15,537

	Reconciling Eliminations	WPSR Consolidated
Income Statement		
Operating revenues	$ (12,143)	$1,063,736
Depreciation and decommissioning	-	86,274
Other income (expense)	(1,923)	2,678
Interest expense	(4,012)	28,637
Income taxes	-	23,445
Net income (loss)	-	46,631
Balance Sheet		
Total assets	(100,378)	1,510,387
Cash expenditures for long-lived assets	-	110,809

Segments of Business (Thousands)	Regulated Utilities		Nonutility and Nonregulated Operations	
1997	Electric	Gas	ESI	PDI and Other
Income Statement				
Operating revenues	$ 539,590	$211,090	$189,404	$ 5,426
Depreciation and decommissioning	74,016	7,349	1,048	1,028
Other income (expense)	7,395	(701)	(1,158)	6,402
Interest expense	25,266	4,841	905	2,265
Income taxes	29,461	4,211	(3,315)	749
Net income (loss)	53,294	7,878	(4,949)	(414)
Balance Sheet				
Total assets	1,089,875	246,842	44,779	75,836
Cash expenditures for long-lived assets	48,592	14,592	78	3,053

	Reconciling Eliminations	WPSR Consolidated
Income Statement		
Operating revenues	$ (9,673)	$ 935,837
Depreciation and decommissioning	-	83,441
Other income (expense)	168	12,106
Interest expense	(2,261)	31,016
Income taxes	-	31,106
Net income (loss)	-	55,809
Balance Sheet		
Total assets	(21,528)	1,435,804
Cash expenditures for long-lived assets	-	66,315

Segments of Business (Thousands)	Regulated Utilities		Nonutility and Nonregulated Operations	
1996	Electric	Gas	ESI	PDI and Other
Income Statement				
Operating revenues	$ 548,884	$211,357	$161,838	$ 3,380
Depreciation and decommissioning	61,996	7,128	1,054	584
Other income (expense)	4,993	58	(2,411)	(3,306)
Interest expense	24,339	4,229	774	1,533
Income taxes	31,655	2,499	(4,838)	(2,100)
Net income (loss)	59,907	2,350	(6,307)	(3,065)
Balance Sheet				
Total assets	1,095,996	268,622	51,823	79,190
Cash expenditures for long-lived assets	73,910	24,304	388	15,589

	Reconciling Eliminations	WPSR Consolidated
Income Statement		
Operating revenues	$ (9,010)	$ 916,449
Depreciation and decommissioning	-	70,762
Other income (expense)	18	(648)
Interest expense	(1,758)	29,117
Income taxes	-	27,216
Net income (loss)	-	52,885
Balance Sheet		
Total assets	(32,315)	1,463,316
Cash expenditures for long-lived assets	-	114,191

NOTE 14--QUARTERLY FINANCIAL INFORMATION (Unaudited) (1)

(Thousands, except for share amounts) — *Three Months Ended*

			1998		
	March	**June**	**September**	**December**	**Total**
Operating revenues	$291,226	$232,054	$247,928	$292,528	$1,063,736
Net income	$ 17,952	$ 10,465	$ 11,799	$ 6,415	$ 46,631
Average number of shares of common stock	26,516	26,512	26,508	26,505	26,511
Basic and diluted earnings per share	$.68	$.39	$.45	$.24	$1.76

			1997		
	March	*June*	*September*	*December*	*Total*
Operating revenues	$279,199	$204,820	$198,843	$252,975	$ 935,837
Net income	$ 20,159	$ 10,237	$12,756	$ 12,657	$ 55,809
Average number of shares of common stock	26,534	26,529	26,524	26,520	26,527
Basic and diluted earnings per share	$.76	$.39	$.48	$.47	$2.10

(1) Schedule gives effect to the merger with Upper Peninsula Energy Corporation.

Because of various factors which affect the utility business, the quarterly results of operations are not necessarily comparable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WPS RESOURCES CORPORATION

F. REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of WPS Resources Corporation:

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of WPS Resources Corporation (a Wisconsin corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, comprehensive income and retained earnings and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of WPS Resources Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin
January 28, 1999

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WISCONSIN PUBLIC SERVICE CORPORATION

G. CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Year Ended December 31 (Thousands)	1998	1997	1996
Operating revenues			
Electric	$487,340	$479,388	$490,506
Gas	165,111	211,090	211,357
Total operating revenues	652,451	690,478	701,863
Operating expenses			
Electric production fuels	110,443	107,538	105,418
Purchased power	42,340	45,876	37,737
Gas purchased for resale	104,608	147,493	149,388
Other operating expenses	138,232	134,113	158,167
Maintenance	49,425	41,661	48,734
Depreciation and decommissioning	78,206	75,819	63,835
Federal income taxes	23,642	26,460	25,267
Investment tax credit restored	(1,742)	(1,768)	(1,778)
State income taxes	7,291	7,569	7,732
Gross receipts tax and other	26,403	26,396	26,869
Total operating expense	578,848	611,157	621,369
Operating income	73,603	79,321	80,494
Other income and (deductions)			
Allowance for equity funds used during construction	173	129	139
Other, net	6,765	12,591	5,123
Income taxes	(331)	(1,110)	(294)
Total other income and (deductions)	6,607	11,610	4,968
Income before interest expense	80,210	90,931	85,462
Interest expense			
Interest on long-term debt	20,400	22,530	22,512
Other interest	2,801	3,759	2,688
Allowance for borrowed funds used during construction	(177)	(100)	(128)
Total interest expense	23,024	26,189	25,072
Net income	57,186	64,742	60,390
Preferred stock dividend requirements	3,111	3,111	3,111
Earnings on common stock	54,075	61,631	57,279
Other comprehensive income	-	-	-
Comprehensive income	$ 54,075	$ 61,631	$ 57,279

The accompanying WPS Resources Corporation notes are an integral part of these statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WISCONSIN PUBLIC SERVICE CORPORATION

H. CONSOLIDATED BALANCE SHEETS

Assets		
At December 31 (Thousands)	1998	1997
Utility plant		
Electric	$1,534,711	$1,506,470
Gas	267,892	251,603
Total	1,802,603	1,758,073
Less - Accumulated depreciation and decommissioning	1,120,058	1,032,149
Total	682,545	725,924
Nuclear decommissioning trusts	171,442	134,108
Construction in progress	35,996	7,266
Nuclear fuel, less accumulated amortization	18,641	19,062
Net utility plant	908,624	886,360
Current assets		
Cash and equivalents	1,882	3,921
Customer and other receivables, net of reserves	63,193	55,893
Accrued utility revenues	30,877	30,750
Fossil fuel, at average cost	12,433	9,964
Gas in storage, at average cost	14,855	17,194
Materials and supplies, at average cost	20,054	18,793
Prepayments and other	19,491	20,155
Total current assets	162,785	156,670
Regulatory assets	68,335	78,544
Net nonutility plant	2,888	2,972
Pension assets	60,018	52,792
Investments and other assets	64,932	56,616
Total	$1,267,582	$1,233,954

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WISCONSIN PUBLIC SERVICE CORPORATION

H. CONSOLIDATED BALANCE SHEETS (CONTINUED)

Capitalization and Liabilities		
At December 31 (Thousands)	**1998**	1997
Capitalization		
Common stock equity	**$ 481,708**	$ 457,121
Preferred stock with no mandatory redemption	**51,200**	51,200
Long-term debt to parent	**14,061**	14,321
Long-term debt	**289,972**	293,298
Total capitalization	**836,941**	815,940
Current liabilities		
Note payable	**10,000**	10,000
Commercial paper	**25,000**	15,500
Accounts payable	**60,680**	46,453
Accrued interest and taxes	**2,590**	11,315
Other	**6,564**	10,049
Total current liabilities	**104,834**	93,317
Long-term liabilities and deferred credits		
Accumulated deferred income taxes	**118,476**	127,512
Accumulated deferred investment tax credits	**24,772**	26,901
Regulatory liabilities	**43,591**	50,279
Environmental remediation liabilities	**39,028**	40,215
Other long-term liabilities	**99,940**	79,790
Total long-term liabilities and deferred credits	**325,807**	324,697
Commitments and contingencies (See Note 10)		
Total	**$1,267,582**	$1,233,954

The accompanying WPS Resources Corporation notes are an integral part of these balance sheets.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WISCONSIN PUBLIC SERVICE CORPORATION

I. CONSOLIDATED STATEMENTS OF CAPITALIZATION

At December 31 (Thousands, except share amounts)		1998	1997
Common stock equity			
Common stock		$ 95,588	$ 95,588
Premium on capital stock		107,842	73,842
Retained earnings		284,726	297,489
ESOP loan guarantees		(6,448)	(9,798)
Total common stock equity		481,708	457,121
Preferred stock			
Cumulative, $100 par value, 1,000,000 shares authorized with no mandatory redemption -			
Series	Shares Outstanding		
5.00%	132,000	13,200	13,200
5.04%	30,000	3,000	3,000
5.08%	50,000	5,000	5,000
6.76%	150,000	15,000	15,000
6.88%	150,000	15,000	15,000
Total preferred stock		51,200	51,200
Long-term debt to parent			
Series	Year Due		
8.76%	2015	5,808	5,914
7.35%	2016	8,253	8,407
Total long-term debt to parent		14,061	14,321
Long-term debt			
First mortgage bonds			
Series	Year Due		
5-1/4%	1998	-	50,000
7.30%	2002	50,000	50,000
6.80%	2003	50,000	50,000
6-1/8%	2005	9,075	9,075
6.90%	2013	22,000	22,000
8.80%	2021	53,100	53,100
7-1/8%	2023	50,000	50,000
6.08%	2028	50,000	-
Total		284,175	284,175
Unamortized discount and premium on bonds, net		(817)	(890)
Total first mortgage bonds		283,358	283,285
ESOP loan guarantees		6,448	9,798
Other long-term debt		166	215
Total long-term debt		289,972	293,298
Total capitalization		$836,941	$815,940

The accompanying WPS Resources Corporation notes are an integral part of these statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WISCONSIN PUBLIC SERVICE CORPORATION

J. CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 (Thousands)	1998	1997	1996
Cash flows from operating activities:			
Net income	$ 57,186	$ 64,742	$ 60,390
Adjustments to reconcile net income to net cash from operating activities -			
Depreciation and decommissioning	78,206	75,819	63,835
Amortization of nuclear fuel and other	15,634	14,665	27,687
Deferred income taxes	(12,421)	(5,846)	(6,623)
Investment tax credit restored	(2,129)	(1,767)	(1,778)
Allowance for equity funds used during construction	(173)	(129)	(139)
Pension income	(9,669)	(11,432)	(12,413)
Postretirement liability	9,743	4,952	7,150
Other, net	(489)	(9,046)	1,826
Changes in -			
Customer and other receivables	(7,300)	10,341	(4,078)
Accrued utility revenues	(127)	4,576	2,260
Fossil fuel inventory	(2,469)	(1,740)	477
Gas in storage	2,339	(754)	(6,537)
Accounts payable and accrued taxes	6,561	(13,883)	9,225
Environmental remediation insurance recovery	-	12,374	200
Miscellaneous and accrued liabilities	(5,019)	(1,957)	(1,015)
Gas refunds	684	(318)	(6,175)
Net cash from operating activities	130,557	140,597	134,292
Cash flows from (used for) investing activities:			
Construction of utility plant and nuclear fuel expenditure	(89,544)	(58,258)	(84,750)
Decommissioning funding	(17,239)	(16,059)	(8,978)
Purchase of other property and equipment	(270)	(111)	(2,050)
Other	4,565	6,080	949
Net cash used for investing activities	(102,488)	(68,348)	(94,829)
Cash flows from (used for) financing activities:			
Redemption of long term debt	(53,659)	-	(6,900)
Proceeds from issuance of long-term debt	50,000	-	-
Proceeds of long-term debt from parent	-	-	8,668
Proceeds from issuance of commercial paper	290,521	257,100	153,300
Redemptions of commercial paper	(281,021)	(270,600)	(135,800)
Equity infusion from parent	34,000	-	-
Preferred stock dividends	(3,111)	(3,111)	(3,111)
Common stock dividends	(66,838)	(55,882)	(55,926)
Net cash used for financing activities	(30,108)	(72,493)	(39,769)
Net increase (decrease) in cash and equivalents	(2,039)	(244)	(306)
Cash and equivalents at beginning of year	3,921	4,165	4,471
Cash and equivalents at end of year	$ 1,882	$ 3,921	$ 4,165
Cash paid during year for:			
Interest, less amount capitalized	$ 20,905	$ 22,311	$ 22,100
Income taxes	$ 48,781	$ 41,151	$ 35,662

The accompanying WPS Resources Corporation notes are an integral part of these statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WISCONSIN PUBLIC SERVICE CORPORATION

K. CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Year Ended December 31 (Thousands)	1998	1997	1996
Balance at beginning of year	$297,489	$291,740	$290,387
Add - Net income	57,186	64,742	60,390
	354,675	356,482	350,777
Deduct -			
Cash dividends declared on preferred stock			
5.00% Series ($5.00 per share)	660	660	660
5.04% Series ($5.04 per share)	151	151	151
5.08% Series ($5.08 per share)	254	254	254
6.76% Series ($6.76 per share)	1,014	1,014	1,014
6.88% Series ($6.88 per share)	1,032	1,032	1,032
Dividends declared on common stock	46,838	45,882	44,926
Dividend to parent	20,000	10,000	11,000
	69,949	58,993	59,037
Balance at end of year	$284,726	$297,489	$291,740

The accompanying WPS Resources Corporation notes are an integral part of these statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WISCONSIN PUBLIC SERVICE CORPORATION

L. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Notes to Consolidated Financial Statements for Wisconsin Public Service Corporation are incorporated in the Notes to Consolidated Financial Statements for WPS Resources Corporation at page 83 of this report.

ITEM 8. **FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

WISCONSIN PUBLIC SERVICE CORPORATION

M. REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of Wisconsin Public Service Corporation:

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of Wisconsin Public Service Corporation (a Wisconsin corporation) and subsidiary as of December 31, 1998 and 1997, and the related consolidated statements of income, comprehensive income and retained earnings and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wisconsin Public Service Corporation and subsidiary as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin
January 28, 1999

ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information about WPSR's directors and those Class B directors seeking re-election may be found on pages 4 and 5 of WPSR's March 22, 1999 Proxy Statement. Such information is incorporated by reference as if fully set forth herein.

Information regarding the executive officers, which is not a part of WPSR's Proxy Statement, is set forth in Part I, Item 4A, at page 35.

ITEM 11. EXECUTIVE COMPENSATION

Information required under Item 11 regarding compensation paid by WPSR to its Chief Executive Officer and other executive officers of WPSR may be found in WPSR's March 22, 1999 Proxy Statement, which information is incorporated by reference herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information concerning principal securities holders and securities holdings of management which may be found on pages 2 and 3 of WPSR's March 22, 1999 Proxy Statement is incorporated by reference as if fully set forth herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There have been no transactions since the beginning of fiscal year 1998, or any currently proposed transactions, or series of similar transactions, to which WPSR or any of its subsidiaries was or is to be party in which the amount exceeds $60,000 and in which any director, executive officer, any nominee for election as a director, any security holder owning of record or beneficially more than 5% of the Common Stock of WPSR, or any member of the immediate family of any of the foregoing persons had or will have a direct material interest.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

(1) The following financial consolidated statements are included in Part II at Item 8 above:

(2) Financial statement schedules.

The following financial statement schedules are included in Part IV of this report. Schedules not included herein have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) All exhibits, including those incorporated by reference.

Exhibit Number	Description of Documents
2*	Asset Purchase Agreement Among Maine Public Service Company, Main and New Brunswick Electrical Power Company, Limited and WPS Power Development, Inc. dated as of July 7, 1998.
3A-1	Restated Articles of Incorporation of WPS Resources Corporation. (Incorporated by reference to Appendix B to Amendment No. 1 to the Company's Registration Statement on Form S-4, filed February 28, 1994 [Reg. No. 33-52199]).
3A-2	Articles of Incorporation of Wisconsin Public Service Corporation as effective May 26, 1972 and amended through May 31, 1988 (Incorporated by reference to Exhibit 3A to Form 10-K for the year ended December 31, 1991); Articles of Amendment to Articles of Incorporation dated June 9, 1993 (Incorporated by reference to Exhibit 3 to Form 8-K filed June 10, 1993).
3B-1	By-Laws of WPS Resources Corporation as in effect September 1, 1998.
3B-2	By-Laws of Wisconsin Public Service Corporation as in effect September 1, 1998.
4A	Copy of Rights Agreement, dated December 12, 1996 between WPS Resources Corporation and Firstar Trust Company (Incorporated by reference to Exhibit 4.1 to Form 8-A filed December 13, 1996 [File No.1-11337]).
4B	Copy of First Mortgage and Deed of Trust, dated as of January 1, 1941 from Wisconsin Public Service Corporation to First Wisconsin Trust Company, Trustee (Incorporated by reference to Exhibit 7.01 - File No. 2-7229); Supplemental Indenture, dated as of November 1, 1947 (Incorporated by reference to Exhibit 7.02 - File No. 2-7602); Supplemental Indenture, dated as of November 1, 1950 (Incorporated by reference to Exhibit 4.04 - File No. 2-10174); Supplemental Indenture, dated as of May 1, 1953 (Incorporated by reference to Exhibit 4.03 - File No. 2-10716); Supplemental Indenture, dated as of October 1, 1954 (Incorporated by reference to Exhibit 4.03 - File No. 2-13572); Supplemental Indenture, dated as of December 1, 1957 (Incorporated by reference to Exhibit 4.03 - File No. 2-14527); Supplemental Indenture, dated as of October 1, 1963 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Supplemental Indenture, dated as of June 1, 1964 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Supplemental Indenture, dated as of November 1, 1967 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Supplemental Indenture, dated as of April 1, 1969 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Fifteenth Supplemental

* Schedules and exhibits to this document are not being filed herewith. The registrant agrees to furnish supplementally a copy of any such schedule or exhibit to the Securities and Exchange Commission upon request.

Exhibit Number	Description of Documents
	Indenture, dated as of May 1, 1971 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Sixteenth Supplemental Indenture, dated as of August 1, 1973 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Seventeenth Supplemental Indenture, dated as of September 1, 1973 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Eighteenth Supplemental Indenture, dated as of October 1, 1975 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Nineteenth Supplemental Indenture, dated as of February 1, 1977 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Twentieth Supplemental Indenture, dated as of July 15, 1980 (Incorporated by reference to Exhibit 4B to Form 10-K for the year ended December 31, 1980); Twenty-First Supplemental Indenture, dated as of December 1, 1980 (Incorporated by reference to Exhibit 4B to Form 10-K for the year ended December 31, 1980); Twenty-Second Supplemental Indenture dated as of April 1, 1981 (Incorporated by reference to Exhibit 4B to Form 10-K for the year ended December 31, 1981); Twenty-Third Supplemental Indenture, dated as of February 1, 1984 (Incorporated by reference to Exhibit 4B to Form 10-K for the year ended December 31, 1983); Twenty-Fourth Supplemental Indenture, dated as of March 15, 1984 (Incorporated by reference to Exhibit 1 to Form 10-Q for the quarter ended June 30, 1984); Twenty-Fifth Supplemental Indenture, dated as of October 1, 1985 (Incorporated by reference to Exhibit 1 to Form 10-Q for the quarter ended September 30, 1985); Twenty-Sixth Supplemental Indenture, dated as of December 1, 1987 (Incorporated by reference to Exhibit 4A-1 to Form 10-K for the year ended December 31, 1987); Twenty-Seventh Supplemental Indenture, dated as of September 1, 1991 (Incorporated by reference to Exhibit 4 to Form 8-K filed September 18, 1991); Twenty-Eighth Supplemental Indenture, dated as of July 1, 1992 (Incorporated by reference to Exhibit 4B - File No. 33-51428); Twenty-Ninth Supplemental Indenture, dated as of October 1, 1992 (Incorporated by reference to Exhibit 4 to Form 8-K filed October 22, 1992); Thirtieth Supplemental Indenture, dated as of February 1, 1993 (Incorporated by reference to Exhibit 4 to Form 8-K filed January 27, 1993); Thirty-First Supplemental Indenture, dated as of July 1, 1993 (Incorporated by reference to Exhibit 4 to Form 8-K filed July 7, 1993); Thirty-Second Supplemental Indenture, dated as of November 1, 1993 (Incorporated by reference to Exhibit 4 to Form 10-Q for the quarter ended September 30, 1993); Thirty-Third Supplemental Indenture, dated as of December 1, 1998 (Incorporated by reference to Exhibit 4D to Form 8-K filed December 18, 1998). All references to periodic reports are to those of Wisconsin Public Service Corporation (File No. 1-3016).

Exhibit Number	Description of Documents
4C	Amended and Restated Declaration of Trust of WPSR Capital Trust I dated as of July 30, 1998 among WPS Resources Corporation as sponsor, State Street Bank and Trust Company as Administrative Trustee, First Union Trust Company, National Association, as Delaware Trustee, and Daniel P. Bittner and Ralph G. Baeten, as Administrative Trustees (Incorporated by reference to Exhibit 4.1 to Form 8-K filed August 6, 1998) (File No. 1-11337).
4D	Indenture dated as of July 30, 1998, between WPS Resources Corporation and State Street Bank and Trust Company, as trustee (Incorporated by reference to Exhibit 4.2 to Form 8-K filed August 6, 1998); First Supplemental Indenture dated as of July 30, 1998, between WPS Resources Corporation and State Street Bank and Trust Company, as trustee (Incorporated by reference to Exhibit 4.3 to Form 8-K filed August 6, 1998). References to periodic reports are to those of WPS Resources Corporation. (File No. 1-11337).
4E	Trust Preferred Securities Guarantee Agreement dated as of July 30, 1998, between WPS Resources Corporation and State Street Bank and Trust Company, guarantee trustee (Incorporated by reference to Exhibit 4.4 to Form 8-K filed August 6, 1998) (File No. 1-11337).
4F	Indenture, dated as of December 1, 1998, between Wisconsin Public Service Corporation and Firstar Bank Milwaukee, N.A., National Association (Incorporated by reference to Exhibit 4A to Form 8-K filed December 18, 1998); First Supplemental Indenture, dated as of December 1, 1998 between Wisconsin Public Service Corporation and Firstar Bank Milwaukee, N.A., National Association (Incorporated by reference to Exhibit 4C to Form 8-K filed December 18, 1998). References to periodic reports are to those of Wisconsin Public Service Corporation. (File No. 1-03016).
10A	Copy of Joint Power Supply Agreement among Wisconsin Public Service Corporation, Wisconsin Power and Light Company, and Madison Gas and Electric Company, dated February 2, 1967 (Incorporated by reference to Exhibit 4.09 in File No. 2-27308).
10B	Copy of Joint Power Supply Agreement (Exclusive of Exhibits) among Wisconsin Public Service Corporation, Wisconsin Power and Light Company, and Madison Gas and Electric Company dated July 26, 1973 (Incorporated by reference to Exhibit 5.04A in File No. 2-48781).
10C	Settlement and Ownership Transfer Agreement dated September 29, 1998 between Wisconsin Public Service Corporation and Madison Gas and Electric Company (Incorporated by reference to Exhibit 99-2 to Form 8-K/A filed March 2, 1999) (File No. 1-03016).

Exhibit Number	Description of Documents
10D-1	Copy of Basic Generating Agreement, Unit 4, Edgewater Generating Station, dated June 5, 1967, between Wisconsin Power and Light Company and Wisconsin Public Service Corporation (Incorporated by reference to Exhibit 4.10 in File No. 2-27308).
10D-2	Copy of Agreement for Construction and Operation of Edgewater 5 Generating Unit, dated February 24, 1983, between Wisconsin Power and Light Company, Wisconsin Electric Power Company, and Wisconsin Public Service Corporation (Incorporated by reference to Exhibit 10C-1 to Form 10-K of Wisconsin Public Service Corporation for the year ended December 31, 1983 [File No. 1-3016]).
10D-3	Amendment No. 1 to Agreement for Construction and Operation of Edgewater 5 Generating Unit, dated December 1, 1988 (Incorporated by reference to Exhibit 10C-2 to Form 10-K of Wisconsin Public Service Corporation for the year ended December 31, 1988 [File No. 1-3016]).
10E	Copy of revised Agreement for Construction and Operation of Columbia Generating Plant among Wisconsin Public Service Corporation, Wisconsin Power and Light Company, and Madison Gas and Electric Company, dated July 26, 1973 (Incorporated by reference to Exhibit 5.07 in File No. 2-48781).
10F	Copy of Guaranty and Agreements and Note Agreements for Wisconsin Public Service Corporation Employee Stock Ownership Plan and Trust (ESOP) dated November 1, 1990 (Incorporated by reference to Exhibits 10.1 and 10.2 to Form 8-K of Wisconsin Public Service Corporation filed November 2, 1990 [File No. 1-3016]).
10G-1	Copy of Power Purchase Agreement Between De Pere Energy LLC and Wisconsin Public Service Corporation dated November 8, 1995 and amended by a Letter Agreement dated February 18, 1997. (Incorporated by reference to Exhibit 10F-1 to the Form 10-K for the year ended December 31, 1997 [File No. 1-3016]).
	Executive Compensation Plans and Arrangements
10H-1	Copy of amended and restated WPS Resources Corporation Deferred Compensation Plan for executives and non-employee directors, effective January 1, 1999.
10H-2	Copy of Form of Executive Employment and Severance Agreement entered into between WPS Resources Corporation and each of the following: Ralph G. Baeten, Daniel P. Bittner, Diane L. Ford, Richard E. James, Thomas P. Meinz, Phillip M. Mikulsky, Wayne J. Peterson, Patrick D. Schrickel, Charles A. Schrock, Clark R. Steinhardt, Bernard J. Treml, and Larry L. Weyers (Incorporated by reference to Exhibit 10.6 to Form 10-Q for the quarter ended June 30, 1997, filed July 25, 1997 [File No. 1-11337]).

Exhibit Number	Description of Documents
10H-3	Copy of WPS Resources Corporation Short-Term Variable Pay Plan effective January 1, 1998. (Incorporated by reference to Exhibit 10G-3 in the Form 10-K for the year ended December 31, 1997 [File No. 1-11337]).

Exhibit Number	Description of Document	Pages in 10-K
2*	Asset Purchase Agreement Among Maine Public Service Company, Maine and New Brunswick Electrical Power Company, Limited and WPS Power Development, Inc. dated as of July 7, 1998	135
3B-1	By-Laws of WPS Resources Corporation as in Effect September 1, 1998	202
3B-2	By-Laws of Wisconsin Public Service Corporation as in Effect September 1, 1998	235
10F-1	WPS Resources Corporation Amended and Restated Deferred Compensation Plan Effective January 1, 1999	
	WPS Resources Corporation	266
11	Statement Regarding Computation of Per Share Earnings	
	WPS Resources Corporation	295
21	Subsidiaries of the Registrant	296
23	Consent of Independent Public Accountants	297
24	Powers of Attorney	298
27	Financial Data Schedule	
	WPS Resources Corporation	307
	Wisconsin Public Service Corporation	308

* Schedules and exhibits to this document are not being filed herewith. The registrant agrees to furnish supplementally a copy of any such schedule or exhibit to the Securities and Exchange Commission upon request.

(b) Reports on Form 8-K

A Current Report on Form 8-K dated September 29, 1998 filed by WPS Resources Corporation and Wisconsin Public Service Corporation on October 6, 1998. The report included under Item 5 the announcement of completion of the merger of Upper Peninsula Energy Company and WPS Resources Corporation effective at the close of business on September 29, 1998 and the finalization of an arrangement for Wisconsin Public Service Corporation to buy Madison Gas and Electric Company's share of the Kewaunee Nuclear Power Plant.

A Current Report on Form 8-K dated December 10, 1998 and filed December 11, 1998 by WPS Resources Corporation and Wisconsin Public Service Corporation (1) transmitting a press release announcing that unseasonably warm weather in November and early December will have a negative impact on its fourth quarter earnings and a Settlement and Ownership Transfer Agreement between WPSC and Madison Gas and Electric Company regarding Kewaunee ownership issues, (2) disclosing certain costs to comply with Environmental Protection Agency nitrogen oxide regulations, and (3) disclosing authorization by the WPSR Board of Directors to issue up to one million shares for WPSR's Stock Investment Plan in lieu of open market purchases. (A Current Report on Form 8-K/A dated December 10, 1998 and filed on March 1, 1999 indicating that portions of Exhibit 99-2, the settlement and ownership transfer agreement between Wisconsin Public Service Corporation and Madison Gas and Electric Company, had been omitted based upon a request for confidential treatment. The non-public information has been filed separately with the Securities and Exchange Commission.)

A Current Report on Form 8-K dated December 14, 1998 and filed December 18, 1998 by Wisconsin Public Service Corporation transmitting certain documents relating to the offering of Senior Notes, 6.08% Series due December 1, 2028 (the "Senior Notes"), registered with the Securities and Exchange Commission on Form S-3 (Reg. No. 333-67979).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WPS RESOURCES CORPORATION
and
WISCONSIN PUBLIC SERVICE CORPORATION

(Registrants)

By /s/ L. L. Weyers

L. L. Weyers Chairman, President, and Chief Executive Officer WPS Resources Corporation	L. L. Weyers Chairman and Chief Executive Officer Wisconsin Public Service Corporation

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
A. Dean Arganbright	Director	March 24, 1999
Michael S. Ariens	Director	
Richard A. Bemis	Director	
Daniel A. Bollom	Director	
M. Lois Bush	Director	
Clarence R. Fisher	Director	
Robert C. Gallagher	Director	By /s/ L. L. Weyers
Kathryn M. Hasselblad-Pascale	Director	
James L. Kemerling	Director	L. L. Weyers Attorney-in-Fact
/s/ L. L. Weyers L. L. Weyers	Principal Executive Officer and Director	March 24, 1999
/s/ D. P. Bittner D. P. Bittner	Principal Financial Officer	March 24, 1999
/s/ D. L. Ford D. L. Ford	Principal Accounting Officer	March 24, 1999

SCHEDULE III - CONDENSED
PARENT COMPANY FINANCIAL STATEMENTS
WPS RESOURCES CORPORATION (PARENT COMPANY ONLY)

A. REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULE III - CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENTS

To the Board of Directors of WPS Resources Corporation:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of WPS Resources Corporation included in this Form 10-K, and have issued our report thereon dated January 28, 1999.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. Supplemental Schedule III is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin
January 28, 1999

SCHEDULE III - CONDENSED
PARENT COMPANY FINANCIAL STATEMENTS
WPS RESOURCES CORPORATION (PARENT COMPANY ONLY)

B. STATEMENTS OF INCOME AND RETAINED EARNINGS

Year Ended December 31 (Thousands)	1998	1997	1996
Income			
Equity in earnings of subsidiaries after dividends	$(26,752)	$ (1,195)	$ (7,518)
Cash dividends from subsidiaries	75,370	59,679	59,916
Income from subsidiaries	48,618	58,484	52,398
Investment income and other	4,516	2,880	2,293
Total income	53,134	61,364	54,691
Operating expenses	4,557	5,122	1,054
Income before interest expense	48,577	56,242	53,637
Interest expense	2,914	583	457
Income before income taxes	45,663	55,659	53,180
Income taxes	(968)	(150)	295
Net Income	46,631	55,809	52,885
Retained earnings, beginning of year	339,508	333,375	329,150
Common stock dividend	(50,985)	(49,676)	(48,660)
Retained earnings at end of year	$335,154	$339,508	$333,375

SCHEDULE III - CONDENSED
PARENT COMPANY FINANCIAL STATEMENTS
WPS RESOURCES CORPORATION (PARENT COMPANY ONLY)

C. BALANCE SHEETS

At December 31 (Thousands)	1998	1997
Assets		
Current assets		
Cash and equivalents	$ 919	$ 23
Accounts receivable - affiliates	1,564	434
Other receivables	1,160	748
Notes receivable - affiliates (note 1)	25,091	4,498
Total current assets	28,734	5,703
Long-term notes receivable - affiliates (note 2)	15,538	15,950
Investments in subsidiaries, at equity		
Wisconsin Public Service Corporation	481,707	457,121
WPS Energy Services, Inc.	13,124	4,495
WPS Power Development, Inc.	10,314	7
Upper Peninsula Power Company	35,260	40,283
Other	6,297	4,358
Total investments in subsidiaries, at equity	546,702	506,264
Net equipment	1,177	321
Other investments	4,442	3,330
Deferred income taxes	169	45
Total assets	$596,762	$531,613

Liabilities and Capitalization		
Current liabilities		
Notes payable	$ 22,590	$ 5,206
Commercial paper	2,400	-
Accounts payable - affiliates	1,545	5,303
Accounts payable	602	1,699
Dividends payable	749	626
Other	186	15
Total current liabilities	28,072	12,849
Other liabilities	-	-
Capitalization		
Common stock, $1 par value, 100,000,000 shares authorized; 26,551,405 shares outstanding	26,551	26,551
Premium on capital stock	163,438	163,454
Retained earnings	335,154	339,508
ESOP loan guarantees	(6,448)	(9,798)
Shares in deferred compensation trust	(1,505)	(951)
Advances from affiliates	51,500	-
Total capitalization	568,690	518,764
Total liabilities and capitalization	$596,762	$531,613

SCHEDULE III - CONDENSED
PARENT COMPANY FINANCIAL STATEMENTS
WPS RESOURCES CORPORATION (PARENT COMPANY ONLY)

D. STATEMENTS OF CASH FLOWS

Year Ended December 31 (Thousands)	1998	1997	1996
Operating			
Net income	$ 46,631	$ 55,809	$ 52,885
Add equity in earnings of subsidiaries after dividends	26,752	1,195	7,518
Deferred income taxes	(124)	7	46
Other - net	(17)	3	1,883
Changes in other items			
Receivables	(1,542)	(25)	(442)
Accounts payable	(4,855)	3,441	304
Other	295	(393)	51
Net cash - operating	67,140	60,037	62,245
Investing			
Notes receivable - affiliates	(20,181)	10,809	(20,280)
Capital contributions - affiliates	(62,340)	(8,709)	(6,434)
Investments - other	(1,968)	(54)	(2,792)
Net cash - investing	(84,489)	2,046	(29,506)
Financing			
Proceeds from short-term debt	196,050	537,970	333,975
Payments on short-term debt	(193,650)	(549,944)	(319,314)
Proceeds from commercial paper	1,867,287	-	-
Payments on commercial paper	(1,849,903)	-	-
Proceeds from intercompany debt	50,000	-	-
Purchase of deferred compensation stock	(554)	(507)	(443)
Common stock dividends	(50,985)	(49,676)	(48,660)
Net cash - financing	18,245	(62,157)	(34,442)
Net change in cash	896	(74)	(1,703)
Cash, beginning of period	23	97	1,800
Cash, end of period	$ 919	$ 23	$ 97

SCHEDULE III - CONDENSED
PARENT COMPANY FINANCIAL STATEMENTS
WPS RESOURCES CORPORATION (PARENT COMPANY ONLY)

E. NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

The following are supplemental notes to the WPS Resources Corporation (parent company only) financial statements and should be read in conjunction with the WPS Resources Corporation Consolidated Financial Statements and Notes thereto included herein:

SUPPLEMENTAL NOTES

Note 1 WPS Resources Corporation ("WPSR") has short-term notes receivable from WPS Energy Services, Inc. ("ESI"), WPS Power Development, Inc., and Upper Peninsula Power Company, Inc. for $10.0 million, $4.0 million and $11.1 million, respectively. Notes payable of $3.5 million bear interest at 6.9%. The balance of these notes bear interest at the prime or commercial paper rates.

Note 2 WPSR has long-term notes receivable from Wisconsin Public Service Corporation for $5.8 million and $8.3 million bearing interest at 8.76% and 7.35%, respectively. The notes are to be repaid in monthly payments of $51,670 and $63,896 through January 2015 and May 2016, respectively. WPSR also has a long-term note receivable from ESI totaling $1.5 million and bearing interest at 7-7/8%. The note is to be repaid in quarterly payments of $69,076 through October 2005.

The Exhibits

(Pages 135 Through 308)

Are Intentionally Not Included Herein

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IN DATE Statement Date: MAR 31 1999

DUNS: 84-173-9824	DATE PRINTED	SUMMARY
WPS ENERGY SERVICES, INC	JUL 08 1999	RATING 4A2
(SUBSIDIARY OF WPS RESOURCES CORPORATION, GREEN BAY, WI)	NATURAL GAS DISTRIBUTION	STARTED 1994
	SIC NO.	SALES $350,000,000 (PROJ)
677 BAETEN RD	49 24	WORTH F $11,423,000
AND BRANCH(ES) OR DIVISION(S)		EMPLOYS 63(32 HERE)
GREEN BAY WI 54304		HISTORY CLEAR
TEL: 920 496-9000		FINANCIAL CONDITION GOOD

CHIEF EXECUTIVE: PHIL MIKULSKY, PRES-CEO

==
* * * CUSTOMER SERVICE * * *
==

If you have questions about this report, please call our Customer Service Center at 1-800-234-3867 from anywhere within the U.S. If you are outside the U.S., contact your local D&B office.

*** Additional Decision Support Available ***

Additional D&B products, credit recommendations and specialized investigations are available to help you evaluate this company or its industry. Call Dun & Bradstreet's Solution Center at 1-800-362-3425 from anywhere within the U.S.

==
* * * SUMMARY ANALYSIS * * *
==

The Summary Analysis section reflects information in D&B's file as of July 7, 1999.

RATING SUMMARY . . . .

The Rating was changed on June 30, 1999 because D&B's analysis of the financial statement supports a higher Rating. The "4A" portion of the Rating (the Rating Classification) indicates that the company has a worth from $10 million to $50 million. The "2" on the right (Composite Credit Appraisal) indicates an overall "good" credit appraisal. This credit appraisal was assigned because the payment information in D&B's file indicates that this company's obligations are retired satisfactorily and because of D&B's "good" assessment of the company's March 31, 1999, interim financial statement.

Below is an overview of the company's D&B Rating(s) since 01/26/95:

RATING	DATE APPLIED
4A2	06/30/99
3A4	06/17/97

EEF

3A2	09/12/96
3A3	05/21/96
1A4	01/12/96
--	01/26/95

* * * PAYMENT SUMMARY * * *

The Payment Summary section reflects payment information in D&B's file as of the date of this report.

The PAYDEX for this company is 80.

This PAYDEX score indicates that payments to suppliers are generally within terms, weighted by dollar amounts. When dollar amounts are not considered, approximately 97% of the company's payments are within terms.

Below is an overview of the company's dollar-weighted payments, segmented by its suppliers' primary industries:

	TOTAL RCV'D	TOTAL DOLLAR AMOUNTS	LARGEST HIGH CREDIT	% W/IN TERMS	DAYS SLOW <31	31-60	61-90	91+
	#	$	$	%	%	%	%	%
Total in D&B's file	18	806,850	700,000					
Top 10 Industries:								
1 Whol computers/softwr	3	5,550	5,000	100	-	-	-	-
2 Whol office supplies	2	7,750	7,500	98	2	-	-	-
3 Mfg computers	2	10,000	7,500	100	-	-	-	-
4 Petroleum refining	1	700,000	700,000	100	-	-	-	-
5 Natural gas distrib	1	50,000	50,000	100	-	-	-	-
6 Misc business service	1	5,000	5,000	100	-	-	-	-
7 Ret mail-order house	1	2,500	2,500	100	-	-	-	-
8 Nonclassified	1	250	250	100	-	-	-	-
9 Whol electronic parts	1	250	250	100	-	-	-	-
10 Electric services	1	100	100	100	-	-	-	-
11 OTHER INDUSTRIES	1	100	100	100	-	-	-	-
Other Payment Categories:								
Cash experiences	0	0	0					
Payment record unknown	3	25,350	25,000					
Unfavorable comments	0	0	0					
Placed for collection								
with D&B	0	0						
other	0	N/A						

The highest "Now Owes" on file is $60,000
The highest "Past Due" on file is $25,000

D&B receives over 315 million payment experiences each year. We enter these new and updated experiences into D&B Reports as this information is received.

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PAYMENTS (Amounts may be rounded to nearest figure in prescribed ranges)

Antic - Anticipated (Payments received prior to date of invoice)
Disc - Discounted (Payments received within trade discount period)
Ppt - Prompt (Payments received within terms granted)

REPORTED	PAYING RECORD	HIGH CREDIT	NOW OWES	PAST DUE	SELLING TERMS	LAST SALE WITHIN
06/99	Ppt	500	-0-	-0-	N30	6-12 Mos
	Ppt	250	-0-	-0-	N30	2-3 Mos
	(003)	250	-0-	-0-		1 Mo
05/99	Ppt	700000	60000	-0-		1 Mo
	Ppt	5000	500	-0-		1 Mo
	Ppt	5000	-0-	-0-	N30	2-3 Mos
	Ppt	250	-0-	-0-		6-12 Mos
04/99	Ppt	7500	7500	-0-		1 Mo
	Ppt	2500	-0-	-0-	N30	1 Mo
03/99	Ppt	50000	50000	-0-		1 Mo
	Ppt	7500	1000	-0-	N30	1 Mo
	Ppt	100	100	-0-		1 Mo
	Ppt	50	-0-	-0-		2-3 Mos
	(014)	25000	25000	25000		1 Mo
02/99	Ppt	2500	-0-	-0-		6-12 Mos
	Ppt	100	50	-0-		1 Mo
12/98	(017)	100				6-12 Mos
09/98	Ppt-Slow 30	250	-0-	-0-		6-12 Mos

* Payment experiences reflect how bills are met in relation to the terms granted. In some instances payment beyond terms can be the result of disputes over merchandise, skipped invoices etc.

* Each experience shown represents a separate account reported by a supplier. Updated trade experiences replace those previously reported.

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FINANCE

07/07/99 Interim statement dated MAR 31 1999:

Cash	$ 1,910,000	Accts Pay	$ 40,976,000
Accts Rec	48,687,000	Notes Pay-Parent	
Inventory	997,000	Company	6,336,000
Prepaid	862,000	Accruals	272,000
Curr Assets	52,456,000	Curr Liabs	47,584,000
Fixt & Equip	1,262,000		
Goodwill	868,000		
Investments-Other	2,134,000		
Deferred Taxes	3,155,000	EQUITY	12,291,000
Total Assets	59,875,000	Total	59,875,000

Monthly rent $16,000.

Signed JUN 29 1999 by George Wiesner, assistant controller. Prepared from books without audit.

Item worth shown in summary section was computed after deduction of intangibles, goodwill $868,000, totaling $868,000. Fixed assets shown net less $691,000 depreciation.

On JUL 07 1999 George Wiesner, controller, referred to the above figures as still representative.

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HISTORY
07/07/99

PHIL MIKULSKY, PRES-CEO
RALPH BAETEN, TREAS
MARK RADTKE, V PRES
LARRY WEYERS, V PRES
FRANCIS KICSAR, SEC-ASST TREAS
DARYL BRAGGS, V PRES
DIRECTOR(S): THE OFFICER(S)

BUSINESS TYPE: Corporation - Profit
DATE INCORPORATED: 11/28/1995
STATE OF INCORP: Wisconsin

Business started Oct 1994. Relocated Feb 1996 from 2670 S Ashland Ave Ste 203. 100% of capital stock is owned by parent company

PHIL MIKULSKY. 1966-1995 with (parent) WPS Resource Corp, Green Bay, WI. 1995-present active here as president.

LARRY WEYERS born 1945. 1985 to Present CEO and Chairman of WPS Resources Corporation.

RALPH BAETEN born 1944. 1970 to present active with Wisconsin Public Service Corporation, Green Bay, WI where he continues as treasurer.

FRANCIS KICSAR born 1939. 1965-present active here.

MARK RADTKE. 1982-present active here.

DARYL BRAGGS. 1995-present active here. Prior to 1995 was active with Fuel Services Group, Columbus, OH for 8 years.

==

OPERATION
07/07/99

Subsidiary of WPS Resources Corporation, Green Bay, WI started 1994 which operates as a holding company. Parent company owns 100% of capital stock. Parent company has 1 other subsidiary(ies).

As noted, this company is a subsidiary of WPS Resources Corporation, DUNS number 877719260, and reference is made to that report for background information on the parent company and its management.

Operates as a marketer of natural gas, electricity and energy related marketing services (100%).

FACSIMILE NUMBER: 920 496-9399.

Sells on net 10 day terms. Has 20,000 account(s). Sells to distributors, utilities and industrial/commercial firms. Territory : Wisconsin, Missouri, Illinois and East Coast.

Nonseasonal.

EMPLOYEES: 63 which includes officer(s). 32 employed here.

FACILITIES: Rents 3,600 sq. ft. on 2nd floor of a two story building.

LOCATION: Central business section on main street.

BRANCHES: Also maintains additional facilities located in Fort

Gratiot, MI; Worthington, OH and Westchester, IL.
07-08(7DD /706) 99999 877719260 002162162 H
BANK: Associated Bank, Green Bay, WI

FULL DISPLAY COMPLETE

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 1999

OR

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

For the transition period from __________ to __________

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	IRS Employer Identification No.
1-11337	WPS RESOURCES CORPORATION (A Wisconsin Corporation) 700 North Adams Street P. O. Box 19001 Green Bay, WI 54307-9001 920-433-4901	39-1775292
1-3016	WISCONSIN PUBLIC SERVICE CORPORATION (A Wisconsin Corporation) 700 North Adams Street P. O. Box 19001 Green Bay, WI 54307-9001 920-433-4901	39-0715160

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.

WPS Resources Corporation	Yes [x]	No [ ]
Wisconsin Public Service Corporation	Yes [x]	No [ ]

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date:

WPS RESOURCES CORPORATION	Common stock, $1 par value, 26,831,172 shares outstanding at November 1, 1999
WISCONSIN PUBLIC SERVICE CORPORATION	Common stock, $4 par value, 23,896,962 shares outstanding at November 1, 1999

WPS RESOURCES CORPORATION
AND
WISCONSIN PUBLIC SERVICE CORPORATION
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 1999

CONTENTS

Exhibit 27 Financial Data Schedule
WPS Resources Corporation
Wisconsin Public Service Corporation

FORWARD-LOOKING STATEMENTS

This report contains statements which are forward-looking. You can identify these statements by the fact that they do not relate strictly to historical or current facts and often include words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," and other similar words. Although we believe we have been prudent in our plans and assumptions, there can be no assurance that indicated results will be realized. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise. We recommend that you consult any further disclosures we make on related subjects in our 10-Q, 8-K, and 10-K reports to the Securities and Exchange Commission.

The following is a cautionary list of risks and uncertainties that may affect the assumptions which form the basis of forward-looking statements relevant to our business. These factors, and other factors not listed here, could cause actual results to differ materially from expected and historical results.

- General economic, business, and regulatory conditions
- Legislative and regulatory initiatives regarding deregulation and restructuring of the utility industry which could affect costs and investment recovery
- State and federal rate regulation
- The extent and timing of new business development and additional competition in the markets of subsidiary companies
- The performance of projects undertaken by subsidiary companies
- Business combinations among our competitors and customers
- Energy supply and demand
- Financial market conditions, including availability, terms, and use of capital
- Nuclear and environmental issues
- Weather and other natural phenomena
- Commodity price and interest rate risk
- Year 2000 readiness.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

WPS RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME, AND RETAINED EARNINGS (Thousands, except per share amounts)	Three Months Ended September 30 1999	1998	Nine Months Ended September 30 1999	1998
Operating revenues				
Electric utility	$162,952	$146,007	$442,270	$410,721
Gas utility	30,529	25,890	133,384	115,762
Nonregulated energy and other	57,524	76,031	226,737	244,725
Total operating revenues	251,005	247,928	802,391	771,208
Operating expenses				
Electric production fuels	33,413	31,499	86,528	84,052
Purchased power	25,368	14,372	59,819	41,949
Gas purchased for resale	21,674	17,235	82,645	73,234
Nonregulated energy cost of sales	51,080	74,313	214,081	239,008
Other operating expenses	46,821	44,562	136,683	125,655
Maintenance	15,478	9,313	46,323	36,259
Depreciation and decommissioning	21,349	21,229	62,104	64,144
Taxes other than income	8,262	7,798	25,123	24,167
Total operating expenses	223,445	220,321	713,306	688,468
Operating income	27,560	27,607	89,085	82,740
Other income and (deductions)				
Allowance for equity funds used during construction	(15)	68	487	136
Other, net	1,366	(1,006)	6,974	3,218
Total other income and (deductions)	1,351	(938)	7,461	3,354
Income before interest expense	28,911	26,669	96,546	86,094
Interest on long-term debt	6,448	5,664	19,189	18,386
Other interest	3,199	1,500	5,180	3,453
Allowance for borrowed funds used during construction	(1,532)	(57)	(1,957)	(95)
Total interest expense	8,115	7,107	22,412	21,744
Distributions - preferred securities of subsidiary trust	875	613	2,625	613
Income before income taxes	19,921	18,949	71,509	63,737
Income taxes	5,325	6,547	22,827	21,566
Minority interest	-	(180)	(263)	(395)
Preferred stock dividends of subsidiaries	777	783	2,333	2,350
Net income	13,819	11,799	46,612	40,216
Other comprehensive income	-	-	-	-
Comprehensive income	13,819	11,799	46,612	40,216
Retained earnings at beginning of period	341,647	342,857	335,154	339,508
Cash dividends on common stock	13,408	12,773	39,708	37,841
Retained earnings at end of period	$342,058	$341,883	$342,058	$341,883
Average shares of common stock	26,682	26,509	26,602	26,513
Basic and diluted earnings per average share of common stock	$0.52	$0.45	$1.75	$1.52
Dividend per share of common stock	$0.505	$0.495	$1.495	$1.465

The accompanying notes are an integral part of these statements.

WPS RESOURCES CORPORATION

CONSOLIDATED BALANCE SHEETS (Thousands)	September 30 1999	December 31 1998
ASSETS		
Utility plant		
Electric	$1,775,276	$1,715,882
Gas	282,956	267,892
Property under capital lease	74,130	-
Total	2,132,362	1,983,774
Less - Accumulated depreciation and decommissioning	1,261,858	1,206,123
Total	870,504	777,651
Nuclear decommissioning trusts	182,120	171,442
Construction in progress	65,668	42,424
Nuclear fuel, less accumulated amortization	15,361	18,641
Net utility plant	1,133,653	1,010,158
Current assets		
Cash and equivalents	6,624	7,134
Customer and other receivables, net of reserves	92,400	117,206
Accrued utility revenues	23,762	34,175
Fossil fuel, at average cost	13,230	13,152
Gas in storage, at average cost	30,306	20,795
Materials and supplies, at average cost	23,494	21,788
Prepayments and other	24,007	26,462
Total current assets	213,823	240,712
Regulatory assets	62,000	70,041
Net nonutility and nonregulated plant	76,375	41,235
Pension assets	63,926	60,018
Investments and other assets	75,738	88,223
Total	$1,625,515	$1,510,387

CAPITALIZATION AND LIABILITIES	September 30 1999	December 31 1998
Capitalization		
Common stock equity	$533,931	$517,190
Preferred stock of subsidiary with no mandatory redemption	51,195	51,200
Company-obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely WPSR 7.00% subordinated debentures	50,000	50,000
Capital lease obligation	73,765	-
Long-term debt	340,784	343,037
Total capitalization	1,049,675	961,427
Current liabilities		
Current portion of long-term debt and capital lease obligation	1,069	884
Notes payable	10,100	12,703
Commercial paper	96,625	47,590
Accounts payable	83,250	115,490
Accrued taxes	7,763	2,838
Accrued interest	6,470	7,594
Other	14,498	9,095
Total current liabilities	219,775	196,194
Long-term liabilities and deferred credits		
Accumulated deferred income taxes	122,385	122,642
Accumulated deferred investment tax credits	26,194	27,150
Regulatory liabilities	48,849	50,474
Environmental remediation liabilities	39,928	40,478
Other long-term liabilities	118,709	112,022
Total long-term liabilities and deferred credits	356,065	352,766
Total	$1,625,515	$1,510,387

The accompanying notes are an integral part of these statements.

WPS RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF CAPITALIZATION *(Thousands, except share amounts)*			September 30 *1999*	December 31 *1998*
Common stock equity				
Common stock, $1 par value, 100,000,000 shares authorized; 26,749,075 and 26,551,405 shares outstanding at September 30, 1999 and December 31, 1998, respectively			$26,749	$26,551
Premium on capital stock			171,133	163,438
Retained earnings			342,058	335,154
Shares in deferred compensation trust, 62,935 and 49,477 shares at average cost of $30.51 and $30.42 per share at September 30, 1999 and December 31, 1998, respectively			(1,920)	(1,505)
ESOP loan guarantees			(4,089)	(6,448)
Total common stock equity			533,931	517,190
Preferred stock - Wisconsin Public Service Corporation				
Cumulative, $100 par value, 1,000,000 shares authorized; with no mandatory redemption				
	Series	Shares Outstanding		
	5.00%	131,980	13,196	13,200
	5.04%	30,000	2,999	3,000
	5.08%	50,000	5,000	5,000
	6.76%	150,000	15,000	15,000
	6.88%	150,000	15,000	15,000
Total preferred stock with no mandatory redemption			51,195	51,200
Company-obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely WPSR 7.00% subordinated debentures			50,000	50,000
Capital lease obligation - Wisconsin Public Service Corporation			74,062	-
Less current portion			(297)	-
Net capital lease obligation			73,765	-
Long-term debt				
First mortgage bonds - Wisconsin Public Service Corporation				
	Series	Year Due		
	7.30%	2002	50,000	50,000
	6.80%	2003	50,000	50,000
	6-1/8%	2005	9,075	9,075
	6.90%	2013	22,000	22,000
	8.80%	2021	53,100	53,100
	7-1/8%	2023	50,000	50,000
	6.08%	2028	50,000	50,000
First mortgage bonds - Upper Peninsula Power Company				
	Series	Year Due		
	7.94%	2003	15,000	15,000
	10.0%	2008	6,000	6,000
	9.32%	2021	18,000	18,000
Installment sales contract for air pollution control equipment - Upper Peninsula Power Company				
	Term Bonds	Year Due		
	6.90%	1999	-	120
Total			323,175	323,295
Unamortized discount and premium on bonds, net			(773)	(817)
Total first mortgage bonds			322,402	322,478
ESOP loan guarantees			4,089	6,448
Notes payable to bank, secured by nonregulated plant			11,093	10,943
Senior secured note			3,806	3,886
Other long-term debt			166	166
Total long-term debt			341,556	343,921
Less current portion			(772)	(884)
Net long-term debt			340,784	343,037
Total capitalization			$1,049,675	$961,427

The accompanying notes are an integral part of these statements.

WPS RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS *(Thousands)*	Nine Months Ended September 30 *1999*	 *1998*
Cash flows from operating activities		
Net income	**$46,612**	$40,216
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and decommissioning	**62,104**	64,144
Amortization of nuclear fuel and other	**11,176**	12,718
Deferred income taxes	**(2,715)**	(12,059)
Investment tax credit restored	**(1,343)**	(1,598)
Allowance for equity funds used during construction	**(481)**	(136)
Pension income	**(3,908)**	(6,824)
Postretirement funding	**4,847**	3,669
Unrealized gains and losses on gas futures contracts	**9,069**	1,159
Other, net	**533**	(4,290)
Changes in		
Customer and other receivables	**24,806**	4,411
Accrued utility revenues	**10,413**	11,609
Fossil fuel inventory	**(78)**	1,010
Gas in storage	**(9,511)**	580
Accounts payable	**(32,240)**	(9,063)
Miscellaneous current and accrued liabilities	**5,403**	(3,002)
Accrued taxes	**4,925**	(5,156)
Gas refunds	**-**	710
Net cash from operating activities	**129,612**	**98,098**
Cash flows from (used for) investing activities		
Construction of utility plant and nuclear fuel expenditures	**(102,141)**	(58,032)
Purchase of other property and equipment	**(39,128)**	(13,060)
Decommissioning funding	**(6,818)**	(12,930)
Other	**3,268**	5,328
Net cash used for investing activities	**(144,819)**	(78,694)
Cash flows from (used for) financing activities		
Issuance of notes payable	**34,250**	123,752
Redemptions of notes payable	**(36,853)**	(120,951)
Issuance of other long-term debt	**150**	955
Redemptions of other long-term debt	**419**	(50,183)
Issuance of mandatorily redeemable trust preferred securities	**-**	50,000
Issuance of commercial paper	**1,115,398**	1,150,391
Redemptions of commercial paper	**(1,066,363)**	(1,135,637)
Cash dividends on common stock	**(39,708)**	(37,841)
Issuance of common stock	**7,893**	-
Other	**(489)**	(1,935)
Net cash from (used for) financing activities	**14,697**	(21,449)
Net decrease in cash and equivalents	**(510)**	(2,045)
Cash and equivalents at beginning of period	**7,134**	8,495
Cash and equivalents at end of period	**$6,624**	$6,450
Cash paid during period for		
Interest, less amount capitalized	**$17,916**	$16,611
Income taxes	**21,570**	38,775
Preferred stock dividends of subsidiaries	**2,333**	2,350

Supplemental schedule of noncash investing and financing activities:
A capital lease obligation of $74,130 was incurred when Wisconsin Public Service entered into a long-term lease agreement for utility plant assets.

The accompanying notes are an integral part of these statements.

WISCONSIN PUBLIC SERVICE CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (Thousands)	Three Months Ended September 30 1999	1998	Nine Months Ended September 30 1999	1998
Operating revenues				
Electric	$149,346	$132,107	$401,523	$369,971
Gas	30,529	25,890	133,384	115,762
Total operating revenues	179,875	157,997	534,907	485,733
Operating expenses				
Electric production fuels	33,160	31,392	86,127	83,781
Purchased power	21,357	11,158	47,853	31,314
Gas purchased for resale	19,840	17,211	80,617	72,545
Other operating expenses	36,731	35,215	110,586	102,439
Maintenance	14,081	8,367	43,532	33,901
Depreciation and decommissioning	18,735	19,071	54,910	58,029
Federal income taxes	6,705	6,381	22,151	19,102
Investment tax credit restored	(402)	(436)	(1,206)	(1,307)
State income taxes	2,173	2,571	6,196	6,388
Gross receipts tax and other	6,812	6,434	20,599	19,957
Total operating expenses	159,192	137,364	471,365	426,149
Operating income	20,683	20,633	63,542	59,584
Other income and (deductions)				
Allowance for equity funds used during construction	(19)	68	481	136
Other, net	1,843	749	6,672	4,995
Income taxes	(40)	(40)	(488)	(474)
Total other income	1,784	777	6,665	4,657
Income before interest expense	22,467	21,410	70,207	64,241
Interest expense				
Interest on long-term debt	5,463	4,704	16,393	15,614
Other interest	1,928	876	3,578	1,966
Allowance for borrowed funds used during construction	(1,519)	(57)	(1,937)	(95)
Total interest expense	5,872	5,523	18,034	17,485
Net income	16,595	15,887	52,173	46,756
Preferred stock dividend requirements	777	778	2,333	2,333
Earnings on common stock	15,818	15,109	49,840	44,423
Other comprehensive income	-	-	-	-
Comprehensive income	$15,818	$15,109	$49,840	$44,423

The accompanying notes are an integral part of these statements.

WISCONSIN PUBLIC SERVICE CORPORATION

CONSOLIDATED BALANCE SHEETS (Thousands)	September 30 1999	December 31 1998
ASSETS		
Utility plant		
Electric	$1,593,866	$1,534,711
Gas	$282,956	$267,892
Property under capital lease	74,130	-
Total	1,950,952	1,802,603
Less - Accumulated depreciation and decommissioning	1,172,245	1,120,058
Total	778,707	682,545
Nuclear decommissioning trusts	182,120	171,442
Construction in progress	55,401	35,996
Nuclear fuel, less accumulated amortization	15,361	18,641
Net utility plant	1,031,589	908,624
Current assets		
Cash and equivalents	2,347	1,882
Customer and other receivables, net of reserves	53,157	63,193
Accrued utility revenues	21,407	30,877
Fossil fuel, at average cost	12,430	12,433
Gas in storage, at average cost	21,952	14,855
Materials and supplies, at average cost	21,779	20,054
Prepayments and other	14,969	19,491
Total current assets	148,041	162,785
Regulatory assets	60,356	68,335
Net nonutility plant	1,427	2,888
Pension assets	63,926	60,018
Investments and other assets	60,034	64,932
Total	$1,365,373	$1,267,582
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity	$515,907	$481,708
Preferred stock with no mandatory redemption	51,195	51,200
Capital lease obligation	73,765	-
Long-term debt to parent	13,853	14,061
Long-term debt	287,657	289,972
Total capitalization	942,377	836,941
Current liabilities		
Current portion of capital lease obligation	297	-
Note payable	10,000	10,000
Commercial paper	20,000	25,000
Accounts payable	48,769	60,680
Accrued interest and taxes	6,855	2,590
Other	9,028	6,564
Total current liabilities	94,949	104,834
Long-term liabilities and deferred credits		
Accumulated deferred income taxes	118,216	118,476
Accumulated deferred investment tax credits	23,953	24,772
Regulatory liabilities	41,886	43,591
Environmental remediation liabilities	38,666	39,028
Other long-term liabilities	105,326	99,940
Total long-term liabilities and deferred credits	328,047	325,807
Total	$1,365,373	$1,267,582

The accompanying notes are an integral part of these statements.

WISCONSIN PUBLIC SERVICE CORPORATION

CONSOLIDATED STATEMENTS OF CAPITALIZATION *(Thousands, except share amounts)*			September 30 *1999*	December 31 *1998*
Common stock equity				
Common stock			$95,588	$95,588
Premium on capital stock			152,842	107,842
Retained earnings			271,566	284,726
ESOP loan guarantees			(4,089)	(6,448)
Total common stock equity			515,907	481,708
Preferred stock				
Cumulative, $100 par value, 1,000,000 shares authorized;				
with no mandatory redemption				
	Series	Shares Outstanding		
	5.00%	131,980	13,196	13,200
	5.04%	30,000	2,999	3,000
	5.08%	50,000	5,000	5,000
	6.76%	150,000	15,000	15,000
	6.88%	150,000	15,000	15,000
Total preferred stock			51,195	51,200
Capital lease obligation			74,062	-
Less current portion			(297)	-
Net capital lease obligation			73,765	-
Long-term debt to parent				
	Series	Year Due		
	8.76%	2015	5,723	5,808
	7.35%	2016	8,130	8,253
Total long-term debt to parent			13,853	14,061
Long-term debt				
First mortgage bonds				
	Series	Year Due		
	7.30%	2002	50,000	50,000
	6.80%	2003	50,000	50,000
	6-1/8%	2005	9,075	9,075
	6.90%	2013	22,000	22,000
	8.80%	2021	53,100	53,100
	7-1/8%	2023	50,000	50,000
	6.08%	2028	50,000	50,000
Total			284,175	284,175
Unamortized discount and premium on bonds, net			(773)	(817)
Total first mortgage bonds			283,402	283,358
ESOP loan guarantees			4,089	6,448
Other long-term debt			166	166
Total long-term debt			287,657	289,972
Total capitalization			$942,377	$836,941

The accompanying notes are an integral part of these statements.

WISCONSIN PUBLIC SERVICE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS *(Thousands)*	Nine Months Ended September 30	
	1999	*1998*
Cash flows from operating activities		
Net income	$52,173	$46,756
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and decommissioning	54,910	58,029
Amortization of nuclear fuel and other	10,636	12,411
Deferred income taxes	(2,718)	(11,324)
Investment tax credit restored	(1,206)	(1,306)
Allowance for equity funds used during construction	(481)	(136)
Pension income	(3,908)	(6,824)
Postretirement funding	4,847	2,956
Other, net	2,293	995
Changes in		
Customer and other receivables	10,036	4,630
Accrued utility revenues	9,470	12,609
Fossil fuel inventory	3	1,048
Gas in storage	(7,097)	(1,566)
Accounts payable	(11,911)	(3,779)
Miscellaneous current and accrued liabilities	2,632	(4,713)
Accrued taxes	5,742	(3,907)
Gas refunds	-	710
Net cash from operating activities	125,421	106,589
Cash flows from (used for) investing activities		
Construction of utility plant and nuclear fuel expenditures	(97,152)	(55,042)
Decommissioning funding	(6,818)	(12,930)
Purchase of other property and equipment	(111)	(233)
Other	4,531	3,868
Net cash used for investing activities	(99,550)	(64,337)
Cash flows from (used for) financing activities		
Proceeds from issuance of commercial paper	261,500	118,000
Redemptions of commercial paper	(266,500)	(108,500)
Redemptions of first mortgage bonds	-	(50,000)
Equity infusion from parent	45,000	34,000
Dividend to parent	(63,000)	(35,009)
Preferred stock dividends	(2,333)	(2,333)
Other	(73)	-
Net cash used for financing activities	(25,406)	(43,842)
Net increase (decrease) in cash and equivalents	465	(1,590)
Cash and equivalents at beginning of period	1,882	3,921
Cash and equivalents at end of period	$2,347	$2,331
Cash paid during period for		
Interest, less amount capitalized	$18,647	$18,062
Income taxes	27,449	39,490

Supplemental schedule of noncash investing and financing activities:
A capital lease obligation of $74,130 was incurred when Wisconsin Public Service entered into a long-term lease agreement for utility plant assets.

The accompanying notes are an integral part of these statements.

WISCONSIN PUBLIC SERVICE CORPORATION

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (*Thousands*)	Nine Months Ended September 30 1999	1998
Balance at beginning of period	**$284,726**	$297,489
Add Net income	**52,173**	46,756
	336,899	344,245
Deduct		
Cash dividends declared on preferred stock	**2,333**	2,333
Dividend to parent	**63,000**	35,009
	65,333	37,342
Balance at end of period	**$271,566**	$306,903

The accompanying notes are an integral part of these statements.

WPS RESOURCES CORPORATION AND SUBSIDIARIES
WISCONSIN PUBLIC SERVICE CORPORATION
CONDENSED NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

NOTE 1. FINANCIAL INFORMATION

We have prepared the consolidated financial statements of WPS Resources Corporation and Wisconsin Public Service Corporation under the rules and regulations of the Securities and Exchange Commission. These financial statements have not been audited. Management believes that these financial statements include all normal recurring adjustments which are necessary for a fair presentation of the financial results for each period shown. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared under generally accepted accounting principles. We believe that the disclosures made are adequate to make the information presented not misleading. These financial statements should be read along with the financial statements and notes included with our latest annual Form 10-K report.

Because of the seasonal nature of utility operations, the results reported for the quarter and nine-months ended may not be representative of annual results.

NOTE 2. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires all derivatives to be measured at fair value and recognized as either assets or liabilities in the statement of financial position. The accounting for changes in the fair value of a derivative depends upon the use of the derivative and its resulting designation. Unless specific hedge accounting criteria are met, changes in the derivative's fair value must be recognized currently in earnings. In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137 which delays the effective date of Standard No. 133 to fiscal periods beginning after June 15, 2000. Accordingly, we will be adopting the requirements of this statement on January 1, 2001, and have not yet determined its impact on our financial statements. However, the requirements of this statement could increase volatility in earnings and other comprehensive income.

NOTE 3. SEGMENTS OF BUSINESS

Effective December 31, 1998, we adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." We manage our reportable segments separately due to their different operating and regulatory environments. Our principal business segments are the regulated electric utility operations of Wisconsin Public Service Corporation and Upper Peninsula Power Company and the regulated gas utility operations of Wisconsin Public Service. The other reportable business segment, WPS Energy Services, Inc., participates in nonregulated energy marketing operations. Reconciling eliminations represent intercompany transactions.

The table below presents summary information pertaining to our operations segmented by lines of business.

	Regulated Utilities		Nonutility and Nonregulated Operations			
Segments of Business (Thousands)	Electric	Gas	WPS Energy Services	WPS Power Development and Other	Reconciling Eliminations	WPS Resources Consolidated
Quarter Ended September 30, 1999						
Operating revenues	$165,439	$30,529	$50,854	$8,459	($4,276)	$251,005
Net income (loss)	17,393	(1,970)	(1,242)	(362)	-	13,819
Quarter Ended September 30, 1998						
Operating revenues	$148,022	$25,890	$75,049	$2,715	($3,748)	$247,928
Net income (loss)	18,030	(2,606)	(2,193)	(1,432)	-	11,799
Nine Months Ended September 30, 1999						
Operating revenues	$448,278	$133,384	$213,193	$18,739	($11,203)	$802,391
Net income (loss)	43,606	6,938	(2,047)	(1,885)	-	46,612
Nine Months Ended September 30, 1998						
Operating revenues	$415,384	$115,762	$243,594	$5,448	($8,980)	$771,208
Net income (loss)	43,080	2,628	(4,706)	(786)	-	40,216

NOTE 4. POWER SUPPLY

The De Pere Energy Center cogeneration facility became operational on June 14, 1999. Wisconsin Public Service's agreement to purchase electricity from this facility is accounted for as a capital lease and has been capitalized at $74.1 million.

NOTE 5. ASSET ACQUISITION

On June 8, 1999 WPS Power Development, Inc. purchased generation assets from Maine Public Service Company for $37.5 million. The purchase included hydroelectric, steam, and diesel units in the State of Maine and in the Canadian Province of New Brunswick with a total capacity of 91.7 megawatts.

NOTE 6. STOCK OPTION PLAN

WPS Resources granted stock options under our 1999 Stock Option Plan as approved by shareholders on May 6, 1999. The stock option plan is accounted for under Accounting Principles Board Opinion No. 25. As a result, the plan grants fixed stock options and no compensation expense is recognized.

NOTE 7. SUPPLEMENTAL INFORMATION ON TWELVE MONTH RESULTS OF OPERATIONS

WPS RESOURCES CORPORATION
COMPARATIVE TWELVE MONTHS YEAR-ENDED STATEMENTS

CONSOLIDATED STATEMENT OF INCOME *(Thousands, except per share amounts)*	Twelve Months Ended September 30 1999	 1998
Operating revenues		
Electric utility revenues	$ 574,809	$ 538,707
Gas utility revenues	182,733	177,428
Nonregulated energy and other	337,377	308,048
Total operating revenues	1,094,919	1,024,183
Operating expenses		
Electric production fuels	113,285	111,076
Purchased power	74,317	53,767
Gas purchased for resale	115,319	116,373
Nonregulated energy cost of sales	321,736	302,093
Other operating expenses	183,904	169,495
Maintenance	62,877	45,984
Depreciation and decommissioning	84,234	85,473
Taxes other than income	32,858	31,580
Total operating expenses	988,530	915,841
Operating income	106,389	108,342
Other income and (deductions)		
Allowance for equity funds used during construction	524	151
Other, net	6,261	6,589
Total other income and (deductions)	6,785	6,740
Income before interest expense	113,174	115,082
Interest on long-term debt	24,790	24,865
Other interest	6,554	5,591
Allowance for borrowed funds used during construction	(2,039)	(228)
Total interest expense	29,305	30,228
Distributions - preferred securities of subsidiary trust	3,500	613
Income before income taxes	80,369	84,241
Income taxes	24,706	28,818
Minority interest	(479)	(583)
Preferred stock dividends of subsidiary	3,115	3,133
Net income	53,027	52,873
Other comprehensive income	-	-
Comprehensive income	53,027	52,873
Retained earnings at beginning of period	341,883	339,385
Cash dividends on common stock	52,852	50,375
Retained earnings at end of period	$ 342,058	$ 341,883
Average shares of common stock	26,577	26,514
Earnings per average share of common stock	$2.00	$1.99
Dividend per share of common stock	$1.99	$1.95

Item 2. **Management's Discussion and Analysis of Financial Condition and Results of Operations**

RESULTS OF OPERATIONS - WPS RESOURCES CORPORATION

WPS Resources Corporation is a holding company. Our wholly-owned subsidiaries include two regulated utilities, Wisconsin Public Service Corporation and Upper Peninsula Power Company. Another wholly-owned subsidiary, WPS Resources Capital Corporation, is a holding company for our nonregulated businesses including WPS Energy Services, Inc. and WPS Power Development, Inc. Approximately 84% of our assets at September 30, 1999, and approximately 67% of our revenues for the first nine months of 1999 were derived from Wisconsin Public Service, an electric and gas utility. Substantially all of our net income for the first nine months of 1999 was derived from Wisconsin Public Service and Upper Peninsula Power, an electric utility.

Third Quarter 1999 Compared with Third Quarter 1998

WPS Resources Overview

WPS Resources' consolidated operating revenues were $251.0 million in the third quarter of 1999 compared with $247.9 million in the third quarter of 1998, an increase of 1.3%. Net income was $13.8 million in the third quarter of 1999 and $11.8 million in the third quarter of 1998, an increase of 16.9%. Basic and diluted earnings per share were $0.52 in the third quarter of 1999 compared with $0.45 in the third quarter of 1998, an increase of 15.6%. The reasons for the increase in earnings, as explained below, were higher electric utility, gas utility, and nonregulated margins and an increase in other income. Partially offsetting these factors were increases in other operating expenses and maintenance expenses.

Overview of Utility Operations (Wisconsin Public Service and Upper Peninsula Power)

Revenues at Wisconsin Public Service were $179.9 million in the third quarter of 1999 compared with $158.0 million in the third quarter of 1998, an increase of 13.9%. Earnings on common stock were $15.8 million in the third quarter of 1999 and $15.1 million in the third quarter of 1998, an increase of 4.6%. The primary reasons for the increase in earnings on common stock were higher electric utility and gas utility margins and an increase in other income. Partially offsetting these factors were higher other operating and maintenance expenses.

Revenues at Upper Peninsula Power were $16.1 million in the third quarter of 1999 compared with $15.9 million in the third quarter of 1998, an increase of 1.3%. Earnings on common stock were $0.3 million in the third quarter of 1999 and $0.5 million in the third quarter of 1998.

Electric Utility Operations (Wisconsin Public Service and Upper Peninsula Power)

WPS Resources' consolidated electric utility margin increased $4.0 million, or 4.0%, primarily due to Wisconsin Public Service's implementation of a Public Service Commission of Wisconsin rate order which authorized a 6.3% increase in Wisconsin retail electric rates.

WPS Resources' Consolidated Electric Utility Margins (Thousands)	Third Quarter 1999	Third Quarter 1998
Revenues	$162,952	$146,007
Fuel and purchased power	58,781	45,871
Margins	$104,171	$100,136
Sales in kilowatt-hours (Thousands)	3,265,890	3,306,208

Our consolidated electric utility revenues increased $16.9 million, or 11.6%. Revenues at Wisconsin Public Service were up 13.0% largely due to the Wisconsin retail electric rate increase and additional wholesale revenues because of unusually warm weather early in the third quarter of 1999. This occurred in spite of the fact that overall sales volumes at Wisconsin Public Service were down 1.3%.

Our consolidated fuel expense increased $1.9 million, or 6.1%, due to increased production at Wisconsin Public Service's combustion turbine generating plants. Our consolidated purchased power expense increased $11.0 million, or 76.5%, primarily due to additional purchase requirements at Wisconsin Public Service. Purchase requirements and prices were higher during a period of unusually warm weather early in the third quarter of 1999. This increase was partially offset by purchases made late in the third quarter of 1999 when purchased power prices were low.

The Public Service Commission of Wisconsin allows Wisconsin Public Service to prospectively adjust the amount billed to Wisconsin retail customers for fuel and purchased power if costs fall outside a specified range. Wisconsin Public Service is required to file an application to adjust rates either higher or lower when costs are plus or minus 2.0% from forecasted costs on an annualized basis. Forecasted annual 1999 fuel costs at September 30, 1999 are expected to be within this 2.0% window.

Gas Utility Operations (Wisconsin Public Service)

The consolidated gas utility margin represents gas revenues less purchases exclusive of intercompany transactions. The gas utility margin at Wisconsin Public Service increased $2.0 million, or 2.3%. This increase was primarily due to the implementation of a Public Service Commission of Wisconsin rate order which authorized a 5.1% increase in Wisconsin retail gas rates.

Wisconsin Public Service's Gas Utility Margins (Thousands)	Third Quarter 1999	1998
Revenues	$30,529	$25,890
Purchase costs	19,840	17,211
Margins	$10,689	$ 8,679
Volume in therms (Thousands)	103,748	96,586

Wisconsin Public Service's gas revenues increased $4.6 million, or 17.9%. This increase was due to the implementation of new Wisconsin retail gas rates and a 7.4% increase in overall therm sales.

Wisconsin Public Service's gas purchase costs increased $2.6 million, or 15.3%. This increase resulted from additional purchase requirements and higher gas costs in the third quarter of 1999. Under current regulatory practice, the Public Service Commission of Wisconsin and the Michigan Public Service Commission allow Wisconsin Public Service to pass changes in the cost of gas on to customers through a purchased gas adjustment clause.

Other Utility Expenses/Income (Wisconsin Public Service and Upper Peninsula Power)

Other operating expenses at Wisconsin Public Service increased $1.5 million, or 4.3%, primarily due to higher pension and post-retirement medical expenses as a result of a decrease in the discount rate used to calculate these obligations.

Maintenance expense at Wisconsin Public Service's fossil-fueled generation plants increased $1.3 million due to additional costs for scheduled and unscheduled maintenance activities. Electric transmission and distribution maintenance expense at Wisconsin Public Service increased $3.9 million primarily due to costs for repairing storm damage experienced in the third quarter of 1999 and for precertification costs associated with the proposed Wausau to Arrowhead transmission line.

Overview of Nonregulated Operations

Nonregulated operations primarily consist of the gas and electric sales at WPS Energy Services, an energy marketing subsidiary. Nonregulated operations also include those of WPS Resources as a holding company (primarily investments, borrowings, and certain unallocated corporate costs) and those of WPS Power Development which develops electric generation projects, invests in generating facilities, and provides services to the electric power generation industry.

Nonregulated operations experienced a loss of $2.3 million in the third quarter of 1999 compared with a loss of $3.8 million in the third quarter of 1998. Although margins on nonregulated energy sales continue to grow, losses are being experienced primarily due to operating expenses associated with new facilities, market expansion, and the pursuit of additional projects.

Overview of WPS Energy Services

Revenues at WPS Energy Services were $50.9 million in the third quarter of 1999 compared with $75.0 million in the third quarter of 1998, a decrease of 32.1%. WPS Energy Services experienced a loss of $1.2 million in the third quarter of 1999 compared with a loss of $2.2 million in the third quarter of 1998. The primary reason for the decrease in losses was improved trading activities in 1999. Partially offsetting this factor was a $0.7 million one-time pretax write-down related to an investment in a gas production field.

Nonregulated Margins (WPS Energy Services)

Gas and electric margins at WPS Energy Services in the third quarter of 1999 remained fairly stable when compared with the third quarter of 1998. Gas revenues at WPS Energy Services were $49.6 million in the third quarter of 1999 compared with $65.7 million in the third quarter of 1998, a decrease of 24.5%. The decrease was the result of increased emphasis on higher quality wholesale transactions versus wholesale transactions with lower margins. Electric revenues at WPS Energy Services were $1.1 million in the third quarter of 1999 and $9.1 million in the third quarter of 1998, a decrease of 87.9%. This decrease was the result of WPS Energy Services' effort to focus participation in the wholesale electric markets, where transactions are based on physical generation assets controlled by an affiliate of WPS Resources.

WPS Energy Services' gross margins were $0.9 million in the third quarter of 1999 and $1.0 million in the third quarter of 1998, a decrease of 10.0%. This change was due to decreased wholesale sales and resulted in a decrease in gas purchases of $16.1 million and a decrease in electric purchases of $8.0 million.

Other Nonregulated Expenses/Income (WPS Energy Services)

Improved processes and strategies emphasizing reduced risk at WPS Energy Services resulted in gas trading gains of $0.1 million in the third quarter of 1999 compared with gas trading losses of $0.9 million in the third quarter of 1998. In addition, the volume of instruments traded has decreased. No electric trading gains or losses were experienced in the third quarter of 1999 compared with electric trading losses of $1.0 million in the third quarter of 1998.

Price Risk Management Activities (WPS Energy Services)

WPS Resources engages in minimal price risk management activities at its utility operations because much of the utility price risk exposure is recoverable through customer rates. (See pages 18 and 19 for descriptions of electric and gas retail price adjustment mechanisms.) More price risk exposure is experienced at WPS Energy Services, and WPS Energy Services actively engages in price risk management activities.

WPS Energy Services uses derivative financial and commodity instruments including futures and forward contracts. These derivatives reduce the market risk associated with changes in the price of natural gas and electricity sold under fixed price commitments with certain customers. WPS Energy Services also uses price swap agreements, call and put option contracts, and futures and forward contracts. These derivatives manage the risk associated with a portion of the anticipated supply requirements. WPS Energy Services uses derivatives, within specified guidelines, for trading purposes.

The notional amount of derivatives outstanding at September 30, 1999, decreased from December 31, 1998, due to the end of the 1999 winter heating season. This includes a decrease of approximately 38.0% for hedging activities and 91.0% for trading activities. Although wholesale activity has decreased, as WPS Energy Services enters into supply commitments for the 1999-2000 winter season, it expects that the notional amount of derivatives outstanding will increase accordingly.

Other Nonregulated Operations

Losses at WPS Power Development were $0.7 million in the third quarter of 1999 compared with $0.6 million in the third quarter of 1998. The increased losses were due to additional costs incurred in the third quarter of 1999 for the operation of newly acquired facilities and the pursuit of new projects.

WPS Power Development experienced an increase of $3.4 million in its margin on operating generation facilities in the third quarter of 1999. This increase was largely due to the operation of the electric generation assets acquired in Maine and Canada on June 8, 1999. Other operating expenses at WPS Power Development increased $2.2 million due to operating expenses related to the Maine Public Service asset acquisition and to higher operating expenses at ECO Coal Pelletization #12, LLC. Although not significant for the third quarter, ECO Coal Pelletization #12 resumed production and sales of coal briquettes. Also contributing to higher operating expenses at WPS Power Development were additional costs related to the pursuit and development of new projects.

Nine Months 1999 Compared with Nine Months 1998

WPS Resources Overview

WPS Resources' consolidated operating revenues were $802.4 million in the first nine months of 1999 compared with $771.2 million in the first nine months of 1998, an increase of 4.0%. Net income was $46.6 million in the first nine months of 1999 and $40.2 million in the first nine months of 1998, an increase of 15.9%. Basic and diluted earnings per share were $1.75 in the first nine months of 1999 compared with $1.52 in the first nine months of 1998, an increase of 15.1%. The primary reasons for the increase in earnings, as explained below, were higher electric utility, gas utility, and nonregulated margins and an increase in other income. Partially offsetting these factors were higher other operating expenses and maintenance expenses.

Overview of Utility Operations (Wisconsin Public Service and Upper Peninsula Power)

Revenues at Wisconsin Public Service were $534.9 million in the first nine months of 1999 compared with $485.7 million in the first nine months of 1998, an increase of 10.1%. Earnings on common stock were $49.8 million in the first nine months of 1999 and $44.4 million in the first nine months of 1998, an increase of 12.2%. The primary reasons for the increase in earnings on common stock at Wisconsin Public Service were increased electric and gas utility margins. Margins increased largely as a result of the implementation of a January 15, 1999, Public Service Commission of Wisconsin rate order which authorized a 6.3% increase in Wisconsin retail electric rates and a 5.1% increase in Wisconsin retail gas rates. Partially offsetting these factors were increases in other operating expenses and maintenance expense.

Revenues at Upper Peninsula Power were $46.8 million in the first nine months of 1999 compared with $45.4 million in the first nine months of 1998, an increase of 3.1%. Earnings on common stock were $2.2 million in the first nine months of 1999 and $2.3 million in the first nine months of 1998.

Electric Utility Operations (Wisconsin Public Service and Upper Peninsula Power)

WPS Resources' consolidated electric utility margin increased $11.2 million, or 3.9%. Wisconsin Public Service's electric utility margin increased $12.7 million primarily due to its implementation of a January 15, 1999 Public Service Commission of Wisconsin rate order which authorized a 6.3% increase in Wisconsin retail electric rates.

WPS Resources' Consolidated Electric Utility Margins (Thousands)	Nine Months 1999	Nine Months 1998
Revenues	$442,270	$410,721
Fuel and purchased power	146,347	126,001
Margins	$295,923	$284,720
Sales in kilowatt-hours (Thousands)	9,399,470	9,189,539

Our consolidated electric utility revenues increased $31.5 million, or 7.7%, largely due to the electric rate increase at Wisconsin Public Service. Also contributing to higher electric revenues was a 8.5% increase in overall kilowatt-hour sales at Wisconsin Public Service and a 3.5% increase in kilowatt-hour sales at Upper Peninsula Power. These sales were largely the result of weather that was 12.3% colder in the first nine months of 1999 than in the first nine months of 1998. However, weather was still 8.4% warmer than normal.

Our consolidated electric production fuel expense increased $2.5 million, or 2.9%, primarily as a result of increased generation requirements at Wisconsin Public Service's combustion turbine and nuclear generating plants in the first nine months of 1999. Partially offsetting this factor was a decrease in production at Wisconsin Pubic Service's fossil-fueled generation plants as a result of scheduled maintenance activities.

Our consolidated purchased power expense increased $17.9 million, or 42.6%, primarily due to additional purchase requirements at both Wisconsin Public Service and Upper Peninsula Power in the first nine months of 1999. Purchase requirements increased 40.2% at Wisconsin Public Service due to the lack of production at its fossil-fueled generation plants which were off-line for scheduled maintenance activities in the first half of 1999. In addition, the cost of purchases were 9.0% higher in the first nine months of 1999 than in the same period in 1998.

The Public Service Commission of Wisconsin allows Wisconsin Public Service to prospectively adjust the amount billed to Wisconsin retail customers for fuel and purchased power if costs fall outside a specified range. Wisconsin Public Service is required to file an application to adjust rates either higher or lower when costs are plus or minus 2.0% from forecasted costs on an annualized basis. Forecasted annual 1999 fuel costs at September 30, 1999 are expected to be within this 2.0% window.

Gas Utility Operations (Wisconsin Public Service)

The consolidated gas utility margin represents gas revenues less purchases exclusive of intercompany transactions. The consolidated gas utility margin increased $8.2 million, or 19.3%, in the first nine months of 1999. The gas utility margin at Wisconsin Public Service increased $9.6 million, or 22.1%, in the first nine months of 1999. This increase was primarily due to the implementation of a Public Service Commission of Wisconsin rate order which authorized a 5.1% increase in Wisconsin retail gas rates and to an increase in therm sales.

Wisconsin Public Service's Gas Utility Margins (Thousands)	Nine Months 1999	Nine Months 1998
Revenues	$133,384	$115,762
Purchase costs	80,617	72,545
Margins	$ 52,767	$ 43,217
Volume in therms (Thousands)	475,829	434,315

Wisconsin Public Service gas operating revenues increased $17.6 million, or 15.2%. This increase was due to the implementation of new Wisconsin retail gas rates and a 9.6% increase in overall therm sales as a result of colder weather in the first nine months of 1999. Although weather was 12.3% colder in the first nine months of 1999 than in the first nine months of 1998, it was still 8.4% warmer than normal. In addition, gas revenues at Wisconsin Public Service in the first nine months of 1998 were reduced by $7.5 million for refunds from ANR Pipeline Company which were passed on to its customers.

Wisconsin Public Service's gas purchase costs increased $8.1 million, or 11.3%. This increase was largely due to increased sales. Gas purchase costs for the first nine months of 1998 were reduced due to the $7.5 million refund from ANR Pipeline Company which was credited to gas expense in the third quarter of 1998. Under current regulatory practice, the Public Service Commission of Wisconsin and the Michigan Public Service Commission allow Wisconsin Public Service to pass changes in the cost of gas on to customers through a purchased gas adjustment clause.

Other Utility Expenses/Income (Wisconsin Public Service and Upper Peninsula Power)

Other operating expenses at Wisconsin Public Service increased $8.1 million, or 8.0%, primarily due to higher electric distribution expense of $2.1 million, higher customer service expense of $3.2 million, and higher pension costs of $2.8 million due to a decrease in the discount rate used to calculate this expense.

Maintenance expense at Wisconsin Public Service increased $9.6 million, or 28.4%, primarily due to additional costs of $6.8 million for scheduled and unscheduled maintenance activities at the fossil-fueled generation plants. Maintenance of overhead lines also increased largely as a result of expenditures of $1.4 million for repairing storm damage experienced in the third quarter of 1999. Precertification costs increased $0.7 million due to expenses associated with the proposed Wausau to Arrowhead transmission line.

Overview of Nonregulated Operations

Nonregulated operations experienced a loss of $5.4 million in the first nine months of 1999 compared with a loss of $6.5 million in the first nine months of 1998. Although margins on nonregulated energy sales continue to grow, losses are being experienced primarily due to operating expenses associated with new facilities, market expansion and the pursuit of additional projects. In addition, nonregulated earnings in the first nine months of 1998 included a one-time dividend of $2.0 million received by WPS Resources from a venture capital investment in the first quarter of 1998.

Overview of WPS Energy Services

Revenues at WPS Energy Services were $213.2 million in the first nine months of 1999 compared with $243.6 million in the first nine months of 1998, a decrease of 12.5%. WPS Energy Services experienced a loss of $2.0 million in the first nine months of 1999 compared with a loss of $4.7 million in the first nine months of 1998. The primary reasons for the decrease in losses were lower electric and gas trading losses primarily due to improved trading activities in 1999 and an increase in the gas margin due to improved gas procurement operations and processes, including a reduced emphasis on wholesale sales. Partially offsetting these factors was a one-time pretax write-down of $0.7 million related to an investment in a gas production field.

Nonregulated Margins (WPS Energy Services)

Gas margins at WPS Energy Services were $4.3 million in the first nine months of 1999 compared with $3.1 million in the first nine months of 1998, an increase of 38.7%. Electric margins remained fairly stable. Gas revenues at WPS Energy Services were $209.7 million in the first nine months of 1999 compared with $225.5 million in the first nine months of 1998. This decrease was the result of increased emphasis on higher quality wholesale transactions versus wholesale transactions with lower margins. Electric revenues were $2.9 million in the first nine months of 1999 and $17.5 million in the first nine months of 1998, a decrease of 83.3%. This decrease was the result of WPS Energy Services' effort to focus participation in the wholesale electric markets where transactions are based on physical generation assets controlled by an affiliate of WPS Resources.

WPS Energy Services' cost of sales were $208.1 million in the first nine months of 1999 and $239.8 million in the first nine months of 1998, a decrease of 13.2%. This decrease was due to decreased gas purchases of $17.1 million due to lower sales, improvements in gas procurement processes and decreased electric purchases of $14.6 million due to decreased sales.

Other Nonregulated Expenses/Income (WPS Energy Services)

Other operating expenses at WPS Energy Services increased $0.9 million, or 14.4%, primarily due to costs of $0.7 million associated with entering into expanded retail customer-choice programs. Improved processes and strategies emphasizing reduced risk at WPS Energy Services resulted in a slight gas trading gain in the first nine months of 1999 compared with gas trading losses of $3.2 million in the first nine months of 1998. Minimal electric trading losses were experienced in the first nine months of 1999 compared with $1.1 million in the first nine months of 1998.

Price Risk Management Activities (WPS Energy Services)

WPS Resources engages in minimal price risk management activities at its utility operations because much of the utility price risk exposure is recoverable through customer rates. More price risk exposure is experienced at WPS Energy Services, and WPS Energy Services actively engages in price risk management activities. See the discussion at pages 20 and 21 for a discussion of WPS Energy Services' price risk management activities.

Other Nonregulated Operations

Losses at WPS Power Development were $2.4 million in the first nine months of 1999 compared with $1.5 million in the first nine months of 1998. The increase in losses at WPS Power Development was primarily due to additional costs incurred in the first nine months of 1999 for the operation of newly acquired facilities and the pursuit of new projects.

WPS Power Development experienced an increase of $5.7 million in its margin on operating generation facilities in the first nine months of 1999. This increase was largely due to the operation of the electric generation assets acquired in Maine and Canada on June 8, 1999. Other operating expenses at WPS Power Development increased $4.4 million due to operating expenses related to the Maine Public Service asset acquisition and to higher operating expenses at ECO Coal Pelletization #12, LLC. Although not significant for the first nine months of 1999, ECO Coal Pelletization #12 resumed production and sales of coal briquettes in the third quarter. Also contributing to higher operating expenses at WPS Power Development were additional costs related to the pursuit and development of new projects.

The first nine months of 1998 included a one-time dividend of $2.0 million received by WPS Resources from a venture capital investment. This dividend represented a four cents per share increase to earnings for the first nine months of 1998.

FINANCIAL CONDITION - WPS RESOURCES

Investments and Financing

Special common stock dividends of $25.0 million were paid by Wisconsin Public Service to WPS Resources in the first nine months of 1999. Equity infusions of $45.0 million were made by WPS Resources to Wisconsin Public Service Corporation in the first nine months of 1999. These special dividends and equity infusions allowed Wisconsin Public Service's average equity capitalization ratio for ratemaking to remain at its target level as established by the Public Service Commission of Wisconsin in its most recent rate order.

Cash requirements exceeded internally generated funds in the first nine months of 1999 and short-term borrowings increased $46.4 million as a result of obtaining funds for the acquisition of generating units from Maine Public Service. Our pretax interest coverage was 3.13 times for the 12 months ended September 30, 1999. See the table below for WPS Resources' credit ratings.

Credit Ratings	Standard & Poor's	Moody's
Wisconsin Public Service Corporation		
Bonds	AA+	Aa2
Preferred stock	AA	aa3
Commercial paper	A1+	P1
WPS Resources Corporation		
Trust preferred securities	A+	a1
Commercial paper	A1+	P1
WPS Resources Capital Corporation		
Unsecured debt*	AA	A1

* No securities currently outstanding.

We normally use internally-generated funds and short-term borrowing to satisfy most of our capital requirements. We may periodically issue additional long-term debt and common stock to reduce short-term debt and to maintain desired capitalization ratios.

The specific forms of financing, amounts, and timing will depend on the availability of projects, market conditions, and other factors. We recently filed a shelf registration with the Securities and Exchange Commission which allows the issuance of $400.0 million in the aggregate of long-term debt and common stock. We may issue up to $100.0 million of long-term debt in the next few months to reduce short-term debt. We began issuing new shares of common stock for our Stock Investment Plan in January 1999. We may also expand our leveraged employee stock ownership plan during the next three-year period.

Wisconsin Public Service makes large investments in capital assets. Construction expenditures for Wisconsin Public Service are expected to be approximately $376.0 million in the aggregate for the 1999 through 2001 period. This includes expenditures for the replacement of the Kewaunee Nuclear Power Plant steam generators and construction of a proposed transmission line between Wausau, Wisconsin and Duluth, Minnesota.

In addition, other capital requirements for Wisconsin Public Service for the three-year period will include contributions of approximately $20.7 million to the Kewaunee Nuclear Power Plant decommissioning trust fund.

Wisconsin Public Service's agreement to purchase electricity from the De Pere Energy Center, a gas-fired cogeneration facility, is accounted for as a capital lease. The De Pere Energy Center lease was capitalized at $74.1 million at the in-service date, June 14, 1999. While not a capital expenditure, this accounting affects the capital structure.

Upper Peninsula Power will incur construction expenditures of about $23.0 million in the aggregate for the period 1999 through 2001, primarily for electric distribution improvements.

On November 1, 1999, WPS Power Development completed the purchase from PP&L Resources, Inc. of the Sunbury Station. The purchase includes a 389 megawatt coal fired plant, two oil-fired combusion turbines with a capacity of 42 megawatts, coal inventories and a coal transshipment facility. We plan to refinance the acquisition of this project with nonrecourse long-term debt.

WPS Power Development's purchase of generation assets from Maine Public Service which was financed with $37.5 million of short-term debt is being refinanced with $24.0 million of nonrecourse long-term debt and equity from its parent.

Other investment expenditures for nonregulated projects are uncertain since there are few firm commitments at this time. Financing for most nonregulated projects is expected to be obtained through nonrecourse project financing and/or through a new subsidiary, WPS Resources Capital Corporation, which was formed in January 1999 to obtain funding for those projects.

Regulatory

Wisconsin Public Service received a rate order in the Wisconsin jurisdiction on January 15, 1999. The impact is a $26.9 million increase in electric revenues and a $10.3 million increase in gas revenues on an annual basis. The new rates are effective for 1999 and 2000. The Public Service Commission of Wisconsin authorized a 12.1% return on Wisconsin Public Service's equity for 1999 and 2000.

On July 1, 1999 Wisconsin Public Service filed to reopen this rate order to consider issues related to the Kewaunee Nuclear Power Plant, the recovery of deferred expenses related to the repowering of Pulliam Unit 3, and the fuel forecast for 2000. Hearings on the rate reopener were held on October 12, 1999. As a result of those hearings, we expect to receive a $21.1 million or 4.6% electric rate increase with new rates to be implemented January 1, 2000. The Public Service Commission of Wisconsin is expected to rule on this request in December 1999.

Year 2000 Compliance

The Year 2000 issue arises because software programs, computer hardware, and equipment that have date sensitive software or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000. This may result in system failures or other disruptions of operations.

WPS Resources and its subsidiary companies are committed to eliminating or minimizing adverse effects of the Year 2000 computer compliance issue on our business operations, including the products and services provided to customers, and to maintaining our reputation as an efficient and reliable supplier of energy. We, however, are unable to guarantee that there will be no adverse effects as a result of the Year 2000 computer compliance issue because many aspects of compliance are beyond our direct control.

We have undertaken a program to assess Year 2000 compliance and to bring computer systems into compliance by the year 2000. All systems, including energy production and delivery systems, other embedded systems, and third party systems of suppliers were evaluated and steps were taken to resolve potential problems.

A Year 2000 project plan which includes awareness, inventory and assessment, remediation, testing, and implementation was developed. The formal awareness phase of the Year 2000 project which includes understanding and communication of the issue to employees, customers, suppliers, and other affected parties is complete. The Year 2000 issue was communicated to our employees and customers via several media. All of our business unit leaders are aware of the Year 2000 project plan and their roles in implementing the plan. Communication and response to Year 2000 inquiries continue.

The inventory and assessment phase which includes identification of all information and non-information technology systems and of non-compliant systems, applications, and hardware, is complete.

Our Information Technology Department has identified five major systems. All of these systems (customer information, finance, human resources, materials management, and facility management) are currently Year 2000 compliant.

In addition, all other systems including non-information technology systems were identified and ranked as to the risk posed by non-compliance. Non-information technology systems include computer and embedded systems related to power plant, system operating, hydroelectric, transmission, and other operating functions. All systems ranked as "critical," "severe," or "high" are Year 2000 compliant.

We hired an external consulting group to monitor the progress of our Year 2000 compliance activities. The consulting group's responsibilities include performing a status check on our ability to achieve Year 2000 compliance.

In addition, we have identified, contacted, and assessed suppliers and other business partners for Year 2000 readiness, as these external parties may have the potential to impact our Year 2000 readiness. We are also working to address Year 2000 issues related to all joint ownership facilities. At the present time, we are not aware of problems that would materially impact our operations. However, we have no means of ensuring that all third parties will be Year 2000 compliant in a timely manner, and the inability of these parties to resolve successfully their Year 2000 issues could have a material impact on our operations.

Due to fewer expenditures for hardware and software than originally anticipated, the estimate of total Year 2000 project costs has been reduced to \$5.1 million. The Wisconsin retail portion of this cost has been approved for rate recovery by the Public Service Commission of Wisconsin. This estimate includes internal labor costs of \$2.0 million, software replacement costs for non-compliant products of \$1.2 million, and contract labor costs of \$1.9 million. Expenditures for the Year 2000 project incurred through September 30, 1999, were \$3.4 million.

The failure to correct a material Year 2000 problem could result in an interruption in, or the failure of, certain normal business activities or operations which could materially affect our results of operations. However, due to the general uncertainty inherent in the Year 2000 issue, we are unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on operations. A preliminary identification of potential risks related to the failure to be in compliance by the Year 2000 was made. The most reasonably likely worst case Year 2000 scenario includes loss or unavailability of some generation, partial loss of system monitoring and control functions, partial loss of voice communications, loss of transmission facilities, and loss of load or uncharacteristic loads. We believe that the probable extent of any of these events is not significantly in excess of similar events caused by normal risks and that the handling of such events is within the capabilities of the systems.

WPS Resources assessed the potential impact of failure to achieve Year 2000 compliance with respect to each of the following:

- Generation availability
- System monitoring and control functions
- Ability to restart generators that are out of service for planned or unplanned outages
- Company-owned voice/data communications
- Transmission facilities
- System protection
- Critical operating data (i.e., generation plant data)
- Electric and gas distribution systems
- Pipelines' constraints to the supply or pressure of natural gas
- Major support systems

Contingency plans for dealing with Year 2000 issues were developed for each application identified as "critical" or "severe." In addition, a proposal for a "quick response team" concept was drafted, and a process for handling unexpected Year 2000 problems was formalized. A crisis management training session utilizing a Year 2000 case study has been completed.

Environmental

In September 1998, the Environmental Protection Agency required certain states, including Wisconsin, to develop plans to reduce the emission of nitrogen oxides from sources within the state by May of 2003. In May 1999, the United States Court of Appeals for the District of Columbia found the national air quality standards for ozone and particulate matter flawed. The Court stayed the requirement for states to file implementation plans by September of 1999. The Public Service Commission of Wisconsin held a hearing on October 19, 1999 to review the plans of Wisconsin utilities to meet the pollution reduction standards. The Public Service Commission of Wisconsin has already approved Phase I of the jointly owned Columbia Energy Center's selective catalytic reduction installation. Wisconsin Public Service's cost for this installation which is expected to be completed in the spring of 2000 is $6.3 million.

Capital expenditures for complying with the original requirements in current year dollars are projected to be between $61.0 million and $112.0 million in 1999 dollars. The nature of any revised emission standard, the implementation period for compliance, and the number of Wisconsin utilities required to implement the new standard could impact future expenditure levels.

RESULTS OF OPERATIONS - WISCONSIN PUBLIC SERVICE CORPORATION

Wisconsin Public Service is a regulated electric and gas utility. Electric operations accounted for 75% of revenues for the first nine months of 1999, while gas operations accounted for 25% of revenues for the first nine months of 1999.

Third Quarter 1999 Compared with Third Quarter 1998

Wisconsin Public Service Overview

Revenues at Wisconsin Public Service were $179.9 million in the third quarter of 1999 compared with $158.0 million in the third quarter of 1998, an increase of 13.9%. Earnings on common stock were $15.8 million in the third quarter of 1999 and $15.1 million in the third quarter of 1998, an increase of 4.6%. The primary reasons for the increase in earnings on common stock were higher electric utility and gas utility margins and an increase in other income. Partially offsetting these factors were higher other operating expenses and maintenance expenses.

Electric Utility Operations

Wisconsin Public Service's consolidated electric utility margin increased $5.3 million, or 5.9%, primarily due to the implementation of a Public Service Commission of Wisconsin rate order which authorized a 6.3% increase in Wisconsin retail electric rates.

Wisconsin Public Service Electric Utility Margins (Thousands)	Third Quarter 1999	Third Quarter 1998
Revenues	$149,346	$132,107
Fuel and purchased power	54,517	42,550
Margin	$ 94,829	$ 89,557
Sales in kilowatt-hours (Thousands)	3,137,697	3,177,521

Wisconsin Public Service's electric utility revenues increased $17.2 million, or 13.0%. Although overall sales volumes at Wisconsin Public Service were down 1.3%, revenues were up 13.0% largely due to the Wisconsin retail electric rate increase and to additional revenues from wholesale customers because of higher prices received during a period of unusually warm weather early in the third quarter of 1999.

Wisconsin Public Service's fuel expense increased $1.8 million, or 5.6%, due to increased production at the combustion turbine generating plants. Wisconsin Public Service's purchased power expense increased $10.2 million, or 91.4%, primarily due to additional purchase requirements during a period of unusually warm weather early in the third quarter of 1999. This increase was partially offset by purchases made late in the third quarter of 1999 when purchased power prices were low.

The Public Service Commission of Wisconsin allows Wisconsin Public Service to prospectively adjust the amount billed to Wisconsin retail customers for fuel and purchased power if costs fall outside a specified range. Wisconsin Public Service is required to file an application to adjust rates either higher or lower when costs are plus or minus 2.0% from forecasted costs on an annualized basis. Forecasted annual 1999 fuel costs at September 30, 1999, are expected to be within this 2.0% window.

Gas Utility Operations

The gas utility margin at Wisconsin Public Service increased $2.0 million, or 2.3%. This increase was primarily due to the implementation of a Public Service Commission of Wisconsin rate order which authorized a 5.1% increase in Wisconsin retail gas rates.

Wisconsin Public Service's Gas Utility Margins (Thousands)	Third Quarter	
	1999	1998
Revenues	$30,529	$25,890
Purchase costs	19,840	17,211
Margins	$10,689	$ 8,679
Volume in therms (Thousands)	103,748	96,586

Wisconsin Public Service's gas revenues increased $4.6 million, or 17.9%. This increase was due to the implementation of new Wisconsin retail gas rates and a 7.4% increase in overall therm sales.

Wisconsin Public Service's gas purchase costs increased $2.6 million, or 15.3%. This increase resulted from additional purchase requirements and higher gas costs in the third quarter of 1999. Under current regulatory practice, the Public Service Commission of Wisconsin and the Michigan Public Service Commission allow Wisconsin Public Service to pass changes in the cost of gas on to customers through a purchased gas adjustment clause.

Other Utility Expenses/Income

Other operating expenses at Wisconsin Public Service increased $1.5 million, or 4.3%, primarily due to higher pension and post-retirement medical expenses due to a decrease in the discount rate used to calculate these obligations.

Maintenance expense at Wisconsin Public Service's fossil-fueled generation plants increased $1.3 million due to additional costs for scheduled and unscheduled maintenance activities. Electric transmission and distribution maintenance expense at Wisconsin Public Service increased $3.9 million primarily due to costs for repairing storm damage experienced in the third quarter of 1999 and for precertification costs associated with the proposed Wausau to Arrowhead transmission line.

Price Risk Management Activities

Wisconsin Public Service engages in minimal price risk management activities because much of the utility price risk exposure is recoverable through customer rates.

Nine Months 1999 Compared with Nine Months 1998

Wisconsin Public Service

Revenues at Wisconsin Public Service were $534.9 million in the first nine months of 1999 compared with $485.7 million in the first nine months of 1998, an increase of 10.1%. Earnings on common stock were $49.8 million in the first nine months of 1999 and $44.4 million in the first nine months of 1998, an increase of 12.2%. The primary reasons for the increase in earnings on common stock, as explained below, were higher electric and gas utility margins and an increase in other income. Partially offsetting these factors were higher other operating expenses and maintenance expenses.

Electric Utility Operations

Wisconsin Public Service's electric utility margin increased $12.7 million, or 5.0%, primarily due to the implementation of a January 15, 1999 Public Service Commission of Wisconsin rate order which authorized a 6.3% increase in Wisconsin retail electric rates.

Wisconsin Public Service's Electric Utility Margins (Thousands)	Nine Months 1999	Nine Months 1998
Revenues	$401,523	$369,971
Fuel and purchased power	133,980	115,095
Margins	$267,543	$254,876
Sales in kilowatt-hours (Thousands)	8,955,022	8,748,125

Wisconsin Public Service's electric utility revenues increased $31.6 million, or 8.5%, largely due to the electric rate increase. Also contributing to higher electric revenues was an 8.5% increase in overall kilowatt-hour sales. These sales were largely the result of weather that was 12.3% colder in the first nine months of 1999 than in the first nine months of 1998. However, weather was still 8.4% warmer than normal.

Wisconsin Public Service's electric production fuel expense increased $2.3 million, or 2.8%, primarily as a result of increased generation requirements at Wisconsin Public Service's combustion turbine and nuclear generating plants in the first nine months of 1999. Partially offsetting this factor was a decrease in production at the fossil-fueled generation plants as a result of scheduled maintenance activities.

Wisconsin Public Service's purchased power expense increased $16.5 million, or 52.8%, primarily due to additional purchase requirements in the first nine months of 1999. Purchase requirements increased 40.2% at Wisconsin Public Service due to lack of production at its fossil-fueled generation plants which were off-line for scheduled maintenance activities in the first half of 1999. In addition, the cost of purchases were 9.0% higher in the first nine months of 1999 than in the same period in 1998.

The Public Service Commission of Wisconsin allows Wisconsin Public Service to prospectively adjust the amount billed to Wisconsin retail customers for fuel and purchased power if costs fall outside a specified range. Wisconsin Public Service is required to file an application to adjust rates either higher or lower when costs are plus or minus 2.0% from forecasted costs on an annualized basis. Forecasted annual 1999 fuel costs at September 30, 1999 are expected to be within this 2.0% window.

Gas Utility Operations

The gas utility margin at Wisconsin Public Service increased $9.6 million, or 22.1%, in the first nine months of 1999. This increase was primarily due to the implementation of a Public Service Commission of Wisconsin rate order which authorized a 5.1% increase in Wisconsin retail gas rates and an increase in therm sales.

Wisconsin Public Service's Gas Utility Margins (Thousands)	Nine Months 1999	Nine Months 1998
Revenues	$133,384	$115,762
Purchase costs	80,617	72,545
Margins	$ 52,767	$ 43,217
Volume in therms (Thousands)	475,829	434,315

Wisconsin Public Service's gas operating revenues increased $17.6 million, or 15.2%. This increase was due to the implementation of new Wisconsin retail gas rates and a 9.6% increase in overall therm sales as a result of colder weather in the first nine months of 1999. Although weather was 12.3% colder in the first nine months of 1999 than in the first nine months of 1998, it was still 8.4% warmer than normal. In addition, gas revenues at Wisconsin Public Service in the first nine months of 1998 were reduced by $7.5 million for refunds from ANR Pipeline Company which were passed on to its customers.

Wisconsin Public Service's gas purchase costs increased $8.1 million, or 11.3%. This increase was largely due to increased sales. Gas purchase costs for the first nine months of 1998 were reduced due to the $7.5 million refund from ANR Pipeline Company which was credited to gas expense in the third quarter of 1998. Under current regulatory practice, the Public Service Commission of Wisconsin and the Michigan Public Service Commission allow Wisconsin Public Service to pass changes in the cost of gas on to customers through a purchased gas adjustment clause.

Other Utility Expenses/Income

Other operating expenses at Wisconsin Public Service increased $8.1 million, or 8.0%, primarily due to higher miscellaneous electric distribution expense of $2.1 million, higher customer service expense of $3.2 million, and higher pension costs of $2.8 million due to a decrease in the discount rate used to calculate this expense.

Maintenance expense at Wisconsin Public Service increased $9.6 million, or 28.4%, primarily due to additional costs of $6.8 million for scheduled and unscheduled maintenance activities at the fossil-fueled generation plants. Maintenance of overhead lines also increased largely as a result of an additional estimated cost of $1.4 million for repairing storm damage experienced in the third quarter of 1999. Precertification costs increased $0.7 million due to expenses associated with the proposed Wausau to Arrowhead transmission line.

Price Risk Management Activities

Wisconsin Public Service engages in minimal price risk management activities because much of the utility price risk exposure is recoverable through customer rates.

FINANCIAL CONDITION - WISCONSIN PUBLIC SERVICE

Investments and Financing

Special common stock dividends of $25.0 million were paid by Wisconsin Public Service to WPS Resources in the first nine months of 1999. Equity infusions of $45.0 million were made by WPS Resources to Wisconsin Public Service Corporation in the first nine months of 1999. These special dividends and equity infusions allowed Wisconsin Public Service's average equity capitalization ratio for ratemaking to remain at its target level as established by the Public Service Commission of Wisconsin in its most recent rate order.

Internally generated funds exceeded cash requirements in the first nine months of 1999 resulting in a $5.0 million reduction in short-term borrowings. Pretax interest coverage was 4.48 times for the 12 months ended September 30, 1999. See the table below for Wisconsin Public Service's credit ratings.

Credit Ratings	Standard & Poor's	Moody's
Wisconsin Public Service Corporation		
Bonds	AA+	Aa2
Preferred stock	AA	aa3
Commercial paper	A1+	P1

See WPS Resources' management discussion at page 26 for additional information regarding Wisconsin Public Service's financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and Qualitative Disclosures About Market Risk are reported under "Price Risk Management Activities (WPS Energy Services)" as part of Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, on pages 20 and 21.

Part II. OTHER INFORMATION

Item 5. Other Information

Purchase of Electric Generation Units

On November 1, 1999, WPS Power Development, Inc. completed the purchase of the 389 megawatt, coal-fired Sunbury Station from PP&L Resources, Inc. The total purchase price is $106.0 million. Included in the purchase are two oil-fired combustion turbines with a capacity of 42 megawatts, coal inventories, and a coal transshipment facility.

Legislation

On October 27th, the Governor signed the State of Wisconsin Budget Bill. The Bill included several items affecting utilities and utility holding companies. The legislation:

- Changes the asset cap for three investor-owned utility holding companies, including WPS Resources, to allow investments in energy and energy-related business which would be exempt from the asset cap calculation,

- Requires the utility subsidiaries of these three utility holding companies to place their transmission assets into a statewide transmission company as a condition of applying the new asset cap provisions, and

- Increases the amount of public benefits spending used for low-income energy assistance, conservation and renewable energy research.

The statewide transmission company will be owned by those utilities transferring transmission assets into the new company. This transmission company will own electric transmission facilities in Wisconsin and neighboring states. These legislative changes do not require any public utility to contribute its transmission facilities to the transmission company. The bill only requires such a transfer as a condition of granting relief to a public utility holding company from the asset cap.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following documents are included as a part of this filing.

Exhibit 12	Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preferred Dividends
Exhibit 27	Financial Data Schedule WPS Resources Corporation Wisconsin Public Service Corporation

(b) Reports on Form 8-K

None

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant, WPS Resources Corporation, has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WPS Resources Corporation

Date: November 3, 1999

/s/ Diane L. Ford

Diane L. Ford
Vice President - Controller
and Chief Accounting Officer

(Duly Authorized Officer and
Chief Accounting Officer)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant, Wisconsin Public Service Corporation, has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Wisconsin Public Service Corporation

Date: November 3, 1999

/s/ Diane L. Ford

Diane L. Ford
Vice President - Controller

(Duly Authorized Officer and
Chief Accounting Officer)

WPS RESOURCES CORPORATION AND
WISCONSIN PUBLIC SERVICE CORPORATION
EXHIBIT INDEX TO FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 1999

Exhibit No.	Description
12	Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preferred Dividends
27	Financial Data Schedule WPS Resources Corporation Wisconsin Public Service Corporation

Setting the Course

WPS Resources Corporation

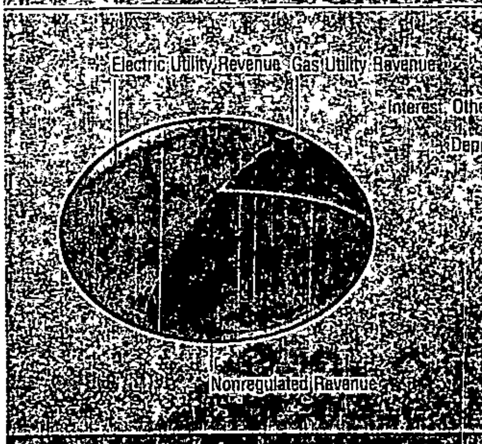
1998 Annual Report

Highlights

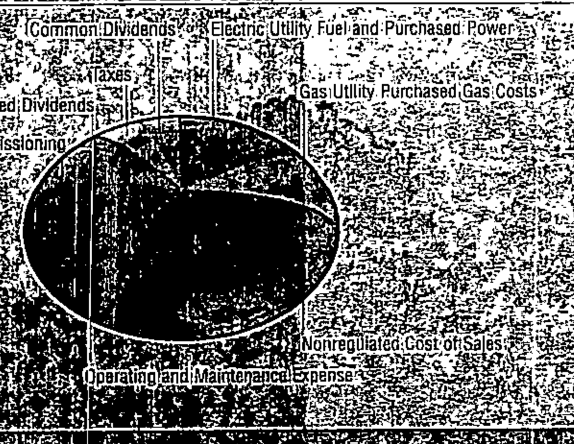
Year Ended December 31	1998	1997	Percent Change
Revenues - utility (Thousands)	$ 708,371	$ 747,975	(5.3)
Revenues - nonregulated (Thousands)	355,365	187,862	89.2
Net Income (Thousands)	46,631	55,809	(16.4)
Basic and diluted earnings per average share of common stock	$ 1.76	$ 2.10	(16.2)
Dividend paid per share	1.96	1.92	2.1
Book value per share	19.52	19.56	(0.2)
Common stock price at year end	$ 35.25	$ 33.8125	4.3
Electric sales - utility (kWh - Thousands)	12,172,432	11,993,358	1.5
Gas deliveries - utility (Therms - Thousands)	608,092	662,008	(8.1)

These amounts give effect to the merger with Upper Peninsula Energy Corporation. Dividend rates are those of WPS Resources Corporation.

Sources of Money



Uses of Money



WPS Resources Corporation

WPS Resources Corporation is a holding company based in Green Bay, Wisconsin. System companies provide products and services in both regulated and nonregulated energy markets.

Wisconsin Public Service Corporation

Business: Wisconsin Public Service Corporation ("WPSC") is a regulated electric and gas utility which serves an 11,000 square-mile area of Northeastern and Central Wisconsin and an adjacent portion of Upper Michigan (see map above). WPSC has 2,372 employees.

Market: WPSC provides 381,192 electric and 224,058 natural gas customers with a full range of products and services customarily offered by regulated utilities. Electric and gas service is provided to residential, farm, commercial, and industrial customers. Electric power is also provided to wholesale customers. Electric operations accounted for 75% of 1998 revenues, while gas operations contributed 25%. Electric revenues are comprised of 89% retail sales and 11% wholesale sales. Wisconsin customers accounted for 97% of the utility's 1998 revenues, compared with 3% from Michigan customers.

Facilities: Electric generating capacity based on 1998 summer capacity was 1,795 megawatts, including WPSC's share of jointly-owned facilities. WPSC has 1,549 miles of electric transmission and 19,556 miles of electric distribution lines. Gas properties include 4,774 miles of main and 69 gate and city regulator stations.

Upper Peninsula Power Company

Business: Upper Peninsula Power Company ("UPPCO") is a regulated electric utility which serves a 4,000 square-mile area of primarily rural countryside covering 10 of the 15 counties in Upper Michigan (see map above). UPPCO has 195 employees.

Market: UPPCO provides a full range of electric products and services to 48,272 electric customers in 99 communities and adjacent areas in addition to providing electric energy to 9 wholesale customers. The main industries in UPPCO's service area are forest products, iron mining and processing, tourism, and small manufacturing. Electric revenues are comprised of 92% retail sales and 8% wholesale sales.

Facilities: Electric generating capacity based on 1998 summer capacity was 95 megawatts, including UPPCO's share of jointly-owned facilities. UPPCO has 806 miles of electric transmission and 2,753 miles of electric distribution lines.

WPS Energy Services, Inc.

Business: WPS Energy Services, Inc. ("ESI"), is a diversified nonregulated energy company with principal operations in Illinois, Michigan, Ohio, and Wisconsin (see map below). Wholesale sales are provided on a nationwide basis.

Markets: ESI operates in the retail and wholesale nonregulated energy marketplace. Emphasis is on serving commercial, industrial, and wholesale customers.

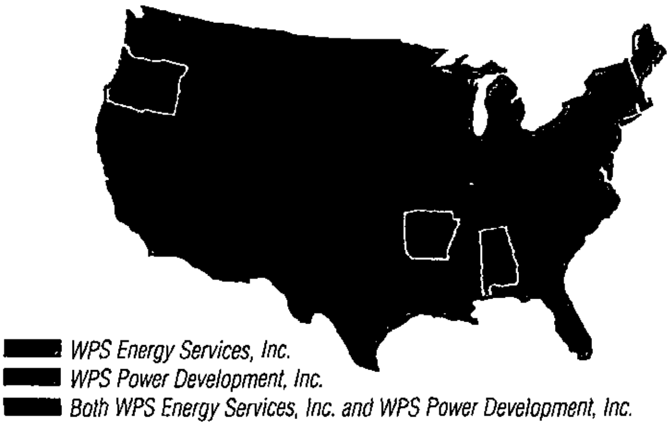
Products and Services: ESI provides individualized energy supply options and strategies that allow customers to manage energy needs while capitalizing on opportunities resulting from deregulation. ESI provides natural gas, electric, and alternate fuel products, real-time energy management services, energy utilization consulting, and project management. Proprietary DENet® computer technology allows customers to monitor their energy usage and to access energy supply information.

WPS Power Development, Inc.

Business: WPS Power Development, Inc. ("PDI") develops and owns nonregulated electric generation facilities and provides services to the electric power generation industry nationwide (see map below).

Products and Services: PDI's services include acquisition and investment analysis, project development, engineering and management services, and operations and maintenance services. PDI's areas of expertise include cogeneration, distributed generation, generation from renewables, and generation plant repowering projects.

Facilities: PDI owns a two-thirds interest in the Stoneman Power Plant, a 53-megawatt coal-fired merchant steam plant located in Cassville, Wisconsin. PDI also owns landfill gas generating facilities. PDI is in the final stages of acquiring 92 megawatts of generation assets from Maine Public Service Company. These facilities are located in the State of Maine and in New Brunswick, Canada. PDI also is a two-thirds owner and the operator of a facility in Jasper County, Alabama which turns coal mining residue into briquettes which are burned in utility boilers.



SETTING THE COURSE FOR THE FUTURE

TO OUR SHAREHOLDERS:

In 1998, WPS Resources Corporation set a course that will lead to our continued success in the next millennium. We are driven by our customers' needs and a regulatory environment that is moving toward increased competition. Our path promises growth. As we proceed, one thing will be constant—our commitment to supplying our customers with excellent, reliable, competitively-priced energy and services. This is the hallmark of our company. With that in mind, I'd like to review for you where we've been and map out where we intend to go on the course ahead.

FINANCIAL OVERVIEW

Let me start by saying that 1998 was a challenging year for us, as it was for many energy companies. There were notable accomplishments, although our financial results did not meet expectations.

WPS Resources Corporation

- Revenues exceeded $1.0 billion for the first time.
- Net income was $46.6 million in 1998 compared with $55.8 million in 1997.
- Earnings per share for 1998 were $1.76 compared with $2.10 (restated from $2.25 to reflect the merger with Upper Peninsula Energy Corporation) in 1997.

Utility Operations - Wisconsin Public Service Corporation and Upper Peninsula Power Company

- Net income was $57.6 million in 1998 compared with $65.3 million in 1997.
- Electric margins were $376.0 million in 1998 compared with $365.0 million in 1997.
- Gas margins were $59.2 million in 1998 compared with $63.3 million in 1997.
- Non-fuel operating and maintenance expenses were $208.1 million in 1998 compared with $194.9 million in 1997.

Nonregulated Subsidiaries - WPS Energy Services, Inc. and WPS Power Development, Inc.

- Revenues were $357.2 million in 1998 compared with $192.0 million in 1997.
- Losses totaled $9.3 million in 1998 compared with $6.9 million in 1997.

A number of factors contributed to our decreased earnings. Abnormal weather had a significant impact on operating results. The year 1998 included both an extremely mild first quarter as well as the warmest December on record for the area served by Wisconsin Public Service. Overall, the weather was 17.6 percent warmer than normal resulting in an estimated 37-cents reduction in earnings per share. Continued preparation for future growth at our nonregulated subsidiaries and unprecedented market volatility leading to electric and gas trading losses at WPS Energy Services also contributed to reduced earnings. Additionally, our merger with Upper Peninsula Energy resulted in a dilution of earnings last year.

Financial Goals

Our future course includes the following financial goals:

- Achieving a return for Wisconsin Public Service consistent with the Public Service Commission of Wisconsin's ("PSCW") allowed rate of return of 12.1 percent for 1999 and 2000.
- Achieving profitability within the nonregulated segment of our business starting in 1999.
- Achieving 10 percent of earnings from our nonregulated operations by 2000. This will be possible if additional electric and gas markets open to competition in our target market areas in the very near future.
- Achieving a dividend payout ratio below 70 percent over time.
- Increasing shareholder value through growth.

ROADWAY TO SUCCESS

The road we traveled during 1998 fostered many successes. These achievements pave the way for new endeavors and for meeting our financial goals for the future.

Growth For Our Nonregulated Businesses - Expansion of our nonregulated businesses is both a story of success in 1998 and a glimpse into our future. WPS Power Development, Inc. ("PDI") was the successful bidder in the purchase of 92 megawatts of Maine Public Service Company's generation assets. We expect to complete this acquisition in the spring of 1999. Also, PDI became the co-owner and operator of a facility in Alabama which turns coal mine waste into briquettes which are then sold for use as fuel in utility boilers.

WPS Energy Services, Inc. ("ESI"), our nonregulated energy marketer, continued to expand aggressively its customer base and increase revenues in 1998. Most of this growth occurred from the sale of natural gas, because electricity markets haven't opened to competition as fast as many predicted. An example of ESI's ability to attract customers is its successful participation in a customer choice program with Columbia Gas of Ohio. More than 13,000 Columbia Gas customers, when given the choice, switched to ESI for their natural gas, and ESI continues to add customers at a steady pace. This is just one component of the 85 percent revenue increase at ESI last year. Future growth at WPS Resources will increasingly be fueled by the successful efforts of our nonregulated companies.

Completion of UPEN Merger - Our merger with Upper Peninsula Energy Corporation was completed on September 29, 1998. This is an important part of our growth strategy, and we are pleased to be providing an additional 48,000 customers with outstanding energy-related products and services. The integration of our two companies has gone well, and we are on track to obtain the long-term savings and strategic benefits we expected.

Reliable Power Supply - While other parts of the Midwest experienced power shortages last summer, WPS Resources' regulated utilities had adequate generation capacity to provide our customers with a reliable power supply. The demand for electricity in the region last summer also enabled our jointly-owned and nonregulated Stoneman generation facility to produce more electricity than we had expected.

Kewaunee Plant's Future Secured - The resolution of both the ownership and steam generator replacement issues involving our jointly-owned Kewaunee Nuclear Power Plant was a major accomplishment. In April, the PSCW approved replacement of Kewaunee's steam generators. In September, Wisconsin Public Service and Madison Gas and Electric Company ("MG&E") finalized arrangements for Wisconsin Public Service to buy MG&E's 17.8 percent share of Kewaunee, bringing our total ownership share to 59 percent in 2000. We, along with our remaining co-owner, Wisconsin Power and Light Company, are now prepared to replace the steam generators in 2000. Kewaunee has historically provided reliable, low-cost energy without the environmental concerns associated with fossil fuel generation. So, we are pleased to be able to keep Kewaunee as an important part of our energy supply picture.

New Rates and Earnings Picture - The PSCW authorized a 6.3 percent increase in electric rates and a 5.1 percent increase in natural gas rates for Wisconsin Public Service effective January 15, 1999. The electric increase is Wisconsin Public Service's first since 1993 and follows several years of electric rate decreases. We are pleased to say that even with the increase, electric rates charged by Wisconsin Public Service are the lowest overall among state utilities. The PSCW also increased Wisconsin Public Service's authorized rate of return from 11.8 percent to 12.1 percent, citing current financial market conditions, managerial performance for utility operations, relationships between the earnings of other Wisconsin utilities, as well as the increasing business risk and the need to maintain financial integrity in the interest of our shareholders.

Our Future Course

Our strategy for achieving growth includes initiatives in the following areas as stepping stones to success:

WPS Power Development, Inc. in Pursuit of Generation - PDI will continue to pursue actively the purchase of generation facilities from utilities and other companies who are selling their generation assets. We also plan to develop new generation facilities as we bring our operations and management expertise to the electric generation segment of the nonregulated energy market. Our search for opportunities will be limited to the United States and Canada where we understand the business risks.

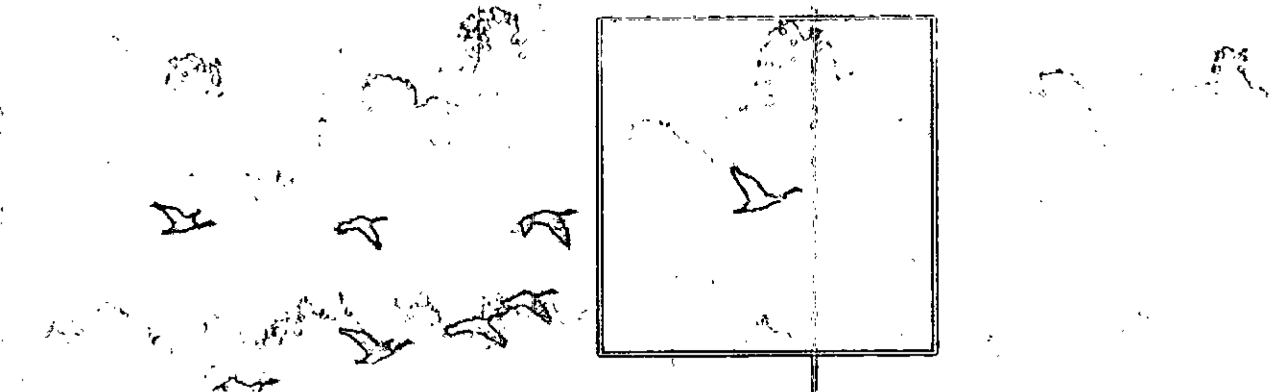
WPS Energy Services, Inc. in Pursuit of Earnings - We will focus on improving gas margins while we continue to grow ESI's gas revenues. Further, we believe that we are well positioned to offer electric service to our gas customers when electric markets open to competition. We will use the generation assets acquired or developed by PDI to support these electric marketing efforts. We're looking forward to the challenges and opportunities provided by competition.

Our Regulated Utilities Seek Expansion - Our merger with Upper Peninsula Energy is just one example of the growth we seek. However, we recognize that our regulated utilities also face many challenges. To position our utility businesses for the future, we have established separate generation, transmission, distribution, and support services business units. Not only does this allow us to better manage these functions today, but it also gives us valuable information with which we can respond to industry changes.

Infrastructure Development - As fast as our business is changing, so too is technology changing. To this end, in 1998 we completed a strategic information systems plan that has identified key areas for system development. As a result, Wisconsin Public Service will be installing the first automated meter reading system in Wisconsin capable of reading meters remotely on demand. We are also implementing a new corporate maintenance management system which will allow us to maintain our facilities in a cost-effective and timely manner. Also, ESI has expended significant resources acquiring the computer technology necessary to meet its customers' needs.

Capitalizing on Alliances and Joint Projects - We realize that one way to be successful on the course we have set is to capitalize on our strengths by working with other companies who share our vision for the future. The following are examples of steps we are taking to achieve greater benefits for our shareholders:

- Marinette Combustion Turbine - When MG&E encountered difficulty in its efforts to build additional generation capacity, Wisconsin Public Service stepped forward and offered to build a combustion turbine for them at our Marinette site. This is an opportunity for us to satisfy a need of MG&E and, at the same time, add a generation facility in a portion of our service territory that is in need of additional capacity.
- Nuclear Management Company - Wisconsin Public Service is joining with Northern States Power Company, Wisconsin Electric



Setting the Course

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Power Company, and Alliant Energy to identify ways we can better work together to manage the seven nuclear units operated by the group. In addition to gaining efficiencies in the operation of our Kewaunee plant, it gives us additional flexibility in setting our course for the future.

- Northeast Communications - We have aligned with Northeast Communications, a telecommunications company, in an effort to use our combined resources and facilities to improve operational efficiency, reduce costs, and provide more choices for our customers.
- Badger Energy Alliance - Wisconsin Public Service has joined with several regional electric cooperatives in forming the Badger Energy Alliance. Members have found that cooperating in the areas of planning, purchasing, operations, and maintenance could help each company improve its products and services.

Shaping Regulatory and Legislative Actions - We actively participate in shaping regulatory and legislative changes in the states where we provide services. The course we advocate is based upon listening to the needs and desires of our customers. Our customers are telling us that they will be best served by changes which will bring about an adequate energy supply, a more robust transmission system, the benefits of a truly independent operator of the electric transmission system, and competitive markets. We concur.

Strengthening Leadership - One of our critical needs as we embark upon our course is strong leadership throughout WPS Resources. We are calling upon more people to provide leadership to guide us through seas of change as we strive to be responsive to our customers' needs. Therefore, I am personally committed to working with each of our senior leaders to assure that they are ready for the challenges ahead and have the support and resources they need. Similar efforts are under way at all levels of our corporation.

We are also adding new expertise to our leadership team. Most recently, we brought in Brad Andress as Vice President-Marketing at Wisconsin Public Service. He comes to us from outside the utility industry and will be a valuable resource as we move to a competitive environment. Additionally, Neal Siikarla joined the WPS Resources family as Vice President, bringing extensive experience in Wisconsin utility matters as he focuses on corporate planning and finance.

I also wish to acknowledge two other members of our leadership team for their efforts in setting our course for the future. Sister Lois Bush, a member of our Board of Directors since 1993, is not seeking re-election in 1999. Clark Steinhardt, Senior Vice President-Nuclear at Wisconsin Public Service, retired in January after 31 years of dedicated service. They have both played important roles in our success and in setting our course for the future.

Moving Forward

The pace of change is not slowing in our industry—it's accelerating. We know we cannot continue to do things the same way we did in the past—no matter how successful we have been. As a result, we have set out on a course that will lead to continued growth. I invite you to learn more about this course in the following article which highlights the views of our management team.

We appreciate the confidence you have shown in our company and ask for your support in our journey. We are ready for the challenges ahead, and we look forward to the future and giving you, our shareholders, an opportunity to share in our successes.

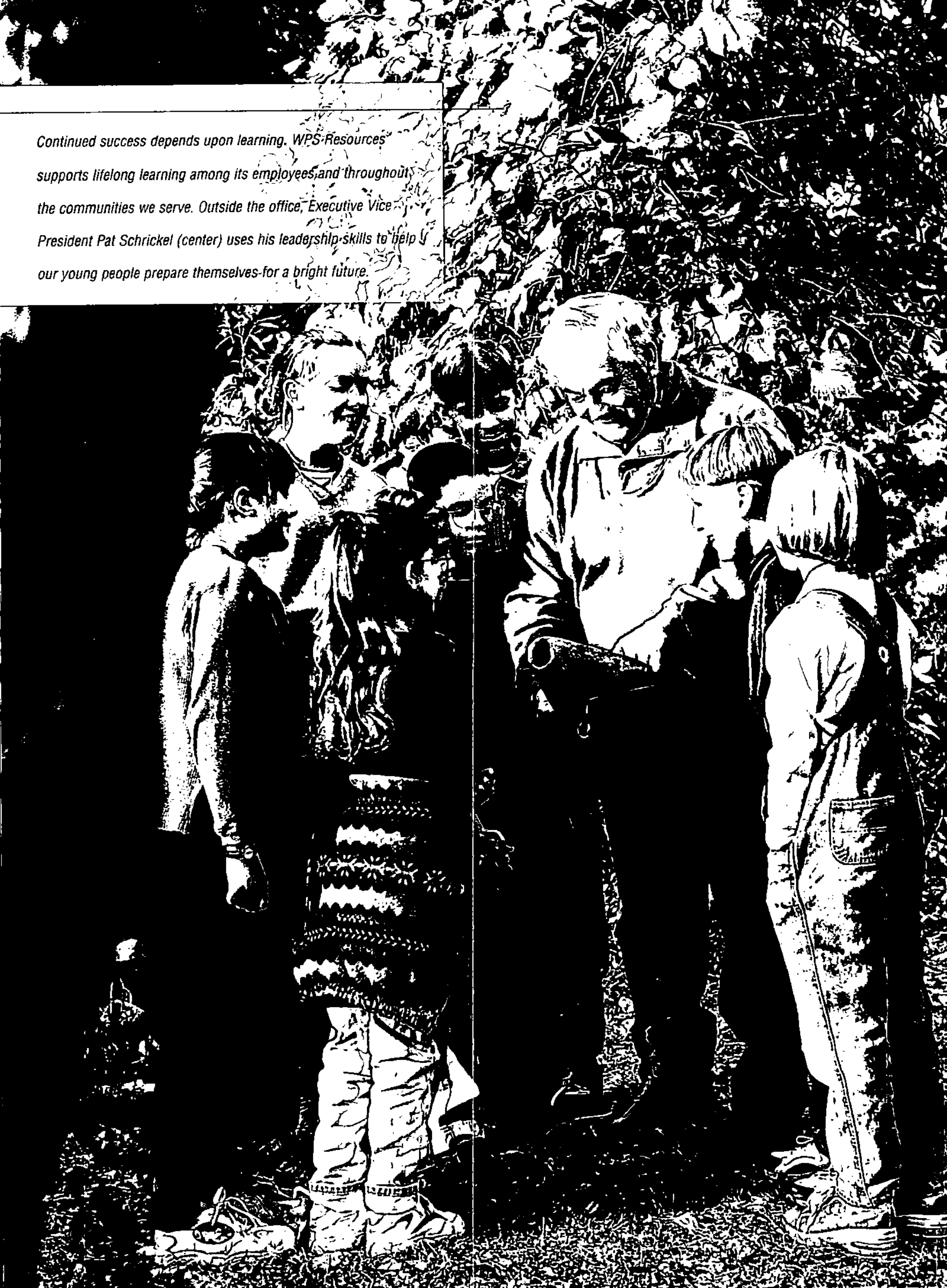
Sincerely,

Larry L. Weyers

Larry L. Weyers
Chairman, President, and
Chief Executive Officer

February 12, 1999

Continued success depends upon learning. WPS Resources supports lifelong learning among its employees and throughout the communities we serve. Outside the office, Executive Vice President Pat Schrickel (center) uses his leadership skills to help our young people prepare themselves for a bright future.



Our vision for WPS Resources Corporation continues to be, "People Creating the World's Premier Energy Company."

We are challenged in this effort by electric industry restructuring and a rapidly evolving energy marketplace. We know that our ability to thrive amid these changes is the key to increased value for our shareholders. For this reason, the employees of WPS Resources and its subsidiaries are setting a course for our future—one that will move us from past successes in a regulated environment to vigorous growth in competitive markets. We are, in other words, learning to be successful all over again.

"THE GOAL IS FIXED IN THE MIND AS ONE."

"GOOSE SEND-OFF," OWEN NEILL

SUSTENANCE FOR THE JOURNEY: OUR VALUES AND BELIEFS

Bernard J. Treml, Vice President–Human Resources

"The energy industry is changing, and we are creating change within the WPS Resources system companies. Yet, as we travel the course we set for our future, our enduring source of strength will be WPS Resources' values and beliefs. These will not change. These will sustain us.

"First and foremost, we value the capabilities of our people. If we are to be successful, it will be through our employees. So we trust in their ability to learn and change, and we provide the tools they need to prepare themselves for new challenges.

"Our Learning Centers illustrate this. These centers, located throughout our company, provide the resources for employees to sharpen their skills or learn a new part of the energy business. We help them connect with educational advisors and new opportunities so they are ready to journey with us on the course ahead. We are also strengthening leaders at all levels throughout our WPS Resources companies, so individuals are prepared to step forward when and where they are needed. Efforts like these represent a shared responsibility for learning and development between WPS Resources and each employee.

"The central belief that will carry us forward is, 'We must excel at meeting our customers' needs.' Our employees live out this corporate belief every day through excellence and dedication in their work. I have seen employees from all areas of the company drop everything to serve the customer and do whatever is needed to help. An example is our employees' response during unprecedented wind storms and flooding in our area last year.

"As we proceed on the course before us, our every action will continue to be guided by our values and beliefs, and our desire to serve our customers with excellence."

STAYING THE COURSE: WPS RESOURCES' REGULATED UTILITIES

Patrick D. Schrickel, Executive Vice President

"To WPS Resources, growing in the energy business means serving our customers even better than we have in the past. It also means serving more customers and providing new products and services. Each step of the way, we will increase the value our company holds for our shareholders. This is the course we are setting for our future.

"Improving the way we serve our customers begins with learning more about them. As the energy industry changes, WPS Resources' regulated utilities—Wisconsin Public Service Corporation and Upper Peninsula Power Company—are conducting research that helps us better understand our customers' values and needs. Our senior managers are visiting our largest customers to talk about where their companies are going and what's happening in the energy industry. We're listening as our customers tell us how we can partner with them going forward.

"With the insights we gain from our customers, we're able to enhance the products and services we offer and develop new choices that our customers value. Advanced Power Services, for one, is a family of services Wisconsin Public Service reintroduced in November. These services—power quality analysis, energy demand and consumption monitoring, and thermal scanning to identify heat loss—had always been available to our customers. But we hadn't proactively marketed them. When we listened to our industrial customers, we learned that power quality and reliability are among their top energy concerns and that they weren't sure where they could go for these types of services. So we changed our approach. We gathered more resources and

Bud Treml, Vice President-Human Resources, believes that supporting the environment in which our employees, customers, and shareholders live is one more way to show we value them. By serving on an advisory council for St. Vincent Hospital in Green Bay, Bud becomes involved in the health of the community.

more expertise to offer Advanced Power Services in a way that best meets our customers' needs.

"In addition to improving the way we do things for our current customers, we're pursuing growth in the number and geographic reach of the customers we serve. Wisconsin Public Service is aggressively expanding its natural gas system, both in its existing service area and beyond. Adding customers in new markets gives us room to grow, because if we serve these customers well, we believe they will choose us as both their electric and natural gas supplier when they are given that choice.

Leading two nonregulated energy companies means testing the waters for what lies ahead. Phil Mikulsky, Senior Vice President-Development and an outdoor enthusiast, accepts this challenge and uses his skills to successfully lead ESI and PDI into new markets and to greater levels of achievement.

"WPS Resources' merger with Upper Peninsula Energy Corporation in 1998 also fits this strategy of seeking room in which to grow. In this case, part of our plan is to bring natural gas to customers in Michigan's Upper Peninsula.

"Another way WPS Resources has carried out its growth strategy is by aligning with Northeast Communications, a telecommunications company. Some would ask how telecommunications fits with staying the course of energy and energy-related business, but it is very obvious to us. The networks and products we jointly create with Northeast Communications will provide more choices for our customers. As this partnership of energy and communications develops, we anticipate growth opportunities for both companies."

Navigating Uncharted Waters: WPS Resources' Unregulated Companies

Phillip M. Mikulsky, Senior Vice President–Development

"WPS Resources' unregulated companies—WPS Energy Services, Inc. ("ESI") and WPS Power Development, Inc. ("PDI")—are pursuing growth where our regulated utilities cannot venture.

"ESI sells natural gas and electricity to retail and wholesale customers in unregulated markets. For most customers, natural gas is deregulated before electricity. Our strategy is to enter new markets with our natural gas offerings and earn our new customers' loyalty. Down the road, when these customers are able to choose their electricity supplier, we believe we will also have earned their electric business.

"Right now, ESI has regional offices in Green Bay; Chicago; Port Huron, Michigan; and Columbus, Ohio. In August, we joined a program that allows residential and small commercial customers of Columbia Gas of Ohio to choose their natural gas supplier. By the end of 1998, FSG Energy Services, a division of ESI, had acquired more than 13,000 new customers through the program. This is a promising entry into a new market.

"ESI's revenues increased significantly in 1998, with sales reaching $351.3 million—an 85 percent increase over 1997. Our operations, however, did not show a profit. This is primarily because we experienced electric and gas trading losses during the year. We are also continuing to make investments to acquire new customers and to develop the systems, processes, and people needed to operate effectively and expand rapidly. For example, our risk management systems are being enhanced so that we can operate with reduced risk in volatile markets, such as the electric market last June.

"...The Quiet Thunder of Eager Wings Trying What the North Winds Say"

"Goose Send-off," Owen Neill

"The synergies between our two unregulated subsidiaries are important as WPS Resources moves forward, with ESI marketing energy and PDI building and acquiring generating assets. ESI can look to PDI to generate a portion of the electricity it sells. Conversely, PDI works through ESI to market the power it generates.

"PDI continues to be active in unregulated generation. As states restructure their electric industries, many utilities are selling their generating assets—and we're trying to capitalize on this trend. For instance, PDI is in the process of acquiring 92 megawatts of generation from Maine Public Service Company. PDI also continues to operate the Stoneman Generating Station, a merchant electric generating plant located in Cassville, Wisconsin, which sells the electricity it produces to other energy suppliers. We own two-thirds of this 55-megawatt plant, and ESI markets the power it produces.

"Beyond generation, PDI operates a facility that retrieves coal fines left behind during coal production. These fines are formed into briquettes, which are used as boiler fuel by operators of electric generation facilities.

"Together, ESI and PDI are setting a course that allows us to take greater advantage of trends in the evolving unregulated marketplace. We are preparing for the day when almost all energy consumers will be able to choose their energy supplier. Certainly, we will encounter the unexpected as we navigate the course ahead, but we are confident that our employees are up to the challenge."

Maintaining Balance: A Reliable Energy Supply

Thomas P. Meinz, Vice President–Public Affairs

"Summer 1998 brought a volatile energy market that tested many energy companies' ability to serve their customers. Regionally, the supply of electricity became a concern, due in large part to outages at nuclear power plants throughout the Midwest. Nevertheless, Wisconsin Public Service was able to maintain a reliable power supply for our customers because all of our generating facilities—coal, hydroelectric, and nuclear—as well as our delivery systems, performed flawlessly.

"The Kewaunee Nuclear Power Plant, specifically, is important to our course for the future for two reasons: First, it helps ensure reliable, economical power for our customers. Second, it's a clean source of power at a time when concerns for the environment are increasing. In 1998, the Public Service Commission of Wisconsin ("PSCW") affirmed the value of the Kewaunee plant by granting permission to replace its steam generators in 2000. This should allow the plant to operate until its license expires in 2013, if not longer.

"Wisconsin Power and Light, one of our co-owners in the Kewaunee plant, will proceed with us to replace the steam generators. Madison Gas and Electric ("MG&E"), the third co-owner, has chosen not to proceed. Because of our confidence in Kewaunee, Wisconsin Public Service will acquire MG&E's 17.8 percent share in the plant, bringing our ownership level to 59 percent.

"What Do Winds Whisper in Clever Ears That Makes the Time to Go Just Right?"

"Goose Send-off," Owen Neill

"In the near future, the De Pere Energy Center will also be contributing to the region's power supply. Wisconsin Public Service has a 25-year contract to purchase energy and capacity from the center, which is being built and will be operated by an independent power producer, SkyGen Energy LLC. We've worked with SkyGen to have this new, approximately 180-megawatt gas-fired power plant on line for the summer of 1999, which is earlier than originally planned. In the second phase of the De Pere Energy Center project, to be completed by 2004, the plant will be converted to combined cycle operation, and its capacity will increase to about 255 megawatts.

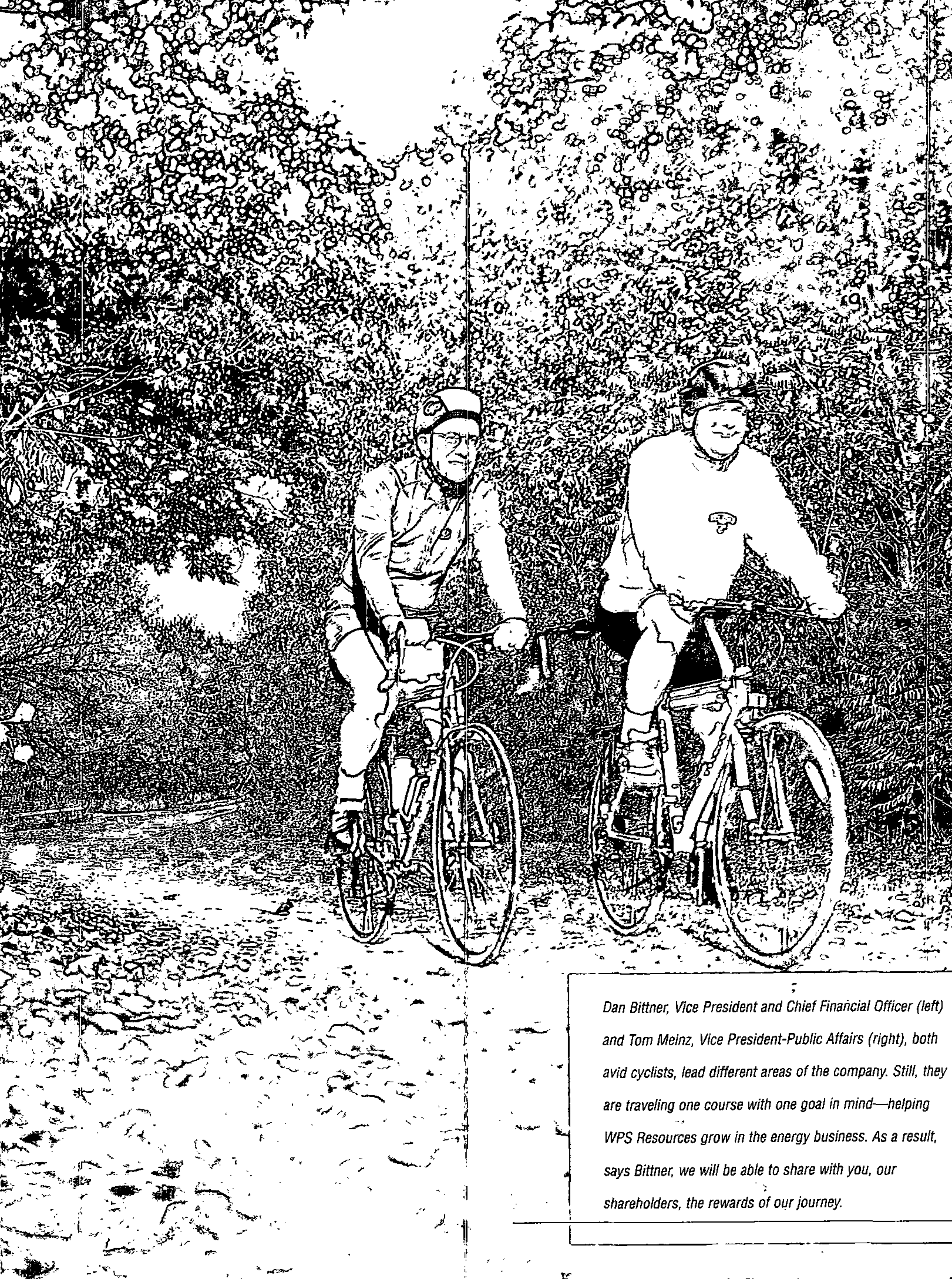
Moving Wisconsin from a fully regulated electric industry to a competitive energy market requires vision and strong leadership. Dick James, Vice President-Corporate Planning, is using his industry knowledge to investigate transmission options and prepare the regional transmission system for expansion which will facilitate competitive energy markets.

"In addition, in 1998 we agreed to assist MG&E by building, operating, and maintaining for them an 83-megawatt electric peaking plant in Marinette, Wisconsin. This new generating unit will add to the region's power supply and reliability beginning in 2000.

"These efforts show that WPS Resources is dedicated to and capable of providing reliable power not only for our customers but also for the region. In the State of Wisconsin, we have also been extensively involved in shaping legislation that will improve power supply and reliability.

"A 1998 law, for instance, requires utilities to build additional renewable generation in the state by July 1, 2000, and the PSCW is requiring electric utilities to carry a larger reserve margin than in the past. Wisconsin Public Service, for its part, will add 9 megawatts of renewable generation. We've chosen to build 14 wind turbines in Northeastern Wisconsin, which will begin producing electricity by July 1, 1999. Our existing 18 percent reserve margin already meets the new reliability requirements.

"During 1999, WPS Resources will continue doing everything it can to ensure a plentiful power supply for our customers' needs. At the same time, we will be working to resolve market issues in ways that help our company grow and benefit our shareholders."



Dan Bittner, Vice President and Chief Financial Officer (left) and Tom Meinz, Vice President-Public Affairs (right), both avid cyclists, lead different areas of the company. Still, they are traveling one course with one goal in mind—helping WPS Resources grow in the energy business. As a result, says Bittner, we will be able to share with you, our shareholders, the rewards of our journey.

Exploring Pathways: Transmission Upgrades and Electric Industry Restructuring

Richard E. James, Vice President–Corporate Planning

"Electric industry restructuring is moving slowly in the Midwest. Many changes are needed, including new generation; additional electric transmission lines; a level playing field for utility companies, independent power producers, and customers alike; and the ability for customers to choose their energy supplier.

"Energy supplies, of course, must be adequate to meet customers' needs. And once the energy is produced, it must be delivered to customers. Electric transmission lines are the pathways over which energy suppliers—WPS Resources' companies included—transport electricity to their customers. More transmission lines will be built in the years ahead to make possible the movement of larger amounts of power and to facilitate a competitive energy market.

"The Wisconsin legislature recognizes the importance of the region's transmission system to electric industry restructuring. In 1998, it enacted a law that requires electric utilities to become associated with an independent system operator by mid-2000. The independent system operator will impartially manage the electric transmission system for the benefit of energy suppliers as well as customers who can choose their energy supplier.

"When it comes to customer choice, WPS Resources continues to promote the approach we have always recommended—let the customer decide. Some customers, such as our large industrial customers, are already experienced at purchasing natural gas on the open market. It's a logical next step for them to ask for customer choice in the electric market as well. Other customers, such as our residential customers, do not have this experience and probably will embrace customer choice more slowly.

"By supporting our customers' needs and desires as greater customer choice approaches, and by investing in additional capacity and new transmission lines, we are actively setting a course that benefits our customers, encourages growth, and means rewards for our investors. We believe this approach is economically wise, yet still progressive in the changing environment."

Rewards of the Journey: Shareholder Value

Daniel P. Bittner, Vice President and Chief Financial Officer

"Each step we take in charting our course for the future, every preparation we make for our journey, has a singular purpose—helping WPS Resources grow in the energy business. Through our growth, we will increase the value of our company.

"Amid all of the changes described in this report, WPS Resources is still viewed by the financial community and our shareholders as a strong, high-quality investment. We are also one of only two electric utilities in the nation earning a AA+ credit rating by Standard & Poor's. To be held in this regard validates the sound decisions our company makes, such as keeping our rates among the lowest in the region, maintaining a conservative capital structure, and limiting our exposure to stranded investments (costs utilities incur in a regulated environment that may not be recovered in a competitive marketplace).

"In planning our course for the future, we have relied on values and beliefs that are timeless, on leaders who are visionary. We've created a company where learning never ends, and where learning about our customers leads to action. We've added new customers in new markets, and our new businesses have grown substantially, including unregulated gas sales in Ohio, unregulated generation, and the recycling of coal fines. These are the ventures that will lead to increased earnings for WPS Resources in the years ahead.

"Without a doubt, we are changing with the rapidly evolving energy environment. At the same time, we're influencing change within this environment. We support an energy industry with plentiful power for our customers and a strong transmission system. We believe in offering the choices our customers are comfortable making when it comes to buying electricity and natural gas. And we're adamant about a restructured energy industry that creates a level playing field for everyone involved, including utilities, independent power marketers, cooperatives, and municipalities.

"Our World... Will Reap the Harvest We Have Modestly Sown."

"Goose Send-off," Owen Neill

"Down the road, our success in having chosen a sound course for the future will be evidenced by an ever-increasing number of loyal customers who find value in the products and services we provide. Our shareholders' faith in WPS Resources is expected to bear itself out in increased shareholder value—a greater reward in exchange for the greater risks they assume as investors in the changing energy business.

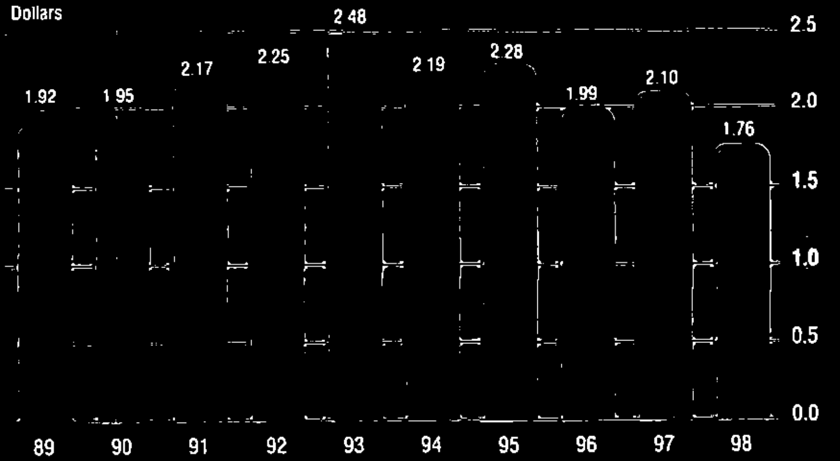
"In conclusion, WPS Resources assures you that we are setting a course for the future both financially as well as operationally. And we look forward to sharing with you, our shareholders, the rewards of our journey."

This report includes forward-looking tatements within the meaning of Section 21E f the Securities Exchange Act of 1934, as mended. The statements speak of plans, goals, eliefs, or expectations of WPS Resources 'orporation ("WPSR"), refer to estimates, or use imilar terms. Although WPSR believes that its xpectations are based on reasonable ssumptions, actual results may differ materially rom those in the forward-looking statements ncluded in this report for reasons that include: he speed and degree to which competition nters the electric and natural gas industries; tate and federal legislative and regulatory nitiatives that increase competition, affect cost nd investment recovery, and have an impact on ate structures; the economic climate and ndustrial, commercial, and residential growth n areas served by Wisconsin Public Service Corporation, Upper Peninsula Power Company, nd WPS Energy Services, Inc. ("ESI"); the veather and other natural phenomena; the timing nd extent of changes in commodity prices and nterest rates; conditions in the capital markets; nd growth in opportunities for ESI and *VPS Power Development, Inc.*

A forward-looking statement speaks only s of the date on which such statement is made, nd WPSR does not undertake to update any orward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events which affect such forward-looking statements. New factors emerge from ime to time, and it is not possible for WPSR to predict all such factors, nor can it assess the mpact of each such factor or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

Earnings Per Share*

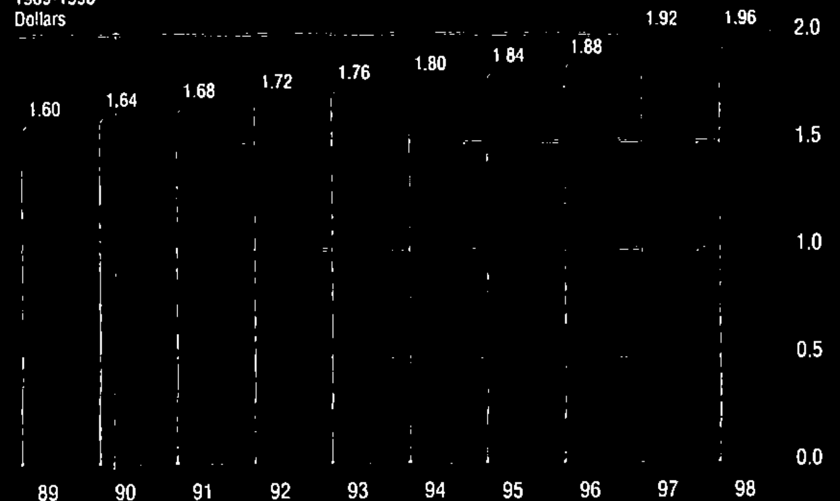
1989-1998
Dollars



* These amounts give effect to the merger with Upper Peninsula Energy Corporation.

Dividend Per Share*

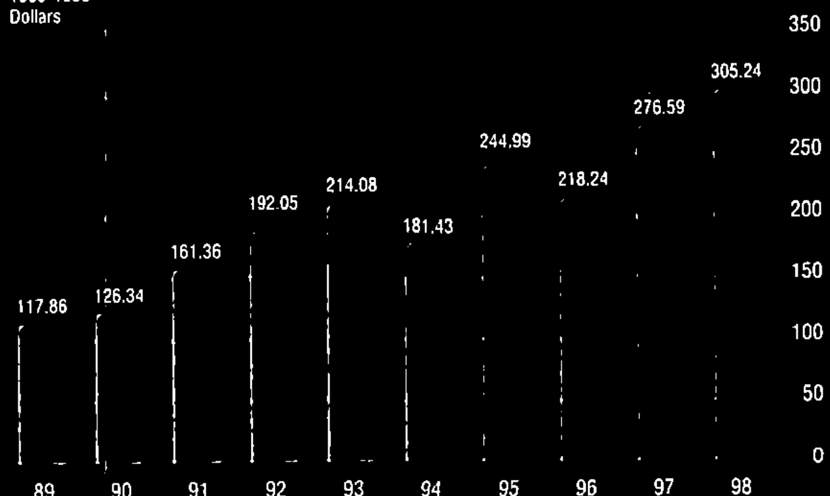
1989-1998
Dollars



* Dividend rates are those of WPS Resources Corporation.

Cumulative Total Return*

1989-1998
Dollars



* Assumes $100 investment in common stock at year-end 1988 and all dividends reinvested quarterly. Cumulative total return for the ten-year period is equivalent to an average annual return of 11.8%.

RESULTS OF OPERATIONS

WPS Resources Corporation ("WPSR") is a holding company. Approximately 69% of WPSR's assets at December 31, 1998, approximately 52% of its 1998 revenues, and 87% of its 1998 net income were derived from electric utility operations. WPSR's wholly-owned subsidiaries include two regulated utilities, Wisconsin Public Service Corporation ("WPSC"), an electric and gas utility, and Upper Peninsula Power Company ("UPPCO"), an electric utility, and two primary nonregulated subsidiaries, WPS Energy Services, Inc. ("ESI") and WPS Power Development, Inc. ("PDI").

1998 Compared with 1997

WPS Resources Corporation Overview

WPSR's results of operations and financial position for 1998 and 1997 include the effects of the merger with Upper Peninsula Energy Corporation ("UPEN") which was effective September 29, 1998, and accounted for as a pooling of interests. In accordance with the terms of the merger, each of the 2,950,001 outstanding shares of UPEN common stock (no par value) were converted into 0.90 shares of WPSR common stock, subject to adjustment for cash payments for fractional shares. In conjunction with this merger, WPSR expensed transaction charges of approximately $1.6 million in 1998 and $2.7 million in 1997. These merger transaction charges consist of the following:

Merger Charges (Millions)

	1998	1997
Investment Bankers	**$0.8**	$0.9
Legal	**0.7**	0.9
Accounting	**–**	0.2
Other	**0.1**	0.7
Total	**$1.6**	$2.7

In addition, UPPCO, UPEN's primary subsidiary, recorded severance costs of $1.1 million and an additional $0.5 million in other merger-related expenses in 1998.

WPSR consolidated operating revenues were $1.1 billion in 1998 compared with $935.8 million in 1997, an increase of 13.7%. Net income was $46.6 million in 1998 and $55.8 million in 1997, a decrease of 16.5%. Basic and diluted earnings per share were $1.76 in 1998 compared with $2.10 in 1997, a decrease of 16.2%. The primary reasons for the decrease in earnings, as explained below, were the impact of unusually warm winter weather, the effects of a full year electric rate decrease at WPSC, higher maintenance expenses at WPSC, decreased other income, higher other operating expenses, and a decrease in WPSC's gas margin. Partially offsetting these factors were an increase in electric utility margins and an increase in nonregulated margins.

Overview of Utility Operations (WPSC and UPPCO)

Revenues at WPSC were $652.5 million in 1998 compared with $690.5 million in 1997, a decrease of 5.5%. Earnings were $54.1 million in 1998 and $61.6 million in 1997, a decrease of 12.2%. The primary reasons for the decrease in earnings at WPSC were the impact of unusually warm winter weather, increased maintenance expenses, a decrease in other income, an increase in other operating expenses, and a decrease in the gas margin. Partially offsetting these factors were an increase in the electric utility margin and a decrease in interest expense.

Revenues at UPPCO were $62.7 million in 1998 compared with $60.2 million in 1997, an increase of 4.2%. Earnings were $3.5 million in 1998 compared with $3.7 million in 1997, a decrease of 5.4%. The primary reasons for the decrease in earnings at UPPCO were higher maintenance and other operating expenses partially offset by an increase in the electric margin.

Electric Utility Operations (WPSC and UPPCO)

WPSR consolidated electric utility margins increased $11.1 million, or 3.0%, primarily due to increased kilowatt-hour ("kWh") sales of 3.0% to WPSC customers as a result of a 103.5% increase in cooling degree days in 1998. Partially offsetting the increase in electric margins in 1998 was the impact on WPSC of a Public Service Commission of Wisconsin ("PSCW") rate order which was effective for the entire year in 1998 but was only effective in 1997 for the period after February 21, 1997. This order authorized an 8.1% electric revenue reduction.

WPSR Consolidated Electric Margins (Thousands)

	1998	1997	1996
Revenues	**$543,260**	$536,885	$548,701
Fuel and purchased power	**167,256**	171,935	161,293
Margin	**$376,004**	$364,950	$387,408
Sales in kWh (Thousands)*	**12,172,432**	11,993,358	11,828,788

*Does not include UPPCO unbilled kWh.

WPSR consolidated electric utility revenues increased $6.4 million, or 1.2%, largely due to increased revenues of $4.8 million from WPSC's wholesale customers and $1.5 million from WPSC's commercial and industrial customers as a result of the warmer weather. Also included in 1998 electric revenues are surcharge revenues at WPSC of $3.8 million related to the recovery of the deferred costs for the 1997 Kewaunee Nuclear Power Plant ("Kewaunee") steam generator repairs. Partially offsetting these increases to revenues were the electric rate reduction and a $1.0 million refund of WPSC's transmission revenues as the result of a 1998 Federal Energy Regulatory Commission ("FERC") settlement related to open access transmission tariff rates.

WPSR consolidated electric production fuel expense increased $2.8 million, or 2.6%, primarily as a result of increased generation expense. Kewaunee was out of service for the first six months of 1997 as the result of an extended outage to repair steam generators, thus, in comparison, the higher generation expense in 1998. WPSC is currently the operator and 41.2% owner of Kewaunee.

WPSR consolidated purchased power expense decreased $7.5 million, or 11.7%, primarily due to decreased purchase requirements at WPSC in the first half of 1998. Purchase requirements at WPSC in the first half of 1997 were higher due to lack of production at Kewaunee in the first and second quarters of 1997 as a result of an extended outage. Kewaunee was also off-line in 1998 for a six-week scheduled refueling outage. Also contributing to lower purchased power expense at WPSC was a $1.2 million credit to purchased power expense in the fourth quarter of 1998 related to the settlement of litigation involving a contract with a power supplier.

The PSCW allows WPSC to pass changes in the cost of fuel and purchased power, within a specified range, on to its customers through a fuel adjustment clause.

Gas Utility Operations (WPSC)

WPSR consolidated gas margin decreased $4.1 million in 1998, or 6.5%, primarily due to a 19.4% reduction in heating degree days.

WPSR Consolidated Gas Margins (Thousands)

	1998	1997	1996
Revenues	**$165,111**	$211,090	$211,357
Purchase costs	**105,908**	147,755	149,388
Margin	**$ 59,203**	$ 63,335	$ 61,969
Volume in therms (Thousands)	**608,092**	662,008	666,598

Gas operating revenues decreased $46.0 million, or 21.8%. This decrease was due to unusually mild weather in 1998 resulting in lower gas therm sales for 1998 of 8.1%. Also contributing to the decrease in gas operating revenues was a reduction in revenues of $7.5 million for refunds from ANR Pipeline Company which WPSC passed on to its gas customers in the second quarter of 1998.

Gas purchase costs decreased $41.8 million, or 28.3%. This decrease was due to reduced customer demand as a result of the mild weather during 1998. Also contributing to the decrease in gas costs was a $7.5 million refund from ANR Pipeline Company which was credited to gas expense in the second quarter of 1998. Under current regulatory practice, the PSCW allows WPSC to pass changes in the cost of gas on to customers through a purchased gas adjustment clause ("PGAC").

Other Utility Expenses/Income (WPSC and UPPCO)

Other operating expenses at WPSC increased $4.1 million, or 3.1%, primarily due to higher benefit costs in 1998.

Other operating expenses at UPPCO increased $0.6 million, or 3.6%, primarily as the result of the accrual of $1.1 million in merger-related severance expense in 1998. Other operating expenses at UPPCO in 1997 included costs incurred related to the termination of UPPCO's Presque Isle Plant Operating Agreement with Wisconsin Electric Power Company ("WEPCO"). UPPCO had staffed and operated WEPCO's Presque Isle Power Plant through December 31, 1997, at which time the operating agreement was terminated.

Maintenance expense at WPSC increased $7.8 million, or 18.6%, primarily as a result of increased expenses at Kewaunee during the second and fourth quarters of 1998. This increase was partly due to the recognition in the second quarter of 1998 of the 1997 deferred expenses for Kewaunee steam generator repairs. The PSCW approved deferral of the repairs in 1997, the cost of which has been collected in the second quarter of 1998 through a $3.8 million electric revenue surcharge. In addition, maintenance expense at Kewaunee increased in the fourth quarter of 1998 due to a scheduled refueling outage.

Depreciation and decommissioning expenses at WPSC increased $2.4 million, or 3.1%, due to an increased plant base and to the accelerated recovery of investment in Kewaunee and accelerated funding of Kewaunee decommissioning costs. Accelerated recovery of investment and funding began on February 21, 1997 and, therefore, was effective for all of 1998 but only a portion of 1997.

Other income at WPSC decreased $5.8 million, or 46.3%, primarily due to one-time gains on sales of nonutility property which occurred in 1997. These gains represented an increase in earnings for 1997 of approximately $0.11 per share.

Overview of Nonregulated Operations

Nonregulated operations primarily consist of the gas and electric sales at ESI, an energy marketing subsidiary. Nonregulated operations also include those of WPSR as a holding company and those of PDI which develops electric generation projects, invests in generating projects, and provides services to the electric power generation industry.

Nonregulated operations experienced a loss of $11.0 million in 1998 compared with a loss of $9.5 million in 1997. Although nonregulated margins continue to grow, losses are being experienced due to gas and electric trading losses and expenses associated with the expansion of customer base.

Overview of WPS Energy Services, Inc.

Revenues at ESI were $351.3 million in 1998 compared with $189.4 million in 1997, an increase of 85.5%. ESI experienced a loss of $6.9 million in 1998 compared with a loss of $4.9 million in 1997. The primary reasons for the increased loss at ESI were increased electric and gas trading losses primarily due to market volatility, and higher operating expenses due to expansion of the energy trading business. Partially offsetting these factors was an increase in the gas margin.

Nonregulated Margins (ESI)

Gas margins at ESI were $4.0 million in 1998 compared with $1.9 million in 1997, an increase of 110.5%. Electric margins at ESI remained fairly stable. Gas revenues at ESI were $330.0 million in 1998 compared with $182.3 million in 1997, an increase of $147.7 million, or 81.0%. This increase was the result of sales volume growth and expansion to additional geographic areas. Electric revenues at ESI were $20.5 million in 1998 and $6.4 million in 1997, an increase of $14.1 million, or 220.3%. This increase was also the result of sales volume growth.

ESI's cost of sales were $346.4 million in 1998 and $186.6 million in 1997, an increase of $159.8 million, or 85.6%. This increase was primarily due to increased gas purchases and purchased power of $145.6 million and $14.2 million, respectively, as a result of customer growth and higher costs of purchases.

Other Nonregulated Expenses/Income (ESI)

Other operating expenses at ESI increased $1.1 million, or 13.6%, due to expansion of the business. ESI experienced gas trading losses of $4.9 million in 1998 and $1.4 million in 1997 largely due to market volatility. ESI also experienced electric trading losses of $1.2 million in 1998 primarily due to losses in the third quarter related to the unprecedented market volatility in the electric trading market.

Price Risk Management Activities (ESI)

WPSR has not experienced significant price risk activities at its utility operations which are not recoverable through customer rates; however, price risk is experienced at ESI.

ESI utilizes derivative financial and commodity instruments ("derivatives"), including futures and forward contracts, to reduce market risk associated with fluctuations in the price of natural gas and electricity sold under firm commitments with certain of its customers. ESI also utilizes derivatives, including price swap agreements, call and put option contracts, and futures and forward contracts, to manage market risk associated with a portion of its anticipated supply requirements. In addition, ESI utilizes derivatives, within specified guidelines, for trading purposes.

Gains or losses on derivatives associated with firm commitments are recognized as adjustments to the cost of sales or to revenues when the related transactions affect earnings. Gains and losses on derivatives associated with forecasted transactions are recognized when such forecasted transactions affect earnings. At December 31, 1998, $7.2 million in losses related to firm commitments and forecasted transactions were deferred. If it is no longer probable that a forecasted transaction will occur, any gain or loss on the derivative instrument as of such date is immediately recognized in earnings. Derivatives for trading purposes are marked to market each accounting period, and gains and losses are recognized as a component of other income at that time. In 1998 and 1997, trading losses of $6.1 million and $1.4 million, respectively, were recognized.

At December 31, 1998, ESI had outstanding 22.0 million notional dekatherms of natural gas under futures and option agreements and 1.3 million notional dekatherms of natural gas under basis swap agreements for purposes of managing market risk. The financial instruments outstanding at December 31, 1998 expire at various times through August 2000. ESI has certain gas sales commitments through August 2000 with a range of sale prices from $2.36 to $2.38 per dekatherm and a range of associated gas purchase costs of $2.29 to $2.31 per dekatherm.

As of December 31, 1998, the fair value of trading instruments included assets of $0.7 million. Except for a minimal level of electric trading instruments, financial instruments used for trading in 1998 and 1997 were natural gas derivatives. At December 31, 1998, ESI had outstanding 13.6 million notional dekatherms of natural gas under futures and option agreements and 1.6 million notional dekatherms of natural gas under basis swap agreements for trading purposes.

Gas Commodity Position (contract amounts in millions)

	Carrying Amount	Fair Value
Inventory	$5.9	$ 5.9
Fixed-price purchase obligations		$115.0
Fixed-price sales obligations		$ 99.8

Related Derivatives

	Expected Maturity 1999	2000	Total	Fair Value
Futures NYMEX – Hedging				
Long (billion cubic feet)	34.8	2.2		
Weighted average settlement price (per dekatherm)	$2.26	$2.32		
Contract amount	$78.8	$5.1	$83.9	$70.5
Short (billion cubic feet)	18.4	0.8		
Weighted average settlement price (per dekatherm)	$2.18	$2.50		
Contract amount	$40.0	$2.1	$42.1	$35.9
Futures NYMEX – Trading				
Long (billion cubic feet)	33.5			
Weighted average settlement price (per dekatherm)	$2.28			
Contract amount	$76.3		$76.3	$61.0
Short (billion cubic feet)	37.0			
Weighted average settlement price (per dekatherm)	$2.25			
Contract amount	$83.2		$83.2	$67.2
Fixed-Float Futures Swap – Hedging				
Long (billion cubic feet)	7.2	3.4		
Weighted average settlement price (per dekatherm)	$2.21	$2.28		
Contract amount	$15.9	$7.8	$23.7	$22.2
Short (billion cubic feet)	1.5	0.1		
Weighted average settlement price (per dekatherm)	$2.12	$2.18		
Contract amount	$3.1	$0.3	$3.4	$3.0

Related Derivatives (continued)

	Expected Maturity 1999	2000	Total	Fair Value
Fixed-Float Futures Swap – Trading				
Long (billion cubic feet)	6.0			
Weighted average settlement price (per dekatherm)	$2.21			
Contract amount	$13.1		$13.1	$11.3
Short (billion cubic feet)	3.1	0.1		
Weighted average settlement price (per dekatherm)	$2.15	$1.85		
Contract amount	$6.8	$0.2	$7.0	$6.0
Options – Hedging				
Long calls (billion cubic feet)	0.6			
Weighted average strike price (per dekatherm)	$2.46			
Contract amount	$1.6		$1.6	$0.2
Long puts (billion cubic feet)	0.6			
Weighted average strike price (per dekatherm)	$1.87			
Contract amount	$1.1		$1.1	$0.0
Short calls (billion cubic feet)	0.7			
Weighted average strike price (per dekatherm)	$2.43			
Contract amount	$1.7		$1.7	$0.2
Short puts (billion cubic feet)	0.8	0.5		
Weighted average strike price (per dekatherm)	$2.25	$2.43		
Contract amount	$1.8	$1.1	$2.9	$0.3
Options – Trading				
Long calls (billion cubic feet)	2.2			
Weighted average strike price (per dekatherm)	$2.27			
Contract amount	$5.1		$5.1	$0.3
Long puts (billion cubic feet)	5.9			
Weighted average strike price (per dekatherm)	$2.05			
Contract amount	$12.0		$12.0	$0.7
Short calls (billion cubic feet)	1.5			
Weighted average strike price (per dekatherm)	$2.17			
Contract amount	$3.2		$3.2	$0.2
Short puts (billion cubic feet)	5.0	0.5		
Weighted average strike price (per dekatherm)	$2.14	$2.30		
Contract amount	$10.7	$1.0	$11.7	$0.9
Basis Swaps – Hedging				
Long (billion cubic feet)	12.2	0.9		
Weighted average settlement price (per dekatherm)	$0.17	$0.29		
Contract amount	$2.1	$0.3	$2.4	$1.5
Short (billion cubic feet)	13.5	0.5		
Weighted average settlement price (per dekatherm)	$0.20	$0.09		
Contract amount	$2.7		$2.7	$1.5
Basis Swaps – Trading				
Long (billion cubic feet)	80.5	2.6		
Weighted average settlement price (per dekatherm)	$0.25	$0.24		
Contract amount	$20.9	$0.6	$21.5	$9.3
Short (billion cubic feet)	82.1	3.8		
Weighted average settlement price (per dekatherm)	$0.25	$0.23		
Contract amount	$20.4	$0.9	$21.3	$9.7

Other Nonregulated Operations

Losses at PDI were $2.4 million in 1998 compared with $1.9 million in 1997. The increase in losses at PDI was primarily due to additional expenses incurred in 1998 for the start-up of new projects. Other operating expenses at PDI increased $1.1 million, or 25.4%, due to higher project expenses. Other income at WPSR included a dividend on a venture capital investment of $2.0 million in the first quarter of 1998 compared with $0.2 million in the first quarter of 1997.

1997 Compared With 1996

WPS Resources Corporation Overview

WPSR consolidated operating revenues were $935.8 million in 1997 and $916.4 million in 1996, an increase of 2.1%. Net income increased 5.5% to $55.8 million in 1997 from $52.9 million in 1996. Basic and diluted earnings per share were $2.10 in 1997 compared with $1.99 in 1996, an increase of 5.5%. The primary reasons for the increase in earnings were decreased operating and maintenance expenses, increased other income, an increased nonregulated energy margin, and an increased gas utility margin. Partially offsetting these factors were a decrease in the electric utility margin, an increase in depreciation and decommissioning expense, and an increase in income tax expense.

Overview of Utility Operations (WPSC and UPPCO)

Revenues at WPSC were $690.5 million in 1997 compared with $701.9 million in 1996, a decrease of 1.6%. Earnings were $61.6 million in 1997 and $57.3 million in 1996, an increase of 7.5%. The primary reasons for the increase in earnings at WPSC were a decrease in operating and maintenance expenses, an increase in other income, and an increase in the gas utility margin. Offsetting these factors were a decrease in the electric utility margin, an increase in depreciation and decommissioning expense, and an increase in income tax expense.

Revenues at UPPCO were $60.2 million in 1997 compared with $58.4 million in 1996, an increase of 3.1%. Earnings were $3.7 million in 1997 and $5.2 million in 1996, a decrease of 28.8%. The primary reason for the decrease in earnings at UPPCO was a decrease in the electric utility margin.

Electric Utility Operations (WPSC and UPPCO)

WPSR consolidated electric utility margins decreased $22.5 million, or 5.8%, primarily due to implementation of a PSCW rate order at WPSC which authorized a $35.5 million, or 8.1%, electric revenue reduction. A second factor contributing to decreased margins was increased replacement power costs as a result of an extended outage at Kewaunee. A surcharge authorized by the PSCW partially offset increases in replacement power costs in the latter part of the first quarter and in the second quarter of 1997.

In spite of a 27.6% decrease in cooling degree days, WPSR consolidated electric kWh sales increased by 1.5% primarily due to increased demand by WPSC's commercial and industrial customers. WPSC's commercial and industrial kWh sales increased 4.8%, while wholesale kWh sales decreased 3.4%. WPSR consolidated electric utility revenues decreased $11.8 million, or 2.2%, primarily due to the electric rate decrease at WPSC.

WPSR consolidated electric production fuel expense increased $2.5 million, or 2.4%. Nuclear fuel expense at WPSC was $2.0 million lower than in 1996 due to decreased generation at Kewaunee in the first and second quarters of 1997 as a result of an extended outage. Steam fuel expense at WPSC was higher by $1.0 million and combustion turbine generation expense was higher by $3.2 million due to increased generation requirements from these sources during the extended outage at Kewaunee.

WPSR consolidated purchased power expense increased $8.1 million, or 14.5%, primarily due to increased purchase requirements and higher costs of purchased power at WPSC during the extended outage at Kewaunee.

The PSCW allows WPSC to pass changes in the cost of fuel and purchased power, within a specified range, on to its customers through a fuel adjustment clause. WPSC is required to file an application to adjust rates either higher or lower when costs are plus or minus 2% from forecasted costs on an annual basis. The additional fuel costs in 1997 did not result in WPSC being outside this 2% window.

Gas Utility Operations (WPSC)

WPSR consolidated gas margin increased $1.4 million, or 2.2%, primarily due to WPSC's implementation of a PSCW rate order which authorized a $5.7 million, or 2.7%, increase in gas revenues.

Gas operating revenues remained relatively stable reflecting the rate increase offset by a 5.5% reduction in heating degree days. Gas revenues also reflect a one-time reduction of $0.9 million in the first quarter of 1997 as a result of a PSCW directive to change the accounting treatment for previous customer line extensions. This reduction represented a decrease of approximately $.02 per share after income tax effects.

Gas purchase costs showed a net decrease of $1.6 million, or 1.1%, primarily due to reduced purchases because of decreased demand as a result of the reduction in heating degree days. The PSCW allows WPSC to pass changes in the cost of gas on to customers through a PGAC.

Other Utility Expenses/Income (WPSC and UPPCO)

Other operating expenses at WPSC decreased $24.1 million, or 15.2%. Cost saving initiatives and decreased amortization of deferred demand-side management expenditures resulted in lower customer service and sales expenses of $9.5 million. Administrative expenses decreased $5.8 million due to cost saving measures and reduced postretirement medical, dental, and other benefit expenses. Generation operating expenses were lower by $7.3 million primarily as a result of the completion in 1996 of an amortization of deferred expenses related to a previous coal contract settlement. Gas operating expenses decreased $1.5 million as the result of a PSCW directive requiring gas servicing revenues and expenses to be classified as other income and deductions beginning in 1997.

Maintenance expense at WPSC decreased $7.1 million, or 14.5%. Electric transmission and distribution expenses decreased $3.4 million as a result of cost saving initiatives and less maintenance of overhead lines in 1997 due to less storm damage. Maintenance expenses were $1.9 million lower at Kewaunee in 1997 because Kewaunee was out of service in 1996 for scheduled maintenance. Gas distribution expenses were lower by $0.9 million due to cost saving initiatives and decreased maintenance activities. Steam costs decreased $0.6 million at WPSC's coal-fired plants due to changes in maintenance schedules as a result of the extended outage at Kewaunee.

Depreciation and decommissioning expenses at WPSC increased $12.0 million, or 18.8%, largely due to the accelerated recovery of investment in Kewaunee and accelerated funding of Kewaunee decommissioning costs.

Other income at WPSC increased $7.5 million, or 141.7%, primarily due to gains in 1997 on the sale of nonutility property of $4.8 million which represented an increase of approximately $.11 per share after income tax effects. Also included in other income in 1997 was interest of $2.2 million resulting from an income tax audit settlement. Income tax expense increased $1.9 million reflecting higher net income in 1997.

Overview of Nonregulated Operations

Nonregulated operations experienced a loss of $9.5 million in 1997 compared with a loss of $9.6 million in 1996. Operating losses at the nonregulated subsidiaries were anticipated by management as the companies developed infrastructure and financed additional working capital needed to support growth. Losses were also incurred at the WPSR holding company in 1997 due to expenses incurred as a result of the merger with UPEN.

Overview of WPS Energy Services, Inc.

Revenues at ESI were $189.4 million in 1997 compared with $161.8 million in 1996, an increase of 17.1%.

ESI incurred a loss of $4.9 million in 1997 and a loss of $6.3 million in 1996.

Nonregulated Margins (ESI)

Gas margins at ESI were a positive $2.1 million in 1997 and a negative $1.1 million in 1996, an increase of $3.2 million. In 1996, customer commitments at ESI were not fully hedged during a period of volatile gas commodity markets and certain gas suppliers defaulted which negatively impacted margins. Electric margins at ESI increased $0.9 million in 1997.

Gas sales at ESI increased $26.2 million in 1997, or 17.1%, as a result of customer growth. Electric sales at ESI increased $5.6 million in 1997, or 716.0%, also as a result of customer growth.

Gas purchases and purchased power expense increased $20.5 million and $4.7 million, respectively, in 1997.

Other Nonregulated Expenses/Income (ESI)

Other operating expenses at ESI increased $1.3 million, or 19.4%, due to expansion of the business and the development of infrastructure as ESI positions itself for the future. Although increased margins more than offset other operating expenses, interest costs increased due to the financing of additional working capital needed to support the growth of ESI.

ESI experienced trading losses of $1.4 million in 1997 and $2.5 million in 1996.

Other Nonregulated Operations

PDI incurred a loss of $1.9 million in 1997 and a loss of $4.0 million in 1996. Other operating expenses at PDI increased $0.4 million as a result of expansion of the business and operation of the Stoneman Power Plant ("Stoneman"). Project revenues at PDI partially offset costs related to the investigation of possible energy-related investments and a loss from Stoneman operations. PDI also experienced a loss of $4.0 million in 1996 related to the write-off of an investment in an industrial processing facility. This write-off represented a decrease in 1996 earnings of $.09 per share after income tax effects.

Other operating expenses at WPSR increased $2.7 million in 1997 due to expenses associated with the UPEN merger.

BALANCE SHEET

1998 Compared With 1997

Nuclear decommissioning trusts increased $37.3 million due to continued funding and favorable investment returns. Construction in progress increased $30.6 million largely as a result of construction expenditures related to the Kewaunee steam generator replacement project, the combustion turbine project at West Marinette, and the transmission line for the De Pere Energy Center project. Customer receivables increased $21.1 million primarily as a result of increased sales at ESI. Net nonutility and nonregulated plant increased $13.0 million as a result of the acquisition of additional assets at PDI. Investments and other assets increased $18.5 million primarily due to an increased unrealized gain on the nuclear decommissioning trust at WPSC and an increased unrealized loss on hedging activities at ESI.

Commercial paper increased $26.9 million due to increased operational cash needs at WPSC and WPSR. Cash requirements exceeded internally generated funds at both WPSC and WPSR. Accounts payable increased $25.7 million due to increased payables at WPSC related to the 1998 Kewaunee refueling outage and other construction projects, and higher payables at ESI as a result of increased sales activity.

FINANCIAL CONDITION

Investments and Financing

WPSR made a $34.0 million equity infusion into WPSC during the second quarter of 1998. WPSC retired $50.0 million of first-mortgage bonds on July 1, 1998 and issued $50.0 million of senior notes secured by first-mortgage bonds on December 14, 1998. A special common stock dividend of $20.0 million was paid by WPSC to WPSR in December 1998. The special dividend allowed WPSC's average equity capitalization ratio to remain at approximately 54%, the level approved by the PSCW for ratemaking.

Short-term borrowings increased $26.9 million during 1998 as a result of cash requirements in excess of internally generated funds. Pretax interest coverage was 4.48 times for the 12 months ended December 31, 1998 for

WPSC. WPSC's bond ratings are AA+ (Standard & Poor's and Duff & Phelps) and Aa2 (Moody's).

WPSR will use internally-generated funds and short-term borrowing to satisfy most of its capital requirements. WPSR may periodically issue additional long-term debt and common stock to reduce short-term debt and to maintain desired capitalization ratios.

The specific forms of financing, amounts, and timing will depend on the availability of projects, market conditions, and other factors. At this time, however, it is anticipated that common stock will be issued by WPSR in mid-1999. WPSR began issuing new shares of common stock for the Stock Investment Plan in January 1999. WPSR may also expand its leveraged employee stock ownership plan during the next three-year period.

WPSC makes large investments in capital assets. Construction expenditures for WPSC are expected to be approximately $250.0 million in the aggregate for the 1999 through 2001 period. This includes expenditures for the replacement of Kewaunee steam generators.

In addition, other capital requirements for WPSC for the three-year period will include Kewaunee decommissioning trust fund contributions of $16.8 million.

WPSC's agreement to purchase electricity from the De Pere Energy Center, a gas-fired cogeneration facility, will be accounted for as a capital lease. The De Pere Energy Center lease will be capitalized at $77.8 million in 1999. While not a capital expenditure, this will affect the capital structure.

UPPCO will incur construction expenditures of about $23.0 million in the aggregate for the period 1999 through 2001, primarily for electric distribution improvements.

Investment expenditures for nonregulated projects are uncertain since there are few firm commitments at this time. Approximately $38.0 million will be incurred in 1999 to purchase generating units located in the State of Maine and the Canadian Province of New Brunswick. Financing for most nonregulated projects is expected to be obtained through a new subsidiary, WPS Resources Capital Corporation, which was formed in January 1999 to obtain funding for those projects.

On July 30, 1998, WPSR Capital Trust I ("Trust"), a Delaware business trust of which WPSR owns all of the outstanding $1.5 million trust common securities, issued $50.0 million of trust preferred securities to the public. The sole asset of the Trust is $51.5 million of WPSR subordinated debentures due in 2038. The terms and interest payments on these debentures correspond to the terms and distributions on the trust preferred securities.

Regulatory

WPSC received a rate order in the Wisconsin jurisdiction on January 15, 1999. The impact is a $26.9 million increase in electric revenues and a $10.3 million increase in gas revenues on an annual basis. The new rates will be effective for 1999 and 2000. The PSCW authorized a 12.1% return on WPSC equity for 1999 and 2000.

Merger

On September 29, 1998, UPEN merged with and into WPSR, and UPPCO, UPEN's utility subsidiary, became a wholly-owned subsidiary of WPSR. The exchange of stock qualifies as a tax-free transaction and the transaction has been accounted for as a pooling of interests.

Kewaunee

On September 29, 1998, WPSC and Madison Gas and Electric Company ("MG&E") finalized an arrangement in which WPSC will acquire MG&E's 17.8% share of Kewaunee. This agreement, the closing of which is contingent upon regulatory approvals and steam generator replacement scheduled for the spring of 2000, will give WPSC 59.0% ownership in Kewaunee.

The arrangement provides that the book value of MG&E's share of Kewaunee at the time of the transfer could be credited against the purchase price of a planned 83-megawatt, natural gas-fired, combustion-turbine electric generation station to be built near Marinette, Wisconsin. WPSC had previously agreed to build this station for MG&E. If, for some reason, the Marinette station is not completed, the arrangement calls for WPSC to pay for MG&E's share of Kewaunee with a combination of cash and notes.

MG&E has agreed to retain certain of its obligations related to the period of time that it had been an owner of Kewaunee. MG&E will effectively transfer its nuclear decommissioning funds to WPSC to pay for MG&E's share of the currently estimated decommissioning costs of the plant at the closing for the asset swap. WPSC and Wisconsin Power and Light Company, the joint owners of the plant after the described change in ownership, will be responsible for the decommissioning of the plant.

Year 2000 Compliance

The Year 2000 issue arises because software programs, computer hardware, and equipment that have date sensitive software or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000. This may result in system failures or other disruptions of operations.

WPSR and its subsidiary companies are committed to eliminating or minimizing adverse effects of the Year 2000 computer compliance issue on their business operations, including the products and services provided to customers, and to maintaining WPSR's reputation as an efficient and reliable supplier of energy. WPSR, however, is unable to guarantee that there will be no adverse effects as a result of the Year 2000 computer compliance issue because many aspects of compliance are beyond WPSR's direct control.

WPSR has undertaken a program to assess Year 2000 compliance and to bring computer systems into compliance by the year 2000. All systems, including energy production and delivery systems, other embedded systems, and third party systems of suppliers are being evaluated to identify and resolve potential problems.

A Year 2000 project plan which includes awareness, inventory and assessment, remediation, testing, and implementation has been developed. The formal awareness phase of the Year 2000 project which includes understanding and communication of the issue to employees, customers, suppliers, and other affected parties has essentially been completed. The Year 2000 issue has been communicated to WPSR employees and customers via several media. All WPSR business unit leaders have been made aware of the Year 2000 project plan and their roles in implementing the plan. Communication and response to Year 2000 inquiries continue.

The inventory and assessment phase which includes identification of all information and non-information technology systems and of non-compliant systems, applications, and hardware, has been completed. Action plans for remediation, which includes modifications to bring systems into compliance, and action plans for testing including validation of compliance have been completed.

Modifications of major in-house supported systems to correct Year 2000 problems have been underway since 1996. WPSR's Information Technology Department has identified five major systems. All of these systems (customer information, finance, human resources, materials management, and facility management) are currently Year 2000 compliant.

In addition, non-information technology systems have been identified and ranked as to the risk posed by non-compliance. Non-information technology systems include computer and embedded systems related to WPSR's power plant operating, system operating, hydraulic, transmission, and other operating functions. All systems ranked as "critical," "severe," or "high" are scheduled to be Year 2000 compliant by the end of the first quarter of 1999.

WPSR has hired an external consulting group to monitor the progress of its Year 2000 compliance activities. The consulting group's responsibilities include performing a status check on WPSR's ability to achieve Year 2000 compliance.

In addition, WPSR is identifying, contacting, and assessing suppliers and other business partners for Year 2000 readiness, as these external parties may have the potential to impact WPSR's Year 2000 readiness. WPSR is also working to address Year 2000 issues related to all joint ownership facilities. At the present time, WPSR is not aware of problems that would materially impact the company's operations. However, WPSR has no means of ensuring that all third parties will be Year 2000 compliant in a timely manner, and the inability of these parties to resolve successfully their Year 2000 issues could have a material impact on the operations of WPSR's subsidiaries.

Due to fewer expenditures for hardware and software than originally anticipated, the estimate of total Year 2000 project costs has been reduced to \$9.0 million. This estimate is considered reasonable and has been approved for rate recovery by the PSCW. This estimate includes internal labor costs of \$4.5 million, software replacement costs for non-compliant products of \$2.0 million, and contract labor costs of \$2.5 million. Expenditures for the Year 2000 project incurred through December 31, 1998, are \$2.2 million. Major expenditures for hardware, software, and other equipment were made in the fourth quarter of 1998 and additional expenditures will be made in the first quarter of 1999.

The failure to correct a material Year 2000 problem could result in an interruption in, or the failure of, certain normal business activities or operations which could materially affect WPSR's results of operations. However, due to the general uncertainty inherent in the Year 2000 issue, WPSR is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on operations. A preliminary identification of potential risks related to the failure to be in compliance by the Year 2000 has been made. A better understanding of actual risks will be developed during the remediation, testing, and contingency planning processes. The development of WPSR's contingency planning process is intended to minimize the problems associated with these risks.

WPSR is assessing the potential impact of failure to achieve Year 2000 compliance with respect to each of the following:

- Generation availability
- System monitoring and control functions
- Ability to restart generators that are out of service for planned or unplanned outages
- Company-owned voice/data communications
- Transmission facilities
- System protection
- Critical operating data (i.e., generation plant data)
- Electric and gas distribution systems
- Pipelines' constraints to the supply or pressure of natural gas
- Major support systems

Contingency plans for dealing with Year 2000 issues will be developed by April 1999 for each application that has been identified as "critical" or "severe." In addition, a proposal for a "quick response team" concept has been drafted, and a process for handling unexpected Year 2000 problems will be formalized in early 1999. A most reasonably likely worst case Year 2000 scenario will be identified and addressed by a crisis management team in early 1999. The team plans to conduct a crisis management drill using a Year 2000 scenario.

TRENDS

Accounting Standards

WPSC and UPPCO follow Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation," and their financial statements reflect the effects of the different ratemaking principles followed by the various jurisdictions regulating each utility. For WPSC these include the PSCW, 89% of revenues; the Michigan Public Service Commission ("MPSC"), 3% of revenues; and the FERC, 8% of revenues. In addition, Kewaunee is regulated by the Nuclear Regulatory Commission ("NRC"). Environmental matters are primarily governed by the United States Environmental Protection Agency and the Wisconsin Department of Natural Resources.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

This statement requires all derivatives to be measured at fair value and recognized as either assets or liabilities in the statement of financial position. The accounting for changes in the fair value of a derivative is dependent upon the use of the derivative and its resulting designation. Unless specific hedge accounting criteria are met, changes in the derivative's fair value must be recognized currently in earnings. This statement is effective for fiscal periods beginning after June 15, 1999. WPSR will be adopting the requirements of this statement on January 1, 2000, and has not yet determined the method of adoption or its impact. However, the requirements of this statement could increase volatility in earnings and other comprehensive income.

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This statement requires the capitalization of certain costs related to software developed or obtained for internal use. The statement is effective for periods beginning after December 15, 1998. WPSR will be adopting the requirements of this statement in January 1999. Although the total impact of WPSR's adoption of this statement has not been determined, WPSC's adoption of this statement is expected to result in a reduction in operating expenses which will be considered in the ratemaking process. The capitalized software costs will then be charged to amortization expense in future years.

In April 1998, the AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-up Activities." This statement provides guidance on the financial reporting of start-up costs and organization costs. Costs of start-up activities and organization costs are required to be expensed as incurred. The statement is effective for periods beginning after December 15, 1998. WPSR will be adopting the requirements of this statement in 1999 and does not anticipate any material impact to its financial statements.

Utility Restructuring

Electric reliability issues have replaced restructuring and retail competition issues in Wisconsin, and the PSCW announced that its first priority is to develop the utility infrastructure necessary to assure reliable electric service and to remove the barriers to competition at the wholesale level. In 1998, the PSCW and the major utilities in Wisconsin, including WPSC, made legislative proposals to address reliability and restructuring concerns, including market power, among other issues. This resulted in the Electric Reliability Bill (1997 Wis. Laws 204) ("Act 204"). Act 204 contains provisions which relate to the planning and approval by the PSCW of electric power generation and transmission facilities, the regional management of the transmission system, new electric power generation, including the ownership and operation of wholesale merchant plants, new electric power transmission facilities, out-of-state retail electric sales, service standards for electric generation, transmission, and distribution facilities, and the allowable assets of public utility holding companies.

On June 5, 1997, the MPSC ordered utilities under its jurisdiction to file electric open access plans and related tariffs. The MPSC order called for generation open access in increments of 2.5% of retail load each year starting in 1997 and ending in 2001. The MPSC order requires full generation open access for retail load in 2002. WPSC and UPPCO submitted plans which provide retail open access starting in 2000 when the MPSC order requires open access for 10% of retail load. The plans then continue on the MPSC schedule including full open access in 2002.

Should electric deregulation occur such that WPSC and UPPCO would no longer qualify to reflect the effects of ratemaking under SFAS No. 71 in their financial statements, no impairment of significant recorded assets or reduction in reported equity is anticipated. WPSC and UPPCO do not have any significant assets which are foreseen as being potentially stranded and no potential disparity between the depreciable lives of capital assets and those lives applicable to a competitive environment has been identified. Increased competition is likely to put pressure on electric utility margins. At this time, however, management cannot predict the ultimate results of deregulation.

Part of electric utility restructuring involves establishing independent system operators ("ISOs"). An ISO is an independent third party which potentially owns the transmission facilities, oversees the operations of transmission facilities, administers open access transmission tariffs, and directs power dispatch. WPSC is working with several groups which are attempting to form ISOs.

Both the PSCW and the MPSC continue to review gas industry restructuring. In a current docket, the PSCW is addressing gas restructuring issues including unbundling of rates, pricing of contracted services in potential utility bypass situations, and the separation of gas utilities from their nonregulated gas marketing affiliates. The MPSC is conducting pilot studies to test the development of competitive retail gas markets in Michigan.

WPSC has historically recovered gas costs through a PGAC. The PSCW has recently allowed utilities to select either an incentive gas cost recovery mechanism or a modified one-for-one mechanism for gas cost recovery. WPSC has selected the modified one-for-one gas cost recovery plan, and implementation of the new mechanism, which is similar to the recovery received under the existing PGAC, began in January 1999.

Environmental

WPSC continues to investigate the environmental cleanup of eight manufactured gas plant sites. The cleanup of WPSC's Stevens Point manufactured gas plant site has been substantially completed with monitoring of the site continuing. Costs of this cleanup were within the range expected for this site. Future investigation and cleanup costs for the remaining seven sites is estimated to be in the range of $33.9 million to $41.0 million. These estimates may be adjusted in the future contingent upon remedial technology, regulatory requirements, and experience gained through cleanup activities.

An initial liability for cleanup of $41.7 million had been established with an offsetting regulatory asset (deferred charge). Of this amount, approximately $2.7 million has been spent to date. Management believes that cleanup costs net of insurance recoveries, but not the carrying costs associated with the cleanup expenditures, will be recoverable in current and future customer rates. WPSC has received $12.6 million in insurance recoveries which have been recorded as a reduction in the regulatory asset.

WPSC is in compliance with both the Phase I and II sulfur dioxide and nitrogen oxide emission limits established by the Federal Clean Air Act Amendments of 1990. Additional capital expenditures of $1.0 million to $2.0 million are projected through 1999 for Wisconsin and for federal air quality compliance. Management believes that all costs incurred for additional compliance will be recoverable in future customer rates.

In late September 1998, the United States Environmental Protection Agency ("EPA") required certain states, including Wisconsin to develop plans to reduce the emissions of nitrogen oxides ("NOx") from sources within the state by late 2003. On a preliminary basis, WPSC projects potential capital costs of between $37.0 million and $96.0 million to comply with possible future regulations. The cumulative incremental annual operating and maintenance expense associated with these possible future regulations projected to be incurred by 2010 range from $29.0 million to $106.0 million. The costs will depend on the state-specific compliance method to be adopted in the future as well as the effectiveness of the various technologies available for NOx emission control. Under WPSC's current practice, the capital costs (as reflected in depreciation expenses) and the annual operating costs are anticipated to be recovered through future customer rates.

On December 24, 1998, WPSC joined other parties in a petition challenging the EPA's regulations that require Wisconsin to prepare and submit a NOx implementation plan. On January 22, 1999, the State of Wisconsin intervened in the litigation and challenged the geographic scope of the rule and the required timing for implementation of NOx controls within the state. No decisions have yet been rendered.

Kewaunee

On September 29, 1998, WPSC and MG&E finalized an arrangement in which WPSC will acquire MG&E's 17.8% share of Kewaunee. This agreement, the closing of which is contingent upon regulatory approval and steam generator replacement scheduled for the spring of 2000, will give WPSC 59.0% ownership in Kewaunee.

On October 17, 1998, Kewaunee was shut down for a planned maintenance and refueling outage. Inspection of the plant's two steam generators showed that the repairs made in 1997 were holding up well and few additional repairs were needed. In addition to the inspection and repair of the steam generators, a major overhaul was performed on the main turbine generator. The plant was back in operation on November 27, 1998.

Nonregulated Activities

ESI incurred a $6.9 million loss in 1998 and a $4.9 million loss in 1997. A primary strategy for ESI is to gain market presence which is reflected in a 117.1% growth in revenues during the three-year period 1996 through 1998, from $161.8 million in 1996 to $351.3 million in 1998. To support this growth, significant expenditures were made for personnel additions and system improvements. These expenditures, coupled with extreme gas market volatility, contributed to the losses incurred at ESI. Gas market volatility was reflected in the NYMEX gas futures prices per dekatherm which, in 1998, ranged from a high of $2.73 to a low of $1.61. In 1997, gas futures prices ranged from a high of $3.55 to a low of $1.82. Gas market volatility has a direct impact on revenue and trading income.

PDI expects to improve the overall performance of its investment in Stoneman due to a multi-year capacity sales agreement. Stoneman was also grandfathered by the PSCW as a merchant plant which increases the probability that PDI will repower the plant as a 300-megawatt to 500-megawatt gas-fired combined cycle generating facility. Operational problems related to the bonding process at ECO Coal Pelletization #12, LLC are being addressed with expected resolution before the second quarter of 1999.

IMPACT OF INFLATION

WPSR's current financial statements are prepared in accordance with generally accepted accounting principles and report operating results in terms of historic cost. They provide a reasonable, objective, and quantifiable statement of financial results; but they do not evaluate the impact of inflation. Under rate treatment prescribed by utility regulatory commissions, WPSC's and UPPCO's projected operating costs are recoverable in revenues. Because forecasts are prepared assuming inflation, the majority of inflationary effects on normal operating costs are recoverable in rates. However, in these forecasts, WPSC and UPPCO are only allowed to recover the historic cost of plant via depreciation.

Consolidated Statements of Income, Comprehensive Income, and Retained Earnings[1]

Year Ended December 31 (Thousands, except share amounts)	**1998**	1997	1996
Operating revenues			
Electric utility	**$ 543,260**	$536,885	$548,701
Gas utility	**165,111**	211,090	211,357
Nonregulated energy and other	**355,365**	187,862	156,391
Total operating revenues	**1,063,736**	935,837	916,449
Operating expenses			
Electric production fuels	**110,809**	107,988	105,449
Purchased power	**56,447**	63,947	55,844
Gas purchased for resale	**105,908**	147,755	149,388
Nonregulated energy cost of sales	**346,663**	182,863	155,133
Other operating expenses	**172,876**	165,982	183,768
Maintenance	**52,813**	44,325	51,782
Depreciation and decommissioning	**86,274**	83,441	70,762
Taxes other than income	**31,902**	31,375	31,671
Total operating expenses	**963,692**	827,676	803,797
Operating income	**100,044**	108,161	112,652
Other income and (deductions)			
Allowance for equity funds used during construction	**173**	154	255
Other, net	**2,505**	11,952	(903)
Total other income and (deductions)	**2,678**	12,106	(648)
Income before interest expense	**102,722**	120,267	112,004
Interest on long-term debt	**23,987**	26,273	25,494
Other interest	**4,827**	4,910	3,922
Allowance for borrowed funds used during construction	**(177)**	(167)	(299)
Total interest expense	**28,637**	31,016	29,117
Distributions – preferred securities of subsidiary trust	**1,488**	–	–
Income before income taxes	**72,597**	89,251	82,887
Income taxes	**23,445**	31,106	27,216
Minority interest	**(611)**	(797)	(348)
Preferred stock dividends of subsidiaries	**3,132**	3,133	3,134
Net income	**46,631**	55,809	52,885
Other comprehensive income	**–**	–	–
Comprehensive income	**46,631**	55,809	52,885
Retained earnings at beginning of year	**339,508**	333,375	329,150
Cash dividends on common stock	**(50,985)**	(49,676)	(48,660)
Retained earnings at end of year	**$ 335,154**	$339,508	$333,375
Average shares of common stock	**26,511**	26,527	26,545
Basic and diluted earnings per average share of common stock	**$1.76**	$2.10	$1.99
Dividend per share of common stock[2]	**1.96**	1.92	1.88

[1] These statements give effect to the merger with Upper Peninsula Energy Corporation.

[2] Dividend rates are those of WPS Resources Corporation.

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets[1]

Assets

At December 31 (Thousands)	**1998**	1997
Utility plant		
Electric	**$1,715,882**	$1,685,413
Gas	**267,892**	251,603
Total	**1,983,774**	1,937,016
Less – Accumulated depreciation and decommissioning	**1,206,123**	1,113,142
Total	**777,651**	823,874
Nuclear decommissioning trusts	**171,442**	134,108
Construction in progress	**42,424**	11,776
Nuclear fuel, less accumulated amortization	**18,641**	19,062
Net utility plant	**1,010,158**	988,820
Current assets		
Cash and equivalents	**7,134**	8,495
Customer and other receivables, net of reserves	**117,206**	96,100
Accrued utility revenues	**34,175**	30,750
Fossil fuel, at average cost	**13,152**	10,622
Gas in storage, at average cost	**20,795**	22,080
Materials and supplies, at average cost	**21,788**	20,761
Prepayments and other	**26,462**	24,645
Total current assets	**240,712**	213,453
Regulatory assets	**70,041**	79,849
Net nonutility and nonregulated plant	**41,235**	28,188
Pension assets	**60,018**	55,790
Investments and other assets	**88,223**	69,704
Total	**$1,510,387**	$1,435,804

Capitalization and Liabilities

At December 31 (Thousands)	**1998**	1997
Capitalization		
Common stock equity	**$ 517,190**	$ 518,764
Preferred stock of subsidiary with no mandatory redemption	**51,200**	51,200
Preferred stock of subsidiary with mandatory redemption	**–**	445
Company-obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely WPSR 7.00% subordinated debentures	**50,000**	–
Long-term debt	**343,037**	347,015
Total capitalization	**961,427**	917,424
Current liabilities		
Long-term debt due within one year	**884**	260
Notes payable	**12,703**	19,500
Commercial paper	**47,590**	20,706
Accounts payable	**115,490**	89,747
Accrued taxes	**2,838**	10,114
Accrued interest	**7,594**	8,711
Other	**9,095**	12,415
Total current liabilities	**196,194**	161,453
Long-term liabilities and deferred credits		
Accumulated deferred income taxes	**122,642**	131,197
Accumulated deferred investment tax credits	**27,150**	29,461
Regulatory liabilities	**50,474**	56,487
Environmental remediation liabilities	**40,478**	40,848
Other long-term liabilities	**112,022**	98,934
Total long-term liabilities and deferred credits	**352,766**	356,927
Commitments and contingencies (See Note 10)	**–**	–
Total	**$1,510,387**	$1,435,804

[1] These statements give effect to the merger with Upper Peninsula Energy Corporation.

The accompanying notes are an integral part of these statements.

Consolidated Statements of Capitalization[1]

At December 31 (Thousands, except share amounts)			1998	1997
Common stock equity				
Common stock, $1 par value, 100,000,000 shares authorized; 26,551,405 shares outstanding			**$ 26,551**	$ 26,551
Premium on capital stock			**163,438**	163,454
Retained earnings			**335,154**	339,508
Shares in deferred compensation trust, 49,477 and 33,430 shares at an average cost of $30.42 and $28.44 per share at December 31, 1998 and 1997, respectively			**(1,505)**	(951)
ESOP loan guarantees			**(6,448)**	(9,798)
Total common stock equity			**517,190**	518,764
Preferred stock – Wisconsin Public Service Corporation				
Cumulative, $100 par value, 1,000,000 shares authorized; with no mandatory redemption				
Series	Shares Outstanding			
5.00%	132,000		**13,200**	13,200
5.04%	30,000		**3,000**	3,000
5.08%	50,000		**5,000**	5,000
6.76%	150,000		**15,000**	15,000
6.88%	150,000		**15,000**	15,000
Total preferred stock of subsidiary with no mandatory redemption			**51,200**	51,200
Preferred stock – Upper Peninsula Power Company				
Cumulative redeemable, $100 par value, 300,000 shares authorized (issuable in series), issued and outstanding				
	Shares Outstanding			
Series	1998	1997		
5.25%	–	853	**–**	85
4.70%	–	3,600	**–**	360
Total preferred stock of subsidiary with mandatory redemption			**–**	445
Company-obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely WPSR 7.00% subordinated debentures			**50,000**	–
Long-term debt				
First mortgage bonds – Wisconsin Public Service Corporation				
Series	Year Due			
5¼%	1998		**–**	50,000
7.30%	2002		**50,000**	50,000
6.80%	2003		**50,000**	50,000
6⅞%	2005		**9,075**	9,075
6.90%	2013		**22,000**	22,000
8.80%	2021		**53,100**	53,100
7⅛%	2023		**50,000**	50,000
6.08%	2028		**50,000**	–
First mortgage bonds – Upper Peninsula Power Company				
Series	Year Due			
7.94%	2003		**15,000**	15,000
10.0%	2008		**6,000**	6,000
9.32%	2021		**18,000**	18,000
Installment sales contract for air pollution control equipment – Upper Peninsula Power Company				
Term Bonds	Year Due			
6.90%	1999		**120**	230
Total			**323,295**	323,405
Unamortized discount and premium on bonds, net			**(817)**	(890)
Total first mortgage bonds			**322,478**	322,515
ESOP loan guarantees			**6,448**	9,798
Notes payable to bank, secured by nonregulated plant			**10,943**	10,710
Senior secured note			**3,886**	4,037
Other long-term debt			**166**	215
Total long-term debt			**343,921**	347,275
Less amounts due within one year			**(884)**	(260)
Net long-term debt			**343,037**	347,015
Total capitalization			**$961,427**	$917,424

[1] These statements give effect to the merger with Upper Peninsula Energy Corporation.

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows[1]

Year Ended December 31 (Thousands)	**1998**	1997	1996
Cash flows from operating activities			
Net income	**$ 46,631**	$ 55,809	$ 52,885
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and decommissioning	**86,274**	83,441	70,762
Amortization of nuclear fuel and other	**16,257**	14,665	28,691
Deferred income taxes	**(11,940)**	(6,220)	(7,579)
Investment tax credit restored	**(2,311)**	(1,949)	(1,961)
Allowance for equity funds used during construction	**(173)**	(154)	(255)
Pension income	**(9,669)**	(12,548)	(12,953)
Postretirement liability	**4,491**	6,424	8,047
Other, net	**(9,220)**	(7,535)	5,329
Changes in			
Customer and other receivables	**(21,106)**	17,343	(27,316)
Accrued utility revenues	**(3,425)**	4,636	2,200
Fossil fuel inventory	**(2,530)**	(2,112)	477
Gas in storage	**1,285**	(2,093)	(9,911)
Accounts payable	**25,743**	(10,794)	30,184
Accrued taxes	**(7,276)**	1,937	(594)
Environmental remediation insurance recovery	**–**	12,374	200
Miscellaneous current and accrued liabilities	**(4,004)**	(3,373)	(4,352)
Gas refunds	**684**	(318)	(6,175)
Net cash from operating activities	**109,711**	149,533	127,679
Cash flows from (used for) investing activities			
Construction of utility plant and nuclear fuel expenditures	**(94,734)**	(58,258)	(84,750)
Purchase of other property and equipment	**(16,075)**	(8,057)	(29,441)
Decommissioning funding	**(17,239)**	(16,059)	(8,978)
Purchase of investments and acquisitions	**–**	–	(728)
Other	**4,046**	5,086	(270)
Net cash used for investing activities	**(124,002)**	(77,288)	(124,167)
Cash flows from (used for) financing activities			
Issuance of long-term debt	**50,233**	1,789	15,296
Redemption of long-term debt	**(53,660)**	–	(6,900)
Issuance of notes payable	**196,353**	97,260	145,525
Redemption of notes payable	**(203,150)**	(109,360)	(129,625)
Issuance of mandatorily redeemable trust preferred securities	**50,000**	–	–
Issuance of commercial paper	**2,157,808**	700,540	345,339
Redemption of commercial paper	**(2,130,924)**	(711,184)	(325,489)
Cash dividends on common stock	**(50,985)**	(49,698)	(48,683)
Other	**(2,745)**	(1,139)	(715)
Net cash from (used for) financing activities	**12,930**	(71,792)	(5,252)
Net increase (decrease) in cash and equivalents	**(1,361)**	453	(1,740)
Cash and equivalents at beginning of year	**8,495**	8,042	9,782
Cash and equivalents at end of year	**$ 7,134**	$ 8,495	$ 8,042
Cash paid during year for			
Interest, less amount capitalized	**$ 26,879**	$ 26,669	$ 26,146
Income taxes	**44,553**	37,366	34,210
Preferred stock dividends of subsidiary	**3,132**	3,133	3,134

[1] These statements give effect to the merger with Upper Peninsula Energy Corporation.

The accompanying notes are an integral part of these statements.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations—WPS Resources Corporation ("WPSR") is a holding company. Approximately 67% of WPSR's 1998 revenues, 92% of WPSR's assets, and all of its 1998 net income were derived from WPSR's utility subsidiaries. WPSR's primary wholly-owned subsidiary, Wisconsin Public Service Corporation ("WPSC"), is an electric and gas utility engaged in the supply and distribution of electric power and natural gas in its franchised service territory. WPSR's other wholly-owned utility subsidiary, Upper Peninsula Power Company ("UPPCO"), is an electric utility engaged in the supply and distribution of electric energy in the Upper Peninsula of Michigan. WPSR also provides gas and electric marketing and energy-related services in nonregulated markets through its wholly-owned subsidiary, WPS Energy Services, Inc. ("ESI"). WPS Power Development, Inc. ("PDI"), another wholly-owned subsidiary of WPSR, participates in the development of electric generation projects, provides service to the electric power generation industry, and owns a two-thirds interest in a merchant generating plant, the Stoneman Power Plant ("Stoneman"). PDI also has signed agreements to purchase hydro, steam, and diesel generation facilities from Maine Public Service Company pending approval by the Maine Public Service Commission. WPSR's other nonregulated subsidiaries include Upper Peninsula Building Development Company and Penvest, Inc. In January 1999, WPSR formed a new subsidiary, WPS Resources Capital Corporation, which will obtain the financing for most nonregulated projects.

Effective September 29, 1998, Upper Peninsula Energy Corporation ("UPEN") merged with and into WPSR, and UPPCO, UPEN's major subsidiary, became a wholly-owned subsidiary of WPSR. The consolidated financial statements have been restated to give effect to the merger as if the companies had been combined in the earliest period presented. See Note 12 for additional information related to the merger.

The term "utility" refers to the regulated activities of WPSC and UPPCO, while the term "nonutility" refers to the activities of WPSC and UPPCO which are not regulated. The term "nonregulated" refers to activities other than those of WPSC and UPPCO.

(b) Use of Estimates—The preparation of WPSR's financial statements is in conformity with generally accepted accounting principles. Management may make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Acquisitions and Nonregulated Investments—At ESI, the price paid in excess of the fair value of identifiable assets acquired in 1995 is being amortized over a five-year period.

(d) Consolidation—WPSR consolidates all majority-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated.

(e) Price Risk Management Activities—WPSR has not experienced significant price risk activities at its utility operations which are not recoverable through customer rates, however, price risk is experienced at ESI.

ESI utilizes derivative financial and commodity instruments ("derivatives"), including futures and forward contracts, to reduce market risk associated with fluctuations in the price of natural gas and electricity sold under firm commitments with certain of its customers. ESI also utilizes derivatives, including price swap agreements, call and put option contracts, and futures and forward contracts, to manage market risk associated with a portion of its anticipated supply requirements. In addition, ESI utilizes derivatives, within specified guidelines, for trading purposes.

Gains or losses on derivatives associated with firm commitments are recognized as adjustments to the cost of sales or to revenues when the related transactions affect earnings. Gains and losses on derivatives associated with forecasted transactions are recognized when such forecasted transactions affect earnings. At December 31, 1998, $7.2 million in losses related to firm commitments and forecasted transactions were deferred. If it is no longer probable that a forecasted transaction will occur, any gain or loss on the derivative instrument as of such date is immediately recognized in earnings. Derivatives for trading purposes are marked to market each accounting period, and gains and losses are recognized as a component of other income at that time. In 1998 and 1997, trading losses of $6.1 million and $1.4 million, respectively, were recognized.

At December 31, 1998, ESI had outstanding 22.0 million notional dekatherms of natural gas under futures and option agreements and 1.3 million notional dekatherms of natural gas under basis swap agreements for purposes of managing market risk. The financial instruments outstanding at December 31, 1998 expire at various times through August 2000. ESI has certain gas sales commitments through August 2000 with a range of sale prices from $2.36 to $2.38 per dekatherm and a range of associated gas purchase costs of $2.29 to $2.31 per dekatherm.

As of December 31, 1998, the fair value of trading instruments included assets of $0.7 million. Except for a minimal level of electric trading instruments, financial instruments used for trading in 1998 and 1997 were natural gas derivatives. At December 31, 1998, ESI had outstanding 13.6 million notional dekatherms of natural gas under futures and option agreements and 1.6 million notional dekatherms of natural gas under basis swap agreements for trading purposes.

(f) Utility Plant—Utility plant is stated at the original cost of construction which includes an allowance for funds used during construction ("AFUDC"). Approximately 50% of WPSC's retail jurisdictional construction work in progress ("CWIP") expenditures are subject to AFUDC using a rate based on WPSC's overall cost of capital. Major new generating facilities earn AFUDC on total CWIP expenditures. For 1998, WPSC's AFUDC retail rate was approximately 10.4%.

AFUDC is recorded on WPSC's wholesale jurisdictional electric CWIP at debt and equity percentages specified in the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts. For 1998, WPSC's AFUDC wholesale rate was approximately 5.5%.

UPPCO has not had significant construction projects in recent years and, therefore, has not capitalized AFUDC.

Substantially all of WPSC's and UPPCO's utility plant assets are subject to first mortgage liens.

(g) Property Additions, Maintenance, and Retirements of Utility Plant—The cost of renewals and betterments of units of property (as distinguished from minor items of property) is capitalized as an addition to the utility plant accounts. Except for land, no gain or loss is recognized in connection with ordinary retirements of utility property units. The cost of units of property retired, sold, or otherwise disposed of, plus removal cost, less salvage, are charged to the accumulated provision for depreciation. Maintenance and repair costs and replacement and renewal costs associated with items not qualifying as units of property are generally charged to operating expense.

Nonutility property and nonregulated property follow a similar policy except that gains and losses are recognized in connection with retirements.

(h) Depreciation—Straight-line composite depreciation expense is recorded over the estimated useful life of utility property and includes estimated salvage and cost of removal. Except for the Kewaunee Nuclear Power Plant ("Kewaunee"), WPSC's rates approved by the Public Service Commission of Wisconsin ("PSCW") on January 1, 1994, and by the Michigan Public Service Commission ("MPSC") on January 1, 1994 remained in effect through 1998. New rates have been approved by the PSCW to be effective January 1, 1999. The estimated effect of the new rates on 1999 depreciation expense is a decrease of approximately $1.0 million.

UPPCO's depreciation rates approved by the MPSC on January 1, 1994 remain in effect through 2001. A new depreciation study will be filed with the MPSC in late 2000, with new rates effective January 1, 2002.

Depreciation expense includes accruals for nuclear decommissioning which are not included in the annual composite rates shown below. An explanation of this item is included in Note 1(k).

WPSR	**1998**	1997	1996
Annual composite depreciation rates			
Electric	**3.57%**	3.55%	3.36%
Gas	**3.26%**	3.26%	3.35%

WPSC			
Annual composite depreciation rates			
Electric	**3.55%**	3.52%	3.33%
Gas	**3.26%**	3.26%	3.35%

Nonutility property and nonregulated property are depreciated using straight-line depreciation. Most assets have depreciation lives ranging from five to ten years.

Property at Stoneman is depreciated using various lives, certain of which are as long as 40 years.

Depreciation for Kewaunee is presently being accrued based on a 1997 PSCW order allowing for full cost recovery of the remaining unrecovered investment in Kewaunee by the end of 2002. The PSCW depreciation rate order authorizing new rates for 1999 also includes a change in methodology for recovery of Kewaunee investment after new steam generators have been installed, estimated to be mid-year 2000. At that time, the unrecovered basis of Kewaunee, including the new steam generators, will be recovered over an 8.5 year remaining life through 2008 using the sum-of-the-years depreciation method.

(i) Impairment—WPSR follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS No. 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment losses resulting from application of this statement are reported in income in the period in which the recognition criteria are first applied and met. This statement does not have a material impact on the current carrying amount of WPSR's assets.

(j) Nuclear Fuel—The cost of nuclear fuel is amortized to electric production fuel expense based on the quantity of heat produced for the generation of electric energy by Kewaunee. Costs amortized to electric fuel expense (which assume no salvage values for uranium and plutonium) include an amount for ultimate disposal and are recovered through current customer rates. As required by the Nuclear Waste Policy Act of 1982, a contract has been signed with the United States Department of Energy ("DOE") for the ultimate storage of the fuel; and quarterly payments, based on generation, are made to the DOE for fuel storage. Interim storage space for spent nuclear fuel is provided at Kewaunee, and expenses associated with this storage are recognized as current operating costs. Currently, there is on-site storage capacity for spent fuel through the year 2013. As of December 31, 1998 and 1997, the accumulated provisions for nuclear fuel totaled $156.6 million and $151.2 million, respectively.

(k) Nuclear Decommissioning—Nuclear decommissioning costs to date have been accrued over the estimated service life of Kewaunee, recovered currently from customers in rates, and deposited in external trusts. Such costs totaled $17.2 million in 1998, $16.1 million in 1997, and $9.0 million in 1996. The increase in 1997 was the result of the PSCW's approval of the acceleration of Kewaunee depreciation and decommissioning funding as described in Note 1(h).

Based on the standard cost escalation assumptions required by a July 1994 PSCW order, the undiscounted amount of WPSC's decommissioning costs forecasted to be expended between the years 2003 and 2039 is $614.0 million under the revised funding plan which became effective in 1997. In developing the funding plan, a long-term after-tax earnings rate of approximately 5.5% was assumed.

WPSC's share of Kewaunee decommissioning is estimated to be $192.6 million in current dollars based on a site-specific study. The study, which was performed in 1992, uses immediate dismantlement as the method of decommissioning beginning after a dormant period extending from 2002 until 2015. As of December 31, 1998, the market value of the external nuclear decommissioning trusts totaled $171.4 million. A new site-specific study, which assumed shutdown in 2013, was completed during 1998 with WPSC's share of Kewaunee decommissioning estimated to be $190.7 million. Based on that study, WPSC's contributions for 1999 under the 1999 PSCW rate order will be $8.3 million.

Depreciation expense includes future decommissioning costs collected in customer rates and an offsetting charge for earnings from external trusts. As of December 31, 1998, the accumulated provision for depreciation and decommissioning included accumulated provisions for decommissioning totaling $171.4 million. Realized trust earnings totaled $3.3 million, $3.7 million, and $3.0 million, and unrealized trust earnings totaled $16.8 million, $13.8 million, and $6.5 million for the years ended December 31, 1998, 1997, and 1996, respectively. Unrealized gains, net of tax, in external trusts are reflected as an increase to the decommissioning reserve, since decommissioning expense will be recognized as the gains are realized, in accordance with regulatory requirements.

Investments in the nuclear decommissioning trusts are recorded at market value. The investments classified as utility plant are presented net of related income tax effects on unrealized gains and represent the amount of assets available to accomplish decommissioning. The nonqualified trust investments designated to pay income taxes when unrealized gains become realized are classified as other assets. An offsetting regulatory liability reflects the expected reduction in future rates as unrealized gains in the nonqualified trust are realized.

(l) Cash and Equivalents—WPSR considers short-term investments with an original maturity of three months or less to be cash equivalents.

(m) Revenue and Customer Receivables—WPSR accrues revenues related to electric and gas service, including estimated amounts for service rendered but not billed.

Automatic fuel adjustment clauses are used for FERC wholesale-electric and MPSC retail-electric portions of WPSC's and UPPCO's businesses.

The PSCW retail-electric portion of WPSC's business uses a "cost variance range" approach. This range is based on a specific estimated fuel cost for the forecast year. If WPSC's actual fuel costs fall outside this range, a hearing may be held and an adjustment to future rates may result. WPSC has a purchased gas adjustment clause ("PGAC") which allows it to pass changes in the cost of gas purchased from its suppliers on to system gas customers, subject to PSCW and MPSC review. The continued use of a PGAC for all Wisconsin utilities has been reexamined by the PSCW, and utilities were given the choice between continuing under a modified one-for-one gas cost recovery plan or switching to an incentive gas cost recovery mechanism. The PSCW has approved a modified one-for-one gas cost recovery plan for WPSC which is similar to the gas cost recovery under the existing PGAC. Implementation of the modified one-for-one gas cost recovery plan began in January 1999.

Billings to UPPCO's customers under MPSC jurisdiction include base rate charges and a power supply cost recovery ("PSCR") factor. Approximately 40% of UPPCO's operating expense is power supply costs. UPPCO receives MPSC approval each year to recover projected power supply costs by establishment of PSCR factors. These factors are subject to annual reconciliation to actual costs and permit 100% recovery of allowed power supply costs. Any over or under recovery is deferred on UPPCO's balance sheet, and such deferrals are relieved as refunds or additional billings are made.

WPSC and UPPCO are required to provide service and grant credit to customers within their service territories and are precluded from discontinuing service to residential customers during certain periods of the year. WPSC and UPPCO continually review their customers' credit-worthiness and obtain deposits or refund deposits accordingly.

Approximately 11% of WPSR's total revenues are from companies in the paper products industry.

(n) Regulatory Assets and Liabilities—WPSC and UPPCO are subject to the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." Regulatory assets represent probable future revenue associated with certain incurred costs which will be recovered from customers through the ratemaking process. Regulatory liabilities represent costs previously collected that are refundable in future customer rates. The following regulatory assets and liabilities were reflected in the Consolidated Balance Sheets as of December 31:

WPSR (Thousands)	**1998**	1997
Regulatory assets		
Demand-side management expenditures	**$23,860**	$31,360
Environmental remediation costs (net of insurance recoveries)	**30,285**	29,882
Coal and rail contract buy-out costs	**616**	2,293
Debt refinancing costs	**1,810**	2,078
Enrichment facility fee	**5,056**	5,544
Kewaunee steam generator resleeving costs	**–**	3,577
Other	**8,414**	5,115
Total	**$70,041**	$79,849
Regulatory liabilities		
Income tax related items	**$29,617**	$32,596
Pensions	**–**	2,443
Conservation costs	**(2,866)**	6,491
Unrealized gain on decommissioning trust	**16,397**	11,348
Kewaunee deferred revenue	**4,009**	2,518
Deferred gain on emission allowance sales	**3,304**	1,352
Other	**13**	(261)
Total	**$50,474**	$56,487

WPSC (Thousands)	1998	1997
Regulatory assets		
Demand-side management expenditures	**$23,860**	$31,360
Environmental remediation costs (net of insurance recoveries)	**29,021**	29,249
Coal and rail contract buy-out costs	**616**	2,293
Debt refinancing costs	**1,623**	1,859
Enrichment facility fee	**5,056**	5,544
Kewaunee steam generator resleeving costs	**–**	3,577
Other	**8,159**	4,662
Total	**$68,335**	$78,544
Regulatory liabilities		
Income tax related items	**$22,734**	$26,119
Pensions	**–**	2,443
Conservation costs	**(2,866)**	6,491
Unrealized gain on decommissioning trust	**16,397**	11,348
Kewaunee deferred revenue	**4,009**	2,518
Deferred gain on emission allowance sales	**3,304**	1,352
Other	**13**	8
Total	**$43,591**	$50,279

As of December 31, 1998, the majority of WPSC's regulatory assets are being recovered through rates charged to customers over periods ranging from two to ten years. Recovery periods for UPPCO's regulatory assets are up to 26 years. Carrying costs for all WPSC's regulatory assets are being recovered except for those associated with environmental costs. No carrying costs are being recovered for UPPCO's regulatory assets. Based on prior and current rate treatment of such costs, management believes it is probable that WPSC and UPPCO will continue to recover from ratepayers the regulatory assets described above.

See Notes 8 and 9 for specific information on pension and deferred tax regulatory liabilities. See Note 10 for information on environmental remediation deferred costs.

(o) Investments and Other Assets—Investments include ownership interests in Wisconsin River Power Company and Wisconsin Valley Improvement Company. Income related to these investments is included in other income and deductions using the equity method of accounting. Other assets include operating deposits for jointly-owned plants, the cash surrender value of life insurance policies, the long-term portion of energy conservation loans to customers, and the decommissioning trust investments designated for payment of income taxes.

(p) Reclassifications—Certain prior year financial statement amounts have been reclassified to conform to current year presentation.

(q) Retirement of Debt—Historically, gains or losses resulting from the settlement of long-term utility debt obligations have been deferred and amortized concurrent with rate recovery as required by regulators.

(r) Derivative Instruments and Hedging Activities—In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires all derivatives to be measured at fair value and recognized as either assets or liabilities in the statement of financial position. The accounting for changes in the fair value of a derivative is dependent upon the use of the derivative and its resulting designation. Unless specific hedge accounting criteria are met, changes in the derivative's fair value must be recognized currently in earnings. This statement is effective for fiscal periods beginning after June 15, 1999. WPSR will be adopting the requirements of this statement on January 1, 2000, and has not yet determined the method of adoption or its impact. However, the requirements of this statement could increase volatility in earnings and other comprehensive income.

(s) Internally-Developed Software—In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This statement requires the capitalization of certain costs related to software developed or obtained for internal use. The statement is effective for periods beginning after December 15, 1998. WPSR will be adopting the requirements of this statement in 1999. While the total impact of WPSR's adoption of this statement has not been determined, WPSC's adoption of this statement is expected to result in a reduction in operating expenses, which has been substantially considered in the ratemaking process. The capitalized software costs will then be amortized to operating expense in future years.

(t) Costs of Start-up Activities—In April 1998, the AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-up Activities." This statement provides guidance on the financial reporting of start-up costs and organization costs. Costs of start-up activities and organization costs are required to be expensed as incurred. The statement is effective for periods beginning after December 15, 1998. WPSR will be adopting the requirements of this statement in 1999 and does not anticipate any material impact to its financial statements.

NOTE 2—JOINTLY-OWNED UTILITY FACILITIES

Information regarding WPSC's share of major jointly-owned electric generating facilities in service at December 31, 1998 is set forth on the following page.

WPSC's share of direct expenses for these plants is included in the corresponding operating expenses in the consolidated statements of income. WPSC has supplied its own financing for all jointly-owned projects.

Upon closing of an agreement with Madison Gas and Electric Company ("MG&E"), which is contingent upon steam generator replacement, WPSC will acquire MG&E's 17.8% share of Kewaunee. This will increase WPSC's ownership in Kewaunee to 59.0%. See Note 10 for additional information regarding Kewaunee.

WPSC (Thousands, except for percentages)	West Marinette Unit No. 33	Columbia Energy Center	Edgewater Unit No. 4	Kewaunee
Ownership	68%	31.8%	31.8%	41.2%
Plant capacity (Megawatts)	83.5	335.2	104.9	221.0
Utility plant in service	$15,917	$112,307	$22,542	$133,099
Accumulated depreciation	$ 2,774	$ 63,592	$13,504	$ 97,930
In-service date	1993	1975 and 1978	1969	1974

NOTE 3—SHORT-TERM DEBT AND LINES OF CREDIT

To provide short-term borrowing flexibility and security for commercial paper outstanding, WPSR and its subsidiaries maintain bank lines of credit. Most of these lines of credit require a fee.

The information in the table below relates to short-term debt and lines of credit for the years indicated:

(Thousands, except for percentages)	**1998**	1997	1996
As of end of year			
Commercial paper outstanding	**$ 47,590**	$20,706	$31,350
Average discount rate on outstanding commercial paper	**4.84%**	6.55%	5.73%
Notes payable outstanding	**$ 12,703**	$19,500	$31,600
Average interest rate on notes payable	**5.88%**	7.06%	6.16%
Available lines of credit	**$ 62,102**	$27,500	$55,900
For the year			
Maximum amount of short-term debt	**$102,033**	$80,017	$75,250
Average amount of short-term debt	**$ 50,939**	$37,609	$31,254
Average interest rate on short-term debt	**5.93%**	6.06%	5.18%

NOTE 4—LONG-TERM DEBT

First mortgage bonds are secured by utility plant assets. In July 1998, WPSC retired the entire $50.0 million issue of the 5¼% First Mortgage Bonds. In December 1998, WPSC issued $50.0 million of 6.08% senior notes due in 2028 secured by a pledge of first mortgage bonds. The 1998 notes become unsecured if WPSC were to call all of its outstanding first mortgage bonds. These notes would then be secured by WPSC's general credit and not by WPSC's assets.

As of December 31, 1998, $8.1 million has been drawn against PDI's revolving credit note of $11.5 million which is secured by the assets of Stoneman. An additional $3.3 million, which is to be paid in the year 2000, has been committed against this note. The note, which is guaranteed by WPSR, is due in the year 2000 or when the plant is converted to a 300-megawatt to 500-megawatt gas-fired combined cycle facility.

NOTE 5—COMPANY-OBLIGATED MANDATORILY REDEEMABLE TRUST PREFERRED SECURITIES OF SUBSIDIARY TRUST

On July 30, 1998, WPSR Capital Trust I ("Trust"), a Delaware business trust of which WPSR owns all of the outstanding trust common securities, issued $50.0 million of trust preferred securities to the public. The sole asset of the Trust is $51.5 million principal amount of subordinated debentures due June 30, 2038, and bearing interest at 7.0% per annum, issued by WPSR. The terms and interest payments on these debentures correspond to the terms and distributions on the trust preferred securities. The Trust has been consolidated into the WPSR financial statements. The interest payments are reflected as distributions – preferred securities of subsidiary trust in the Consolidated Statement of Income and are tax deductible by WPSR. WPSR may elect to defer interest payments on the debentures for a period up to 20 consecutive quarters, causing distributions on the trust preferred securities to be deferred as well.

In case of a deferral, interest and distributions will continue to accrue, along with quarterly compounding interest on the deferred amounts. WPSR may redeem all or a portion of the debentures after July 30, 2003, requiring an equal amount of trust securities to be redeemed at face value plus accrued and unpaid distributions. WPSR has entered into a limited guarantee of payment of distributions, redemption payments, and payments in liquidation with respect to the trust preferred securities. This guarantee, when considered together with WPSR's obligations under the related debentures and indenture and the applicable declaration of trust, provide a full and unconditional guarantee by WPSR of amounts due on the outstanding trust preferred securities.

NOTE 6—COMMON EQUITY

Under WPSR's Stock Investment Plan, WPSR's common stock has been purchased in the open market to satisfy shareholder and employee purchase requirements. Beginning in January 1999, WPSR began issuing new shares for the Stock Investment Plan.

In December 1996, WPSR adopted a Shareholder Rights Plan designed to enhance the ability of the Board of Directors to protect shareholders and WPSR if efforts are made to gain control of WPSR in a manner that is not in the best interests of WPSR and its shareholders. The plan gives existing shareholders, under certain circumstances, the right to purchase stock at a discounted price. The rights expire on December 11, 2006.

At December 31, 1998, WPSR had $328.5 million of retained earnings available for dividends. WPSC is restricted by a PSCW order to paying normal common stock dividends of no more than 109.0% of the previous year's common stock dividend without PSCW approval. Also, Wisconsin law prohibits WPSC from making loans to WPSR and its subsidiaries and from guaranteeing their obligations.

UPPCO's indentures relating to first mortgage bonds contain certain limitations on the payment of cash dividends on common stock. Under the most restrictive of these provisions, approximately $7.9 million of consolidated retained earnings were available at December 31, 1998, for the payment of common stock cash dividends by UPPCO.

WPSR made a $34.0 million equity infusion into WPSC during the second quarter of 1998. In December 1998, WPSC paid to WPSR a special common dividend of $20.0 million. The special dividend allowed WPSC's average common equity capitalization ratio to remain at approximately 54.0%, the level approved by the PSCW for ratemaking.

NOTE 7—FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash, Short-Term Investments, Energy Conservation Loans, Notes Payable, and Outstanding Commercial Paper: The carrying amount approximates fair value due to the short maturity of those investments and obligations.

Nuclear Decommissioning Trusts: The value of WPSC's nuclear decommissioning trust investments is recorded at market value.

Long-Term Debt, Preferred Stock, and ESOP Loan Guarantees: The fair value of WPSC's long-term debt, preferred stock, and ESOP loan guarantees is estimated based on the quoted market price for the same or similar issues or on the current rates offered to WPSC for debt of the same remaining maturity.

The estimated fair values of WPSR's financial instruments as of December 31 were:

(Thousands)	**1998**		1997	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents	**$ 7,134**	**$ 7,134**	$ 8,495	$ 8,495
Energy conservation loans	**7,810**	**7,810**	7,195	7,195
Nuclear decommissioning trusts – utility plant	**171,442**	**171,442**	134,108	134,108
Nuclear decommissioning trusts – other assets	**16,397**	**16,397**	11,348	11,348
Notes payable	**12,703**	**12,703**	19,500	19,500
Commercial paper	**47,590**	**47,590**	20,706	20,706
ESOP loan guarantees	**6,448**	**6,702**	9,798	10,243
Trust preferred securities	**50,000**	**50,250**	–	–
Long-term debt	**337,473**	**366,038**	337,477	360,506
Preferred stock	**51,200**	**53,026**	51,645	49,040
Gas commodity instruments	**41,800**	**34,600**	504	436

NOTE 8—EMPLOYEE BENEFIT PLANS

WPSC and UPPCO have non-contributory retirement plans covering substantially all employees under which annual contributions may be made to an irrevocable trust established to provide retired employees with a monthly payment if conditions relating to age and length of service have been met. The WPSC pension plans are fully funded, and no contributions were made in 1998, 1997, or 1996. The WPSC and UPPCO pension plans and other benefit plans were merged effective December 31, 1998. The net accrued benefit liability assumed by WPSC at December 31, 1998 was $5.7 million.

WPSC and UPPCO also currently offer medical, dental, and life insurance benefits to employees, retirees, and their dependents. The expenses for active employees are expensed as incurred. The company funds these benefits through irrevocable trusts as allowed for income tax purposes. These funded amounts have been expensed and recovered through customer rates. The non-administrative plan is a collectively bargained plan and, therefore, is tax exempt. The investments in the trust covering administrative employees are subject to federal unrelated business income taxes at a 39.6% tax rate.

All pension costs and postretirement plan costs are accounted for under SFAS Nos. 87 and 106, respectively, which require the cost of these benefits to be accrued as expense over the period in which the employee renders service. The transition obligation for current and future retirees is recognized over 20 years beginning in 1993.

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the three one-year periods ending December 31, 1998, 1997, and 1996, and a statement of the funded status as of December 31, of each year:

(Thousands)	**1998**	1997	1996
Reconciliation of benefit obligation – pension			
Obligation at January 1	**$350,669**	$299,587	$301,840
Service cost	**9,014**	7,019	7,404
Interest cost	**25,264**	22,919	22,493
Participant contributions	**–**	–	–
Plan amendments	**5,762**	7,224	–
Actuarial (gain) loss	**26,085**	28,989	(17,296)
Acquisitions	**–**	–	–
Benefit payments	**(17,430)**	(15,911)	(14,854)
Curtailments	**–**	842	–
Obligation at December 31	**$399,364**	$350,669	$299,587
Reconciliation of benefit obligation – other			
Obligation at January 1	**$127,705**	$116,354	$123,665
Service cost	**3,874**	3,500	3,816
Interest cost	**9,126**	9,496	9,594
Participant contributions	**–**	–	–
Plan amendments	**–**	6,803	–
Actuarial (gain) loss	**2,599**	34	(16,418)
Acquisitions	**–**	–	–
Benefit payments	**(4,489)**	(4,174)	(4,303)
Curtailments	**–**	(4,308)	–
Obligation at December 31	**$138,815**	$127,705	$116,354

(Thousands)	**1998**	1997	1996
Reconciliation of fair value of plan assets – pension			
Fair value of plan assets at January 1	**$537,756**	$470,176	$431,130
Actual return on plan assets	**89,618**	79,731	51,833
Acquisitions	**–**	–	–
Employer contributions	**539**	3,783	2,067
Participant contributions	**–**	–	–
Plan expenses paid	**–**	(23)	–
Benefit payments	**(17,430)**	(15,911)	(14,854)
Fair value of plan assets at December 31	**$610,483**	$537,756	$470,176
Funded status at December 31	**$211,119**	$187,087	$170,589
Unrecognized transition (asset) obligation	**(13,467)**	(17,043)	(20,620)
Unrecognized prior-service cost	**19,336**	15,523	9,467
Unrecognized (gain) loss	**(156,972)**	(132,227)	(116,172)
Net amount recognized	**$ 60,016**	$ 53,340	$ 43,264
Reconciliation of fair value of plan assets – other			
Fair value of plan assets at January 1	**$121,930**	$104,367	$ 88,950
Actual return on plan assets	**21,161**	20,376	18,198
Acquisitions	**–**	–	–
Employer contributions	**1,239**	1,361	1,522
Participant contributions	**–**	–	–
Plan expenses paid	**–**	–	–
Benefit payments	**(4,489)**	(4,174)	(4,303)
Fair value of plan assets at December 31	**$139,841**	$121,930	$104,367
Funded status at December 31	**$ 1,026**	$ (5,776)	$(11,986)
Unrecognized transition (asset) obligation	**39,434**	42,286	47,663
Unrecognized prior-service cost	**4,259**	4,583	(1,897)
Unrecognized (gain) loss	**(87,011)**	(78,496)	(64,432)
Net amount recognized	**$(42,292)**	$(37,403)	$(30,652)

The net amounts recognized for 1997 and 1996 pension benefits have been reduced for an additional unrecognized regulatory liability related to pension costs. The entire regulatory liability was recognized by year-end 1998.

The table on the following page provides the amounts recognized in the statement of financial position as of December 31 of each year:

(Thousands)	**1998**	1997	1996
Prepaid benefit cost – pension			
Prepaid benefit cost	**$ 60,016**	$ 52,867	$ 43,877
Accrued benefit liability	**–**	(2,525)	(2,208)
Intangible asset	**–**	2,998	1,595
Accumulated other income	**–**	–	–
Net amount recognized	**$ 60,016**	$ 53,340	$ 43,264
Prepaid benefit cost – other			
Prepaid benefit cost	**$ –**	$ –	$ –
Accrued benefit liability	**(42,292)**	(37,403)	(30,652)
Intangible asset	**–**	–	–
Accumulated other income	**–**	–	–
Net amount recognized	**$ (42,292)**	$ (37,403)	$ (30,652)

The following table provides the components of net periodic benefit costs for the plans for fiscal years 1998, 1997, and 1996:

(Thousands)	**1998**	1997	1996
Net periodic benefit cost – pension			
Service cost	**$ 9,014**	$ 7,019	$ 7,404
Interest cost	**25,264**	22,919	22,493
Expected return on plan assets	**(38,282)**	(33,883)	(33,283)
Amortization of transition (asset) obligation	**(3,576)**	(3,576)	(3,576)
Amortization of prior-service cost	**1,950**	921	1,023
Amortization of net (gain) loss	**(507)**	(781)	(122)
Net periodic benefit cost	**$ (6,137)**	$ (7,381)	$ (6,061)
Curtailment (gain) loss	**–**	1,088	–
Net periodic benefit cost after curtailments	**$ (6,137)**	$ (6,293)	$ (6,061)
Net periodic benefit cost – other			
Service cost	**$ 3,874**	$ 3,500	$ 3,816
Interest cost	**9,126**	9,496	9,594
Expected return on plan assets	**(7,356)**	(6,378)	(6,076)
Amortization of transition (asset) obligation	**2,852**	3,010	3,010
Amortization of prior-service cost	**324**	324	(131)
Amortization of net (gain) loss	**(2,692)**	(2,196)	(670)
Net periodic benefit cost	**$ 6,128**	$ 7,756	$ 9,543
Curtailment (gain) loss	**–**	356	–
Net periodic benefit cost after curtailments	**$ 6,128**	$ 8,112	$ 9,543

Under a contract with Wisconsin Electric Power Company ("WEPCO"), UPPCO had operated WEPCO's Presque Isle Power Plant in Michigan since 1988. This contract terminated on December 31, 1997, and all employees at the plant became employees of WEPCO. In 1997, UPPCO recognized a $1.1 million pension curtailment loss and a $0.4 million other benefit plan curtailment loss from the termination of the Presque Isle Power Plant operating agreement.

The assumptions used in the measurement of WPSR's benefit obligation are shown in the following table:

	1998	1997	1996
Weighted average assumptions as of December 31 – pension			
Discount rate	**6.75%**	7.25%	7.75%
Expected return on plan assets	**8.75%**	8.75%	8.50%
Rate of compensation increase	**5.50%**	5.50%	5.50%
Weighted average assumptions as of December 31 – other			
Discount rate	**6.75%**	7.25%	7.75%
Expected return on plan assets	**8.75%**	8.75%	8.50%
Rate of compensation increase	**N/A**	N/A	N/A

The assumed health care cost trend rates for 1998 are 8.0% for medical and 7.5% for dental, both decreasing to 5.0% by the year 2006. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1.0% change in assumed health care cost trend rates would have the following effects:

(Thousands)	**1.0% Increase**	**1.0% Decrease**
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ 2,521	$ (1,955)
Effect on the health care component of the accumulated *postretirement benefit obligation*	$24,684	$(19,591)

WPSC has a leveraged Employee Stock Ownership Plan and Trust ("ESOP") that held 1,955,468 shares of WPSR common stock (market value of approximately $68.9 million) at December 31, 1998. At that date, the ESOP also had one loan guaranteed by WPSC and secured by common stock. Principal and interest on the loan are to be paid using contributions from WPSC and dividends on WPSR common stock held by the ESOP. Shares in the ESOP are allocated to participants as the loan is repaid. Tax benefits from dividends paid to the ESOP are recognized as a reduction in WPSC's cost of providing service to customers. The PSCW has allowed WPSC to include in cost of service an additional employer contribution to the plan. The net effect of the tax benefits and of the employer contribution is an approximately equal sharing of the tax benefits of the program between customers and employees.

NOTE 9—INCOME TAXES

WPSR accounts for income taxes using the liability method as prescribed by SFAS No. 109, "Accounting for Income Taxes." Under the liability method, deferred income tax liabilities are established for all temporary differences in the book and tax bases of assets and liabilities based upon enacted tax laws and rates applicable to the periods in which the taxes become payable. Taxes provided in prior years at rates greater than current rates are being refunded to customers prospectively as the temporary differences reverse. The net regulatory liability totaled $29.6 million as of December 31, 1998.

As of December 31, 1998 and 1997, WPSR had the following significant temporary differences that created deferred tax assets and liabilities:

(Thousands)	**1998**	1997
Deferred tax assets		
Plant related	**$ 76,400**	$ 68,175
Customer advances	**10,599**	8,187
Conservation escrow	**(1,057)**	2,859
Capital losses/state net operating losses	**3,652**	1,345
Employee benefits	**28,021**	22,772
Other	**9,351**	3,019
Total	**$126,966**	$106,357
Deferred tax liabilities		
Plant related	**$210,418**	$201,239
Demand-side management expenditures	**9,421**	12,383
Employee benefits	**24,009**	17,786
Other	**5,760**	6,146
Total	**$249,608**	$237,554
Net deferred tax liabilities	**$122,642**	$131,197

Previously deferred investment tax credits are being amortized as a reduction to income tax expense over the life of the related utility plant. The components of income tax expense are set forth in the tables below:

(Thousands, except for percentages)	**1998**		1997		1996	
	Rate	**Amount**	Rate	Amount	Rate	Amount
Statutory federal income tax	**35.0%**	**$ 25,623**	35.0%	$31,525	35.0%	$29,140
State income taxes, net	**5.9**	**4,344**	5.4	4,862	5.1	4,275
Investment tax credit restored	**(2.6)**	**(1,924)**	(2.2)	(1,949)	(2.4)	(1,961)
Rate difference on reversal of income tax temporary differences	**(2.4)**	**(1,761)**	(2.1)	(1,888)	(1.9)	(1,579)
Dividends paid to ESOP	**(1.9)**	**(1,414)**	(1.5)	(1,381)	(1.7)	(1,424)
Section 29 credits	**(1.0)**	**(751)**	(0.2)	(220)	(0.3)	(220)
Other differences, net	**(1.0)**	**(672)**	0.2	157	(1.1)	(1,015)
Effective income tax	**32.0%**	**$ 23,445**	34.6%	$31,106	32.7%	$27,216
Current provision						
Federal		**$ 29,492**		$31,444		$28,478
State		**7,779**		7,527		7,729
Total current provision		**37,271**		38,971		36,207
Deferred (benefit) provision		**(11,902)**		(5,916)		(7,030)
Investment tax credit restored, net		**(1,924)**		(1,949)		(1,961)
Total income tax expense		**$ 23,445**		$31,106		$27,216

NOTE 10—COMMITMENTS AND CONTINGENCIES

Coal Contracts

To ensure a reliable, low-cost supply of coal, WPSC entered into a long-term contract that has take-or-pay obligations totaling $130.8 million from 1999 through 2016. The obligations are subject to force majeure provisions which provide WPSC other options if the specified coal does not meet emission limits which may be mandated in future legislation. In the opinion of management, any amounts paid under the take-or-pay obligations described above would be considered costs of service subject to recovery in customer rates.

Purchased Power

WPSC has several take-or-pay contracts for either capacity or energy related to purchased power. These contracts total $68.2 million through April 2003. UPPCO has purchased power contracts with external suppliers for 50 megawatts totaling $12.3 million through 1999. Management expects to recover these costs in future customer rates.

Long-Term Power Supply

In November 1995, WPSC signed a 25-year agreement to purchase power from SkyGen Energy LLC, an independent power producer proposing to build a cogeneration facility and sell electrical power to WPSC. In October 1997, the PSCW issued a Certificate of Public Convenience and Necessity authorizing construction of the project. Phase I of the project, which is expected to be operational during 1999, will be accounted for as a capitalized lease with the capitalized amount being approximately $77.8 million. If Phase II becomes operational (Phase II is currently projected to be operational within five years of the start of Phase I), an additional plant asset of approximately $76.0 million will be recorded.

Future Nonregulated Commitments

PDI has signed agreements with Maine Public Service Company to purchase, for approximately $38.0 million, hydro, steam, and diesel units in the State of Maine and in New Brunswick, Canada, with a total capacity of approximately 92 megawatts. PDI is currently awaiting approval of the purchase by the Maine Public Service Commission.

Gas Costs

WPSC has natural gas supply and transportation contracts that require total estimated demand payments of $186.2 million through October 2008.

In April 1992, the FERC issued Order No. 636 which required natural gas pipelines to restructure their sales and transportation services. As a result, WPSC was obligated to pay for a portion of ANR Pipeline Company's transition costs through various FERC approved surcharges. Though there may be additional transition costs, which could be significant, the amount and timing of these costs are unknown at this time. Management fully expects to recover these costs in future customer rates since the PSCW and MPSC have allowed such recovery to date.

Nuclear Liability

The Price-Anderson Act provides for the payment of funds for public liability claims arising out of a nuclear incident. In the event of a nuclear incident involving any of the nation's licensed reactors, WPSC is subject to a proportional assessment which is approximately $36.3 million per incident, not to exceed $4.1 million per incident, per calendar year. These amounts represent WPSC's 41.2% ownership share in Kewaunee.

Nuclear Plant Operation

On September 29, 1998, WPSC and MG&E finalized an arrangement in which WPSC will acquire, at MG&E's book value, MG&E's 17.8% share of Kewaunee including MG&E's decommissioning trust assets and assuming MG&E's share of the decommissioning obligation. This agreement, the closing of which is contingent upon regulatory approval and steam generator replacement scheduled for the spring of 2000, will give WPSC 59.0% ownership in Kewaunee.

The net book value of WPSC's share of Kewaunee at December 31, 1998 is $35.2 million. In addition, the current cost of WPSC's share of the estimated costs to decommission Kewaunee, assuming early retirement, exceeds the trust assets at December 31, 1998 by $21.2 million. If retired early, Kewaunee would be placed in a dormant state following the transfer of spent fuel to temporary storage facilities. Under this plan, Kewaunee would remain intact with minimal monitoring and maintenance until physical decommissioning begins. Actual decommissioning would probably not begin until approximately 2015. On January 3, 1997, the PSCW accepted WPSC's recommendation to accelerate recovery of the Wisconsin retail portion of both the current undepreciated plant balance and the unfunded decommissioning costs over a six-year period, 1997 through 2002. The PSCW depreciation rate order authorizing new rates for 1999 includes a change in methodology for recovery of Kewaunee investment after new steam generators have been installed, estimated to be mid-year 2000. At that time, the unrecovered basis of the Kewaunee plant, including the new steam generators, will be recovered over an 8.5 year remaining life through 2008 using the sum-of-the-years depreciation method.

On October 17, 1998, Kewaunee was shut down for a planned maintenance and refueling outage. Inspection of the plant's two steam generators showed that the repairs made in 1997 were holding up well and few additional repairs were needed. In addition to the inspection and repair of the steam generators, a major overhaul was performed on the main turbine generator. The plant was back in operation on November 27, 1998.

Clean Air Regulations

WPSC is in compliance with both the Phase I and Phase II sulfur dioxide and nitrogen oxide emission limits established by the Federal Clean Air Act Amendments of 1990. Additional capital expenditures of $1.0 million to $2.0 million are projected through 1999 for Wisconsin and federal air quality compliance. Management believes that all costs incurred for additional compliance will be recoverable in future customer rates.

In late September 1998, the United States Environmental Protection Agency ("EPA") required certain states, including Wisconsin, to develop plans to reduce the emissions of nitrogen oxides ("NOx") from sources within the state by late 2003. On a preliminary basis, WPSC projects potential capital costs of between $37.0 million and $96.0 million to comply with possible future regulations. The cumulative incremental annual operating and maintenance expense associated with these possible future regulations projected to be incurred by 2010 range from $29.0 million to $106.0 million. The costs will depend on the state-specific compliance method to be adopted in the future as well as the effectiveness of the various technologies available for NOx emission control. Under WPSC's current practice, the capital costs (as reflected in depreciation expenses) and the annual operating costs are anticipated to be recovered through future customer rates.

On December 24, 1998, WPSC joined other parties in a petition challenging the EPA's regulations that require Wisconsin to prepare and submit a NOx implementation plan. On January 22, 1999, the State of Wisconsin intervened in the litigation and challenged the geographic scope of the rule and the required timing for implementation of NOx controls within the state. No decisions have yet been rendered.

Manufactured Gas Plant Remediation

WPSC continues to investigate the environmental cleanup of eight manufactured gas plant sites. The cleanup of WPSC's Stevens Point manufactured gas plant site has been substantially completed with monitoring of the site continuing. Costs of this cleanup were within the range expected for this site. Future investigation and cleanup costs for the remaining seven sites is estimated to be in the range of $33.9 million to $41.0 million. These estimates may be adjusted in the future contingent upon remedial technology, regulatory requirements, and experience gained through cleanup activities.

An initial liability for cleanup of $41.7 million had been established with an offsetting regulatory asset (deferred charge). Of this amount, approximately $2.7 million has been spent to date. Management believes that cleanup costs net of insurance recoveries, but not the carrying costs associated with the cleanup expenditures, will be recoverable in current and future customer rates. WPSC has received $12.6 million in insurance recoveries which have been recorded as a reduction in the regulatory asset.

Future Utility Expenditures

Management estimates 1999 utility plant construction expenditures at WPSC to be approximately $107.4 million and construction expenditures at UPPCO to be approximately $6.7 million. Demand-side management ("DSM") expenditures at WPSC are estimated to be $11.1 million. No additional DSM expenditures will be deferred in 1999, and the outstanding deferred asset balance at December 31, 1998 of $23.9 million will be amortized over the next four years consistent with rate recovery.

NOTE 11—REGULATORY ENVIRONMENT

WPSC received a rate order in the Wisconsin retail jurisdiction on January 15, 1999. The impact is a $26.9 million increase in electric revenues and a $10.3 million increase in gas revenues on an annual basis. The new rates will be effective for 1999 and 2000. WPSC was granted a 12.1% return on equity for 1999 and 2000.

UPPCO is subject to a rate freeze through 2000.

NOTE 12—MERGER WITH UPPER PENINSULA ENERGY CORPORATION

Effective September 29, 1998, UPEN merged with and into WPSR, and UPPCO, UPEN's utility and major subsidiary, as well as UPEN's other nonregulated subsidiaries, became wholly-owned subsidiaries of WPSR. The merger qualifies as a tax-free transaction and the transaction has been accounted for as a pooling of interests.

The foregoing consolidated financial statements have been restated to give effect to the merger as if the companies had combined in the earliest period presented. Certain adjustments have been made to conform the presentation of UPEN's financial information with that of WPSR. In accordance with the terms of the merger, each of the 2,950,001 outstanding shares of UPEN common stock (no par value) were converted into the right to receive 0.90 shares of WPSR common stock. Taking into account the cash paid for fractional shares, an additional 2,654,443 shares are being issued pursuant to the merger.

The summary on the following page depicts selected unaudited financial data for 1998 and 1997 as reported prior to the consummation of the merger and restated to reflect the effect of the merger under the pooling of interests method.

Selected Restated Financial Data (Quarterly Data, Unaudited) *(In Thousands, except per share data)*	WPSR (prior to restatement for pooling)	UPEN (prior to restatement for pooling)	WPSR (restated for pooling of interests)
First Quarter 1997			
Operating revenues[1]	$263,013	$ 16,303	$ 279,199
Net income	$ 18,235	$ 1,924	$ 20,159
Average outstanding shares	23,880	2,969	26,534
Basic and diluted earnings per share	$0.76	$0.65	$0.76
Second Quarter 1997			
Operating revenues[1]	$191,360	$ 13,796	$ 204,820
Net income	$ 9,571	$ 666	$ 10,237
Average outstanding shares	23,875	2,969	26,529
Basic and diluted earnings per share	$0.40	$0.22	$0.39
Third Quarter 1997			
Operating revenues[1]	$185,225	$ 14,893	$ 198,843
Net income	$ 12,903	$ (147)	$ 12,756
Average outstanding shares	23,870	2,954	26,524
Basic and diluted earnings per share	$0.54	$(0.05)	$0.48
Fourth Quarter 1997			
Operating revenues[1]	$238,742	$ 15,112	$ 252,975
Net income	$ 13,033	$ (376)	$ 12,657
Average outstanding shares	23,866	2,950	26,520
Basic and diluted earnings per share	$0.55	$(0.12)	$0.47
Year-End December 31, 1997			
Operating revenues[1]	$878,340	$ 60,104	$ 935,837
Net income	$ 53,742	$ 2,067	$ 55,809
Average outstanding shares	23,873	2,960	26,527
Basic and diluted earnings per share	$2.25	$0.70	$2.10
First Quarter 1998			
Operating revenues[1]	$276,809	$ 15,573	$ 291,226
Net income	$ 17,101	$ 851	$ 17,952
Average outstanding shares	23,862	2,950	26,516
Basic and diluted earnings per share	$0.72	$0.29	$0.68
Second Quarter 1998			
Operating revenues[1]	$219,620	$ 13,889	$ 232,054
Net income	$ 9,879	$ 586	$ 10,465
Average outstanding shares	23,858	2,950	26,512
Basic and diluted earnings per share	$0.41	$0.20	$0.39
Third Quarter 1998			
Operating revenues			$ 247,928
Net income			$ 11,799
Average outstanding shares			26,508
Basic and diluted earnings per share			$0.45
Fourth Quarter 1998			
Operating revenues			$ 292,528
Net income			$ 6,415
Average outstanding shares			26,505
Basic and diluted earnings per share			$0.24
Year-End December 31, 1998			
Operating revenues			$1,063,736
Net income			$ 46,631
Average outstanding shares			26,511
Basic and diluted earnings per share			$1.76

[1] Restatement includes adjustment for intercompany sales.

NOTE 13—SEGMENTS OF BUSINESS

Effective December 31, 1998, WPSR adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." WPSR's reportable segments are managed separately due to their different operating and regulatory environments. WPSR's principal business segments are the regulated electric utility operations of WPSC and UPPCO and the regulated gas utility operations of WPSC. The other reportable business segment, ESI, participates in nonregulated energy marketing operations.

The tables below and on the following page present information for the respective years pertaining to WPSR's operations segmented by lines of business.

Segments of Business (Thousands)	Regulated Utilities		Nonutility and Nonregulated Operations	
1998	Electric	Gas	ESI	PDI and Other
Income Statement				
Operating revenues	$ 550,004	$165,111	$351,258	$ 58,124
Depreciation and decommissioning	75,974	7,751	1,148	1,401
Other income (expense)	5,461	114	(5,765)	4,791
Interest expense	22,820	4,323	592	6,402
Income taxes	27,534	4,429	(4,783)	(3,735)
Net income (loss)	40,348	16,052	(6,869)	45,721
Balance Sheet				
Total assets	1,053,634	230,414	71,839	808,028
Total expenditures for long-lived assets	64,444	30,537	291	15,537

	Reconciling Eliminations	WPSR Consolidated
Income Statement		
Operating revenues	$ (60,761)	$1,063,736
Depreciation and decommissioning	–	86,274
Other income (expense)	(1,923)	2,678
Interest expense	(5,500)	28,637
Income taxes	–	23,445
Net income (loss)	(48,621)	46,631
Balance Sheet		
Total assets	(653,528)	1,510,387
Total expenditures for long-lived assets	–	110,809

A revised Note 13–Segments of Business, as reproduced below and on the reverse side of this page, replaces the entire note appearing at pages 42 and 43 of the Notes to Consolidated Financial Statements section in the bound 1998 Annual Report with which this errata sheet is associated.

WPS Resources Corporation

1998 Annual Report

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Segments of Business (Thousands)	Regulated Utilities		Nonutility and Nonregulated Operations	
1998	Electric	Gas	ESI	PDI and Other
Income Statement				
Operating revenues	$ 550,004	$165,111	$351,258	$ 9,506
Depreciation and decommissioning	75,974	7,751	1,148	1,401
Other income (expense)	5,461	114	(5,765)	4,791
Interest expense	22,820	4,323	592	4,914
Income taxes	27,534	4,429	(4,783)	(3,735)
Net income (loss)	50,488	5,912	(6,869)	(2,900)
Balance Sheet				
Total assets	1,117,438	246,365	71,839	175,123
Cash expenditures for long-lived assets	64,444	30,537	291	15,537

	Reconciling Eliminations	WPSR Consolidated
Income Statement		
Operating revenues	$ (12,143)	$1,063,736
Depreciation and decommissioning	–	86,274
Other income (expense)	(1,923)	2,678
Interest expense	(4,012)	28,637
Income taxes	–	23,445
Net income (loss)	–	46,631
Balance Sheet		
Total assets	(100,378)	1,510,387
Cash expenditures for long-lived assets	–	110,809

(Continued on Reverse Side of Page)

Segments of Business (Thousands)	Regulated Utilities		Nonutility and Nonregulated Operations	
1997	Electric	Gas	ESI	PDI and Other
Income Statement				
Operating revenues	$ 539,590	$211,090	$189,404	$ 5,426
Depreciation and decommissioning	74,016	7,349	1,048	1,028
Other income (expense)	7,395	(701)	(1,158)	6,402
Interest expense	25,266	4,841	905	2,265
Income taxes	29,461	4,211	(3,315)	749
Net income (loss)	53,294	7,878	(4,949)	(414)
Balance Sheet				
Total assets	1,089,875	246,842	44,779	75,836
Cash expenditures for long-lived assets	48,592	14,592	78	3,053

	Reconciling Eliminations	WPSR Consolidated
Income Statement		
Operating revenues	$ (9,673)	$ 935,837
Depreciation and decommissioning	–	83,441
Other income (expense)	168	12,106
Interest expense	(2,261)	31,016
Income taxes	–	31,106
Net income (loss)	–	55,809
Balance Sheet		
Total assets	(21,528)	1,435,804
Cash expenditures for long-lived assets	–	66,315

Segments of Business (Thousands)	Regulated Utilities		Nonutility and Nonregulated Operations	
1996	Electric	Gas	ESI	PDI and Other
Income Statement				
Operating revenues	$ 548,884	$211,357	$161,838	$ 3,380
Depreciation and decommissioning	61,996	7,128	1,054	584
Other income (expense)	4,993	58	(2,411)	(3,306)
Interest expense	24,339	4,229	774	1,533
Income taxes	31,655	2,499	(4,838)	(2,100)
Net income (loss)	59,907	2,350	(6,307)	(3,065)
Balance Sheet				
Total assets	1,095,996	268,622	51,823	79,190
Cash expenditures for long-lived assets	73,910	24,304	388	15,589

	Reconciling Eliminations	WPSR Consolidated
Income Statement		
Operating revenues	$ (9,010)	$ 916,449
Depreciation and decommissioning	–	70,762
Other income (expense)	18	(648)
Interest expense	(1,758)	29,117
Income taxes	–	27,216
Net income (loss)	–	52,885
Balance Sheet		
Total assets	(32,315)	1,463,316
Cash expenditures for long-lived assets	–	114,191

Segments of Business (Thousands)	Regulated Utilities		Nonutility and Nonregulated Operations	
1997	Electric	Gas	ESI	PDI and Other
Income Statement				
Operating revenues	$ 539,590	$211,090	$189,404	$ 59,876
Depreciation and decommissioning	74,016	7,349	1,048	1,028
Other income (expense)	7,395	(701)	(1,158)	6,402
Interest expense	25,266	4,841	905	2,265
Income taxes	29,856	4,211	(3,315)	354
Net income (loss)	52,976	8,206	(4,949)	54,314
Balance Sheet				
Total assets	1,054,225	235,976	44,779	594,414
Total expenditures for long-lived assets	48,592	14,592	78	3,053

	Reconciling Eliminations	WPSR Consolidated
Income Statement		
Operating revenues	$ (64,123)	$ 935,837
Depreciation and decommissioning	–	83,441
Other income (expense)	168	12,106
Interest expense	(2,261)	31,016
Income taxes	–	31,106
Net income (loss)	(54,738)	55,809
Balance Sheet		
Total assets	(493,590)	1,435,804
Total expenditures for long-lived assets	–	66,315

Segments of Business (Thousands)	Regulated Utilities		Nonutility and Nonregulated Operations	
1996	Electric	Gas	ESI	PDI and Other
Income Statement				
Operating revenues	$ 548,884	$211,357	$161,838	$ 50,365
Depreciation and decommissioning	61,996	7,128	1,054	584
Other income (expense)	4,219	58	62	(2,536)
Interest expense	24,729	4,229	774	1,143
Income taxes	32,157	2,499	(4,838)	(2,602)
Net income (loss)	57,795	3,320	(6,307)	45,065
Balance Sheet				
Total assets	1,047,370	254,684	51,823	608,829
Total expenditures for long-lived assets	73,910	24,304	388	15,589

	Reconciling Eliminations	WPSR Consolidated
Income Statement		
Operating revenues	$ (55,995)	$ 916,449
Depreciation and decommissioning	–	70,762
Other income (expense)	(2,451)	(648)
Interest expense	(1,758)	29,117
Income taxes	–	27,216
Net income (loss)	(46,988)	52,885
Balance Sheet		
Total assets	(499,390)	1,463,316
Total expenditures for long-lived assets	–	114,191

NOTE 14—QUARTERLY FINANCIAL INFORMATION (Unaudited)[1]

(Thousands, except for share amounts)	Three Months Ended				
	1998				
	March	**June**	**September**	**December**	**Total**
Operating revenues	**$291,226**	**$232,054**	**$247,928**	**$292,528**	**$1,063,736**
Net income	**$ 17,952**	**$ 10,465**	**$ 11,799**	**$ 6,415**	**$ 46,631**
Average number of shares of common stock	**26,516**	**26,512**	**26,508**	**26,505**	**26,511**
Basic and diluted earnings per share	**$.68**	**$.39**	**$.45**	**$.24**	**$1.76**
	1997				
	March	June	September	December	Total
Operating revenues	$279,199	$204,820	$198,843	$252,975	$ 935,837
Net income	$ 20,159	$ 10,237	$ 12,756	$ 12,657	$ 55,809
Average number of shares of common stock	26,534	26,529	26,524	26,520	26,527
Basic and diluted earnings per share	$.76	$.39	$.48	$.47	$2.10

[1] Schedule gives effect to the merger with Upper Peninsula Energy Corporation.

Because of various factors which affect the utility business, the quarterly results of operations are not necessarily comparable.

Report of Management

WPS Resources Corporation

The management of WPS Resources Corporation ("WPSR") has prepared and is responsible for the consolidated financial statements and related financial information encompassed in this Annual Report. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles, and financial information included elsewhere in this report is consistent with the consolidated financial statements.

WPSR maintains a system of internal accounting control designed to provide reasonable assurance that WPSR's assets are safeguarded and that transactions are executed and recorded in accordance with authorized procedures. Written policies and procedures have been developed to support the internal controls in place and are updated as necessary.

WPSR also maintains an internal auditing department that reviews and assesses the effectiveness of selected internal controls, and reports to management as to their findings and recommendations for improvement.

The Board of Directors has established an Audit Committee, comprised entirely of outside directors, which actively assists the Board in its role of overseeing WPSR's financial reporting process and system of internal control.

The accompanying consolidated financial statements have been audited by Arthur Andersen LLP, independent public accountants, whose report follows.

Larry L. Weyers
Chairman, President, and Chief Executive Officer

Daniel P. Bittner
Vice President and Chief Financial Officer

Diane L. Ford
Controller and Chief Accounting Officer

Report of Independent Public Accountants

ARTHUR ANDERSEN LLP

To the Board of Directors of
WPS Resources Corporation:

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of WPS Resources Corporation (a Wisconsin corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, comprehensive income, and retained earnings and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of WPS Resources Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP
ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin
January 28, 1999

Consolidated Statements of Income and Comprehensive Income

Year Ended December 31 (Thousands, except share amounts)	**1998**	1997	1996	1995	1994
Operating revenues					
Electric utility	**$ 543,260**	$536,885	$548,701	$550,105	$543,346
Gas utility	**165,111**	211,090	211,357	174,693	182,058
Nonregulated energy and other	**355,365**	187,862	156,391	56,155	10,921
Total operating revenues	**1,063,736**	935,837	916,449	780,953	736,325
Operating expenses					
Electric production fuels	**110,809**	107,988	105,449	105,085	111,240
Purchased power	**56,447**	63,947	55,844	59,339	58,570
Gas purchased for resale	**105,908**	147,755	149,388	116,253	126,351
Nonregulated energy cost of sales	**346,663**	182,863	155,133	53,983	10,663
Other operating expenses	**172,876**	165,982	183,768	169,067	164,981
Maintenance	**52,813**	44,325	51,782	54,658	53,988
Depreciation and decommissioning	**86,274**	83,441	70,762	71,345	61,879
Taxes other than income	**31,902**	31,375	31,671	30,555	30,577
Total operating expenses	**963,692**	827,676	803,797	660,285	618,249
Operating income	**100,044**	108,161	112,652	120,668	118,076
Other income and (deductions)					
Allowance for equity funds used during construction	**173**	154	255	180	116
Other, net	**2,505**	11,952	(903)	5,852	4,338
Total other income and (deductions)	**2,678**	12,106	(648)	6,032	4,454
Income before interest expense	**102,722**	120,267	112,004	126,700	122,530
Interest on long-term debt	**23,987**	26,273	25,494	26,839	27,404
Other interest	**4,827**	4,910	3,922	2,677	1,856
Allowance for borrowed funds used during construction	**(177)**	(167)	(299)	(80)	(149)
Total interest expense	**28,637**	31,016	29,117	29,436	29,111
Distributions – preferred securities of subsidiary trust	**1,488**	–	–	–	–
Income before income taxes	**72,597**	89,251	82,887	97,264	93,419
Income taxes	**23,445**	31,106	27,216	33,494	32,157
Minority interest	**(611)**	(797)	(348)	–	–
Preferred stock dividends of subsidiary	**3,132**	3,133	3,134	3,136	3,140
Net income	**46,631**	55,809	52,885	60,634	58,122
Other comprehensive income	**–**	–	–	–	–
Comprehensive income	**$ 46,631**	$ 55,809	$ 52,885	$ 60,634	$ 58,122
Shares of common stock					
Outstanding at December 31	**26,502**	26,518	26,537	26,551	26,551
Average	**26,511**	26,527	26,545	26,551	26,551
Basic and diluted earnings per average share of common stock	**$1.76**	$2.10	$1.99	$2.28	$2.19
Dividend per share of common stock[2]	**1.96**	1.92	1.88	1.84	1.80

[1] These statements give effect to the merger with Upper Peninsula Energy Corporation.

[2] Dividend rates are those of WPS Resources Corporation.

Financial Statistics[1]

Consolidated Balance Sheets

Assets

At December 31 (Thousands)	**1998**	1997	1996	1995	1994
Utility plant					
Electric	**$1,715,882**	$1,685,413	$1,639,490	$1,603,632	$1,567,346
Gas	**267,892**	251,603	240,791	228,346	202,903
Total	**1,983,774**	1,937,016	1,880,281	1,831,978	1,770,249
Less – Accumulated depreciation and decommissioning	**1,206,123**	1,113,142	1,028,266	977,163	913,423
Total	**777,651**	823,874	852,015	854,815	856,826
Nuclear decommissioning trusts	**171,442**	134,108	100,570	82,109	64,147
Construction in progress	**42,424**	11,776	24,827	18,508	20,577
Nuclear fuel, net	**18,641**	19,062	19,381	14,275	19,417
Net utility plant	**1,010,158**	988,820	996,793	969,707	960,967
Current assets	**240,712**	213,453	233,933	202,399	185,582
Net nonutility and nonregulated plant	**41,235**	28,188	28,470	9,033	5,878
Regulatory and other assets	**218,282**	205,343	204,120	212,769	186,544
Total assets	**$1,510,387**	$1,435,804	$1,463,316	$1,393,908	$1,338,971

Capitalization and Liabilities

	1998	1997	1996	1995	1994
Capitalization					
Common stock equity	**$ 517,190**	$ 518,764	$ 510,642	$ 505,178	$ 486,682
Preferred stock of subsidiaries	**51,200**	51,645	51,656	51,703	51,776
Long-term debt	**393,921**	347,015	349,054	350,098	353,679
Total capitalization	**962,311**	917,424	911,352	906,979	892,137
Liabilities					
Short-term borrowings	**60,293**	40,466	63,192	27,425	22,708
Deferred income taxes	**122,642**	131,197	135,904	141,518	131,541
Other liabilities and credits	**365,141**	346,717	352,868	317,986	292,585
Total liabilities	**548,076**	518,380	551,964	486,929	446,834
Total capitalization and liabilities	**$1,510,387**	$1,435,804	$1,463,316	$1,393,908	$1,338,971

[1] These statements give effect to the merger with Upper Peninsula Energy Corporation.

Year Ended December 31	**1998**	1997	1996	1995	1994
Stock price	**$ 35¼**	$33¹³⁄₁₆	$ 28½	$ 34	$ 26¾
Book value per share	**$19.52**	$19.56	$19.24	$19.03	$18.33
Return on average equity	**9.0%**	10.8%	10.3%	12.2%	12.0%
Number of common stock shareholders	**26,319**	27,369	27,922	28,416	29,629
Number of employees	**2,673**	2,902	3,032	3,002	3,077
Capitalization ratios					
Common equity including ESOP	**53.8**	56.6	56.0	55.7	54.6
Preferred stock of subsidiaries	**5.3**	5.6	5.7	5.7	5.8
Trust preferred securities of subsidiary trust	**5.2**	–	–	–	–
Long-term debt of subsidiaries	**35.7**	37.8	38.3	38.6	39.6
Weather information					
Cooling degree days	**519**	255	352	808	519
Cooling degree days as a percent of normal	**107.0%**	53.3%	73.6%	170.1%	107.0%
Heating degree days	**6,530**	8,099	8,566	7,813	7,578
Heating degree days as a percent of normal	**82.4%**	101.6%	107.5%	98.0%	95.5%

Common Stock Comparison (by quarter)	Dividends Per Share*	High	Low
1998			
1st quarter	**$ .485**	**33¹³⁄₁₆**	**32**
2nd quarter	**.485**	**34**	**29¹⁵⁄₁₆**
3rd quarter	**.495**	**35¾**	**31⅝**
4th quarter	**.495**	**37½**	**33**
	$1.96		
1997			
1st quarter	$ .475	28¾	26⅛
2nd quarter	.475	27⅞	23⅜
3rd quarter	.485	29¼	26¾
4th quarter	.485	34¼	28⁷⁄₁₆
	$1.92		

* Dividend rates are those of WPS Resources Corporation.

Shareholder Inquiries

Shareholders who have questions about their stock holdings or the WPS Resources Corporation Stock Investment Plan ("SIP") can contact the Shareholder Services Department between the hours of 7:30 a.m. and 4:30 p.m., central time, Monday through Friday by calling 920-433-1050 or 800-236-1551.

Addresses and additional telephone numbers are listed on the back cover of this report.

Common Stock

Common stock may be purchased and sold through the SIP described below or through brokerage firms and banks which offer brokerage services.

Common stock certificates issued before September 1, 1994 bear the name of Wisconsin Public Service Corporation ("WPSC") and remain valid certificates.

Effective December 16, 1996, each share of common stock has a Right associated with it which would entitle the owner to purchase additional shares of common stock under specified terms and conditions. The Rights are not presently exercisable. The Rights would become exercisable ten days after a person or group (1) acquires 15% or more of WPS Resources Corporation's ("WPSR") common stock or (2) announces a tender offer to acquire at least 15% of WPSR's common stock.

On December 31, 1998, WPSR had 26,551,405 shares of common stock outstanding which were owned by 26,319 holders of record.

Dividends

Cash dividends on common stock have been paid quarterly to shareholders since 1953. WPSR expects to continue to pay quarterly cash dividends on common stock. Future dividends are dependent on regulatory limitations, earnings, capital requirements, cash flows, and other financial considerations.

Anticipated payment and record dates for common stock dividends paid in 1999 are:

Record Date	Payment Date
February 26	March 20
May 28	June 19
August 31	September 20
November 30	December 20

If a dividend check is not received on the payment date, wait approximately ten days to allow for delays in mail delivery. After that time, call the Shareholder Services Department to request a replacement check.

Shareholders may have dividends electronically deposited in a checking or savings account at a financial institution. If dividends are not electronically deposited, checks are mailed to shareholders.

Stock Investment Plan

WPSR maintains a SIP for the purchase of common stock which allows persons who are not already shareholders (and who are not employees of WPSR or its system companies) to become participants in the SIP with a minimum initial cash investment of $100. The Plan enables participants to maintain registration with WPSR in their own name rather than with a broker in "street name."

The SIP also provides shareholders with options to reinvest dividends and make optional cash purchases of common stock directly through WPSR without paying brokerage commissions, fees, or service charges. Optional cash payments of not less than $25 per payment may be made subject to a maximum of $100,000 per calendar year.

Cash for investment must be received by the 18th day of the month. Cash is invested on the 20th day of the month or as soon thereafter as practicable.

Shares held in the SIP may be sold by the agent for the SIP at the direction of the shareholder, or a certificate may be requested for sale through a broker selected by the shareholder.

Participation in the SIP is being offered only by means of a Prospectus. Persons wishing to receive a Prospectus may contact the Shareholder Services Department.

Safekeeping Services

A participant in the SIP may transfer shares of common stock registered in his or her name into a SIP account for safekeeping. Contact the Shareholder Services Department for further details.

Preferred Stock of Subsidiary

The preferred stock of WPSC trades on over-the-counter markets. Payment and record dates for preferred stock dividends paid in 1999 are:

Record Date	Payment Date
January 15	February 1
April 15	May 1
July 15	August 1
October 15	November 1

Stock Transfer Agent and Registrar

Questions about transferring common or preferred stock, lost certificates, or changing the name in which certificates are registered should be directed to the transfer agent, Firstar Bank Milwaukee, N.A. at the address or telephone numbers listed on the back cover.

Address Changes

If your address changes, call or write the Shareholder Services Department.

Availability of Information

Company financial information is available on the Internet. The address is http://www.wpsr.com.

It is anticipated that 1999 quarterly earnings information will be released on April 21, July 21, and October 20.

Shareholders may obtain, without charge, a copy of WPSR's 1998 Form 10-K, without exhibits, as filed with the Securities and Exchange Commission, by contacting the Corporate Secretary, at the Corporate Office mailing address listed on the back cover, or by using the Internet.

Annual Shareholders' Meeting

The Annual Shareholders' Meeting will be held on Thursday, May 6, 1999, at 10:30 a.m. at the Weidner Center, University of Wisconsin - Green Bay, 2420 Nicolet Drive, Green Bay, Wisconsin.

Proxy Statements for the May 6, 1999 Annual Shareholders' Meeting were mailed to shareholders of record on March 22, 1999.

Annual Report

If you receive more than one Annual Report because of differences in the registration of your accounts, please call the Shareholder Services Department so that account mailing instructions can be modified accordingly.

This Annual Report is prepared primarily for the information of shareholders of WPSR and is not given in connection with the sale of any security or offer to sell or buy any security.

Board of Directors*

A. Dean Arganbright
(Age 68)
Oshkosh, Wisconsin
Retired Chairman, President, and Chief Executive Officer
Wisconsin National Life Insurance Company
(Director since 1972)

Michael S. Ariens
(Age 67)
Brillion, Wisconsin
Chairman
Ariens Company
(Director since 1974)

Richard A. Bemis
(Age 57)
Sheboygan, Wisconsin
President and Chief Executive Officer
Bemis Manufacturing Company
(Director since 1983)

Daniel A. Bollom
(Age 62)
Green Bay, Wisconsin
Retired Chairman and Chief Executive Officer
WPS Resources Corporation
(Director since 1989)

Sister M. Lois Bush, SSM
(Age 54)
Milwaukee, Wisconsin
Senior Vice President-Mission and Culture Integration
Ministry Health Care, Inc.
(Director since 1993)

Clarence R. Fisher
(Age 58)
Houghton, Michigan
President and Chief Executive Officer
Upper Peninsula Power Company
(Director since 1998)

Robert C. Gallagher
(Age 60)
Green Bay, Wisconsin
President and Chief Operating Officer
Associated Banc-Corp
(Director since 1992)

***Kathryn M.* Hasselblad-Pascale**
(Age 50)
Green Bay, Wisconsin
Managing Partner
Hasselblad Machine Company, LLP
(Director since 1987)

James L. Kemerling
(Age 59)
Wausau, Wisconsin
Consultant
JLK II
(Director since 1988)

Larry L. Weyers
(Age 53)
Green Bay, Wisconsin
Chairman, President, and Chief Executive Officer
WPS Resources Corporation
(Director since 1996)

* Directors of WPS Resources Corporation are also Directors of Wisconsin Public Service Corporation.

WPS Resources Corporation

Larry L. Weyers
Chairman, President, and Chief Executive Officer
Age 53/Years of service 13

Patrick D. Schrickel
Executive Vice President
Age 54/Years of service 32

Phillip M. Mikulsky
Senior Vice President-Development
Age 50/Years of service 27

Daniel P. Bittner
Vice President and Chief Financial Officer
Age 55/Years of service 33

Richard E. James
Vice President-Corporate Planning
Age 45/Years of service 23

Thomas P. Meinz
Vice President-Public Affairs
Age 52/Years of service 29

Neal A. Siikarla
Vice President
Age 51/Years of service 1

Bernard J. Treml
Vice President-Human Resources
Age 49/Years of service 26

Glen R. Schwalbach
Assistant Vice President-Corporate Planning
Age 53/Years of service 30

Francis J. Kicsar
Secretary
Age 59/Years of service 32

Ralph G. Baeten
Treasurer
Age 55/Years of service 28

Diane L. Ford
Controller and Chief Accounting Officer
Age 45/Years of service 23

Barth J. Wolf
Assistant Secretary and Manager-Legal Services
Age 41/Years of Service 10

George R. Wiesner
Assistant Controller
Age 41/Years of Service 14

Wisconsin Public Service Corporation

Larry L. Weyers
Chairman and Chief Executive Officer
Age 53/Years of service 13

Patrick D. Schrickel
President and Chief Operating Officer
Age 54/Years of service 32

Daniel P. Bittner
Senior Vice President-Finance
Age 55/Years of service 33

Charles A. Schrock
Senior Vice President-Energy Supply
Age 45/Years of service 19

Clark R. Steinhardt ****
Senior Vice President-Nuclear Power
Age 57/Years of service 31

Bradley W. Andress
Vice President-Marketing
Age 44/Years of service 1

Ralph G. Baeten
Vice President-Treasurer
Age 55/Years of service 28

Mark L. Marchi
Vice President-Nuclear
Age 51/Years of service 23

Thomas P. Meinz
Vice President-Public Affairs
Age 52/Years of service 29

Wayne J. Peterson
Vice President-Distribution and Customer Service
Age 40/Years of service 16

Bernard J. Treml
Vice President-Human Resources
Age 49/Years of service 26

Francis J. Kicsar
Secretary
Age 59/Years of service 32

Diane L. Ford
Controller
Age 45/Years of service 23

Barth J. Wolf
Assistant Secretary and Manager-Legal Services
Age 41/Years of Service 10

WPS Energy Services, Inc.

Phillip M. Mikulsky
President and Chief Executive Officer
Age 50/Years of service 27

Darrell W. Bragg
Vice President
Age 39/Years of service 3

Mark A. Radtke
Vice President
Age 37/Years of service 15

Larry L. Weyers
Vice President
Age 53/Years of service 13

Francis J. Kicsar
Secretary
Age 59/Years of service 32

Ralph G. Baeten
Treasurer
Age 55/Years of service 28

WPS Power Development, Inc.

Larry L. Weyers
President and Chief Executive Officer
Age 53/Years of service 13

Phillip M. Mikulsky
Vice President
Age 50/Years of service 27

Gerald L. Mroczkowski
Vice President
Age 53/Years of service 30

Patrick D. Schrickel
Vice President
Age 54/Years of service 32

Francis J. Kicsar
Secretary
Age 59/Years of service 32

Ralph G. Baeten
Treasurer
Age 55/Years of service 28

UPPCO

Clarence R. Fisher
President and Chief Executive Officer
Age 58/Years of service 35

Daniel P. Bittner
Vice President
Age 55/Years of service 33

Lynwood B. Hart
Vice President-Administration
Age 56/Years of service 16

Francis J. Kicsar
Secretary
Age 59/Years of service 32

Ralph G. Baeten
Treasurer
Age 55/Years of service 28

Philip L. Lefebvre ****
Assistant Secretary and Assistant Treasurer
Age 58/Years of service 36

Leadership Staff

Thomas G. Balzola ***
General Manager-Operations
Age 55/Years of service 19

Richard J. Bissing **
Director-Wisconsin Sales and Marketing
Age 38/Years of service 2

Lawrence T. Borgard
General Manager-Transmission
Age 37/Years of service 14

William L. Bourbonnais, Jr.
Manager-Rates and Economic Evaluation
Age 53/Years of service 30

Donald R. Carlson
Manager-Energy Supply and Control
Age 48/Years of service 23

Michael W. Charles
Manager-Fossil Fuel
Age 49/Years of service 21

Kenneth H. Evers
Manager-Nuclear Plant Support Services
Age 53/Years of service 25

Ronald K. Grosse
Manager-Customer Strategy
Age 55/Years of service 33

David W. Harpole *
Manager-Corporate Services
Age 43/Years of service 21

Charles K. Heidemann
Manager-Transco Planning and Development
Age 58/Years of service 35

Terry P. Jensky
Manager-Pulliam Plant
Age 45/Years of service 21

Bradley A. Johnson *
Corporate Planning Executive
Age 44/Years of service 19

Jerry A. Johnson
Manager-Information Services
Age 49/Years of service 26

Randall G. Johnson
Manager-Corporate Transformation
Age 51/Years of service 28

Paul J. Liegeois
General Manager-Marketing and Business Development
Age 48/Years of service 25

Dennis J. Maki
Manager-Weston Plant
Age 50/Years of service 28

Betty J. Merlina **
Director-Ohio Operations, FSG Energy Services
Age 38/Years of service 3

Dale N. Miller
Manager-Eastern Region
Age 53/Years of service 28

Edward N. Newman
Director-Environmental Services
Age 56/Years of service 24

Dale M. Quinn
Manager-Substation and Transmission
Age 53/Years of service 27

Jack C. Rasmussen
Manager-Purchasing and Stores
Age 51/Years of service 28

Ruqaiyah Z. Stanley-Lolles **
Director-Illinois Operations
Age 44/Years of service 1

Richard J. Suslick ***
Director-Power Development
Age 55/Years of service 7

Peter J. Van Beek
Manager-Central Region
Age 53/Years of service 30

Daniel J. Verbanac **
Director-Trading Operations
Age 35/Years of service 14

Kenneth H. Weinhauer
Manager-Kewaunee Plant
Age 54/Years of service 23

* Employee of WPS Resources Corporation.
** Employee of WPS Energy Services, Inc.
*** Employee of WPS Power Development, Inc.
**** Retired January 31, 1999.

Leadership Staff members are employees of Wisconsin Public Service Corporation, except as indicated.

FSG Energy Services is a division of WPS Energy Services, Inc.

Years of service take into consideration service with WPS Resources Corporation or a system company.

WPS

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Stock Exchange Listing
New York Stock Exchange

Ticker Symbol:
WPS

Listing Abbreviation:
WPS Res

Wisconsin Utility Investors, Inc.:
Wisconsin Utility Investors, Inc. ("WUI") is an independent, non-profit organization representing the collective voices of utility shareholders. It monitors and evaluates industry issues and trends and is a resource for its members, regulators, and the public. WUI can be reached by calling 414-221-3849.

Equal Employment Opportunity:
WPS Resources Corporation and its system companies hire, train, promote, compensate, and make all other employment decisions without regard to race, color, sex, age, religion, national origin, or disability.

Credits:
Geese in Flight photography is by Joseph Duff, one of Canada's leading commercial photographers and a co-founder of Operation Migration, a charity dedicated to safeguarding endangered species of waterfowl. His spectacular photo images have received international acclaim.

Excerpts from the poem "Goose Send-Off" are by Owen Neill, a