

WPS RESOURCES CORP
Form 10-Q
August 06, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from _____ to _____

| <u>Commission File Number</u> | <u>Registrants; State of Incorporation; Address; and Telephone Number</u> | <u>IRS Employer Identification No.</u> |
|-----------------------------------|--|--|
| 1-11337 | WPS RESOURCES CORPORATION (A Wisconsin Corporation) 700 North Adams Street P. O. Box 19001 Green Bay, WI 54307-9001 920-433-4901 | 39-1775292 |
| 1-3016 | WISCONSIN PUBLIC SERVICE CORPORATION (A Wisconsin Corporation) 700 North Adams Street P. O. Box 19001 Green Bay, WI 54307-9001 800-450-7260 | 39-0715160 |

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

| | |
|--------------------------------------|---|
| WPS Resources Corporation | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> |
| Wisconsin Public Service Corporation | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> |

Edgar Filing: WPS RESOURCES CORP - Form 10-Q

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

| | |
|--------------------------------------|---|
| WPS Resources Corporation | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> |
| Wisconsin Public Service Corporation | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date:

| | |
|--------------------------------------|---|
| WPS RESOURCES CORPORATION | Common stock, \$1 par value, 37,253,483 shares outstanding at July 31, 2004 |
| WISCONSIN PUBLIC SERVICE CORPORATION | Common stock, \$4 par value, 23,896,962 shares outstanding at July 31, 2004 |

<PAGE>

WPS RESOURCES CORPORATION
AND
WISCONSIN PUBLIC SERVICE CORPORATION
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2004

CONTENTS

| | <u>Page</u> |
|---|-------------|
| <u>FORWARD-LOOKING STATEMENTS</u> | 4 |
| PART I. FINANCIAL INFORMATION | |
| Item 1. FINANCIAL STATEMENTS | |
| WPS RESOURCES CORPORATION | |
| <u>Consolidated Statements of Income</u> | 5 |
| <u>Consolidated Balance Sheets</u> | 6 |
| <u>Consolidated Statements of Cash Flows</u> | 7 |
| WISCONSIN PUBLIC SERVICE CORPORATION | |
| <u>Consolidated Statements of Income</u> | 8 |
| <u>Consolidated Balance Sheets</u> | 9 |
| <u>Consolidated Statements of Capitalization</u> | 10 |
| <u>Consolidated Statements of Cash Flows</u> | 11 |
| <u>CONDENSED NOTES TO FINANCIAL STATEMENTS OF</u> | |
| WPS Resources Corporation and Subsidiaries | |
| Wisconsin Public Service Corporation and Subsidiaries | 12-32 |

| | | |
|-------------------|---|-------|
| <u>Item 2.</u> | Management's Discussion and Analysis of Financial Condition and Results of Operations for WPS Resources Corporation | 33-60 |
| | <u>Wisconsin Public Service Corporation</u> | 61-69 |
| <u>Item 3.</u> | Quantitative and Qualitative Disclosures About Market Risk | 70 |
| <u>Item 4.</u> | Controls and Procedures | 71 |
| <u>PART II.</u> | OTHER INFORMATION | 72 |
| <u>Item 1.</u> | Legal Proceedings | 72 |
| <u>Item 4.</u> | Submission of Matters to a Vote of Security Holders | 72 |
| <u>Item 6.</u> | Exhibits and Reports on Form 8-K | 73 |
| <u>Signatures</u> | | 74-75 |

-2-

<PAGE>

| | | |
|----------------------|--|----|
| <u>EXHIBIT INDEX</u> | | 76 |
|----------------------|--|----|

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

-3-

<PAGE>

FORWARD-LOOKING STATEMENTS

Except for historical data and statements of current fact, the information contained or incorporated by reference in this document constitutes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Any references to plans, goals, beliefs or expectations in respect to future events and conditions or to estimates are forward-looking statements. Although we believe that statements of our expectations are based on reasonable assumptions, forward-looking statements are inherently uncertain and subject to risks and should be viewed with caution. Actual results or experience could differ materially from the forward-looking statements as a result of many factors. Forward-looking statements included or incorporated in this document include, but are not limited to statements regarding:

- expectations regarding future revenues or expenses,
- estimated future capital expenditures,
- expected costs of purchased power in the future,
- costs of decommissioning generation plants,
- recovery of deferred costs,
- future cleanup costs associated with manufactured gas plant sites,
- future compliance costs with environmental clean air regulations, and
- statements regarding trends or estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations.

We cannot predict the course of future events or anticipate the interaction of multiple factors beyond our control and their effect on revenues, project timing, and costs. Some risk factors that could cause results different from any forward-looking statement include those described in the Risk Factors Section of our Annual Report on Form 10-K for the year ended December 31, 2003 and the following:

- General economic, business, and regulatory conditions
- Legislative and regulatory initiatives regarding deregulation and restructuring of the utility industry which could affect costs and investment recovery
- State and federal rate regulation, including the inability to obtain necessary regulatory approvals
- Changes in generally accepted accounting principles
- Growth and competition and the extent and timing of new business development in the markets of subsidiary companies
- The performance of projects undertaken or acquired by subsidiary companies
- Business combinations among our competitors and customers
- Energy supply and demand
- Financial market conditions, including availability, terms, and use of capital
- Nuclear and environmental issues
- Weather and other natural phenomena
- Commodity price and interest rate risk
- Counter-party credit risk
- Federal and state tax policies
- Acts of terrorism or war

We make no commitment to disclose any revisions to the forward-looking statements as a result of facts, events, or circumstances after the date of this report.

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

WPS RESOURCES CORPORATION

| CONSOLIDATED STATEMENTS OF INCOME (Unaudited) | Three Months Ended | | Six Months Ended | |
|--|--------------------|--------------|------------------|---------------|
| <u>(Millions, except share amounts)</u> | June 30 | | June 30 | |
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Nonregulated revenue | \$770.1 | \$711.1 | \$1,756.7 | \$1,631.0 |
| Utility revenue | <u>275.8</u> | <u>260.8</u> | <u>662.5</u> | <u>622.7</u> |
| Total revenues | 1,045.9 | 971.9 | 2,419.2 | 2,253.7 |
| Nonregulated cost of fuel, gas, and purchased power | 747.5 | 689.6 | 1,689.7 | 1,571.7 |
| Utility cost of fuel, gas, and purchased power | 110.6 | 111.7 | 307.6 | 304.8 |
| Operating and maintenance expense | 132.2 | 122.6 | 257.8 | 236.6 |
| Depreciation and decommissioning expense | 26.6 | 26.7 | 52.3 | 51.1 |
| Taxes other than income | <u>11.5</u> | <u>10.8</u> | <u>23.3</u> | <u>21.5</u> |
| Operating income | 17.5 | 10.5 | 88.5 | 68.0 |
| Miscellaneous income | 6.1 | 7.5 | 10.9 | 8.9 |
| Interest expense and distributions on trust preferred securities | (13.0) | (13.8) | (26.5) | (27.8) |
| Minority interest | <u>1.1</u> | <u>1.2</u> | <u>1.1</u> | <u>2.3</u> |
| Other expense | (5.8) | (5.1) | (14.5) | (16.6) |
| Income before taxes | 11.7 | 5.4 | 74.0 | 51.4 |
| Provision (benefit) for income taxes | <u>1.0</u> | <u>(3.9)</u> | <u>16.9</u> | <u>6.4</u> |
| Income from continuing operations | 10.7 | 9.3 | 57.1 | 45.0 |
| Discontinued operations, net of tax | <u>(5.3)</u> | <u>(5.8)</u> | <u>(8.3)</u> | <u>(10.9)</u> |
| Net income before cumulative effect of change in accounting principles | 5.4 | 3.5 | 48.8 | 34.1 |
| Cumulative effect of change in accounting principles, net of tax | = | = | = | <u>3.2</u> |
| Net income before preferred stock dividends of subsidiary | 5.4 | 3.5 | 48.8 | 37.3 |
| Preferred stock dividends of subsidiary | <u>0.8</u> | <u>0.8</u> | <u>1.6</u> | <u>1.6</u> |
| Income available for common shareholders | \$4.6 | \$2.7 | \$47.2 | \$35.7 |
| Average shares of common stock | | | | |
| Basic | 37.3 | 32.4 | 37.2 | 32.3 |
| Diluted | 37.5 | 32.7 | 37.4 | 32.7 |
| Earnings per common share (basic) | | | | |

Edgar Filing: WPS RESOURCES CORP - Form 10-Q

| | | | | |
|--|----------|----------|----------|---------------|
| Income from continuing operations | \$0.27 | \$0.26 | \$1.49 | \$1.34 |
| Discontinued operations | (\$0.15) | (\$0.18) | (\$0.22) | (\$0.34) |
| Cumulative effect of change in accounting principles | = | = | = | <u>\$0.10</u> |
| Earnings per common share (basic) | \$0.12 | \$0.08 | \$1.27 | \$1.10 |
| Earnings per common share (diluted) | | | | |
| Income from continuing operations | \$0.26 | \$0.26 | \$1.48 | \$1.33 |
| Discontinued operations | (\$0.14) | (\$0.18) | (\$0.22) | (\$0.34) |
| Cumulative effect of change in accounting principles | = | = | = | <u>\$0.10</u> |
| Earnings per common share (diluted) | \$0.12 | \$0.08 | \$1.26 | \$1.09 |
| Dividends per common share declared | \$0.545 | \$0.535 | \$1.090 | \$1.070 |

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

-5-

<PAGE>

WPS RESOURCES CORPORATION

| CONSOLIDATED BALANCE SHEETS (Unaudited) (Millions) | June 30 <u>2004</u> | December 31 <u>2003</u> |
|---|------------------------|----------------------------|
| Assets | | |
| Cash and cash equivalents | \$66.3 | \$50.7 |
| Restricted funds | 3.7 | 3.2 |
| Accounts receivable - net of reserves of \$7.1 and \$6.6, respectively | 356.2 | 502.4 |
| Accrued unbilled revenues | 56.9 | 90.0 |
| Inventories | 123.1 | 178.3 |
| Current assets from risk management activities | 390.1 | 518.1 |
| Assets held for sale | 119.3 | 116.4 |
| Other current assets | <u>90.5</u> | <u>86.4</u> |
| Current assets | 1,206.1 | 1,545.5 |
| Property, plant, and equipment - net of reserves of \$1,558.5 and \$1,511.7, respectively | 1,876.3 | 1,828.7 |
| Nuclear decommissioning trusts | 336.1 | 332.3 |
| Regulatory assets | 127.4 | 127.7 |
| Long-term assets from risk management activities | 82.7 | 104.3 |
| Other | <u>366.9</u> | <u>353.8</u> |
| Total assets | \$3,995.5 | \$4,292.3 |
| Liabilities and Shareholders' Equity | | |
| Short-term debt | \$68.0 | \$38.0 |
| Current portion of long-term debt | 6.3 | 56.6 |
| Note payable to preferred stock trust | - | 51.5 |

Edgar Filing: WPS RESOURCES CORP - Form 10-Q

| | | |
|--|----------------|----------------|
| Accounts payable | 423.2 | 510.7 |
| Current liabilities from risk management activities | 360.2 | 517.3 |
| Liabilities held for sale | 2.6 | 2.7 |
| Current deferred income taxes | 1.1 | 1.7 |
| Other current liabilities | <u>85.0</u> | <u>86.9</u> |
| Current liabilities | 946.4 | 1,265.4 |
| Long-term debt | 869.5 | 871.9 |
| Long-term deferred income taxes | 88.6 | 78.8 |
| Deferred investment tax credits | 16.9 | 17.7 |
| Regulatory liabilities | 295.6 | 304.4 |
| Environmental remediation liabilities | 37.3 | 37.9 |
| Pension and postretirement benefit obligations | 147.5 | 137.7 |
| Long-term liabilities from risk management activities | 68.8 | 92.2 |
| Asset retirement obligations | 354.0 | 344.0 |
| Other | <u>83.1</u> | <u>88.0</u> |
| Long-term liabilities | 1,961.3 | 1,972.6 |
| Commitments and contingencies | | |
| Preferred stock of subsidiary with no mandatory redemption | 51.1 | 51.1 |
| Common stock equity | <u>1,036.7</u> | <u>1,003.2</u> |
| Total liabilities and shareholders' equity | \$3,995.5 | \$4,292.3 |

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

-6-

<PAGE>

WPS RESOURCES CORPORATION

| CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) | Six Months Ended June 30 | |
|---|-----------------------------|-------------|
| <u>(Millions)</u> | <u>2004</u> | <u>2003</u> |
| Operating Activities | | |
| Net income before preferred stock dividends of subsidiary | \$48.8 | \$37.3 |
| Adjustments to reconcile net income before preferred stock dividends of subsidiary to net cash provided by operating activities | | |
| Discontinued operations, net of tax | 8.3 | 10.9 |
| Depreciation and decommissioning | 52.3 | 51.1 |
| Amortization of nuclear fuel and other | 18.0 | 20.3 |
| Unrealized gain on investments | (2.3) | (2.3) |

Edgar Filing: WPS RESOURCES CORP - Form 10-Q

| | | |
|--|----------------|--------------|
| Equity (earnings)/losses from nonconsolidated investments | (3.1) | 1.1 |
| Pension and post retirement expense | 20.8 | 13.9 |
| Deferred income taxes | 5.0 | 0.2 |
| Unrealized (gains)/losses on nonregulated energy contracts | (1.0) | 5.2 |
| Gain on sale of partial interest in synthetic fuel operation | (3.7) | (3.7) |
| Cumulative effect of change in accounting principles, net of tax | - | (3.2) |
| Other | (6.7) | (17.0) |
| Changes in working capital | | |
| Receivables, net | 164.3 | (7.6) |
| Inventories | 53.4 | (41.2) |
| Other current assets | (4.8) | (20.1) |
| Accounts payable | (89.0) | 64.2 |
| Other current liabilities | <u>(13.2)</u> | <u>(4.9)</u> |
| Net cash operating activities | 247.1 | 104.2 |
| | | |
| Investing Activities | | |
| Capital expenditures | (113.5) | (69.5) |
| Sale of property, plant and equipment | 3.2 | 22.8 |
| Purchase of equity investments and other acquisitions | (19.1) | (45.3) |
| Dividends received from equity investment | 9.2 | 3.7 |
| Decommissioning funding | (0.3) | (1.4) |
| Other | <u>3.4</u> | <u>1.7</u> |
| Net cash investing activities | (117.1) | (88.0) |
| | | |
| Financing Activities | | |
| Short-term debt - net | 30.0 | 77.0 |
| Repayment of long-term debt and note to preferred stock trust | (103.2) | (76.1) |
| Payment of dividends | | |
| Preferred stock | (1.6) | (1.6) |
| Common stock | (40.3) | (34.1) |
| Issuance of common stock | 16.3 | 17.5 |
| Purchase of common stock | - | (0.8) |
| Other | <u>(1.8)</u> | <u>12.3</u> |
| Net cash financing activities | <u>(100.6)</u> | <u>(5.8)</u> |
| Change in cash and cash equivalents - continuing operations | 29.4 | 10.4 |
| | | |
| Change in cash and cash equivalents - discontinued operations | <u>(13.8)</u> | <u>0.6</u> |
| Change in cash and cash equivalents | 15.6 | 11.0 |
| | | |
| Cash and cash equivalents at beginning of period | <u>50.7</u> | <u>43.3</u> |
| Cash and cash equivalents at end of period | \$66.3 | \$54.3 |

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

<PAGE>

WISCONSIN PUBLIC SERVICE CORPORATION

| CONSOLIDATED STATEMENTS OF INCOME (Unaudited) (Millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|--------------|-----------------------------|--------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Operating revenues | | | | |
| Electric | \$190.2 | \$172.6 | \$388.6 | \$350.7 |
| Gas | <u>69.6</u> | <u>72.2</u> | <u>243.2</u> | <u>245.8</u> |
| Total operating revenues | 259.8 | 244.8 | 631.8 | 596.5 |
| Operating expenses | | | | |
| Electric production fuels | 33.3 | 32.9 | 67.1 | 67.1 |
| Purchased power | 27.2 | 24.2 | 54.2 | 48.1 |
| Gas purchased for resale | 46.3 | 50.3 | 174.6 | 181.1 |
| Other operating expenses | 77.5 | 72.9 | 154.7 | 142.8 |
| Maintenance | 22.0 | 23.2 | 40.1 | 42.8 |
| Depreciation and decommissioning | 22.9 | 23.0 | 44.8 | 43.5 |
| Federal income taxes | 4.4 | 1.2 | 19.0 | 12.7 |
| Investment tax credit restored | (0.4) | (0.4) | (0.7) | (0.7) |
| State income taxes | 1.2 | 0.5 | 5.1 | 3.4 |
| Gross receipts tax and other | <u>9.6</u> | <u>9.2</u> | <u>19.4</u> | <u>18.3</u> |
| Total operating expense | <u>244.0</u> | <u>237.0</u> | <u>578.3</u> | <u>559.1</u> |
| Operating income | 15.8 | 7.8 | 53.5 | 37.4 |
| Other income and (deductions) | | | | |
| Allowance for equity funds used during construction | 0.5 | 0.5 | 1.0 | 1.4 |
| Other, net | 5.2 | 7.2 | 9.0 | 10.5 |
| Income taxes | <u>(0.7)</u> | <u>(1.3)</u> | <u>(1.0)</u> | <u>(1.8)</u> |
| Total other income | 5.0 | 6.4 | 9.0 | 10.1 |
| Interest expense | | | | |
| Interest on long-term debt | 7.6 | 6.9 | 15.0 | 14.3 |
| Other interest | 0.6 | 1.5 | 1.8 | 2.5 |
| Allowance for borrowed funds used during construction | <u>(0.1)</u> | <u>(0.3)</u> | <u>(0.3)</u> | <u>(0.7)</u> |
| Total interest expense | 8.1 | 8.1 | 16.5 | 16.1 |
| Minority interest | = | | | |