WISCONSIN ENERGY CORP
Form 10-K
February 28, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended

December 31, 2007

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 Par Value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [ ] No [X]

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 (Section 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

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

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

The aggregate market value of the common stock of Wisconsin Energy Corporation held by non-affiliates was approximately $5.2 billion based upon the reported closing price of such securities as of June 30, 2007.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date (January 31, 2008):

Common Stock, $.01 Par Value, 116,933,966, shares outstanding

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Documents Incorporated by Reference

Portions of Wisconsin Energy Corporation's definitive Proxy Statement on Schedule 14A for its Annual Meeting of Stockholders, to be held on May 1, 2008, are incorporated by reference into Part III hereof.

WISCONSIN ENERGY CORPORATION
FORM 10-K REPORT FOR THE YEAR ENDED DECEMBER 31, 2007

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DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

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

Wisconsin Energy Subsidiaries and Affiliates

Primary Subsidiaries

Edison Sault

Edison Sault Electric Company

We Power

W.E. Power, LLC

Wisconsin Electric

Wisconsin Electric Power Company

Wisconsin Gas

Wisconsin Gas LLC

Significant Assets

OC 1

Oak Creek expansion Unit 1

OC 2

Oak Creek expansion Unit 2

Point Beach

Point Beach Nuclear Plant

PWGS

Port Washington Generating Station

PWGS 1

Port Washington Generating Station Unit 1

PWGS 2

Port Washington Generating Station Unit 2

Other Affiliates

ATC

American Transmission Company LLC

Calumet

Calumet Energy

Minergy

Minergy LLC

Minergy Neenah

Minergy Neenah, LLC

NMC

Nuclear Management Company, LLC

WICOR

Wicor, Inc.

Wispark

Wispark LLC

Wisvest

Wisvest LLC

Federal and State Regulatory Agencies

DOA

Wisconsin Department of Administration

DOE

United States Department of Energy

EPA

United States Environmental Protection Agency

FERC

Federal Energy Regulatory Commission

IRS

Internal Revenue Service

MPSC

Michigan Public Service Commission

NRC

United States Nuclear Regulatory Commission

PSCW

Public Service Commission of Wisconsin

SEC

Securities and Exchange Commission

WDNR

Wisconsin Department of Natural Resources

Environmental Terms

Act 141

2005 Wisconsin Act 141

Air Permit

Air Pollution Control Construction Permit

BART

Best Available Retrofit Technology

BTA

Best Technology Available

CAA

Clean Air Act

CAIR

Clean Air Interstate Rule

CAMR

Clean Air Mercury Rule

CAVR

Clean Air Visibility Rule

CERCLA

Comprehensive Environmental Response, Compensation and Liability Act

DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

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

CO_2

Carbon Dioxide

CWA

Clean Water Act

NAAQS

National Ambient Air Quality Standard

NO_x

Nitrogen Oxide

$PM_{2.5}$	Fine Particulate Matter
RI/FS	Remedial Investigation and Feasibility Study
SO_2	Sulfur Dioxide
WPDES	Wisconsin Pollution Discharge Elimination System

Other Terms and Abbreviations

ALJ	Wisconsin Administrative Law Judge
Compensation Committee	Compensation Committee of the Board of Directors
CPCN	Certificate of Public Convenience and Necessity
D&D Fund	Uranium Enrichment Decontamination and Decommissioning Fund
Energy Policy Act	Energy Policy Act of 2005
Fitch	Fitch Ratings
FPL	FPL Group, Inc.
FTRs	Financial Transmission Rights
Guardian	Guardian Pipeline L.L.C.
GCRM	Gas Cost Recovery Mechanism
GDP	Gross Domestic Product
Junior Notes	Wisconsin Energy's 2007 Series A Junior Subordinated Notes due 2067 issued in May 2007
LLC	Limited Liability Company
LMP	Locational Marginal Price
LSEs	Load Serving Entities
MAIN	Mid-America Interconnected Network, Inc.
MISO	Midwest Independent Transmission System Operator, Inc.
MISO Energy Markets	

	MISO bid-based energy market
Moody's	Moody's Investor Service
PJM	PJM Interconnection, L.L.C.
PRSG	Planning Reserve Sharing Groups
PSEG	Public Service Enterprise Group
PTF	Power the Future
PUHCA 1935	Public Utility Holding Company Act of 1935, as amended
PUHCA 2005	Public Utility Holding Company Act of 2005
RCC	Replacement Capital Covenant dated May 11, 2007
RFC	Reliability First Corporation
RSG	Revenue Sufficiency Guarantee
RTO	Regional Transmission Organizations
S&P	Standard & Poor's Ratings Services

Measurements

Btu	British thermal unit(s)
Dth	Dekatherm(s) (One Dth equals one million Btu)
kW	Kilowatt(s) (One kW equals one thousand watts)
kWh	Kilowatt-hour(s)
MW	Megawatt(s) (One MW equals one million watts)

DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

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

MWh	Megawatt-hour(s)
Watt	A measure of power production or usage

Accounting Terms

AFUDC	Allowance for Funds Used During Construction
APB	Accounting Principles Board
ARO	Asset Retirement Obligation
CWIP	Construction Work in Progress
FASB	Financial Accounting Standards Board
FIN	FASB Interpretation
FSP	FASB Staff Position
GAAP	Generally Accepted Accounting Principles
NOLs	Net Operating Loss Carryforwards
OPEB	Other Post-Retirement Employee Benefits
SFAS	Statement of Financial Accounting Standards

Accounting Pronouncements

FIN 46	Consolidation of Variable Interest Entities
FIN 46R	Consolidation of Variable Interest Entities (Revised 2003)
FIN 47	Accounting for Conditional Asset Retirement Obligations
FIN 48	Accounting for Uncertainty in Income Taxes
FSP SFAS 106-2	Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization

	Act of 2003
FSP FIN 46R-6	Determining the Variability to Be Considered in Applying FIN 46R
SFAS 34	Capitalization of Interest Cost
SFAS 71	Accounting for the Effects of Certain Types of Regulation
SFAS 87	Employers' Accounting for Pensions
SFAS 106	Employers' Accounting for Postretirement Benefits Other Than Pensions
SFAS 109	Accounting for Income Taxes
SFAS 115	Accounting for Certain Investments in Debt and Equity Securities
SFAS 123	Accounting for Stock-Based Compensation
SFAS 123R	Share-Based Payment (Revised 2004)
SFAS 133	Accounting for Derivative Instruments and Hedging Activities
SFAS 142	Goodwill and Other Intangible Assets
SFAS 143	Accounting for Asset Retirement Obligations
SFAS 144	Accounting for the Impairment or Disposal of Long-Lived Assets
SFAS 149	Amendment of SFAS 133 on Derivative Instruments and Hedging Activities
SFAS 157	Fair Value Measurements
SFAS 158	Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans
SFAS 159	The Fair Value Option for Financial Assets and Financial Liabilities

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

- Timing, resolution and impact of pending and future rate cases and negotiations, including recovery for new investments as part of our PTF strategy, environmental compliance, transmission service, fuel costs and costs associated with the implementation of the MISO Energy Markets.

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

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

- Factors which impede execution of our PTF strategy, including receipt of necessary state and federal regulatory approvals and permits; timely and successful resolution of legal challenges, including current

challenges to the WPDES permit for the Oak Creek expansion; opposition to siting of new generating facilities; the adverse interpretation or enforcement of permit conditions by the permitting agencies; and obtaining the investment capital from outside sources necessary to implement the strategy.

- The impact of recent and future federal, state and local legislative and regulatory changes, including electric and gas industry restructuring initiatives; implementation of the Energy Policy Act; changes in allocation of energy assistance, including state public benefits funds; changes in environmental, tax and other laws and regulations to which we are subject; and changes in the application of existing laws and regulations.

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

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

- Factors affecting the availability or cost of capital such as, changes in interest rates and other general capital market conditions; our capitalization structure; market perceptions of the utility industry, us or any of our subsidiaries; or our credit ratings.

- The investment performance of our pension and other post-retirement benefit plans.

- The effect of accounting pronouncements issued periodically by standard setting bodies.

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

- Changes in the creditworthiness of the counterparties with whom we have contractual arrangements, including participants in the energy trading markets and fuel suppliers and transporters.

- The performance of projects undertaken by our non-utility businesses and the success of efforts to invest in and develop new opportunities.

- The cyclical nature of property values that could affect our real estate investments.

- Changes to the legislative or regulatory restrictions or caps on non-utility acquisitions, investments or projects, including the State of Wisconsin's public utility holding company law.

- Other business or investment considerations that may be disclosed from time to time in our SEC filings or in other publicly disseminated written documents, including the risk factors set forth in Item 1A of this report.

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

PART I

ITEM 1. BUSINESS

INTRODUCTION

Wisconsin Energy Corporation was incorporated in the State of Wisconsin in 1981 and became a diversified holding company in 1986. We maintain our principal executive offices in Milwaukee, Wisconsin. Unless qualified by their context when used in this document, the terms Wisconsin Energy, the Company, our, us or we refer to the holding company and all of its subsidiaries.

We conduct our operations primarily in two operating segments: a utility energy segment and a non-utility energy segment. Our primary subsidiaries are Wisconsin Electric, Wisconsin Gas, Edison Sault and We Power.

Utility Energy Segment:

Our utility energy segment consists of: Wisconsin Electric, Wisconsin Gas and Edison Sault. We serve approximately 1,132,500 electric customers in Wisconsin and the Upper Peninsula of Michigan. We have approximately 1,049,500 gas customers in Wisconsin, 470 steam customers in metropolitan Milwaukee, Wisconsin, and 3,040 water customers in suburban Milwaukee, Wisconsin. Wisconsin Electric and Wisconsin Gas operate under the trade name of "We Energies".

Non-Utility Energy Segment:

Our non-utility energy segment consists primarily of We Power. We Power was formed in 2001 to design, construct, own and lease to Wisconsin Electric the new generating capacity included in our PTF strategy. See Item 7 for more information on PTF.

Discontinued Operations:

In September 2006, we sold 100% of our membership interests in Minergy Neenah. Previously, Minergy Neenah's operations were included in Corporate and Other. We sold our Calumet facility, which was part of our non-utility energy segment, in May 2005.

PTF Strategy:

In September 2000, we announced our PTF strategy to improve the supply and reliability of electricity in Wisconsin. As part of our PTF strategy, we are: (1) investing in new natural gas-fired and coal-fired electric generating facilities, (2) upgrading Wisconsin Electric's existing electric generating facilities and (3) investing in upgrades of our existing energy distribution system. Also, as part of this strategy, we announced and began implementing plans to divest non-core assets and operations in our non-utility energy segment and to reduce our real estate operations. Additional information concerning PTF may be found below under Non-Utility Energy Segment, as well as in Item 7.

For further financial information about our business segments, see Results of Operations in Item 7 and Note Q -- Segment Reporting in the Notes to Consolidated Financial Statements in Item 8.

Our annual and periodical filings to the SEC are available, free of charge, through our Internet website www.wisconsinenergy.com. These documents are available as soon as reasonably practicable after such materials are filed (or furnished) with the SEC.

UTILITY ENERGY SEGMENT

ELECTRIC UTILITY OPERATIONS

Our electric utility operations consist of the electric operations of Wisconsin Electric and Edison Sault. Wisconsin Electric, which is the largest electric utility in the State of Wisconsin, generates and distributes electric energy in a territory in southeastern (including the metropolitan Milwaukee area), east central and northern Wisconsin and in the Upper Peninsula of Michigan. Edison Sault generates and distributes electric energy in a territory in the eastern Upper Peninsula of Michigan.

Effective April 1, 2005, Wisconsin Electric and Edison Sault began to participate in the MISO Energy Markets which changed how our generating units are dispatched and how we buy and sell power. For further information, see Factors Affecting Results, Liquidity and Capital Resources in Item 7.

Electric Sales

Our electric energy sales to all classes of customers, excluding intercompany sales between Edison Sault and Wisconsin Electric, totaled approximately 33.0 million MWh during 2007 and approximately 31.9 million MWh during 2006. We had approximately 1,132,500 electric customers at December 31, 2007 and 1,125,200 electric customers at December 31, 2006.

Wisconsin Electric:

Wisconsin Electric is authorized to provide retail electric service in designated territories in the State of Wisconsin, as established by indeterminate permits, CPCNs or boundary agreements with other utilities, and in certain territories in the State of Michigan pursuant to franchises granted by municipalities. Wisconsin Electric also sells wholesale electric power within the MISO Energy Markets.

Edison Sault:

Edison Sault is authorized to provide retail electric service in certain territories in the State of Michigan pursuant to franchises granted by municipalities. Edison Sault also provides wholesale electric service under contract with one rural cooperative.

Electric Sales Growth:

We presently anticipate total retail and municipal electric kWh sales of our utility energy segment will grow at an annual rate of 1.0% to 1.5% over the next five years. This estimate excludes our largest customers, two iron ore mines, and assumes moderate growth in the economy of our electric utility service territories and normal weather. We also anticipate that our peak electric demand will grow at a rate of 1.5% to 2.0% over the next five years.

Sales to Large Electric Retail Customers:

Wisconsin Electric provides electric utility service to a diversified base of customers in such industries as mining, paper, foundry, food products and machinery production, as well as to large retail chains. Edison Sault provides

electric service to industrial accounts in the paper, crude oil pipeline and limestone quarry industries, as well as to several state and federal government facilities.

Our largest retail electric customers are two iron ore mines located in the Upper Peninsula of Michigan. Wisconsin Electric had special negotiated power-sales contracts with these mines that expired in December 2007. The combined electric energy sales to the two mines accounted for 6.3% and 6.2% of our total electric utility energy sales during 2007 and 2006, respectively. In 2005, the mines notified us that they were disputing certain billings and placed the disputed amounts in escrow. In May 2007, Wisconsin Electric entered into a settlement agreement with the two iron ore mines. The settlement was a full and complete resolution of all claims and disputes between the parties for electric service rendered by Wisconsin Electric under the power purchase agreements through March 31, 2007. The MPSC approved the settlement in May 2007. Pursuant to the settlement, the mines paid Wisconsin Electric approximately $9.0 million and Wisconsin Electric released to the mines all funds held in escrow. The earnings impact of the payment from the mines was $0.04 per share. The settlement also provided a mutually satisfactory pricing structure through December 31, 2007. Beginning January 1, 2008, the mines became eligible to receive electric service from Wisconsin Electric in accordance with tariffs approved by the MPSC.

Sales to Wholesale Customers:

During 2007, Wisconsin Electric sold wholesale electric energy to two municipally owned systems, two rural cooperatives and one municipal joint action agency located in the states of Wisconsin and Michigan. Wholesale electric energy sales by Wisconsin Electric were also made to 9 other public utilities and power marketers throughout the region under rates approved by FERC. Edison Sault sold wholesale electric energy to one rural cooperative during 2007. Wholesale sales accounted for approximately 10.9% of our total electric energy sales and 6.5% of total electric operating revenues during 2007, compared with 9.7% of total electric energy sales and 5.1% of total electric operating revenues during 2006.

Electric System Reliability Matters:

Electric energy sales are impacted by seasonal factors and varying weather conditions from year-to-year. As a summer peaking utility, the summer period is the most relevant period for capacity planning purposes for us as a result of cooling load. Prior to 2006, Wisconsin Electric was a member of the MAIN reliability council, whose guidelines required a minimum 14% planning reserve margin for the short-term (up to one year ahead). Effective January 1, 2006, Wisconsin Electric became a member of RFC, a successor council encompassing most of the East Central Area Reliability Council and Mid-Atlantic Area Council and a portion of MAIN. The RFC has approved reliability standards, which set forth the methodology for establishing planning reserve requirements and require the formation of PRSG. Wisconsin Electric is a member of the Midwest PRSG which was formed in June 2007 to establish planning reserve requirements. Wisconsin Electric must also adhere to

PSCW guidelines requiring an 18% planning reserve margin; however, in November 2007, the PSCW opened a new docket to review the 18% planning reserve margin requirement. Wisconsin Electric cannot at this time predict the outcome of this docket and its potential impact on the current 18% requirement. The MPSC has not established guidelines in this area.

We had adequate capacity to meet all of our firm electric load obligations during 2007 and expect to have adequate capacity to meet all of our firm obligations during 2008. For additional information, see Factors Affecting Results, Liquidity and Capital Resources in Item 7.

Electric Supply

Our electric supply strategy is to provide our customers with a diverse fuel mix that is expected to maintain a stable, reliable and affordable supply of electricity. We supply electricity to our customers from power plants that we own. We supplement our internally generated power supply with long-term power purchase agreements and through spot purchases in the MISO Energy Markets.

Our installed capacity by fuel type for the years ended December 31, is shown below.

	Dependable Capability in MW (a)		
	2007	2006	2005
Coal	3,247	3,334	3,334
Nuclear (b)	-	1,036	1,036
Natural Gas - Combined Cycle (c)	575	575	545
Natural Gas/Oil - Peaking Units (d)	1,162	1,180	1,168
Renewables (e)	84	84	84
Total	5,068	6,209	6,167

(a) Dependable capability is the net power output under average operating conditions with equipment in an average state of repair as of a given month in a given year. The values were established by test and may change slightly from year to year.

(b) Concurrent with the sale of Point Beach, Wisconsin Electric entered into a power purchase agreement with the buyer to purchase all of the energy produced by Point Beach until 2030 for Unit 1 and 2033 for Unit 2.

(c) The increase in 2006 as compared to 2005, primarily reflects a 30 MW increase in dependable capability at PWGS 1, which was added in 2005, from the 545 MW guaranteed capacity required under the lease.

(d) Approximately 50% of the Natural Gas/Oil peaking units are dual-fueled. The dual-fueled facilities generally burn oil only if natural gas is not available due to constraints on the natural gas pipeline and/or at the local gas distribution company that delivers gas to the plants.

(e) Includes hydroelectric and wind generation

Our PTF strategy, which is discussed further in Item 7, includes the addition of 2,320 MW of generating capacity from 2005 through 2010. Our first plant, a natural gas combined cycle unit, providing 575 MW of dependable capability, went on line in 2005. The second 545 MW unit is expected to go on line in the second quarter of 2008. Under our PTF plan, we expect to have 515 MW of dependable capability coming in service in 2009 related to our

first coal unit. The second coal unit is expected to provide us with 515 MW of dependable capability in 2010. In addition, we expect to have 145 MW of wind generation coming on line during 2008, of which only 32 MW is dependable capability.

The table below indicates our sources of electric energy supply as a percentage of sales, for the three years ended December 31, 2007, as well as an estimate for 2008.

	Estimate	Actual		
	2008	2007	2006	2005
Coal	55.6%	54.1%	54.7%	57.6%
Nuclear (a)	- %	17.3%	25.3%	20.0%
Hydroelectric	2.1%	1.1%	1.4%	1.6%
Natural Gas -Combined Cycle	5.3%	5.2%	3.5%	1.4%
Natural Gas/Oil-Peaking Units	1.2%	1.0%	0.6%	1.5%
Net Generation	64.2%	78.7%	85.5%	82.1%
Purchased Power (a)	35.8%	21.3%	14.5%	17.9%
Total	100.0%	100.0%	100.0%	100.0%

(a) In 2007, purchased power increased and nuclear generation decreased due to the sale of Point Beach and the entry into the associated power purchase agreement with the buyer.

Our average fuel and purchased power costs per MWh by fuel type for the years ended December 31 are shown below.

	2007	2006	2005
Coal	$20.52	$18.30	$14.74
Nuclear	$5.83	$5.23	$5.06
Natural Gas - Combined Cycle	$61.27	$66.30	$84.77
Natural Gas/Oil - Peaking Units	$111.21	$136.24	$125.67
Purchased Power	$45.19	$47.67	$53.59

Historically, the fuel costs for coal have been under long-term contracts, which helped with price stability. In 2006, we entered into new long-term coal contracts to replace certain contracts that expired during 2006. Coal and associated transportation services have seen greater volatility in pricing than typically experienced in these markets due to increases in the domestic and world-wide demand for coal and the impacts of higher diesel costs which are reflected in the form of fuel surcharges on rail transportation.

The costs for natural gas and purchased power, which is primarily natural gas-fired, are volatile and have experienced significant increases since 2002. Natural gas costs have increased significantly because the supply of natural gas in recent years has not kept pace with the demand. Beginning in late 2003 and concurrent with the approval by the PSCW, we established a hedging program to help manage our natural gas price risk. This hedging program is generally implemented on an 18 month forward-looking basis. Proceeds related to the natural gas hedging program are reflected in the 2007, 2006 and 2005 average costs of natural gas and purchased power shown above. In addition, concurrent with the Point Beach sale, our purchased power costs also reflect the long-term power purchase agreement with the buyer for all of the energy produced by Point Beach.

Coal-Fired Generation

Coal Supply:

We diversify the coal supply for our power plants by purchasing coal from mines in northern and central Appalachia as well as from various western mines. During 2008, 100% of our projected coal requirements of 12.3 million tons are under contracts which are not tied to 2008 market pricing fluctuations. Our coal-fired generation consists of six operating plants with a dependable capability of approximately 3,247 MW.

Following is a summary of the annual tonnage amounts for our principal long-term coal contracts by the month and year in which the contracts expire.

Contract Expiration Date	Annual Tonnage (Thousands)
Dec. 2008	4,150.0
Dec. 2009	6,500.0
Dec. 2010	1,660.0

Coal Deliveries:

Approximately 87% of our 2008 coal requirements are expected to be delivered by Wisconsin Electric-owned or leased unit trains. The unit trains will transport coal for the Oak Creek, Pleasant Prairie and Edgewater Power Plants from Wyoming mines. Coal from Central Appalachia and Colorado mines is also transported via rail to Lake Erie or Lake Michigan transfer docks and delivered to the Valley and Milwaukee County Power Plants. Montana and Wyoming coal for Presque Isle Power Plant is transported via rail to Superior, Wisconsin, placed in dock storage and

reloaded into lake vessels for plant delivery. Central Appalachia and Colorado coal bound for the Presque Isle Power Plant is shipped via rail to Lake Erie and Lake Michigan (Chicago) coal transfer docks, respectively, for lake vessel delivery to the plant.

Environmental Matters:

For information regarding emission restrictions, especially as they relate to coal-fired generating facilities, see Factors Affecting Results, Liquidity and Capital Resources -- Environmental Matters in Item 7.

Nuclear Generation

Point Beach:

Prior to September 28, 2007, Wisconsin Electric owned two 518 MW electric generating units at Point Beach in Two Rivers, Wisconsin. On September 28, 2007, Wisconsin Electric sold Point Beach to an affiliate of FPL for approximately $924 million. Pursuant to the terms of the sale agreement, the buyer purchased Point Beach, its nuclear fuel, associated inventories and assumed the obligation to decommission the plant.

A long-term power purchase agreement with the buyer became effective upon closing of the sale. Pursuant to this agreement, Wisconsin Electric is purchasing all of the energy produced by Point Beach. The power purchase agreement extends through 2030 for Unit 1 and 2033 for Unit 2. Based on the agreement, we will be paying the buyer a predetermined price per MWh for energy delivered. For additional information on the sale of Point Beach, see Nuclear Operations under Factors Affecting Results, Liquidity and Capital Resources in Item 7 of this report.

Nuclear Management Company:

Prior to the Point Beach sale, we had a partial ownership in NMC. NMC held the operating licenses for Point Beach. Upon the sale of Point Beach, NMC transferred the operating licenses to the buyer and our relationship with NMC was terminated.

Used Nuclear Fuel Storage & Disposal:

For information concerning used nuclear fuel storage and disposal issues, see Factors Affecting Results, Liquidity and Capital Resources in Item 7.

For further information on the sale of Point Beach, see Note D -- Asset Sales, Divestitures and Discontinued Operations in the Notes to Consolidated Financial Statements in Item 8.

Natural Gas-Fired Generation

Our natural gas-fired generation consists of five operating plants with a dependable capability of approximately 1,475 MW at December 31, 2007. In July 2005, we added PWGS 1, a natural gas-fired unit with a dependable capability of 575 MW. A second 545 MW unit at PWGS is expected to come on line in 2008.

We purchase natural gas for these plants on the spot market from gas marketers, utilities and producers and we arrange for transportation of the natural gas to our plants. We have firm and interruptible transportation, balancing and storage agreements intended to support the plants' variable usage.

The PSCW has approved a program that allows us to hedge up to 75% of our estimated gas usage for electric generation in order to help manage our natural gas price risk. The costs of this program are included in our fuel and purchased power costs.

Oil-Fired Generation

Fuel oil is used for the combustion turbines at the Germantown Power Plants units 1-4. It is also used for boiler ignition and flame stabilization at the Presque Isle Power Plant. Our oil-fired generation had a dependable capability of approximately 262 MW at December 31, 2007. The natural gas facilities generally burn oil only if natural gas is not available due to constraints on the natural gas pipeline and/or at the local gas distribution company that delivers gas to the plants. Fuel oil requirements are purchased under agreements with suppliers.

Renewable Generation

Wisconsin Electric:

Wisconsin Electric's hydroelectric generating system consists of thirteen operating plants with a total installed capacity of approximately 88 MW and a dependable capability of approximately 57 MW at December 31, 2007. Of these thirteen plants, twelve plants (86 MW of installed capacity) have long-term licenses from FERC. The thirteenth plant, with an installed generating capacity of approximately 2 MW, does not require a license.

Wisconsin Electric holds development rights for two wind farm projects and began the construction of the first project in 2007. Additional information on wind generation is provided in Factors Affecting Results, Liquidity and Capital Resources -- Other Utility Rate Matters -- Wind Generation in Item 7.

Edison Sault:

Edison Sault's primary source of generation is its hydroelectric generating plant located on the St. Mary's River in Sault Ste. Marie, Michigan. The hydroelectric generating plant has a total dependable capability of approximately 27 MW. The water for this facility is leased under a contract with the United States Army Corps of Engineers with tenure to December 31, 2050. However, the Secretary of the Army has the right to terminate the contract subsequent to December 2025 by providing at least a five-year termination notice. No such notice can be given prior to December 31, 2020. Edison Sault pays for all water taken from the St. Mary's River at predetermined rates with a minimum annual payment of $0.1 million. The total flow of water taken out of Lake Superior, which in effect is the flow of water in the St. Mary's River, is under the direction and control of the International Joint Commission, created by the Boundary Water Treaty of 1909 between the United States and Great Britain, now represented by Canada.

Hydroelectric generation is also purchased by Edison Sault under contract from the United States Army Corps of Engineers' hydroelectric generating plant located within the Soo Locks complex on the St. Mary's River in Sault Ste. Marie, Michigan. This 17 MW contract has tenure to November 1, 2040 and cannot be terminated by the United States government prior to November 1, 2030.

Power Purchase Commitments

We enter into short and long-term power purchase commitments to meet a portion of our anticipated electric energy supply needs. The following table identifies our power purchase commitments at December 31, 2007 with unaffiliated parties for the next five years:

Year	MW Under Power Purchase Commitments
2008	1,715
2009	1,597
2010	1,597
2011	1,642
2012	1,528

Approximately 1,000 MW per year relates to the Point Beach long-term power purchase agreement related to Point Beach. Under this agreement, we will pay a predetermined price per MWh for energy delivered according to a schedule included in the agreement. The majority of the balance of these power purchase commitments are tolling arrangements whereby we are responsible for the procurement, delivery and cost of natural gas fuel related to specific units identified in the contracts. A small amount of these purchases are tied to the costs of natural gas.

Electric Transmission and Energy Markets

American Transmission Company

: ATC owns, maintains, monitors and operates electric transmission systems in Wisconsin, Michigan and Illinois. ATC's sole business is to provide reliable, economic electric transmission service to all customers in a fair and equitable manner. ATC is expected to provide comparable service to all customers, including Wisconsin Electric and Edison Sault, and to support effective competition in energy markets without favoring any market participant. ATC is regulated by FERC for all rate terms and conditions of service and is a transmission-owning member of MISO. MISO maintains operational control of ATC's transmission system, and Wisconsin Electric and Edison Sault are non-transmission owning members and customers of MISO.

We owned approximately 26.9% and 29.4% of ATC as of December 31, 2007 and 2006, respectively. Our ownership has decreased in recent years as other owners have invested additional equity in ATC related to specific, large construction projects subject to their contractual rights.

MISO:

In connection with its status as a FERC approved RTO, MISO developed bid-based energy markets, the MISO Energy Markets, which were implemented on April 1, 2005. For further information on MISO and the MISO Energy Markets, see Factors Affecting Results, Liquidity and

Capital Resources in Item 7.

Electric Hedging Program:

We purchase some of the electricity needed to satisfy our current sales obligations in the MISO Energy Markets. Due to volatility in the price of market-based energy, we face potential financial exposure. We have PSCW approval to hedge up to 75% of a future month's predicted electricity need. This plan seeks to manage market price risk, as well as, reduce price risks related to forced outages.

We also seek to mitigate the risk of price increases in coal transportation costs for coal used in our coal-fired generating facilities. The coal transportation price changes are tied to changes in a diesel fuel price index. Therefore, we generally use financial heating oil contracts to mitigate this risk. This approach is similar to the way we currently manage our natural gas supply prices. See "Hedging Gas Supply Prices" below for information on our natural gas hedging program.

Renewable Electric Energy

We have committed to significantly increase the amount of renewable energy generation we utilize. In addition, Wisconsin Electric has an "*Energy For Tomorrow*®" renewable energy program to provide our customers the opportunity to purchase energy from renewable resources. In March 2006, Wisconsin enacted new public benefits legislation, Act 141, which changes the renewable energy requirements for utilities. Act 141 requires Wisconsin utilities to provide 2% more of their total retail energy from renewable resources than their current levels by 2010, and 6% more renewable energy than their current levels by 2015. Act 141 establishes a statewide goal that 10% of all electricity in Wisconsin be generated by renewable resources by December 31, 2015. For further information on Act 141 and current renewable projects, see Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters - Renewables, Efficiency and Conservation and Utility

Rates and Regulatory Matters - Wind Generation in Item 7.

Electric Utility Operating Statistics

The following table shows certain electric utility operating statistics from 2003 to 2007 for electric operating revenues, MWh sales and customer data:

SELECTED CONSOLIDATED ELECTRIC UTILITY OPERATING DATA

Year Ended December 31	2007	2006	2005	2004	2003
Operating Revenues (Millions)					
	$929.6				
Residential		$883.2	$827.6	$731.3	$715.5
Small Commercial/Industrial	861.7	814.8	746.1	668.0	642.0

	676.9				519.3
Large Commercial/Industrial		647.5	602.4	549.9	
Other - Retail	19.7	19.3	17.9	17.0	16.8
Total Retail Sales	2,487.9	2,364.8	2,194.0	1,966.2	1,893.6
Wholesale - Other	95.1	78.0	94.7	73.7	68.1
Resale - Utilities	81.6	51.2	21.3	24.6	24.0
Other Operating Revenues	41.1	35.4	39.7	34.5	27.9
Total Operating Revenues	$2,705.7	$2,529.4	$2,349.7	$2,099.0	$2,013.6
MWh Sales (Thousands)					
Residential	8,586.6	8,322.7	8,562.7	8,053.9	8,099.3
Small Commercial/Industrial	9,430.3	9,142.2	9,192.7	8,840.4	8,740.6
Large Commercial/Industrial	11,245.6	11,173.1	11,687.5	11,686.4	11,401.8
Other - Retail	168.7	169.9	171.7	174.9	175.7
Total Retail Sales	29,431.2	28,807.9	29,614.6	28,755.6	28,417.4
Wholesale - Other	2,178.5	2,057.6	2,541.9	2,230.6	2,050.2
Resale - Utilities	1,434.5	1,025.7	313.7	662.2	715.8
Total Sales	33,044.2	31,891.2	32,470.2	31,648.4	31,183.4
Customers - End of Year (Thousands)					
Residential	1,015.0	1,009.7	1,001.7	992.3	980.5
Small Commercial/Industrial	114.4	112.3	110.5	108.7	106.9
Large Commercial/Industrial	0.7	0.7	0.7	0.7	0.7
Other	2.4	2.5	2.4	2.4	2.4
Total Customers	1,132.5	1,125.2	1,115.3	1,104.1	1,090.5
Customers - Average (Thousands)	1,128.5	1,120.5	1,109.7	1,096.8	1,083.1
Degree Days (a)					
Heating (6,627 Normal)	6,508	6,043	6,628	6,663	7,063
			949		
Cooling (722 Normal)	800	723		442	606

(a) As measured at Mitchell International Airport in Milwaukee, Wisconsin. Normal degree days are based upon a 20-year moving average.

GAS UTILITY OPERATIONS

Our gas utility operations consist of Wisconsin Gas and the gas operations of Wisconsin Electric. Both companies are authorized to provide retail gas distribution service in designated territories in the State of Wisconsin, as

established by indeterminate permits, CPCNs, or boundary agreements with other utilities. The two companies also transport customer-owned gas. Wisconsin Gas, the largest natural gas distribution utility in Wisconsin, operates throughout the state, including the City of Milwaukee. Wisconsin Electric's gas utility operates in three distinct service areas: west and south of the City of Milwaukee, the Appleton area and areas within Iron and Vilas Counties, Wisconsin.

Gas Deliveries

Our gas utility business is highly seasonal due to the heating requirements of residential and commercial customers. Annual gas sales are also impacted by the variability of winter temperatures.

Total gas therms delivered, including customer-owned transported gas, were approximately 2,198 million therms during 2007, an 8.3% increase compared with 2006. At December 31, 2007, we were transporting gas for approximately 1,300 customers who purchased gas directly from other suppliers. Transported gas accounted for approximately 42% of the total volumes delivered during 2007 and 2006 and 41% during 2005. We had approximately 1,049,500 gas customers at December 31, 2007, a slight increase since December 31, 2006. Our peak daily send-out during 2007 was 1,717,422 Dth on February 5, 2007.

Sales to Large Gas Customers:

We provide gas utility service to a diversified base of industrial customers who are largely within our electric service territory. Major industries served include the paper, food products and fabricated metal products industries. Fuel used for Wisconsin Electric's electric generation represents our largest transportation customer.

Gas Deliveries Growth:

We currently forecast total retail therm deliveries (excluding natural gas deliveries for generation) to stay flat over the five-year period ending December 31, 2012 as new customer additions are expected to be offset by a reduction in the average use per customer. This forecast reflects a current year normalized sales level and assumes moderate growth in the economy of our gas utility service territories and normal weather.

Competition

Competition in varying degrees exists between natural gas and other forms of energy available to consumers. A number of our large commercial and industrial customers are dual-fuel customers that are equipped to switch between natural gas and alternate fuels. We are allowed to offer lower-priced gas sales and transportation services to dual-fuel customers. Under gas transportation agreements, customers purchase gas directly from gas marketers and arrange with

interstate pipelines and us to have the gas transported to their facilities. We earn substantially the same margin (difference between revenue and cost of gas) whether we sell and transport gas to customers or only transport their gas.

Our ability to maintain our share of the industrial dual-fuel market (the market that is equipped to use gas or other fuels) depends on our success and the success of third-party gas marketers in obtaining long-term and short-term supplies of natural gas at competitive prices compared to other sources and in arranging or facilitating competitively-priced transportation service for those customers that desire to buy their own gas supplies.

Federal and state regulators continue to implement policies to bring more competition to the gas industry. For information concerning proceedings by the PSCW to consider how its regulation of gas distribution utilities should change to reflect the changing competitive environment in the gas industry, see Factors Affecting Results, Liquidity and Capital Resources in Item 7. While the gas utility distribution function is expected to remain a highly regulated, monopoly function, the sales of the natural gas commodity and related services are expected to remain subject to competition from third parties. It remains uncertain if and when the current economic disincentives for small customers to choose an alternative gas commodity supplier may be removed such that we begin to face competition for the sale of gas to our smaller firm customers.

Gas Supply, Pipeline Capacity and Storage

We have been able to meet our contractual obligations with both our suppliers and our customers despite periods of severe cold and unseasonably warm weather.

Pipeline Capacity and Storage:

The interstate pipelines serving Wisconsin originate in three major gas producing areas of North America: the Oklahoma and Texas basins, the Gulf of Mexico and western Canada. We have contracted for long-term firm capacity from each of these areas. This strategy reflects management's belief that overall supply security is enhanced by geographic diversification of the supply portfolios and that Canada represents an important long-term source of reliable, competitively-priced gas.

Because of the daily and seasonal variations in gas usage in Wisconsin, we have also contracted for substantial underground storage capacity, primarily in Michigan. Storage capacity enables us to manage significant changes in daily demand and to optimize our overall gas supply and capacity costs. We generally inject gas into storage during the spring and summer months when demand is lower and withdraw it in the winter months. As a result, we can contract for less long-line pipeline capacity during periods of peak usage than would otherwise be necessary, and can purchase gas on a more uniform daily basis from suppliers year-round. Each of these capabilities enables us to reduce our overall costs. In 2007, we continued the plan started in 2006, to enter into gas purchase contracts which allow us to reduce gas inventory while maintaining supply to meet daily and seasonal demands.

We also maintain storage in the Southeast production areas, as well as in our market area. This storage capacity is designed to deliver gas when other supplies cannot be delivered during extremely cold weather in the producing areas.

We hold firm daily transportation and storage capacity entitlements from pipelines and other service providers under long-term contracts.

Term Gas Supply:

We have contracts for firm supplies with terms in excess of 30 days with suppliers for gas acquired in the Joliet, Illinois market hub and in the three producing areas discussed above. The pricing of the term contracts is based upon first of the month indices. Combined with our storage capability, management believes that the volume of gas under contract is sufficient to meet our forecasted firm peak-day demand.

Secondary Market Transactions:

Capacity release is a mechanism by which pipeline long-line and storage capacity and gas supplies under contract can be resold in the secondary market. Local distribution companies, like Wisconsin Gas and the gas operations of Wisconsin Electric, must contract for capacity and supply sufficient to meet the firm peak-day demand of their customers. Peak or near peak demand days generally occur only a few times each year. Capacity release facilitates higher utilization of contracted capacity and supply during those times when the full contracted capacity and supply are not needed by the utility, helping to mitigate the fixed costs associated with maintaining peak levels of capacity and gas supply. Through pre-arranged agreements and day-to-day electronic bulletin board postings, interested parties can purchase this excess capacity and supply. The proceeds from these transactions are passed through to rate payers, subject to the Wisconsin Electric and Wisconsin Gas GCRMs pursuant to which the companies have an opportunity to share in the cost savings. See Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters in Item 7 for information on the GCRMs. During 2007, we continued our active participation in the capacity release market.

Spot Market Gas Supply:

We expect to continue to make gas purchases in the 30-day spot market as price and other circumstances dictate. We have supply relationships with a number of sellers from whom we purchase spot gas.

Hedging Gas Supply Prices:

We have PSCW approval to hedge (i) up to 45% of planned flowing gas supply using NYMEX based natural gas options, (ii) up to 15% of planned flowing gas supply using NYMEX based natural gas future contracts and (iii) up to 35% of planned storage withdrawals using NYMEX based natural gas options. Those approvals allow both Wisconsin Electric and Wisconsin Gas to pass 100% of the hedging costs (premiums and brokerage fees) and proceeds (gains and losses) to rate payers through their respective purchase gas adjustment mechanisms. Hedge targets (volumes) are provided annually to the PSCW as part of each company's five-year gas supply plan filing.

To the extent that opportunities develop and our physical supply operating plans will support them, we also have PSCW approval to utilize NYMEX based natural gas derivatives to capture favorable forward market price differentials. That approval provides for 100% of the related proceeds to accrue to the companies' GCRMs.

Guardian:

Prior to April 2006, we had a one-third interest in Guardian. Guardian owns an interstate natural gas pipeline that runs from the Joliet, Illinois area to southeastern Wisconsin. In April 2006, we sold our one-third interest in Guardian to an unaffiliated entity. During 2006, Guardian announced a plan to extend its pipeline by approximately 110 miles from southeastern Wisconsin to Green Bay, Wisconsin. We have committed to purchase approximately 292,000 Dth per day of capacity on this extension through October 2023.

In addition, we have extended our commitment to purchase 650,000 Dth per day of capacity on the original pipeline until December 2022. In May 2007, in connection with the Guardian extension, the PSCW approved our application to construct approximately 27 miles of pipeline laterals to connect our gas distribution system to the proposed Guardian extension. In December 2007, FERC issued a CPCN to Guardian authorizing its related extension project, which is expected to be operational in November 2008.

Gas Utility Operating Statistics

The following table shows certain gas utility operating statistics from 2003 to 2007 for gas operating revenues, therms delivered and customer data.

SELECTED CONSOLIDATED GAS UTILITY OPERATING DATA

Year Ended December 31	2007	2006	2005	2004	2003
Operating Revenues (Millions)					
Residential	$934.3	$862.4	$898.9	$798.6	$769.3
Commercial/Industrial	485.4				

					443.8
					465.4
					396.5
					386.0
Interruptible					
					17.5
					17.0
					20.4
					17.0
					16.9
Total Retail Gas Sales					
					1,437.2
					1,323.2
					1,384.7
					1,212.1
					1,172.2
Transported Gas					
					48.4
					47.8
					46.3
					41.4
					36.6
Other Operating Revenues					
					(4.4)
					48.9
					(13.5)

	(1.1)
	17.3
Total Operating Revenues	
	$1,481.2
	$1,419.9
	$1,417.5
	$1,252.4
	$1,226.1
Therms Delivered (Millions)	
Residential	
	791.7
	727.9
	791.0
	809.9
	853.7
Commercial/Industrial	
	461.9
	435.9
	460.7
	464.0
	492.5
Interruptible	
	22.7
	21.3
	23.4
	24.7

					27.5
Total Retail Gas Sales					
					1,276.3
					1,185.1
					1,275.1
					1,298.6
					1,373.7
Transported Gas					
					921.6
					843.8
					893.7
					769.5
					797.5
Total Therms Delivered					
					2,197.9
					2,028.9
					2,168.8
					2,068.1
					2,171.2
Customers - End of Year (Thousands)					
Residential					
					957.9
					951.0
					940.7
					927.4
					912.0

Commercial/Industrial	
	90.2
	88.9
	87.5
	85.9
	84.7
Interruptible	
	0.1
	0.1
	0.1
	0.1
	0.1
Transported Gas	
	1.3
	1.4
	1.4
	1.4
	1.4
Total Customers	
	1,049.5
	1,041.4
	1,029.7
	1,014.8
	998.2
Customers - Average (Thousands)	
	1,042.8

	1,033.3
	1,019.8
	1,003.5
	986.7
Degree Days (a)	
Heating (6,627 Normal)	
	6,508
	6,043
	6,628
	6,663
	7,063

(

a) As measured at Mitchell International Airport in Milwaukee, Wisconsin. Normal degree days are based upon a 20-year moving average.

OTHER UTILITY OPERATIONS

Steam Utility Operations:

Wisconsin Electric's steam utility generates, distributes and sells steam supplied by its Valley and Milwaukee County Power Plants. Wisconsin Electric operates a district steam system in downtown Milwaukee and the near south side of Milwaukee. Steam is supplied to this system from Wisconsin Electric's

Valley Power Plant, a coal-fired cogeneration facility. Wisconsin Electric also operates the steam production and distribution facilities of the Milwaukee County Power Plant located on the Milwaukee County Grounds in Wauwatosa, Wisconsin.

Annual sales of steam fluctuate from year to year based upon system growth and variations in weather conditions. During 2007, the steam utility had $35.1 million of operating revenues from the sale of 2,965 million pounds of steam compared with $27.2 million of operating revenues from the sale of 2,812 million pounds of steam during 2006. As of December 31, 2007 and 2006, steam was used by approximately 470 and 460 customers, respectively, for processing, space heating, domestic hot water and humidification.

Water Utility Operations:

To leverage off of operational similarities with its natural gas business, Wisconsin Gas entered the water utility business in November 1998. As of December 31, 2007, the water utility served approximately 3,040 water customers in the suburban Milwaukee area compared with approximately 3,000 customers as of December 31, 2006. Wisconsin Gas also provides contract services to local municipalities and businesses within its service territory for water system repair and maintenance. During 2007, the water utility had $2.7 million of operating revenues compared with $2.5 million of operating revenues during 2006.

UTILITY RATE MATTERS

See Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters in Item 7.

NON-UTILITY ENERGY SEGMENT

Our non-utility energy segment is involved primarily in the design and construction of new generating capacity under our PTF strategy.

During 2000, we performed a comprehensive review of our existing portfolio of businesses and began implementing a strategy of divesting many of our non-utility energy segment businesses. Since 2000, we have sold our interest in many of our non-utility energy assets with proceeds from these sales totaling approximately $3.1 billion. As we implement our PTF strategy, we expect to grow the non-utility energy segment within the State of Wisconsin through the construction of new generating units by We Power.

We Power

We Power, through wholly owned subsidiaries, plans to design and construct in the State of Wisconsin, an additional 1,775 MW of new generating capacity in addition to the 575 MW of current dependable capacity at PWGS 1 that was put into service in July 2005. In November 2005, two unaffiliated entities purchased an ownership interest of approximately 17%, or 200 MW of capacity, in the two coal units that are being constructed in Oak Creek, Wisconsin. Similar to the generating capacity at PWGS 1, We Power will own the remaining 1,575 MW of generating capacity currently being constructed and will lease this capacity to Wisconsin Electric. At December 31, 2007, we had approximately $1,453 million of CWIP for the PTF units currently under construction. For further information about our PTF strategy, see Factors Affecting Results, Liquidity and Capital Resources -- Power the Future in Item 7.

Wisvest LLC

Wisvest was originally formed to develop, own and operate electric generating facilities and to invest in other energy-related entities. As a result of the change in corporate strategy to focus on our PTF strategy, Wisvest has discontinued its development activity. For the year ended December 31, 2007, Wisvest had $11.9 million of operating revenues from continuing operations compared with $10.0 million of operating revenues from continuing operations during 2006. We have divested substantially all of Wisvest's assets. As of December 31, 2007, Wisvest's sole operating asset and investment is Wisvest Thermal Energy Services, which provides chilled water services to the Milwaukee Regional Medical Center.

OTHER NON-UTILITY OPERATIONS

Minergy LLC

Minergy is engaged in the development and marketing of proprietary technologies designed to convert high volume industrial and municipal wastes into renewable energy and value-added products. Minergy's strategic focus is to license that technology and sell equipment to domestic and foreign operators or industrial/municipal users through its patented GlassPack® process and Glass Furnace technology as a component of larger scale waste processing solutions. We believe this licensing and equipment sale strategy will allow Minergy to recognize the economic benefits of its technology with limited capital requirements. In September 2006, we sold 100% of our membership interest in Minergy Neenah. The primary assets of Minergy Neenah were the Glass Aggregate plant and related operating contracts. For additional information on the sale of Minergy Neenah, see Note D -- Asset Sales, Divestitures and Discontinued Operations in the Notes to Consolidated Financial Statements in Item 8. Minergy's primary operation and investment at December 31, 2007 is GlassPack, LLC.

GlassPack, LLC:

The GlassPack® and Glass Furnace processes are vitrification technologies that convert various biosolids and industrial wastes into renewable energy and reusable glass aggregate thus reducing dependence on fossil fuels and the associated environmental risks. The first commercial GlassPack® facility was constructed in Zion, Illinois by the North Shore Sanitary District. The facility began operations in 2006 and is being operated by Minergy pursuant to an operations and maintenance agreement. Minergy is also pursuing other domestic and foreign GlassPack® and Glass Furnace installations through equipment sales and licensing agreements.

Wispark LLC

Wispark develops and invests in real estate. From September 30, 2000 through December 31, 2007, Wispark has reduced its overall holdings from $373.1 million to $42.5 million. During the year ended December 31, 2007, Wispark had $7.5 million of consolidated operating revenues compared with $1.1 million during 2006.

Wispark has developed several business parks primarily in southeastern Wisconsin. Wispark's flagship development, the 1,600-acre LakeView Corporate Park, which is owned through a joint venture, is located near Kenosha, Wisconsin. LakeView Corporate Park is home to approximately 80 companies located in almost 10 million square feet of buildings that have been developed on property in excess of 965 acres. Many out-of-state firms have located in this park, creating a significant number of new jobs and growth in electricity and natural gas revenues.

Other Non-Utility Subsidiaries

Other non-utility subsidiaries primarily include:

Wisconsin Energy Capital Corporation:

This entity engages in investing and financing activities. Activities include advances to affiliated companies and investments in partnerships that developed low and moderate-income housing projects.

REGULATION

Wisconsin Energy Corporation

Wisconsin Energy was an exempt holding company by order of the SEC under Section 3(a)(1) of PUHCA 1935, and, accordingly, was exempt from that law's provisions other than with respect to certain acquisitions of securities of a public utility. In August 2005, President Bush signed into law the Energy Policy Act. The Energy Policy Act repealed PUHCA 1935 and enacted PUHCA 2005, transferring jurisdiction over holding companies from the SEC to FERC. Wisconsin Energy was required to notify FERC of its status as a holding company and to seek from FERC the exempt status similar to that held under

PUHCA 1935. In March 2006, Wisconsin Energy filed with FERC notification of its status as a holding company as required and a request for exempt status similar to that held under PUHCA 1935. In June 2006, Wisconsin Energy received notice from FERC confirming its status as a holding company as required under FERC regulations implementing PUHCA 2005 and granting exempt status similar to that held under PUHCA 1935.

Non-Utility Asset Cap:

In October 1999, the Wisconsin State Legislature passed amendments to the non-utility asset cap provisions of Wisconsin's public utility holding company law. As a result, we remain subject to certain restrictions that have the potential of limiting our diversification into non-utility activities. Under the amended public utility holding company law, the sum of certain assets of all non-utility affiliates in a holding company system may not exceed 25% of the assets of all public utility affiliates. However, among other items, the amended law exempts energy-related assets and assets, like Minergy's, used for providing environmental engineering services and for processing waste materials, from being counted against the asset cap provided that they are employed in qualifying businesses. As a result of these exemptions, our non-utility assets are significantly below the non-utility asset cap as of December 31, 2007.

Under our PTF strategy, the cost of constructing new generating facilities to be owned by We Power qualifies as energy projects under the amended non-utility asset cap and therefore are entirely exempt from the definition of "non-utility" property for this purpose. The remaining cost of our PTF strategy represents investments in new and existing energy distribution system assets and upgrades to existing generation assets and has no impact on the amount of non-utility assets under the non-utility asset cap test.

Utility Energy Segment

Wisconsin Electric was an exempt holding company under Section 3(a)(1) of PUHCA 1935 and Rule 2 thereunder and, accordingly, was exempt from that law's provisions other than with respect to certain acquisitions of securities of

a public utility. Due to the Energy Policy Act's enactment of PUHCA 2005 as noted above, Wisconsin Electric was also required to notify FERC of its status as a holding company by reason of its ownership interest in ATC and to seek from FERC the exempt status similar to that held under PUHCA 1935. In March 2006, Wisconsin Electric filed with FERC notification of its status as a holding company as required under FERC regulations implementing PUHCA 2005 and a request for exempt status similar to that held under PUHCA 1935. In June 2006, Wisconsin Electric received notice from FERC confirming its status as a holding company as required under FERC regulations implementing PUHCA 2005 and granting exempt status similar to that held under PUHCA 1935. For information on how rates are set for our regulated entities see Utility Rates and Regulatory Matters in Item 7.

Wisconsin Electric and Edison Sault are subject to the Energy Policy Act and the corresponding regulations developed by certain federal agencies. The Energy Policy Act, among other things, repealed PUHCA 1935 making electric utility industry consolidation more feasible, authorized FERC to review proposed mergers and the acquisition of generation facilities, changed the FERC regulatory scheme applicable to qualifying co-generation facilities and modified certain other aspects of energy regulations and Federal tax policies applicable to Wisconsin Electric and Edison Sault. Additionally, the Energy Policy Act created an Electric Reliability Organization to be overseen by FERC, which established mandatory electric reliability standards, replacing the current voluntary standards developed by the North American Electric Reliability Corporation, and has the authority to levy monetary sanctions for failure to comply with the new standards.

Wisconsin Electric and Wisconsin Gas are subject to the regulation of the PSCW as to retail electric, gas, steam and water rates in the State of Wisconsin, standards of service, issuance of securities, construction of certain new facilities, transactions with affiliates, billing practices and various other matters. Wisconsin Electric is subject to regulation of the PSCW as to certain levels of short-term debt obligations. Wisconsin Electric and Edison Sault are both subject to the regulation of the MPSC as to the various matters associated with retail electric service in the State of Michigan as noted above, except as to issuance of securities, construction of certain new facilities, levels of short-term debt obligations and advance approval of transactions with affiliates. Wisconsin Electric and Edison Sault's hydroelectric facilities are regulated by FERC. Wisconsin Electric and Edison Sault are subject to regulation of FERC with respect to wholesale power service and accounting. Edison Sault is subject to regulation of FERC with respect to the issuance of certain securities.

The following table compares the source of our utility energy segment operating revenues by regulatory jurisdiction for each of the three years in the period ended December 31, 2007.

	2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Millions of Dollars)					
Wisconsin - Retail						
Electric	$2,331.1	55.1%	$2,222.4	55.9%	$2,049.7	54.0%
Gas	1,481.2	35.1%	1,419.9	35.7%	1,417.5	37.4%
Steam and Water	37.9	0.9%	29.7	0.7%	25.8	0.7%

Total	3,850.2	91.1%	3,672.0	92.3%	3,493.0	92.1%
Michigan - Retail Electric	198.0	4.7%	177.8	4.5%	184.1	4.9%
FERC - Wholesale Electric	176.6	4.2%	129.2	3.2%	115.9	3.0%
Total Utility Operating Revenues	$4,224.8	100.0%	$3,979.0	100.0%	$3,793.0	100.0%

Total flow of water to Edison Sault's hydroelectric generating plant is under the control of the International Joint Commission, created by the Boundary Water Treaty of 1909 between the United States and Great Britain, now represented by Canada. The operations of Wisconsin Electric, Wisconsin Gas and Edison Sault are also subject to regulations, where applicable, of the EPA, the WDNR, the Michigan Department of Natural Resources and the Michigan Department of Environmental Quality.

Public Benefits and Renewables

In March 2006, Wisconsin enacted new public benefits legislation, Act 141, which changes the renewable energy requirements for utilities. The law requires Wisconsin Electric to provide 2% more of its total retail energy from renewable resources than their current levels by 2010, and 6% more renewable energy than its current levels by 2015. Act 141 also redirects the administration of energy efficiency, conservation and renewable programs from the DOA back to the utilities and/or contracted third parties. In addition, Act 141 requires that 1.2% of utilities' annual operating revenues be used to fund these programs. For additional information on Act 141 and current renewable projects, see Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters - Renewables, Efficiency and Conservation and Utility Rates and Regulatory Matters - Wind Generation in Item 7.

Non-Utility Energy Segment

We Power was formed to design, construct, own and lease the new generating capacity in our PTF strategy. We Power owns the interests in the companies constructing this new generating capacity (collectively, the We Power project companies). When complete, these facilities will be leased on a long-term basis to Wisconsin Electric. We Power has received determinations from FERC that upon the transfer of the facilities by lease to Wisconsin Electric, the We Power project companies will not be deemed public utilities under the Federal Power Act and thus will not be subject to FERC's jurisdiction.

The Energy Policy Act and corresponding rules developed by FERC required us to seek FERC authorization to allow Wisconsin Electric to lease from We Power the three PTF units that are currently being constructed by We Power. In November 2006, Wisconsin Energy, Wisconsin Electric and We Power filed a joint application with FERC for authorization to transfer the generating assets and limited interconnection facilities of PWGS 2 and OC Units 1 and 2 through lease arrangements between We Power and Wisconsin Electric. We received approval from FERC on this application in December 2006. We were not required to request similar approval for the PWGS 1 lease between We Power and Wisconsin Electric as this unit was in service prior to the enactment of the Energy Policy Act.

In addition, for a short period prior to the transfer of each generation unit to Wisconsin Electric, We Power will be engaged in the sale of test power, a FERC jurisdictional transaction. We Power received approval from FERC for the sale of test power to Wisconsin Electric from PWGS 1, and for the transfer of any FERC jurisdictional facilities

at Port Washington to Wisconsin Electric and/or ATC. Under Wisconsin law, We Power is not a "public utility." Environmental permits necessary for operating the facilities are the responsibility of the operating entity, Wisconsin Electric.

ENVIRONMENTAL COMPLIANCE

Environmental Expenditures

Expenditures for environmental compliance and remediation issues are included in anticipated capital expenditures described in Liquidity and Capital Resources in Item 7. For discussion of additional environmental issues, see Environmental Matters in Item 3. For further information concerning air and water quality standards and rulemaking initiated by the EPA, including estimated costs of compliance, see Factors Affecting Results, Liquidity and Capital Resources in Item 7.

Utility Energy Segment:

Compliance with federal, state and local environmental protection requirements resulted in capital expenditures by Wisconsin Electric of approximately $31 million in 2007 compared with $79 million in 2006. Expeitures incurred during 2007 primarily included costs associated with the installation of pollution abatement facilities at Wisconsin Electric's power plants. These expenditures are expected to approximate $119 million during 2008, reflecting NO_x, SO_2 and other pollution control equipment needed to comply with various rules promulgated by the EPA.

Operation, maintenance and depreciation expenses for fly ash removal equipment and other environmental protection systems are estimated to have been approximately $54 million during 2007 and $49 million during 2006.

Solid Waste Landfills

We provide for the disposal of non-ash related solid wastes and hazardous wastes through licensed independent contractors, but federal statutory provisions impose joint and several liability on the generators of waste for certain cleanup costs. Currently there are no active cases.

Coal-Ash Landfills

Some early designed and constructed coal-ash landfills may allow the release of low levels of constituents resulting in the need for various levels of remediation. Where we have become aware of these conditions, efforts have been expended to define the nature and extent of any release, and work has been performed to address these conditions. For additional information, see Note S -- Commitments and Contingencies in the Notes to Consolidated Financial Statements in Item 8. Sites currently undergoing remediation and/or monitoring include the following:

Lakeside Property:

During 2001, Wisconsin Electric completed an investigation of property that was used primarily for coal storage, fuel oil transport and coal ash disposal in support of the former Lakeside Power Plant in St. Francis, Wisconsin. Excavation and utilization of residual coal at the site, slope stabilization and cover construction have been completed. Currently, discussions are taking place with neighbors and other interested parties to determine the ultimate use of the remediated property and some other adjacent land also owned by Wisconsin Electric.

Oak Creek North Landfill:

Groundwater impairments at this landfill, located in the City of Oak Creek, Wisconsin, prompted Wisconsin Electric to investigate, during 1998, the condition of the existing cover and other conditions at the site. Surface water drainage improvements were implemented at this site during 1999 and 2000, which are expected to eliminate ash contact with water and remove unwanted ponding of water. The approved remediation plan was coordinated with activities associated with the construction of the Oak Creek expansion. Currently there is a temporary cap installed which is being used as laydown area and parking. When construction activities are completed, a permanent cap will be installed.

Manufactured Gas Plant Sites

We are reviewing and addressing environmental conditions at a number of former manufactured gas plant sites. See Note S -- Commitments and Contingencies in the Notes to Consolidated Financial Statements in Item 8.

Air Quality

See Factors Affecting Results, Liquidity and Capital Resources -- Environmental Matters in Item 7 for additional information concerning Air Quality.

Clean Water Act

See Factors Affecting Results, Liquidity and Capital Resources -- Environmental Matters in Item 7 for additional information concerning the CWA.

Greenhouse Gas Emissions

See the caption, "We may face significant costs to comply with the regulation of greenhouse gas emissions." under Item 1A Risk Factors in this report.

OTHER

Research and Development:

We had immaterial research and development expenditures in the last three years, primarily for improvement of service and abatement of air and water pollution by our electric utility operations. Research and development activities include work done by employees, consultants and contractors, plus sponsorship of research by industry associations.

Employees:

At December 31, 2007, we had the following number of employees:

	Total Employees	Represented Employees
Utility Energy Segment		
Wisconsin Electric	4,321	2,887
Wisconsin Gas	543	402
Edison Sault	62	44
Total	4,926	3,333
Non-Utility Energy Segment	33	-
Other	26	-
Total Employees	4,985	3,333

The employees represented under labor agreements were with the following bargaining units as of December 31, 2007.

	Number of Employees	Expiration Date of Current Labor Agreement
Wisconsin Electric		
Local 2150 of International Brotherhood of Electrical Workers	2,039	August 15, 2010
Local 317 of International Union of Operating Engineers	496	March 31, 2008
Local 12005 of United Steel Workers of America (a)	154	November 1, 2008
Local 510 of International Brotherhood of Electrical	155	April 30, 2010

Workers		
Local 2-0111 of Paper, Allied-Energy Workers International Union (a)	43	November 3, 2008
Total Wisconsin Electric	2,887	
Wisconsin Gas		
Local 2150 of International Brotherhood of Electrical Workers	100	August 15, 2010
Local 7-0018 of Paper, Allied-Energy Workers International Union (a)	144	December 31, 2010
Local 7-0018-1 of Paper, Allied-Energy Workers International Union (a)	150	December 31, 2010
Local 7-0018-2 of Paper, Allied-Energy Workers International Union (a)	8	February 29, 2008
Total Wisconsin Gas	402	
Edison Sault		
Local 13547 of United Steel Workers of America	44	October 22, 2010
Total Edison Sault	44	
Total Employees	3,333	

(a) Effective January 1, 2006, these bargaining units became a part of Local 2006. These former locals are now individual bargaining units of Local 2006.

ITEM 1A.
RISK FACTORS

Our business is significantly impacted by governmental regulation.

We are subject to significant state, local and federal governmental regulation. We are subject to the regulation of the PSCW as to retail electric, gas and steam rates in the State of Wisconsin, standards of service, issuance of securities, short-term debt obligations, construction of certain new facilities, transactions with affiliates, billing practices and various other matters. In addition, we are subject to the regulation of the MPSC as to the various matters associated with retail electric service in the State of Michigan, except as to issuance of securities, construction of certain new facilities, levels of short-term debt obligations and advance approval of transactions with affiliates. Further, our hydroelectric facilities are regulated by FERC, and FERC also regulates our wholesale power service practices and electric reliability requirements. Our significant level of regulation imposes restrictions on our operations and causes us to incur substantial compliance costs.

We are obligated in good faith to comply with all applicable governmental rules and regulations. If it is determined that we failed to comply with any applicable rules or regulations, whether through new interpretations or applications of the regulations or otherwise, we may be liable for customer refunds, penalties and other amounts, which could materially and adversely affect our results of operations and financial condition.

We estimate that within our regulated energy segment, approximately 88% of our electric revenues are regulated by the PSCW, 5% are regulated by the MPSC and the balance of our electric revenues is regulated by FERC. All of our natural gas revenues are regulated by the PSCW. Our ability to obtain rate adjustments in the future is dependent upon regulatory action, and there can be no assurance that we will be able to obtain rate adjustments in the future that will allow us to recover our costs and expenses and to maintain our current authorized rates of return.

We believe we have obtained the necessary permits, approvals and certificates for our existing operations and that our respective businesses are conducted in accordance with applicable laws; however, the impact of any future revision or changes in interpretations of existing regulations or the adoption of new laws and regulations applicable to us cannot be predicted. Changes in regulation, interpretations of regulations or the imposition of additional regulations could influence our operating environment and may result in substantial compliance costs.

Factors beyond our control could adversely affect project costs and completion of the natural gas-fired and coal-fired generating units we are constructing as part of our PTF strategy.

Under our PTF strategy, we expect to meet a significant portion of our future generation needs through the construction of two 545 MW natural gas-fired generating units at PWGS and two 615 MW coal-fired generating units to be located adjacent to our existing Oak Creek Power Plant. PWGS 1 was placed in service in July 2005 and has a current dependable capability of 575 MW. PWGS 2 is expected to go into service in the second quarter of 2008. OC 1 and OC 2 are scheduled to go into service in 2009 and 2010, respectively.

Large construction projects of this type are subject to usual construction risks over which we will have limited or no control and which might adversely affect project costs and completion time. These risks include, but are not limited to, shortages of, the inability to obtain or the cost of labor or materials, the inability of the general contractor or subcontractors to perform under their contracts, strikes, adverse weather conditions, the inability to obtain necessary permits in a timely manner, legal challenges and appeals to granted permits, including the WPDES permit granted in connection with the Oak Creek expansion, changes in applicable law or regulations, adverse interpretation or enforcement of permit conditions, laws and regulations by courts or the permitting agencies, other governmental actions and events in the global economy.

If final costs for the construction of the PWGS units exceed the fixed costs allowed in the PSCW order, absent a finding by the PSCW of extraordinary circumstances, such as force majeure conditions, this excess will not adjust the amount of the lease payments to be recovered from Wisconsin Electric's ratepayers. If final costs of the Oak Creek expansion are within 5% of the targeted cost, and the additional costs are deemed prudent by the PSCW, the final lease payments for the Oak Creek expansion to be recovered from Wisconsin Electric's ratepayers would be adjusted to reflect the actual construction costs. Costs above the 5% cap would not be included in lease payments or recovered

from customers absent a finding by the PSCW of extraordinary circumstances, such as force majeure conditions.

We face significant costs of compliance with existing and future environmental regulations.

We are subject to extensive environmental regulations affecting our past, present and future operations relating to, among other things, air emissions such as CO_2, SO_2, NO_x, small particulates and mercury; water discharges; management of hazardous and solid waste (including polychlorinated biphenyls (PCBs)); and removal of degraded lead paint. We incur significant expenditures in complying with these environmental requirements, including expenditures for the installation of pollution control equipment, environmental monitoring, emissions fees and permits at all of our facilities.

Existing environmental regulations may be revised or new laws or regulations may be adopted which could result in significant additional expenditures, operating restrictions on our facilities and increased compliance costs. In addition to requiring capital expenditures, the operation of emission control equipment to meet emission limits and further regulations on our intake and discharge of water could increase our operating costs and could reduce the generating capacity of our power plants. In the event we are not able to recover all of our environmental expenditures from our customers in the future, our results of operations could be adversely affected.

Our electric and gas utility businesses are also subject to significant liabilities related to the investigation and remediation of environmental contamination at our current and former facilities, as well as at third-party owned sites. Due to the potential for imposition of stricter standards and greater regulation in the future and the possibility that other potentially responsible parties may not be financially able to contribute to cleanup costs, conditions may change or additional contamination may be discovered, our remediation costs could increase, and the timing of our capital and/or operating expenditures in the future may accelerate.

In addition, we may also be responsible for liabilities associated with the environmental condition of the facilities that we have previously owned and operated, regardless of whether the liabilities arose before, during or after the time we owned or operated the facilities. If we fail to comply with environmental laws and regulations or cause harm to the environment or persons, even if caused by factors beyond our control, that failure or harm may result in the assessment of civil or criminal penalties and damages against us. The incurrence of a material environmental liability could have a significant adverse effect on our results of operations and financial condition.

We may face significant costs to comply with the regulation of greenhouse gas emissions.

Global warming is increasingly a concern for the energy industry. Although there continues to be significant debate regarding the extent of global warming and the impact of human activity, federal and state legislative proposals have been introduced to regulate the emission of greenhouse gases, particularly CO_2. In addition, there have been international efforts seeking legally binding reductions in emissions of greenhouse gases.

We believe it is likely that future governmental legislation and/or regulation may require us either to limit greenhouse gas emissions from our operations or to purchase allowances for such emissions. However, we cannot predict what form these future regulations will take, the stringency of the regulations or when they will become effective. Several bills have been introduced in the United States Congress that would compel CO_2 emission reductions. While none have yet been passed by Congress, the competing bills remain pending. Proposals under consideration include limitations on the amount of greenhouse gases that can be emitted (so called "caps") together with systems of trading

permitted emissions capacities. This type of system could require us to reduce emissions, even though the technology is not currently available for efficient reduction, or to purchase costly allowances for such emissions. Emissions also could be taxed independently of limits.

In April 2007, the United States Supreme Court concluded that the EPA already has authority to regulate CO_2 emissions under the CAA. As a result, the EPA is now reconsidering whether to regulate motor vehicle emissions of CO_2 under the CAA. Any decision to regulate motor vehicle CO_2 emissions under the CAA may have significant implications for stationary sources of CO_2 emissions including fossil fuel fired electric generating plants.

At the state level, on April 5, 2007, the Governor of Wisconsin signed Executive Order 191 creating the Task Force on Global Warming to bring together a group of Wisconsin business, industry, government, energy and environmental leaders to examine the effects of, and solutions to, global warming in Wisconsin. We are actively participating in the Task Force. The purpose of the Task Force is to discuss and analyze possible solutions to global warming challenges that pose a threat to Wisconsin's economic and environmental health. The Task Force is

charged with creating a state plan of action to deliver to the Governor to reduce greenhouse gas emissions in Wisconsin. The work of the Governor's Task Force is ongoing.

In addition, on November 14, 2007, the Governor of Michigan signed Executive Order 2007-42 creating the Michigan Climate Action Council, which is similar in scope and purpose to the Task Force on Global Warming in Wisconsin.

The Governors of both Michigan and Wisconsin have signed on to the "Midwestern Greenhouse Gas Reduction Accord" and the associated "platform" document developed through the Midwest Governor's Association. The stated goal of the platform is to "maximize the energy resources and economic advantages and opportunities of Midwestern states while reducing emissions of atmospheric CO_2 and other greenhouse gases". Certain elements of this agreement have the potential to impact the cost and nature of our operations in Wisconsin and Michigan.

These state and regional initiatives could lead to legislation and regulation of greenhouse gas emissions that could be implemented sooner and/or independent of federal regulation. These regulations could be more stringent than any federal legislation that is adopted.

There is no guarantee that we will be allowed to fully recover costs incurred to comply with any future legislation and/or regulation that requires a reduction in greenhouse gas emissions, or that recovery will not be delayed or otherwise conditioned. Future legislation and/or regulation designed to reduce greenhouse gas emissions could make some of our electric generating units uneconomic to maintain or operate and could affect future results of operations, cash flows and possibly financial condition if such costs are not recovered through regulated rates.

We continue to monitor the legislative and regulatory developments in this area. Although we expect the regulation of greenhouse gas emissions to have a material impact on our operations and rates, we believe it is premature to attempt to quantify the possible costs of the impacts.

Our business is dependent on our ability to successfully access capital markets.

We rely on access to short-term and long-term capital markets to support our capital expenditures and other capital requirements, including expenditures for our utility infrastructure and to comply with future regulatory requirements. We have historically secured funds from a variety of sources, including the issuance of short-term and long-term debt securities, preferred stock and common stock. Recently, certain investment banks announced the adoption of the "Carbon Principles," a set of guidelines designed to help the investment banks assess environmental risk in connection with the financing of new fossil fuel power plants. The Carbon Principles are expected to be employed in conjunction with an "Enhanced Environmental Diligence Process" in evaluating whether to participate in the financing of such projects.

Successful implementation of our long-term business strategies is dependent upon our ability to access the capital markets under competitive terms and rates. If our access to the capital markets were limited due to a rating downgrade, prevailing market conditions or other factors, our results of operations and financial condition could be materially and adversely affected.

Acts of terrorism could materially and adversely affect our financial condition and results of operations.

Our electric generation and gas transportation facilities, including the facilities of third parties on which we rely, could be targets of terrorist activities, including cyber terrorism. A terrorist attack on our facilities (or those of third parties) could result in a full or partial disruption of our ability to generate, transmit, transport, purchase or distribute electricity or natural gas or cause environmental repercussions. Any operational disruption or environmental repercussions could result in a significant decrease in our revenues or significant reconstruction or remediation costs, which could materially and adversely affect our results of operations and financial condition.

Energy sales are impacted by seasonal factors and varying weather conditions from year-to-year.

Our electric and gas utility businesses are generally seasonal businesses. Demand for electricity is greater in the summer and winter months associated with cooling and heating. In addition, demand for natural gas peaks in the winter heating season. As a result, our overall results in the future may fluctuate substantially on a seasonal basis. In addition, we have historically had lower revenues and net income when weather conditions are milder.

Our rates in Wisconsin are set by the PSCW based on estimated temperatures which approximate 20-year averages. Mild temperatures during the summer cooling season and during the winter heating season will negatively impact the results of operations and cash flows of our electric utility business. In addition, mild temperatures during the winter heating season negatively impact the results of operations and cash flows of our gas utility business.

Higher natural gas costs may negatively impact our electric and gas utility operations.

Significant increases in the cost of natural gas affect our electric and gas utility operations. Natural gas costs have increased in recent years because the supply of natural gas has not kept pace with the demand for natural gas, which has grown throughout the United States as a result of increased reliance on natural gas-fired electric generating facilities. We expect that demand for natural gas will remain high into the foreseeable future and that significant price relief will not occur until additional natural gas reserves are developed.

Wisconsin Electric burns natural gas in several of its peaking power plants and in the leased PWGS 1 and as a supplemental fuel at several coal-fired plants. In many instances the cost of purchased power is tied to the cost of natural gas. In addition, higher natural gas costs also can have the effect of increasing demand for other sources of fuel thereby increasing the costs of those fuels as well. Wisconsin Electric bears the regulatory risk for the recovery of fuel and purchased power costs when those costs are higher than the base rate established in its rate structure. For 2008, Wisconsin Electric will be unable to prospectively recover fuel and purchased power costs until the costs exceed a pre-established annual band.

In addition, higher natural gas costs increase our working capital requirements. As a result of GCRMs, our gas distribution business receives dollar for dollar pass through of the cost of natural gas. However, increased natural gas costs increase the risk that customers will switch to alternative sources of fuel or reduce their usage, which could reduce future gas margins. In addition, higher natural gas costs combined with slower economic conditions also expose us to greater risks of accounts receivable write-offs as more customers are unable to pay their bills.

We may not be able to obtain an adequate supply of coal, which could limit our ability to operate our coal-fired facilities.

We are dependent on coal for much of our electric generating capacity. While we have coal supply and transportation contracts in place, there can be no assurance that the counterparties to these agreements will fulfill their obligations to supply coal to us. The suppliers under these agreements may experience financial or operational problems that inhibit their ability to fulfill their obligations to us. In addition, suppliers under these agreements may not be required to supply coal to us under certain circumstances, such as in the event of a natural disaster. If we are unable to obtain our coal requirements under our coal supply and transportation contracts, we may be required to purchase coal at higher prices, or we may be forced to obtain additional power purchases through other potentially higher cost generating resources in the MISO Energy Markets. Higher costs to obtain coal increase our working capital requirements.

Our financial performance may be adversely affected if we are unable to successfully operate our facilities.

Our financial performance depends on the successful operation of our electric generating and gas distribution facilities. Operation of these facilities involves many risks, including: operator error and breakdown or failure of equipment processes; fuel supply interruptions; labor disputes; operating limitations that may be imposed by environmental or other regulatory requirements; or catastrophic events such as fires, earthquakes, explosions, floods or other similar occurrences. Unplanned outages can result in additional maintenance expenses as well as incremental replacement power costs.

Poor investment performance of pension plan holdings and other factors impacting pension plan costs could unfavorably impact our liquidity and results of operations.

Our cost of providing non-contributory defined benefit pension plans are dependent upon a number of factors resulting from actual plan experience and assumptions concerning the future, such as earnings on plan assets, discount rates, the level of interest rates used to measure the required minimum funding levels of the plans, future government regulation and our required or voluntary contributions to be made to the plans. Changes made to the plans may also impact current and future pensions costs. We expect to contribute approximately $45.4 million to fund the pension plans in 2008. Depending upon the growth rate of the pension investments over time and depending upon the other factors impacting our costs as listed above, we could be required to contribute significant

additional amounts in the future to fund our plans. These additional funding obligations could have a material adverse impact on our cash flows, financial condition or results of operations.

We are exposed to risks related to general economic conditions in our service territories.

Our electric and gas utility businesses are impacted by the economic cycles of the customers we serve. In the event regional economic conditions or the demand for products produced in our service area decline, we may experience reduced demand for electricity and/or natural gas that could result in decreased earnings and cash flow. In addition, regional economic conditions also impact our collections of accounts receivable.

Customer growth in our service areas affects our results of operations.

Our results of operations are affected by customer growth in our service areas. Customer growth can be affected by population growth as well as economic factors in Wisconsin and the Upper Peninsula of Michigan, including job and income growth. Customer growth directly influences the demand for electricity and gas, and the need for additional power generation and generating facilities. A population decline in our service territories or slower than anticipated customer growth could have a material adverse impact on our cash flow, financial condition or results of operations.

We are a holding company and are subject to restrictions on our ability to pay dividends.

Wisconsin Energy is a holding company and has no significant operations of its own. Accordingly, our ability to meet our financial obligations and pay dividends on our common stock is dependent upon the ability of our subsidiaries to pay amounts to us, whether through dividends or other payments. The ability of our subsidiaries to pay amounts to us will depend on the earnings, cash flows, capital requirements and general financial condition of our subsidiaries and on regulatory limitations. Our subsidiaries have dividend payment restrictions based on the terms of their outstanding preferred stock and regulatory limitations applicable to them. In addition, each of Wisconsin Energy, Wisconsin Electric and Wisconsin Gas bank back-up credit facilities have specified total funded debt to capitalization ratios that must be maintained.

Provisions of the Wisconsin Utility Holding Company Act limit our ability to invest in non-utility businesses and could deter takeover attempts by a potential purchaser of our common stock that would be willing to pay a premium for our common stock.

Under the Wisconsin Utility Holding Company Act, we remain subject to certain restrictions that have the potential of limiting our diversification into non-utility businesses. Under the public utility holding company law, the sum of certain assets of all non-utility affiliates in a holding company system may not exceed 25% of the assets of all public utility affiliates.

In addition, this act precludes the acquisition of 10% or more of the voting shares of a holding company of a Wisconsin public utility unless the PSCW has first determined that the acquisition is in the best interests of utility customers, investors and the public. This provision and other requirements of this act may delay or reduce the likelihood of a sale or change of control of Wisconsin Energy. As a result, shareholders may be deprived of opportunities to sell some or all of their shares of our common stock at prices that represent a premium over market prices.

Governmental agencies could modify our permits, authorizations or licenses.

Wisconsin Electric, Wisconsin Gas and Edison Sault are required to comply with the terms of various permits, authorizations and licenses. These permits, authorizations and licenses may be revoked or modified by the agencies that granted them if facts develop that differ significantly from the facts assumed when they were issued. In addition, discharge permits and other approvals and licenses are often granted for a term that is less than the expected life of the associated facility. Licenses and permits may require periodic renewal, which may result in additional requirements being imposed by the granting agency.

Also, if we are unable to obtain, renew or comply with these governmental permits, authorizations or licenses, or if we are unable to recover any increased costs of complying with additional license requirements or any other

associated costs in our rates in a timely manner, our results of operations and financial condition could be materially and adversely affected.

Restructuring in the regulated energy industry could have a negative impact on our business.

The regulated energy industry continues to experience significant structural changes. Increased competition in the retail and wholesale markets, which may result from restructuring efforts, could have a significant adverse financial impact on us. It is uncertain when retail access might be implemented in Wisconsin; however, Michigan has adopted retail choice which potentially affects our Michigan operations. Under retail access legislation, customers are permitted to choose their own electric generation supplier. All Michigan electric customers were able to choose their electric generation supplier beginning in January 2002. Although competition and customer switching to alternative suppliers in our service territories in Michigan has been limited, the additional competitive pressures resulting from retail access could lead to a loss of customers and our incurring stranded costs.

FERC continues to support the existing RTOs that affect the structure of the wholesale market within those RTOs. In connection with its status as a FERC approved RTO, MISO implemented the MISO Energy Markets on April 1, 2005. The MISO Energy Markets rules require that all market participants submit day-ahead and/or real-time bids and offers for energy at locations across the MISO region. MISO then calculates the most efficient solution for all of the bids and offers made into the market that day and establishes a LMP that reflects the market price for energy. As a participant in the MISO Energy Markets, we are required to follow MISO's instructions when dispatching generating units to support MISO's responsibility for maintaining stability of the transmission system. In addition, MISO plans to implement an Ancillary Services Market for operating reserves that would be simultaneously co-optimized with MISO's existing energy markets. The Ancillary Services Market is expected to commence in June 2008. The implementation of these and other new market designs has the potential to increase costs of transmission, costs associated with inefficient generation dispatching, costs of participation in the market and costs associated with estimated payment settlements.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own our principal properties outright, except that the major portion of our electric utility distribution lines, steam utility distribution mains and gas utility distribution mains and services are located, for the most part, on or under streets and highways and on land owned by others and are generally subject to granted easements, consents or permits.

As of December 31, 2007, we owned the following generating stations with dependable capabilities during 2007 as indicated:

Name	Fuel	No. of Generating Units	Dependable Capability in MW (a) July
Coal-Fired Plants			
Oak Creek	Coal	4	1,135
Presque Isle	Coal	7	547
Pleasant Prairie	Coal	2	1,208
Valley	Coal	2	267
Edgewater 5 (b)	Coal	1	105
Milwaukee County	Coal	3	10
Total Coal-Fired Plants		19	3,272
Hydro Plants (14 in number)		107	81
Port Washington Generating Station (c)	Gas	1	575
Germantown Combustion Turbines	Gas/Oil	5	345
Concord Combustion Turbines	Gas/Oil	4	388
Paris Combustion Turbines	Gas/Oil	4	400
Byron Wind Turbines (d)	Wind	2	-
Other Combustion Turbines & Diesel	Gas/Oil	5	28
Total System		147	5,089

(a) Dependable capability is the net power output under average operating conditions with equipment in an average state of repair as of a given month in a given year. We are a summer peaking electric utility. The values were established by test and may change slightly from year to year.

(b) We have a 25% interest in Edgewater 5 Generating Unit, which is operated by Alliant Energy Corp, an unaffiliated utility.

(c) Effective July 2005, Wisconsin Electric began leasing PWGS 1, a natural gas-fired generation unit with 575 MW of dependable capability, from We Power under a 25 year lease.

(d) The Byron Wind Turbines are able to generate up to 1.2 MW of electricity; however, due to the intermittent characteristics of wind power, their dependable capability is less than 1 MW.

As of December 31, 2007, we operated approximately 22,140 pole-miles of overhead distribution lines and 22,910 miles of underground distribution cable, as well as approximately 358 distribution substations and 280,750 line transformers. We own various office buildings and service centers throughout our electric utility service areas.

As of December 31, 2007, our gas distribution system included approximately 20,042 miles of distribution and transmission mains connected at 184 gate stations to the pipeline transmission systems of ANR Pipeline Company, Guardian, Natural Gas Pipeline Company of America, Northern Natural Pipeline Company, Great Lakes Transmission Company, Viking Gas Transmission and Michigan Consolidated Gas Company. We have liquefied natural gas storage plants which convert and store, in liquefied form, natural gas received during periods of low

consumption. The liquefied natural gas storage plants have a send-out capability of 73,600 Dth per day. We also have propane air systems for peaking purposes. These propane air systems will provide approximately 2,400 Dth per day of supply to the system. Our gas distribution system consists almost entirely of plastic and coated steel pipe.We also own office buildings, gas regulating and metering stations and major service centers, including garage and warehouse facilities, in certain communities in which we serve. Where distribution lines and services and gas distribution mains and services occupy private property, we have in some, but not all instances, obtained consents, permits or easements for these installations from the apparent owners or those in possession of those properties, generally without an examination of ownership records or title.

As of December 31, 2007, the combined steam systems supplied by the Valley and Milwaukee County Power Plants consisted of approximately 43 miles of both high pressure and low pressure steam piping, 9 miles of walkable tunnels and other pressure regulating equipment.

We Power:

We Power completed construction of the first natural gas unit, PWGS 1, in July 2005. PWGS 1 has a current dependable capability of 575 MW. Construction of a second 545 MW natural gas unit at PWGS has begun, and we expect the unit to be placed into service in the second quarter of 2008. We Power also received authorization from the PSCW to build two 615 MW coal plants (of which we will own approximately a 515 MW share of each unit) adjacent to the site of Wisconsin Electric's existing Oak Creek Power Plant. Construction commenced at this site in June 2005. For information about PTF, see Factors Affecting Results, Liquidity and Capital Resources -- Power the Future in Item 7.

Wisvest LLC:

Wisvest owns a chilled water production and distribution facility located in Milwaukee County, Wisconsin.

Wispark LLC:

As of December 31, 2007, Wispark properties, owned in full or through minority interests in joint ventures, included the following commercial and industrial parks in the State of Wisconsin: LakeView Corporate Park located near Kenosha, Wisconsin and GrandView Business Park in Racine, Wisconsin. Wispark developed Gaslight Pointe, a residential and commercial complex located in Racine. Wispark owns other properties located in Wisconsin Electric's service territories that are held for future development or sale. Wispark is a minority owner in an industrial park located in Gurnee, Illinois.

Minergy LLC:

Minergy owns a GlassPack ® facility in Winneconne, Wisconsin.

ITEM 3. LEGAL PROCEEDINGS

In addition to those legal proceedings discussed below, we are currently, and from time to time, subject to claims and suits arising in the ordinary course of business. Although the results of these other legal proceedings cannot be predicted with certainty, management believes, after consultation with legal counsel, that the ultimate resolution of these proceedings will not have a material adverse effect on our financial statements.

ENVIRONMENTAL MATTERS

We are subject to federal, state and certain local laws and regulations governing the environmental aspects of our operations. Management believes that, perhaps with immaterial exceptions, our existing facilities are in compliance with applicable environmental requirements.

EPA Information Requests:

Wisconsin Electric and Wisconsin Gas responded to an EPA request received in August 2004, for information pursuant to CERCLA Section 104(e) for the Solvay Coke and Gas Site located in Milwaukee, Wisconsin. All potentially responsive records and corporate legal files have been reviewed and responsive information was provided in October 2004. A predecessor company of Wisconsin Electric owned a parcel of property that is within the property boundaries of the site. A predecessor company of Wisconsin Gas had a customer and corporate relationship with the entity that owned and operated the site, Milwaukee Solvay Coke Company. In July 2005, Wisconsin Gas received a general notice letter from the EPA identifying Wisconsin Gas as a potentially responsible party under CERCLA. In April 2006, we received a special notice letter from the EPA

identifying both Wisconsin Gas and Wisconsin Electric as potentially responsible parties and commencing a negotiation period with the EPA and other parties regarding the conduct of a RI/FS and reimbursement of the EPA's costs. Wisconsin Electric and Wisconsin Gas, along with other parties, have entered into an Administrative Settlement Agreement and Order with the EPA to perform the RI/FS and reimburse the EPA's oversight costs. The parties anticipate that investigation activities will commence in 2008. Under the Settlement Agreement, neither Wisconsin Electric nor Wisconsin Gas admits to any liability for the site, waives any liability defenses, or commits to perform future site remedial activities at this time. The companies' share of the costs to perform the RI/FS and reimburse the EPA's oversight costs, as well as potential future remediation cost estimates and reserves, are included in the estimated manufactured gas plant values reported in Note S -- Commitments and Contingencies in the Notes to Consolidated Financial Statements in Item 8.

See Environmental Compliance in Item 1 and Environmental Matters, Manufactured Gas Plant Sites, Ash Landfill Sites and EPA - Consent Decree in Note S -- Commitments and Contingencies in the Notes to Consolidated Financial Statements which are incorporated by reference herein, for a discussion of matters related to certain solid waste and coal-ash landfills, manufactured gas plant sites and air quality.

UTILITY RATE MATTERS

See Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters and Power the Future in Item 7 for information concerning rate matters in the jurisdictions where Wisconsin Electric, Wisconsin Gas and Edison Sault do business.

OTHER MATTERS

Used Nuclear Fuel Storage and Removal:

See Factors Affecting Results, Liquidity and Capital Resources -- Nuclear Operations in Item 7 for information concerning the DOE's breach of contract with Wisconsin Electric that required the DOE to begin permanently removing used nuclear fuel from Point Beach by January 31, 1998.

Stray Voltage:

In recent years, several actions by dairy farmers have been commenced or claims made against Wisconsin Electric for loss of milk production and other damages to livestock allegedly caused by stray voltage resulting from the operation of its electrical system.

In May 2005, a stray voltage lawsuit was filed against Wisconsin Electric. This lawsuit was settled in June 2007 and such settlement did not have a material adverse effect on our financial condition or results of operations.

Even though any claims which may be made against Wisconsin Electric with respect to stray voltage and ground currents are not expected to have a material adverse effect on its financial condition, we continue to evaluate various options and strategies to mitigate this risk. For additional information, see Factors Affecting Results, Liquidity and Capital Resources -- Legal Matters in Item 7.

For information regarding additional legal matters, see Factors Affecting Results, Liquidity and Capital Resources -- Legal Matters in Item 7.

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

No matters were submitted to a vote of our security holders during the fourth quarter of 2007.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages at December 31, 2007 and positions of our executive officers are listed below along with their business experience during the past five years. All officers are appointed until they resign, die or are removed pursuant to the Bylaws. There are no family relationships among these officers, nor is there any agreement or

understanding between any officer and any other person pursuant to which the officer was selected. Reference to Wisconsin Gas LLC includes the time spent with the company prior to its conversion from a corporation to an LLC.

Gale E. Klappa.

Age 57.

- Wisconsin Energy Corporation -- Chairman of the Board and Chief Executive Officer since May 2004. President since April 2003.
- Wisconsin Electric Power Company -- Chairman of the Board since May 2004. President and Chief Executive Officer since August 2003.
- Wisconsin Gas LLC -- Chairman of the Board since May 2004. President and Chief Executive Officer since August 2003.
- The Southern Company -- Executive Vice President, Chief Financial Officer and Treasurer from March 2001 to April 2003. Chief Strategic Officer from October 1999 to March 2001. The Southern Company is a public utility holding company serving the southeastern United States.
- Director of Joy Global, Inc.
- Director of Wisconsin Energy Corporation, Wisconsin Electric Power Company and Wisconsin Gas LLC since 2003.

Charles R. Cole. Age 61.

- Wisconsin Electric Power Company -- Senior Vice President since 2001.
- Wisconsin Gas LLC -- Senior Vice President since July 2004.

Stephen P. Dickson.

Age 47.

- Wisconsin Energy Corporation -- Vice President since 2005. Controller since 2000.
- Wisconsin Electric Power Company -- Vice President since 2005. Controller since 2000.
- Wisconsin Gas LLC -- Vice President since 2005. Controller since 1998.

James C. Fleming.

Age 62.

- Wisconsin Energy Corporation -- General Counsel since March 2006. Executive Vice President since January 2006.
- Wisconsin Electric Power Company -- General Counsel since March 2006. Executive Vice President since January 2006.
- Wisconsin Gas LLC -- General Counsel since March 2006. Executive Vice President since January 2006.
- Southern Company Services, Inc. -- Vice President and Associate General Counsel from 1998 to December 2005. Southern Company Services is an affiliate of The Southern Company, a public utility holding company serving the southeastern United States.

Frederick D. Kuester.

Age 57.

- Wisconsin Energy Corporation -- Executive Vice President since May 2004.
- Wisconsin Electric Power Company -- Executive Vice President since May 2004. Chief Operating Officer since October 2003.
- Wisconsin Gas LLC -- Executive Vice President since May 2004.
- Mirant Corporation -- Senior Vice President - International from 2001 to October 2003 and Chief Executive Officer of Mirant Asia-Pacific Limited from 1999 to October 2003. Mirant is a multi-national energy company that produces and sells electricity. Mirant Corporation and certain of its subsidiaries voluntarily filed for bankruptcy in July 2003. Other than certain Canadian subsidiaries, none of Mirant's international subsidiaries filed for bankruptcy.

Allen L. Leverett.

Age 41.

- Wisconsin Energy Corporation -- Executive Vice President since May 2004. Chief Financial Officer since July 2003.
- Wisconsin Electric Power Company -- Executive Vice President since May 2004. Chief Financial Officer since July 2003.
- Wisconsin Gas LLC -- Executive Vice President since May 2004. Chief Financial Officer since July 2003.
- Georgia Power Company -- Executive Vice President, Chief Financial Officer and Treasurer from May 2002 to July 2003. Assistant Treasurer from 2000 to 2002. Georgia Power Company is a utility affiliate of The Southern Company, a public utility holding company serving the southeastern United States.

Kristine Rappé.

Age 51.

- Wisconsin Energy Corporation -- Senior Vice President and Chief Adminmistrative Officer since May 2004. Corporate Secretary from 2001 to August 2004.
- Wisconsin Electric Power Company -- Senior Vice President and Chief Administrative Officer since May 2004. Corporate Secretary from 2001 to August 2004. Vice President from 1994 to April 2004.
- Wisconsin Gas LLC -- Senior Vice President and Chief Administrative Officer since May 2004. Corporate Secretary from 2001 to August 2004. Vice President from 2001 to April 2004.

Certain executive officers also hold offices in our non-utility subsidiaries.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

NUMBER OF COMMON STOCKHOLDERS

As of December 31, 2007, based upon the number of Wisconsin Energy Corporation stockholder accounts (including accounts in our dividend reinvestment and stock purchase plan), we had approximately 51,000 registered stockholders.

COMMON STOCK LISTING AND TRADING

Our common stock is listed on the New York Stock Exchange under the ticker symbol "WEC." Daily trading prices and volume can be found in the "NYSE Composite" section of most major newspapers, usually abbreviated as WI Engy.

DIVIDENDS AND COMMON STOCK PRICES

Common Stock Dividends of Wisconsin Energy:

Cash dividends on our common stock, as declared by the Board of Directors, are normally paid on or about the first day of March, June, September and December of each year. We review our dividend policy on a regular basis. Subject to any regulatory restrictions or other limitations on the payment of dividends, future dividends will be at the discretion of the Board of Directors and will depend upon, among other factors, earnings, financial condition and other requirements. For information regarding restrictions on the ability of our subsidiaries to pay us dividends, see Note J -- Common Equity in the Notes to Consolidated Financial Statements in Item 8.

On January 17, 2008, our Board of Directors announced that it increased our common stock quarterly dividend rate by 8.0%, to $0.27 per share. With the increase, the new dividend is equivalent to an annual rate of $1.08 per share. The Board has established a goal of increasing the annual dividend at a rate of approximately half of the expected rate of growth in earnings per share, subject to the factors referred to above.

Range of Wisconsin Energy Common Stock Prices and Dividends:

	2007			2006		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$50.10	$45.67	$0.25	$42.35	$38.92	$0.23
Second	$50.00	$43.50	0.25	$40.91	$38.16	0.23
Third	$45.81	$41.06	0.25	$43.79	$39.75	0.23
Fourth	$50.48	$44.35	0.25	$48.70	$43.25	0.23

ISSUER PURCHASES OF EQUITY SECURITIES:

There were no purchases of our equity securities made by or on behalf of us or any affiliated purchaser (as defined in Exchange Act Rule 10b-18) during the three month period ended December 31, 2007. We do not report shares purchased by independent agents to satisfy obligations under our employee benefit plans and stock purchase and dividend reinvestment plan under this Item.

ITEM 6. SELECTED FINANCIAL DATA

WISCONSIN ENERGY CORPORATION

CONSOLIDATED SELECTED FINANCIAL AND STATISTICAL DATA

Financial	2007	2006	2005	2004	2003
Year Ended December 31					
Net income - Continuing Operations (Millions)	$ 336.5	$ 312.5	$ 303.6	$ 219.6	$ 201.3
Earnings per share - Continuing Operations					
Basic	$ 2.88	$ 2.67	$ 2.59	$ 1.87	$ 1.72
Diluted	$ 2.84	$ 2.64	$ 2.56	$ 1.84	$ 1.70
Dividends per share of common stock	$ 1.00	$ 0.92	$ 0.88	$ 0.83	$ 0.80
Common Stock Price - High During Year	$ 50.48	$ 48.70	$ 40.83	$ 34.60	$ 33.68
Common Stock Price - Low During Year	$ 41.06	$ 38.16	$ 33.35	$ 29.50	$ 22.56
Operating revenues (Millions)					
Utility energy	$ 4,224.8	$ 3,979.0	$ 3,793.0	$ 3,375.4	$ 3,263.9
Non-utility energy	75.7	69.1	40.0	19.9	12.3
Other including eliminations	(62.7)	(51.7)	(17.5)	10.8	5.9
Total operating revenues	$ 4,237.8	$ 3,996.4	$ 3,815.5	$ 3,406.1	$ 3,282.1
At December 31 (Millions)					
Total assets	$ 11,720.3	$ 11,130.2	$ 10,462.0	$ 9,565.4	$ 10,014.5
Long-term debt (including current maturities) and capital lease obligations	$ 3,525.3	$ 3,370.1	$ 3,527.0	$ 3,340.5	$ 3,736.7

CONSOLIDATED SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

(Millions of Dollars, Except Per Share Amounts) (a)

March	June

Three Months Ended	2007	2006	2007	2006
Operating revenues	$ 1,301.1	$ 1,247.0	$ 906.5	$ 814.4
Operating income	184.5	191.6	105.1	107.1
Income from Continuing Operations	101.1	104.4	57.7	59.7
Income (loss) from Discontinued Operations	(0.2)	1.3	(0.2)	3.2
Total Net Income	$ 100.9	$ 105.7	$ 57.5	$ 62.9
Earnings per share of common stock (basic) (b)				
Continuing operations	$ 0.86	$ 0.89	$ 0.49	$ 0.51
Discontinued operations	-	0.01	-	0.03
Total earnings per share (basic)	$ 0.86	$ 0.90	$ 0.49	$ 0.54
Earnings per share of common stock (diluted) (b)				
Continuing operations	$ 0.85	$ 0.88	$ 0.49	$ 0.50
Discontinued operations	-	0.01	-	0.03
Total earnings per share (diluted)	$ 0.85	$ 0.89	$ 0.49	$ 0.53

	September		December	
Three Months Ended	2007	2006	2007	2006
Operating revenues	$ 881.5	$ 839.8	$ 1,148.7	$ 1,095.2
Operating income	153.1	131.2	185.8	138.6
Income from Continuing Operations	83.1	70.8	94.6	77.6
Income (loss) from Discontinued Operations	(0.2)	-	(0.3)	(0.6)
Total Net Income	$ 82.9	$ 70.8	$ 94.3	$ 77.0
Earnings per share of common stock (basic) (b)				
Continuing operations	$ 0.71	$ 0.61	$ 0.81	$ 0.66
Discontinued operations	-	-	-	-
Total earnings per share (basic)	$ 0.71	$ 0.61	$ 0.81	$ 0.66
Earnings per share of common stock (diluted) (b)				
Continuing operations	$ 0.70	$ 0.60	$ 0.80	$ 0.65
Discontinued operations	-	-	-	-
	$ 0.70	$ 0.60	$ 0.80	$ 0.65

Total earnings per share (diluted)				

(a) Quarterly results of operations are not directly comparable because of seasonal and other factors. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

(b) Quarterly earnings per share may not total to the amounts reported for the year since the computation is based on the weighted average common shares outstanding during each quarter.

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

CORPORATE DEVELOPMENTS

INTRODUCTION

Wisconsin Energy Corporation is a diversified holding company with subsidiaries primarily in a utility energy segment and a non-utility energy segment. Unless qualified by their context, when used in this document the terms Wisconsin Energy, the Company, our, us or we refer to the holding company and all of our subsidiaries.

Our utility energy segment, consisting of Wisconsin Electric and Wisconsin Gas, both doing business under the trade name of "We Energies", and Edison Sault, is engaged primarily in the business of generating electricity and distributing electricity and natural gas in Wisconsin and the Upper Peninsula of Michigan. Our non-utility energy segment primarily consists of We Power. We Power is principally engaged in the engineering, construction and development of electric power generating facilities for long-term lease to Wisconsin Electric.

CORPORATE STRATEGY

Business Opportunities

We seek to increase stockholder value by leveraging on our core competencies. Our key corporate strategy, announced in September 2000, is PTF. This strategy is designed to address Wisconsin's growing electric supply needs by increasing the electric generating capacity in the state while maintaining a fuel-diverse, reasonably priced electric supply. It is also designed to improve the delivery of energy within our distribution systems to meet increasing customer demands and to support our commitment to improved environmental performance. Our PTF strategy, which is discussed further below, is having and is expected to continue to have, a significant impact on our utility and non-utility energy segments. In July 2005, the first of four new electric generating units under our PTF strategy was placed into service. Construction on the remaining three units is underway with the second PWGS unit expected to be placed in service during the second quarter of 2008. Since 2000, we have been selling our non-core assets to direct more attention to the utility business and to finance PTF while reducing our debt leverage.

Sale of Point Beach:

On September 28, 2007, Wisconsin Electric sold Point Beach to an affiliate of FPL for approximately $924 million. Pursuant to the terms of the sale agreement, the buyer purchased Point Beach, its nuclear fuel, associated inventories and assumed the obligation to decommission the plant. Wisconsin Electric retained approximately $506 million of the sales proceeds, which represents the net book value of the assets sold and certain transaction costs. In addition, Wisconsin Electric has deferred the net gain on the sale of approximately $418 million as a regulatory liability and has deposited those proceeds into a restricted cash account.

In connection with the sale, Wisconsin Electric also transferred $390 million of decommissioning funds to the buyer. Wisconsin Electric then liquidated the balance of the decommissioning trust assets and retained approximately $552 million, which was also placed into the restricted cash account. We intend to use the cash in the restricted cash account and the interest earned on the balance, for the benefit of our customers and to pay certain taxes related to the liquidation of the qualified decommissioning trust. Our regulators are directing the manner in which these proceeds will benefit customers. For further information on the 2008 rate case, see Utility Rates and Regulatory Matters under Factors Affecting Results, Liquidity and Capital Resources in this report.

A long-term power purchase agreement with the buyer became effective upon closing of the sale. Pursuant to this agreement, Wisconsin Electric is purchasing all of the energy produced by Point Beach. The power purchase agreement extends through 2030 for Unit 1 and 2033 for Unit 2. Based on the agreement, we will be paying a pre-determined price per MWh for energy delivered. For additional information on the sale of Point Beach, see Nuclear Operations under Factors Affecting Results, Liquidity and Capital Resources in this report.

Utility Energy Segment:

Our utility energy segment strives to provide reasonably priced energy delivered at high levels of customer service and reliability. We expect our prices to be established by our regulatory bodies under traditional rate based, cost of service methodologies. We continue to gain efficiencies and improve the effectiveness

of our service deliveries through the combined support operations of our electric and gas businesses. We work to obtain a reliable, reasonably-priced supply of electricity through plants that we operate and various long-term supply contracts.

Non-Utility Energy Segment:

Our primary focus in this segment is to improve the supply of electric generation in Wisconsin. We Power was formed to design, construct, own and lease new generation assets under our PTF strategy.

Power the Future Strategy:

In February 2001, we filed a petition with the PSCW that would allow us to begin implementing our 10-year PTF strategy to improve the supply and reliability of electricity in Wisconsin. PTF is intended to meet a growing demand for electricity and ensure a diverse fuel mix while keeping electricity prices reasonable. Under PTF, we are (1) investing approximately $2.6 billion in 2,120 MW of new natural gas-fired and coal-fired generating capacity at existing sites; (2) upgrading our existing electric generating facilities; and (3) investing in upgrades of our existing energy distribution system.

Subsequent to our February 2001 filing, the Wisconsin legislature amended several laws, making changes which were critical to the implementation of PTF. In October 2001, the PSCW issued a declaratory ruling finding, among other things, that it was prudent to proceed with PTF and for us to incur the associated pre-certification expenses. However, individual expenses are subject to review by the PSCW in order to be recovered.

In November 2001, we created We Power to design, construct, own and lease the new generating capacity. Wisconsin Electric will lease each new generating facility from We Power as well as operate and maintain the new plants under 25- to 30-year lease agreements approved by the PSCW. Based upon the structure of the leases, we expect to recover the investments in We Power's new facilities over the initial lease term. At the end of the leases, Wisconsin Electric will have the right to acquire the plants outright at market value or to renew the leases. Wisconsin Electric expects that payments under the plant leases will be recoverable in rates under the provisions of the Wisconsin Leased Generation Law.

Under our PTF strategy, we expect to meet a significant portion of our future generation needs through We Power's construction of the PWGS units and the Oak Creek expansion.

As of December 31, 2007, we:

- Received approval from the PSCW to build two 545 MW natural gas-fired intermediate load units in Port Washington, Wisconsin (PWGS 1 and PWGS 2). PWGS 1 was placed into service in July 2005 and is fully operational. PWGS 1 was completed within the PSCW approved cost parameters.
- Completed site preparation for PWGS 2 and procured all of the major components for PWGS 2. Construction is underway, and PWGS 2 is expected to become operational in the second quarter of 2008.
- Received approval from the PSCW to build two 615 MW coal-fired base load units (OC 1 and OC 2) adjacent to the site of our existing Oak Creek Power Plant in Oak Creek, Wisconsin (the Oak Creek expansion), with OC 1 expected to be in service in 2009 and OC 2 in 2010. The CPCN was granted contingent upon our obtaining the necessary environmental permits. We have received all permits necessary to commence construction. In June 2005, construction commenced at the site.
- Completed the planned sale of approximately a 17% ownership interest in the Oak Creek expansion to two co-owners.
- Received approval from the PSCW for various leases between We Power and Wisconsin Electric.

Through December 31, 2007, we have financed our PTF expenditures with internally generated cash, asset sales and debt financings. Future expenditures are expected to be financed with internally generated cash and debt financings. We currently do not plan to issue any new common equity as part of our PTF program.

Our primary risks under PTF are construction risks associated with the schedule and costs for both our Oak Creek expansion and PWGS 2; continuing legal challenges to permits obtained and changes in applicable laws or regulations; adverse interpretation or enforcement of permit conditions, laws and regulations by the permitting agencies; the inability to obtain necessary operating permits in a timely manner; obtaining the investment capital from outside sources necessary to implement the strategy; governmental actions; and events in the global economy.

For further information concerning PTF capital requirements, see Liquidity and Capital Resources below. For additional information regarding risks associated with the PTF strategy, as well as the regulatory process and specific regulatory approvals, see Factors Affecting Results, Liquidity and Capital Resources below.

Divestiture of Assets

Our PTF strategy led to a decision to divest non-core businesses. These non-core businesses primarily included non-utility generation assets located outside of Wisconsin and a substantial amount of Wispark's real estate portfolio, as well as our manufacturing business. In addition, in 2001 we contributed our transmission assets to ATC and received cash proceeds of $119.8 million and an economic interest in ATC. Finally, in 2006 we concluded that it was in the best interests of customers and stockholders to sell Point Beach. In 2007, we sold Point Beach for approximately $924 million. Since 2000, we have received total proceeds of approximately $3.1 billion from the divestiture of assets as follows:

Proceeds from divestitures:	2000 - 2007
(Millions of Dollars)	
Point Beach	$924.1
Manufacturing	857.0
Non-Utility Energy	616.8
Real Estate	482.9
Transmission	119.8
Guardian	38.5
Other	95.7
Total	$3,134.8

RESULTS OF OPERATIONS

CONSOLIDATED EARNINGS

The following table compares our operating income by business segment and our net income for 2007, 2006 and 2005:

Wisconsin Energy Corporation	2007	2006	2005
		(Millions of Dollars)	
Utility Energy	$586.0	$532.8	$542.4
Non-Utility Energy	47.4	43.1	19.5
Corporate and Other	(4.9)	(7.4)	1.0
Total Operating Income	628.5	568.5	562.9
Equity in Earnings of Transmission Affiliate	43.1	38.6	34.6
Other Income and Deductions, net	48.9	53.1	28.7
Interest Expense, net	167.6	172.7	173.4
Income From Continuing Operations Before Income Taxes	552.9	487.5	452.8
Income Taxes	216.4	175.0	149.2
Income From Continuing Operations	336.5	312.5	303.6
Income (Loss) From Discontinued Operations, Net of Tax	(0.9)	3.9	5.1
Net Income	$335.6	$316.4	$308.7
Diluted Earnings Per Share			
Continuing Operation	$2.84	$2.64	$2.56
Discontinued Operations	(0.01)	0.03	0.05
Total Diluted Earnings Per Share	$2.83	$2.67	$2.61

An analysis of contributions to operating income by segment and a more detailed analysis of results in 2007, 2006 and 2005 follow.

UTILITY ENERGY SEGMENT CONTRIBUTION TO OPERATING INCOME

2007 vs. 2006:

Our utility energy segment contributed $586.0 million of operating income during 2007 compared with $532.8 million of operating income during 2006. During 2007 we experienced more favorable weather which increased electric and gas sales. In addition, we experienced an increase in retail sales as a result of customer growth and we reached a settlement regarding a billing dispute with our largest customers, two iron ore mines. These items were partially offset by an increase in fuel and purchased power expenses.

2006 vs. 2005:

Our utility energy segment contributed $532.8 million of operating income during 2006 compared with $542.4 million of operating income during 2005. During 2006, we experienced mild weather, which reduced electric and gas sales. In addition, operation and maintenance expenses increased due to the timing of scheduled outages and maintenance projects at our coal units. However, these items were largely offset by improved recovery of fuel costs, only one scheduled refueling outage at Point Beach and increased gas margins.

The following table summarizes our utility energy segment's operating income during 2007, 2006 and 2005:

Utility Energy Segment	2007	2006	2005
	(Millions of Dollars)		
Operating Revenues			
Electric	$2,705.7	$2,529.4	$2,349.7
Gas	1,481.2	1,419.9	1,417.5
Other	37.9	29.7	25.8
Total Operating Revenues	4,224.8	3,979.0	3,793.0
Fuel and Purchased Power	1,000.6	806.2	780.8
Cost of Gas Sold	1,052.7	1,018.3	1,047.3
Gross Margin	2,171.5	2,154.5	1,964.9
Other Operating Expenses			
Other Operation and Maintenance	1,174.2	1,211.1	1,010.4
Depreciation, Decommissioning and Amortization	315.2	314.0	324.1
Property and Revenue Taxes	102.6	96.6	88.0
Amortization of Gain	(6.5)	-	-
Operating Income	$586.0	$532.8	$542.4

During September 2007, we completed the sale of Point Beach. In connection with the sale, a power purchase agreement with an affiliate of FPL became effective to purchase all of the energy produced by Point Beach. As a result of the sale and the power purchase agreement, we expect future income statements to look different than historical income statements. Prospectively, we expect to see significantly higher purchased power expense because

we will be purchasing energy from Point Beach. We also expect to see a reduction of other operation and maintenance costs, as well as lower depreciation, decommissioning and amortization costs because we no longer own Point Beach. Under the power purchase agreement, we also expect to see higher costs for purchased power in the summer months and lower amounts in the non-summer months. Finally, we expect our future income statements to reflect the regulatory impact of the amortization of the gain resulting from the sale of Point Beach.

Electric Utility Gross Margin

The following table compares our electric utility gross margin during 2007 with similar information for 2006 and 2005, including a summary of electric operating revenues and electric sales by customer class:

	Electric Revenues and Gross Margin			MWh Sales		
Electric Utility Operations	2007	2006	2005	2007	2006	2005
	(Millions of Dollars)			(Thousands, Except Degree Days)		
Customer Class						
Residential	$929.6	$883.2	$827.6	8,586.6	8,322.7	8,562.7
Small Commercial/Industrial	861.7	814.8	746.1	9,430.3	9,142.2	9,192.7
Large Commercial/Industrial	676.9	647.5	602.4	11,245.6	11,173.1	11,687.5
Other-Retail	19.7	19.3	17.9	168.7	169.9	171.7
Total Retail Sales	2,487.9	2,364.8	2,194.0	29,431.2	28,807.9	29,614.6
Wholesale - Other	95.1	78.0	94.7	2,178.5	2,057.6	2,541.9
Resale - Utilities	81.6	51.2	21.3	1,434.5	1,025.7	313.7
Other Operating Revenues	41.1	35.4	39.7	-	-	-
Total	$2,705.7	$2,529.4	$2,349.7	33,044.2	31,891.2	32,470.2
Fuel and Purchased Power						
Fuel	570.1	487.9	432.7			
Purchased Power	419.7	309.8	340.3			
Total Fuel and Purchased Power	989.8	797.7	773.0			
Total Electric Gross Margin	$1,715.9	$1,731.7	$1,576.7			
Weather -- Degree Days (a)						
Heating (6,627 Normal)				6,508	6,043	6,628
Cooling (722 Normal)				800	723	949

(a) As measured at Mitchell International Airport in Milwaukee, Wisconsin. Normal degree days are based upon a twenty-year moving average.

Electric Utility Revenues and Sales

2007 vs. 2006:

Our electric utility operating revenues increased by $176.3 million, or 7.0%, when compared to 2006. The biggest drivers of the increase in revenues relate to the recognition of revenues attributable to fuel and purchased power of approximately $37.4 million and increased revenues related to Resale - Utilities of approximately $30.4 million. Our policy for electric fuel revenues is to not recognize revenue for any currently billable amounts if it is probable that we will refund those amounts to customers. In 2006, we experienced lower than expected fuel and purchased power costs, and we established $37.4 million of reserves to reflect amounts that were refunded to customers. No such reserves were established in 2007 as we experienced higher fuel and purchased power costs. The increase in Resale-Utilities reflects our ability to sell electricity into the MISO and PJM markets due to the increased availability of our baseload plants.

In addition, we estimate that $27.1 million of the increase in operating revenues relates to pricing increases. This increase primarily reflects rate increases received in late January 2006 that were in effect for the entire twelve months ended December 31, 2007 and a wholesale rate increase effective May 2007. We also estimate that $28.9 million of the increase was due to more favorable weather and $22.8 million relates to sales growth in residential and commercial sales. Finally, approximately $9.0 million of the increase relates to the settlement in the second quarter of 2007 of a billing dispute with our largest customers, two iron ore mines.

Our retail electric sales volume grew by approximately 2.2%. The increase in retail sales was driven by growth in residential and commercial sales and more favorable weather in 2007 as compared to the same period in 2006. In 2007, heating degree days increased by approximately 7.7% compared to 2006, and cooling degree days increased by approximately 10.7%.

Our electric utility operating revenues are expected to increase in 2008 primarily due to the implementation of the January 2008 Wisconsin retail pricing increase. However, as the primary driver for the pricing increase is increased costs, we do not expect this pricing increase to cause a material increase in earnings. For more information on the pricing increases and the fuel cost adjustment clause, see Utility Rates and Regulatory Matters in Factors Affecting Results, Liquidity and Capital Resources.

2006 vs. 2005:

Our electric utility operating revenues increased by $179.7 million, or 7.6%, when compared to 2005. Revenues in 2006 were $213.3 million higher than 2005 due to pricing increases that we received in January 2006 and during 2005. The most significant pricing increases authorized by the PSCW related to the recovery of higher fuel costs, costs associated with the new plants under our PTF strategy and increased transmission costs.

Our electric sales volumes decreased by 1.8% in 2006 as compared to 2005 due to mild weather and lower commercial and industrial sales, offset by an increase in sales for resale. Residential sales volumes decreased 2.8% due largely to weather. In 2006, heating degree days decreased approximately 8.8% compared to 2005, and cooling degree days decreased approximately 23.8%. We estimate that the weather had an unfavorable impact on operating revenues of approximately $46.5 million when compared to the prior year. Total sales volumes to commercial/industrial customers decreased 2.7% between the comparative periods. Sales volumes to commercial/industrial customers, excluding our two largest customers, decreased 1.4%. Sales volumes in the wholesale class decreased approximately 19% compared to the prior year due, in part, to the expiration of a wholesale contract on December 31, 2005. The increase in sales volumes to other utilities is attributed to the availability of PWGS 1 for all of 2006, which provided additional generation capacity. PWGS 1 was not operational until the third quarter of 2005. Under the Wisconsin Fuel rules, sales to other utilities reduce fuel costs charged to customers.

Electric Fuel and Purchased Power Expenses

2007 vs. 2006:

Our fuel and purchased power expenses increased by $192.1 million, or approximately 24.1%, when compared to 2006. Our total electric sales volume increased by approximately 3.6%, when compared to the twelve months ended December 31, 2006. However, our average fuel and purchased power costs increased by $4.86 per MWh, or approximately 20.6%. The largest factors for the higher cost per MWh are the power purchase agreement entered into in connection with the sale of Point Beach, which increased costs by approximately $47.0 million, increased coal and transportation costs, increased market prices for purchased energy and an increase in production of gas-fired generation used for opportunity sales.

We expect that electric fuel and purchased power expenses in 2008 will be higher than 2007 because of the full year impact of the Point Beach power purchase agreement and expected increases in the cost of coal and related transportation.

2006 vs. 2005:

In 2006, our fuel and purchased power expenses increased by $24.7 million, or approximately 3.2%, when compared to 2005. Our average cost of fuel and purchased power increased from $23.80 per MWh in 2005 to $25.01 per MWh in 2006. The largest factor for the higher cost per MWh was a 24.2% increase in the per MWh cost of coal-fired generation, which includes coal and related transportation costs, between the comparative periods. This increase was partially offset by increased generation from Point Beach and a decrease in the average costs of purchased power and fuel for our natural gas-fired units.

Gas Utility Revenues, Gross Margin and Therm Deliveries

The following table compares our total gas utility operating revenues and gross margin (total gas utility operating revenues less cost of gas sold) during 2007, 2006 and 2005:

Gas Utility Operations	2007	2006	2005

	(Millions of Dollars)		
Operating Revenues	$1,481.2	$1,419.9	$1,417.5
Cost of Gas Sold	1,052.7	1,018.3	1,047.3
Gross Margin	$428.5	$401.6	$370.2

We believe gross margin is a better performance indicator than revenues because changes in the cost of gas sold flow through to revenue under GCRMs. The following table compares our gas utility gross margin and therm deliveries by customer class during 2007, 2006 and 2005:

	Gross Margin			Therm Deliveries		
Gas Utility Operations	2007	2006	2005	2007	2006	2005
	(Millions of Dollars)			(Millions, Except Degree Days)		
Customer Class						
Residential	$273.9	$255.0	$240.5	791.7	727.9	791.0
Commercial/Industrial	93.4	86.0	72.9	461.9	435.9	460.7
Interruptible	2.0	2.0	1.8	22.7	21.3	23.4
Total Retail Gas Sales	369.3	343.0	315.2	1,276.3	1,185.1	1,275.1
Transported Gas	51.7	51.3	48.5	921.6	843.8	893.7
Other Operating	7.5	7.3	6.5	-	-	