

WISCONSIN ENERGY CORP
Form 10-Q
August 01, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended

June 30, 2007

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer .

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (June 30, 2007):

Common Stock, \$.01 Par Value, 116,948,339 shares outstanding.

WISCONSIN ENERGY CORPORATION

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

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DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

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

Wisconsin Energy Subsidiaries and Affiliates

Primary Subsidiaries

Edison Sault	Edison Sault Electric Company
We Power	W.E. Power, LLC
Wisconsin Electric	Wisconsin Electric Power Company
Wisconsin Gas	Wisconsin Gas LLC

Significant Assets

OC 1	Oak Creek expansion Unit 1
OC 2	Oak Creek expansion Unit 2
Point Beach	Point Beach Nuclear Plant
PWGS	Port Washington Generating Station
PWGS 1	Port Washington Generating Station Unit 1
PWGS 2	Port Washington Generating Station Unit 2

Other Affiliates and Subsidiaries

Minergy	Minergy Corp.
NMC	Nuclear Management Company, LLC
Wispark	Wispark LLC

Federal and State Regulatory Agencies

EPA	United States Environmental Protection Agency
FAA	Federal Aviation Administration
FERC	Federal Energy Regulatory Commission
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

BTA	Best Technology Available
CAIR	Clean Air Interstate Rule
CO ₂	Carbon Dioxide
CWA	Clean Water Act
NAAQS	National Ambient Air Quality Standards
NO _x	Nitrogen Oxide
PM _{2.5}	Fine Particulate Matter
SIP	State Implementation Plans
SO ₂	Sulfur Dioxide
WPDES	Wisconsin Pollution Discharge Elimination System

DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

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

Other Terms and Abbreviations

ALJ	Wisconsin Administrative Law Judge
Compensation Committee	Compensation Committee of the Board of Directors
CPCN	Certificate of Public Convenience and Necessity
FPL	FPL Group, Inc.
FTRs	Financial Transmission Rights

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Junior Notes	Wisconsin Energy's 2007 Series A Junior Subordinated Notes due 2067 issued in May 2007
LMP	Locational Marginal Price
MISO	Midwest Independent Transmission System Operator, Inc.
MISO Midwest Market	MISO bid-based energy market
Moody's	Moody's Investor Services
PTF	Power the Future
PSEG	Public Service Enterprise Group
RCC	Replacement Capital Covenant dated May 11, 2007
RTO	Regional Transmission Organizations
S&P	Standard & Poors Corporation
UI	The United Illuminating Company

Measurements

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

Accounting Terms

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

Accounting Pronouncements

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in this report and other documents or oral presentations are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based upon management's current expectations and are subject to risks and uncertainties that could cause our actual results to differ materially from those contemplated in the statements. Readers are cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements include, among other things, statements concerning management's expectations and projections regarding completion of construction projects, regulatory matters, fuel costs, sources of electric energy supply, the proposed sale of Point Beach, coal and gas deliveries, remediation costs, environmental and other capital expenditures, liquidity and capital resources and other matters. In some cases, forward-looking statements may be identified by reference to a future period or periods or by the use of forward-looking terminology such as "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "may," "objectives," "plans," "possible," "potential," "projects" or similar terms or variations of these terms.

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

- Factors affecting utility operations such as unusual weather conditions; catastrophic weather-related or terrorism-related damage; availability of electric generating facilities; unscheduled generation outages, or unplanned maintenance or repairs; unanticipated events causing scheduled generation outages to last longer than expected; unanticipated changes in fossil fuel, nuclear 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; nuclear or environmental incidents; resolution of used nuclear fuel storage and disposal issues; electric transmission or gas pipeline system constraints; unanticipated organizational structure or key personnel changes; collective bargaining agreements with union employees or work stoppages; inflation rates; or demographic and economic factors affecting utility service territories or operating environment.
- Regulatory factors such as unanticipated changes in rate-setting policies or procedures; unanticipated changes in regulatory accounting policies and practices; industry restructuring initiatives; transmission or distribution system operation and/or administration initiatives; recovery of costs of previous investments made under traditional regulation; recovery of costs associated with adoption of changed accounting standards; required changes in facilities or operations to reduce the risks or impacts of potential terrorist activities; required approvals for new construction; changes in the NRC's regulations related to Point Beach or a permanent repository for used nuclear fuel; changes in the regulations of the EPA as well as the WDNR, the Michigan Department of Natural Resources or the Michigan Department of Environmental Quality, including but not limited to regulations relating to the release of emissions from fossil-fueled power plants such as CO₂, SO₂, NO_x, small particulates or mercury, water quality and lead paint; and regulations relating to the intake and discharge of water; the siting approval process for new generation and transmission facilities; recovery of costs associated with implementation of a bid-based energy market; or changes in the regulations from the WDNR related to the siting approval process for new pipeline construction.
- The changing electric and gas utility environment as market-based forces replace strict industry regulation and other competitors enter the electric and gas markets resulting in increased wholesale and retail competition.

- Unanticipated operational and/or financial consequences related to implementation of the MISO Midwest Market that started in April 2005.
- Consolidation of the industry as a result of the combination and acquisition of utilities in the Midwest, nationally and globally as a result of the repeal of the Public Utility Holding Company Act of 1935 or otherwise.
- Factors related to the proposed sale of Point Beach including receipt of the necessary approvals by various regulatory agencies, including the NRC, PSCW, MPSC and FERC for the transaction; and our ability to retain certain assets for the benefit of customers in the decommissioning trusts.
- Factors which impede execution of our PTF strategy, including receipt of necessary state and federal regulatory approvals, timely and successful resolution of legal challenges, local opposition to siting of new generating facilities, construction risks, including the adverse interpretation or enforcement of permit conditions by the permitting agencies, and obtaining the investment capital from outside sources necessary to implement the strategy.
- Restrictions imposed by various financing arrangements and regulatory requirements on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances.
- Changes in social attitudes regarding the utility and power industries.
- Customer business conditions including demand for their products or services and supply of labor and material used in creating their products and services.
- The cost and other effects of legal and administrative proceedings, settlements, investigations and claims and changes in those matters.
- Factors affecting the availability or cost of capital such as: changes in interest rates and other general capital market conditions; our capitalization structure; market perceptions of the utility industry, us or any of our subsidiaries; or security ratings.
- Federal, state or local legislative factors such as changes in tax laws or rates; changes in trade, monetary and fiscal policies, laws and regulations; electric and gas industry restructuring initiatives; changes in the Price-Anderson Act; changes in environmental laws and regulations; or changes in allocation of energy assistance, including state public benefits funds.
- Implementation of the Energy Policy Act of 2005 and the effect of state level proceedings and the development of regulations by federal and other agencies, including FERC.
- Authoritative GAAP or policy changes from such standard setting bodies as the FASB, the SEC and the Public Company Accounting Oversight Board.
- Unanticipated technological developments that result in competitive disadvantages and create the potential for impairment of existing assets.

- Possible risks associated with non-utility operations and investments, such as: general economic conditions; competition; operating risks; dependence upon certain suppliers and customers; the cyclical nature of property values that could affect real estate investments; unanticipated changes in environmental or energy regulations; and risks associated with minority investments, where there is a limited ability to control the development, management or operation of the project.
- Legislative or regulatory restrictions or caps on non-utility acquisitions, investments or projects, including the State of Wisconsin's public utility holding company law.

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- Other business or investment considerations that may be disclosed from time to time in our SEC filings or in other publicly disseminated written documents, including the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2006.

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

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INTRODUCTION

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

Utility Energy Segment:

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

Proposed Sale of Point Beach:

In December 2006, we announced that Wisconsin Electric had signed a definitive agreement with an affiliate of FPL to sell Point Beach for approximately \$998 million, subject to closing price adjustments. See Note 4 -- Proposed Sale of Point Beach in the Notes to Consolidated Condensed Financial Statements in this report.

Non-Utility Energy Segment:

Our non-utility energy segment consists primarily of We Power. We Power was formed in 2001 to design, construct, own and lease to Wisconsin Electric the new generating capacity included in our PTF strategy. See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2006 Annual Report on Form 10-K for more information on PTF.

Other:

Our other non-utility operating subsidiaries include Wispark, which has approximately \$54.1 million of assets and develops and invests in real estate.

We have prepared the unaudited interim financial statements presented in this Form 10-Q pursuant to the rules and regulations of the SEC. We have condensed or omitted some information and note disclosures normally included in financial statements prepared in accordance with GAAP pursuant to these rules and regulations. This Form 10-Q, including the financial statements contained herein, should be read in conjunction with our 2006 Annual Report on Form 10-K, including the financial statements and notes therein.

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WISCONSIN ENERGY CORPORATION
CONSOLIDATED CONDENSED INCOME STATEMENTS

(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
	(Millions of Dollars, Except Per Share Amounts)			
Operating Revenues	\$906.5	\$814.4	\$2,207.6	\$2,061.4
Operating Expenses				
Fuel and purchased power	232.3	184.8	461.8	354.0
Cost of gas sold	158.6	129.6	632.4	610.0
Other operation and maintenance	304.2	290.1	607.2	588.0
Depreciation, decommissioning and amortization	81.2	78.8	165.3	161.4
Property and revenue taxes	25.1	24.0	51.3	49.3
Total Operating Expenses	<u>801.4</u>	<u>707.3</u>	<u>1,918.0</u>	<u>1,762.7</u>
Operating Income	105.1	107.1	289.6	298.7

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Equity in Earnings of Transmission Affiliate	10.5	9.4	21.2	19.0
Other Income, Net	19.8	18.3	33.0	29.6
Interest Expense	<u>42.0</u>	<u>42.6</u>	<u>84.7</u>	<u>87.8</u>
Income From Continuing Operations Before Income Taxes	93.4	92.2	259.1	259.5
Income Taxes	<u>35.7</u>	<u>32.5</u>	<u>100.3</u>	<u>95.4</u>
Income from Continuing Operations	57.7	59.7	158.8	164.1
Income (Loss) from Discontinued Operations, Net of Tax	<u>(0.2)</u>	<u>3.2</u>	<u>(0.4)</u>	<u>4.5</u>
Net Income	<u>\$57.5</u>	<u>\$62.9</u>	<u>\$158.4</u>	<u>\$168.6</u>
Earnings Per Share (Basic)				
Continuing operations	\$0.49	\$0.51	\$1.35	\$1.40
Discontinued operations	<u>-</u>	<u>0.03</u>	<u>-</u>	<u>0.04</u>
Total Earnings Per Share (Basic)	<u>\$0.49</u>	<u>\$0.54</u>	<u>\$1.35</u>	<u>\$1.44</u>
Earnings Per Share (Diluted)				
Continuing operations	\$0.49	\$0.50	\$1.34	\$1.38
Discontinued operations	<u>-</u>	<u>0.03</u>	<u>-</u>	<u>0.04</u>
Total Earnings Per Share (Diluted)	<u>\$0.49</u>	<u>\$0.53</u>	<u>\$1.34</u>	<u>\$1.42</u>
Weighted Average Common Shares Outstanding (Millions)				
Basic	116.9	117.0	117.0	117.0
Diluted	118.5	118.4	118.6	118.4
Dividends Per Share of Common Stock	\$0.25	\$0.23	\$0.50	\$0.46

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

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	(Unaudited)	
	<u>June 30, 2007</u>	<u>December 31, 2006</u>
	(Millions of Dollars)	
<u>Assets</u>		
Property, Plant and Equipment		
In service	\$ 9,413.3	\$ 9,265.4
Accumulated depreciation	(3,490.9)	(3,423.7)
	<u>5,922.4</u>	<u>5,841.7</u>
Construction work in progress	1,360.0	992.4
Leased facilities, net	84.7	87.5
Nuclear fuel, net	119.5	130.9
	<u>7,486.6</u>	<u>7,052.5</u>
Net Property, Plant and Equipment	7,486.6	7,052.5
Investments		
Nuclear decommissioning trust fund	929.1	881.6
Equity investment in transmission affiliate	234.0	228.5
Other	43.6	54.7
	<u>1,206.7</u>	<u>1,164.8</u>
Total Investments	1,206.7	1,164.8
Current Assets		
Cash and cash equivalents	36.7	37.0
Accounts receivable	364.2	379.3
Accrued revenues	161.0	257.8
Materials, supplies and inventories	333.7	417.2
Prepayments and Other	166.2	136.7
	<u>1,061.8</u>	<u>1,228.0</u>
Total Current Assets	1,061.8	1,228.0
Deferred Charges and Other Assets		
Regulatory assets	1,106.2	1,091.0
Goodwill	441.9	441.9
Other	159.2	152.0
	<u>1,707.3</u>	<u>1,684.9</u>
Total Deferred Charges and Other Assets	1,707.3	1,684.9
Total Assets	<u>\$ 11,462.4</u>	<u>\$ 11,130.2</u>
<u>Capitalization and Liabilities</u>		
Capitalization		
Common equity	\$ 2,978.6	\$ 2,889.0
Preferred stock of subsidiary	30.4	30.4
Long-term debt	3,544.1	3,073.4
	<u>6,553.1</u>	<u>5,992.8</u>
Total Capitalization	6,553.1	5,992.8
Current Liabilities		

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Long-term debt due currently	313.4	296.7
Short-term debt	643.7	911.9
Accounts payable	317.1	404.5
Accrued liabilities	129.8	161.2
Other	119.0	113.7
	<u>1,523.0</u>	<u>1,888.0</u>
Total Current Liabilities	1,523.0	1,888.0

Deferred Credits and Other Liabilities