

WPS RESOURCES CORP  
Form 10-Q  
November 03, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D. C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

<u>Commission File Number</u>	<u>Registrants; State of Incorporation; Address; and Telephone Number</u>	<u>IRS Employer Identification No.</u>
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 800-450-7260	39-0715160

Indicate by check mark whether the registrants (1) have 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) have been subject to such filing requirements for the past 90 days.

WPS Resources Corporation                      Yes  No   
Wisconsin Public Service Corporation        Yes  No

Indicate by check mark whether the registrants are accelerated filers (as defined in Rule 12b-2 of the Exchange Act).

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WPS Resources Corporation Yes  No   
Wisconsin Public Service Corporation Yes  No

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

WPS Resources Corporation Yes  No   
Wisconsin Public Service Corporation Yes  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,  
38,094,761 shares outstanding at  
October 31, 2005

WISCONSIN PUBLIC SERVICE CORPORATION Common stock, \$4 par value,  
23,896,962 shares outstanding at  
October 31, 2005

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**WPS RESOURCES CORPORATION  
AND  
WISCONSIN PUBLIC SERVICE CORPORATION  
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2005**

**CONTENTS**

		Page
	<b>FORWARD-LOOKING STATEMENTS</b>	4
<b>PART I.</b>	<b>FINANCIAL INFORMATION</b>	
Item 1.	<b>FINANCIAL STATEMENTS</b>	
	<b>WPS RESOURCES CORPORATION</b>	
	Consolidated Statements of Income	5
	Consolidated Balance Sheets	6
	Consolidated Statements of Cash Flows	7
	<b>WISCONSIN PUBLIC SERVICE CORPORATION</b>	
	Consolidated Statements of Income	8
	Consolidated Balance Sheets	9
	Consolidated Statements of Capitalization	10
	Consolidated Statements of Cash Flows	11
	<b>CONDENSED NOTES TO FINANCIAL STATEMENTS</b>	
	<b>OF</b>	
	WPS Resources Corporation and Subsidiaries	
	Wisconsin Public Service Corporation and Subsidiaries	12-35
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations for	
	WPS Resources Corporation	36-70
	Wisconsin Public Service Corporation	71-80
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	81
Item 4.	Controls and Procedures	82
<b>PART II.</b>	<b>OTHER INFORMATION</b>	83
Item 1.	Legal Proceedings	83
Item 5.	Other Information	83
Item 6.	Exhibits	84
Signatures		85-86



**CONTENTS**

(continue)

Page

**EXHIBIT  
INDEX**

87

12.1	WPS Resources Corporation Ratio of Earnings to Fixed Charges
12.2	Wisconsin Public Service Corporation Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preferred Dividends
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for WPS Resources Corporation
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for WPS Resources Corporation
31.3	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Wisconsin Public Service Corporation
31.4	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Wisconsin Public Service Corporation
32.1	Written Statement of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 for WPS Resources Corporation
32.2	Written Statement of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 for Wisconsin Public Service Corporation

**Commonly Used Acronyms**

ATC	American Transmission Company LLC
DOE	United States Department of Energy
EPA	United States Environmental Protection Agency
ESI	WPS Energy Services, Inc.
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
MISO	Midwest Independent System Operator
MPSC	Michigan Public Service Commission
PDI	WPS Power Development, LLC
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
UPPCO	Upper Peninsula Power Company
WDNR	Wisconsin Department of Natural Resources
WPSC	Wisconsin Public Service Corporation

### Forward-Looking Statements

Except for historical data and statements of current fact, the information contained or incorporated by reference in this document constitutes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Any references to plans, goals, beliefs or expectations in respect to future events and conditions or to estimates are forward-looking statements. Although we believe that statements of our expectations are based on reasonable assumptions, forward-looking statements are inherently uncertain and subject to risks and should be viewed with caution. Actual results or experience could differ materially from the forward-looking statements as a result of many factors.

In addition to statements regarding trends or estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations, forward-looking statements included or incorporated in this report include, but are not limited to, statements regarding future:

- Revenues or expenses,
- Capital expenditure projections, and
- Financing sources.

Forward-looking statements involve a number of risks and uncertainties. There are many factors that could cause actual results to differ materially from those expressed or implied in this report. Some of those factors include:

- Receipt of required regulatory approvals for the acquisition of the Michigan and Minnesota natural gas distribution operations from Aquila;
- Resolution of pending and future rate cases and negotiations (including the recovery of deferred costs) and other regulatory decisions regarding WPSC and UPPCO;
- The impact of recent and future federal and state regulatory changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, changes in environmental, tax and other laws and regulations to which WPS Resources and its subsidiaries are subject, as well as changes in application of existing laws and regulations;
- Current and future litigation, regulatory investigations, proceedings or inquiries, including manufactured gas plant site cleanup and pending EPA investigations of WPSC generation facilities;
  - Resolution of audits by the Internal Revenue Service and various state revenue agencies;
- The effects, extent and timing of additional competition in the markets in which WPS Resources' subsidiaries operate;
  - The impact of fluctuations in commodity prices, interest rates and customer demand;
    - Available sources and costs of fuels and purchased power;
    - Ability to control costs (including costs of decommissioning generation facilities);
      - Investment performance of employee benefit plans;

- Advances in technology;
- Effects of and changes in political, legal and economic conditions and developments in the United States and Canada;
- The performance of projects undertaken by nonregulated businesses and the success of efforts to invest in and develop new opportunities;
- Potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed (such as acquisition of the Michigan and Minnesota natural gas distribution operations from Aquila, construction of the Weston 4 generation plant and construction of the Wausau, Wisconsin to Duluth, Minnesota transmission line);
  - The direct or indirect effect resulting from terrorist incidents or responses to such incidents;
- Financial market conditions and the results of financing efforts, including credit ratings and risks associated with commodity prices, interest rates and counterparty credit;
  - Weather and other natural phenomena; and
  - The effect of accounting pronouncements issued periodically by standard-setting bodies.

**Except to the extent required by the federal securities laws, WPS Resources and its subsidiaries undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this report.**



## PART 1. FINANCIAL INFORMATION

## Item 1. Financial Statements

## WPS RESOURCES CORPORATION

CONDENSED  
CONSOLIDATED  
STATEMENTS OF INCOME

(Unaudited)

(Millions, except per share  
amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Nonregulated revenue	\$ 1,396.0	\$ 812.8	\$ 3,478.1	\$ 2,596.8
Utility revenue	361.3	279.1	1,093.6	941.6
<b>Total revenues</b>	<b>1,757.3</b>	<b>1,091.9</b>	<b>4,571.7</b>	<b>3,538.4</b>
Nonregulated cost of fuel, gas, and purchased power	1,335.2	784.5	3,324.2	2,499.9
Utility cost of fuel, gas, and purchased power	190.5	97.3	526.8	404.9
Operating and maintenance expense	124.0	123.9	399.4	394.1
Depreciation and decommissioning expense	23.8	26.1	119.6	78.4
Gain on sale of emission allowances	-	-	(86.8)	-
Impairment loss	-	-	80.6	-
Taxes other than income	11.8	11.5	35.7	34.8
<b>Operating income</b>	<b>72.0</b>	<b>48.6</b>	<b>172.2</b>	<b>126.3</b>
Miscellaneous income	9.6	9.9	62.8	20.8
Interest expense	(15.6)	(14.9)	(56.2)	(44.2)
Minority interest	1.2	1.2	3.4	2.3
<b>Other income (expense)</b>	<b>(4.8)</b>	<b>(3.8)</b>	<b>10.0</b>	<b>(21.1)</b>
Income before taxes	67.2	44.8	182.2	105.2
Provision for income taxes	18.3	9.3	41.9	20.9
<b>Net income before preferred stock dividends of subsidiary</b>	<b>48.9</b>	<b>35.5</b>	<b>140.3</b>	<b>84.3</b>
Preferred stock dividends of subsidiary	0.7	0.7	2.3	2.3
<b>Income available for common shareholders</b>	<b>\$ 48.2</b>	<b>\$ 34.8</b>	<b>\$ 138.0</b>	<b>\$ 82.0</b>

**Average shares of common stock**

Basic	<b>38.2</b>	37.4	<b>38.0</b>	37.2
Diluted	<b>38.6</b>	37.6	<b>38.3</b>	37.5

**Earnings per common share**

Basic	\$	<b>1.26</b>	\$	0.93	\$	<b>3.63</b>	\$	2.20
Diluted	\$	<b>1.25</b>	\$	0.93	\$	<b>3.60</b>	\$	2.19

**Dividends per common share  
declared**

\$	<b>0.565</b>	\$	0.555	\$	<b>1.675</b>	\$	1.645
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The accompanying condensed notes are an integral part of these statements.

## WPS RESOURCES CORPORATION

## CONDENSED CONSOLIDATED BALANCE

## SHEETS (Unaudited)

(Millions)

September 30  
2005December 31  
2004**Assets**

Cash and cash equivalents	\$	27.4	\$	40.0
Accounts receivable - net of reserves of \$9.4 and \$8.0, respectively		796.6		531.3
Accrued unbilled revenues		71.2		113.2
Inventories		272.9		196.1
Current assets from risk management activities		1,355.9		376.5
Assets held for sale		0.8		24.1
Other current assets		70.9		91.5
<b>Current assets</b>		<b>2,595.7</b>		<b>1,372.7</b>

Property, plant, and equipment, net of reserves of \$1,097.9 and \$1,588.5, respectively		2,056.0		2,076.5
Nuclear decommissioning trusts		-		344.5
Regulatory assets		234.7		160.9
Long-term assets from risk management activities		241.0		74.6
Other		351.1		347.6
<b>Total assets</b>	\$	<b>5,478.5</b>	\$	<b>4,376.8</b>

**Liabilities and Shareholders' Equity**

Short-term debt	\$	148.0	\$	292.4
Current portion of long-term debt		3.7		6.7
Accounts payable		851.2		589.4
Current liabilities from risk management activities		1,364.0		338.6
Deferred income taxes		4.4		9.1
Other current liabilities		153.4		73.2
<b>Current liabilities</b>		<b>2,524.7</b>		<b>1,309.4</b>

Long-term debt		869.6		865.7
Deferred income taxes		18.6		71.0
Deferred investment tax credits		15.1		16.2
Regulatory liabilities		379.3		288.3
Environmental remediation liabilities		66.9		68.4
Pension and postretirement benefit obligations		77.5		94.6
Long-term liabilities from risk management activities		197.8		62.5
Asset retirement obligations		2.8		366.6
Other		109.7		91.2
<b>Long-term liabilities</b>		<b>1,737.3</b>		<b>1,924.5</b>

**Commitments and contingencies**

Preferred stock of subsidiary with no mandatory redemption		51.1		51.1
Common stock equity		1,165.4		1,091.8
<b>Total liabilities and shareholders' equity</b>	\$	<b>5,478.5</b>	\$	4,376.8

The accompanying condensed notes are an integral part of these statements.

## WPS RESOURCES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS  
OF CASH FLOWS (Unaudited)

(Millions)	Nine Months Ended September 30	
	2005	2004
<b>Operating Activities</b>		
Net income before preferred stock dividends of subsidiary	\$ 140.3	\$ 84.3
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and decommissioning	119.6	78.4
Amortization of nuclear fuel and other	43.0	35.2
Realized gain on investments held in trust, net of regulatory deferral	(15.7)	(3.3)
Pension and postretirement expense	37.8	30.4
Pension and postretirement funding	(8.2)	-
Deferred income taxes and investment tax credit	(41.3)	9.2
Unrealized gains on nonregulated energy contracts	(22.0)	-
Gain on sale of partial interest in synthetic fuel operation	(5.5)	(5.6)
Gain on sale of emission allowances	(86.8)	-
Impairment loss	80.6	-
Deferral of Kewaunee outage costs	(57.8)	-
Other	(31.8)	(20.8)
Changes in working capital		
Receivables, net	(231.8)	137.6
Inventories	(52.4)	(15.1)
Other current assets	6.4	(0.1)
Accounts payable	258.0	(57.5)
Other current liabilities	40.0	(13.4)
<b>Net cash provided by operating activities</b>	<b>172.4</b>	<b>259.3</b>
<b>Investing Activities</b>		
Capital expenditures	(293.7)	(199.4)
Sale of property, plant and equipment	3.8	4.7
Sale of emission allowances	110.9	-
Purchase of equity investments and other acquisitions	(48.5)	(37.5)
Proceeds from sale of Kewaunee power plant	112.5	-
Proceeds from liquidation of non-qualified decommissioning trust	127.1	-
Other	(1.0)	22.3
<b>Net cash provided by (used for) investing activities</b>	<b>11.1</b>	<b>(209.9)</b>
<b>Financing Activities</b>		
Short-term debt - net	(141.8)	102.4
Repayment of long-term debt and note to preferred stock trust	(1.9)	(105.7)

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Payment of dividends				
Preferred stock		(2.3)		(2.3)
Common stock		(63.0)		(60.9)
Issuance of common stock		23.7		22.3
Other		(10.8)		(0.8)
<b>Net cash used for financing activities</b>		<b>(196.1)</b>		<b>(45.0)</b>
<b>Change in cash and cash equivalents</b>		<b>(12.6)</b>		<b>4.4</b>
Cash and cash equivalents at beginning of period		<b>40.0</b>		50.7
<b>Cash and cash equivalents at end of period</b>	<b>\$</b>	<b>27.4</b>	<b>\$</b>	55.1

The accompanying condensed notes are an integral part of these statements

-7-

## WISCONSIN PUBLIC SERVICE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited) (Millions)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2005	2004	2005	2004
<b>Operating revenues</b>				
Electric	\$ 266.7	\$ 214.6	\$ 705.8	\$ 603.2
Gas	71.8	45.6	336.2	288.8
<b>Total operating revenues</b>	<b>338.5</b>	<b>260.2</b>	<b>1,042.0</b>	<b>892.0</b>
<b>Operating expenses</b>				
Electric production fuels	55.7	35.5	142.1	102.6
Purchased power	75.2	26.7	127.3	80.9
Gas purchased for resale	52.6	28.8	247.1	203.4
Other operating expenses	68.7	72.1	230.5	226.8
Maintenance	13.4	16.7	50.6	56.8
Depreciation and decommissioning	19.7	21.9	107.0	66.7
Federal income taxes	8.6	11.5	23.7	30.5
Investment tax credit restored	(0.3)	(0.3)	(1.0)	(1.0)
State income taxes	4.2	3.5	7.2	8.6
Gross receipts tax and other	9.7	9.4	29.7	28.8
<b>Total operating expense</b>	<b>307.5</b>	<b>225.8</b>	<b>964.2</b>	<b>804.1</b>
<b>Operating income</b>	<b>31.0</b>	<b>34.4</b>	<b>77.8</b>	<b>87.9</b>
<b>Other income and (deductions)</b>				
Allowance for equity funds used during construction	0.4	0.5	1.3	1.5
Other, net	3.6	5.9	51.2	14.9
Income taxes	0.1	(1.2)	(16.8)	(2.2)
<b>Total other income</b>	<b>4.1</b>	<b>5.2</b>	<b>35.7</b>	<b>14.2</b>
<b>Interest expense</b>				
Interest on long-term debt	7.4	7.4	22.4	22.4
Other interest	1.4	1.2	4.6	3.0
Allowance for borrowed funds used during construction	(0.1)	(0.2)	(0.4)	(0.5)
<b>Total interest expense</b>	<b>8.7</b>	<b>8.4</b>	<b>26.6</b>	<b>24.9</b>
<b>Net income</b>	<b>26.4</b>	<b>31.2</b>	<b>86.9</b>	<b>77.2</b>
<b>Preferred stock dividend requirements</b>	<b>0.7</b>	<b>0.7</b>	<b>2.3</b>	<b>2.3</b>
<b>Earnings on common stock</b>	<b>\$ 25.7</b>	<b>\$ 30.5</b>	<b>\$ 84.6</b>	<b>\$ 74.9</b>

The accompanying condensed notes are an integral part of these statements.

## WISCONSIN PUBLIC SERVICE CORPORATION

## CONDENSED CONSOLIDATED BALANCE

## SHEETS (Unaudited)

(Millions)

September 30

2005

December 31

2004

## ASSETS

## Utility plant

Electric	\$	1,869.2	\$	2,223.9
Gas		530.9		510.0
Total		2,400.1		2,733.9
Less - Accumulated depreciation		973.2		1,189.3
Total		1,426.9		1,544.6
Nuclear decommissioning trusts		-		344.5
Construction in progress		351.2		153.1
Nuclear fuel, less accumulated amortization		-		24.6
<b>Net utility plant</b>		<b>1,778.1</b>		<b>2,066.8</b>

## Current assets

Cash and cash equivalents		4.0		3.5
Customer and other receivables, net of reserves of \$6.1 at September 30, 2005 and \$5.5 at December 31, 2004		109.1		106.2
Receivables from related parties		13.9		9.1
Accrued unbilled revenues		35.4		68.4
Fossil fuel, at average cost		21.2		15.2
Gas in storage, at average cost		78.0		60.2
Materials and supplies, at average cost		23.0		28.3
Assets from risk management activities		46.2		5.7
Prepayments and other		23.7		39.3
<b>Total current assets</b>		<b>354.5</b>		<b>335.9</b>

## Regulatory assets

230.2

156.5

## Goodwill

36.4

36.4

## Investments and other assets

149.9

173.0

## Total assets

\$

2,549.1

\$

2,768.6

## CAPITALIZATION AND LIABILITIES

## Capitalization

Common stock equity	\$	957.0	\$	899.7
Preferred stock with no mandatory redemption		51.2		51.2
Long-term debt to parent		11.6		12.0
Long-term debt		496.1		496.0
<b>Total capitalization</b>		<b>1,515.9</b>		<b>1,458.9</b>

## Current liabilities



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Short-term debt	<b>42.0</b>	101.0
Accounts payable	<b>160.0</b>	145.1
Payables to related parties	<b>10.4</b>	8.9
Accrued interest and taxes	<b>11.7</b>	8.1
Other	<b>72.9</b>	20.5
<b>Total current liabilities</b>	<b>297.0</b>	283.6
<b>Long-term liabilities and deferred credits</b>		
Accumulated deferred income taxes	<b>112.3</b>	130.1
Accumulated deferred investment tax credits	<b>14.2</b>	15.2
Regulatory liabilities	<b>360.5</b>	271.1
Environmental remediation liability	<b>65.3</b>	66.7
Pension and postretirement benefit obligations	<b>75.9</b>	92.9
Asset retirement obligations	<b>0.4</b>	364.4
Payables to related parties	<b>16.8</b>	18.6
Other long-term liabilities	<b>90.8</b>	67.1
<b>Total long-term liabilities and deferred credits</b>	<b>736.2</b>	1,026.1
<b>Commitments and contingencies</b>	-	-
<b>Total capitalization and liabilities</b>	<b>\$ 2,549.1</b>	<b>\$ 2,768.6</b>

The accompanying condensed notes are an integral part of these statements.

## WISCONSIN PUBLIC SERVICE CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS

## OF CAPITALIZATION (Unaudited)

(Millions, except share amounts)

September 30  
2005December 31  
2004**Common stock equity**

Common stock	\$	95.6	\$	95.6
Premium on capital stock		549.7		516.0
Accumulated other comprehensive loss		(20.7)		(20.7)
Retained earnings		332.4		308.8
<b>Total common stock equity</b>		<b>957.0</b>		<b>899.7</b>

**Preferred stock**Cumulative, \$100 par value, 1,000,000 shares  
authorized

with no mandatory redemption -

<u>Series</u>	<u>Shares Outstanding</u>			
5.00%	131,916	13.2		13.2
5.04%	29,983	3.0		3.0
5.08%	49,983	5.0		5.0
6.76%	150,000	15.0		15.0
6.88%	150,000	15.0		15.0
<b>Total preferred stock</b>		<b>51.2</b>		<b>51.2</b>

**Long-term debt to parent**

<u>Series</u>	<u>Year Due</u>			
8.76%	2015	4.8		5.0
7.35%	2016	6.8		7.0
<b>Total long-term debt to parent</b>		<b>11.6</b>		<b>12.0</b>

**Long-term debt**

First mortgage bonds

<u>Series</u>	<u>Year Due</u>			
6.90%	2013	22.0		22.0
7.125%	2023	0.1		0.1

Senior notes

<u>Series</u>	<u>Year Due</u>			
6.125%	2011	150.0		150.0
4.875%	2012	150.0		150.0
4.8%	2013	125.0		125.0
6.08%	2028	50.0		50.0

Total		497.1		497.1
Unamortized discount and premium on bonds, net		(1.0)		(1.1)

<b>Total long-term debt</b>		<b>496.1</b>		<b>496.0</b>
<b>Total capitalization</b>	\$	<b>1,515.9</b>	\$	<b>1,458.9</b>

The accompanying condensed notes are an integral part of these statements.

-10-

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## WISCONSIN PUBLIC SERVICE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS  
OF CASH FLOWS (Unaudited)

(Millions)	Nine Months Ended September 30	
	2005	2004
<b>Operating Activities</b>		
Net income	\$ 86.9	\$ 77.2
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and decommissioning	107.0	66.7
Amortization	30.1	29.4
Deferred income taxes	(20.8)	12.8
Investment tax credit restored	(1.0)	(1.0)
Allowance for funds used during construction	(1.7)	(1.5)
Realized gain on investments	(15.7)	(3.3)
Equity income	(8.4)	(10.7)
Pension and post retirement expense	29.0	22.0
Pension and post retirement funding	(8.2)	-
Deferral of Kewaunee outage expenses	(57.8)	-
Other	(21.6)	(6.0)
<b>Changes in -</b>		
Customer and other receivables	(22.0)	15.3
Accrued utility revenues	33.0	24.6
Fossil fuel inventory	(5.4)	(0.8)
Gas in storage	(17.8)	(16.4)
Miscellaneous assets	15.5	(3.7)
Accounts payable	6.8	(2.2)
Accrued taxes and interest	4.3	(0.3)
Miscellaneous current and accrued liabilities	3.8	3.6
<b>Net cash provided by operating activities</b>	<b>136.0</b>	<b>205.7</b>
<b>Investing Activities</b>		