WISCONSIN ENERGY CORP
Form 10-K
February 25, 2011

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, 2010**

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes[X] No[ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 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. [X]

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 $5.9 billion based upon the reported closing price of such securities as of June 30, 2010.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date (January 31, 2011):

Common Stock, $.01 Par Value, 116,875,372 shares outstanding

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 5, 2011, are incorporated by reference into Part III hereof.

WISCONSIN ENERGY CORPORATION
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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:

Primary Subsidiaries

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
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
ERGSS	Elm Road Generating Station Supercritical, LLC
ERS	Elm Road Services, LLC
Minergy	Minergy LLC
WECC	Wisconsin Energy Capital Corporation
Wispark	Wispark LLC
Wisvest	Wisvest LLC
Federal and State Regulatory Agencies	
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
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
BART	Best Available Retrofit Technology
BTA	Best Technology Available
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CATR	Clean Air Transport Rule
CAVR	Clean Air Visibility Rule
CO_2	Carbon Dioxide
FIP	Federal Implementation Plan

DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS - (Cont'd)

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

MACT	Maximum Achievable Control Technology
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NO_x	Nitrogen Oxide

$PM_{2.5}$	Fine Particulate Matter
RACT	Reasonably Available Control Technology
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
VOC	Volatile Organic Compounds
WPDES	Wisconsin Pollution Discharge Elimination System

Other Terms and Abbreviations

AQCS	Air Quality Control System
ARRs	Auction Revenue Rights
Bechtel	Bechtel Power Corporation
Compensation Committee	Compensation Committee of the Board of Directors
CPCN	Certificate of Public Convenience and Necessity
Edison Sault	Edison Sault Electric Company
Energy Policy Act	Energy Policy Act of 2005
ERISA	Employee Retirement Income Security Act of 1974
Exchange Act	Securities Exchange Act of 1934, as amended
Fitch	Fitch Ratings
FTRs	Financial Transmission Rights
GCRM	Gas Cost Recovery Mechanism
GDP	Gross Domestic Product
Guardian	Guardian Pipeline L.L.C.
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
MISO	Midwest Independent Transmission System Operator, Inc.
MISO Energy Markets	MISO Energy and Operating Reserves Market
Moody's	Moody's Investor Service
NYMEX	New York Mercantile Exchange
OTC	Over-the-Counter
Plan	The Wisconsin Energy Corporation Retirement Account Plan
Point Beach	Point Beach Nuclear Power Plant
PSEG	Public Service Enterprise Group
PTF	Power the Future
PUHCA 2005	Public Utility Holding Company Act of 2005
RCC	Replacement Capital Covenant dated May 11, 2007
RSG	Revenue Sufficiency Guarantee
RTO	Regional Transmission Organization
Settlement Agreement	Settlement Agreement and Release between ERS and Bechtel effective as of December 16, 2009
	S&P
	Standard & Poor's Ratings Services
WPL	Wisconsin Power and Light Company, a subsidiary of Alliant Energy Corp.

DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS - (Cont'd)

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

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

Accounting Terms

AFUDC	Allowance for Funds Used During Construction
ARO	Asset Retirement Obligation
CWIP	Construction Work in Progress
GAAP	Generally Accepted Accounting Principles
IFRS	International Financial Reporting Standards
NOL	Net Operating Loss
OPEB	Other Post-Retirement Employee Benefits

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 (Exchange Act). 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, on-going legal proceedings, 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," "should" 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 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.

- Factors affecting the demand for electricity and natural gas, including weather; the economic climate in our service territories; customer growth and declines; customer business conditions, including demand for their products and services; and energy conservation efforts.

- Timing, resolution and impact of pending and future rate cases and negotiations, including recovery of all costs associated with our *Power the Future* (PTF) strategy, as well as costs associated with environmental compliance, renewable generation, transmission service, fuel and the Midwest Independent Transmission System Operator, Inc. (MISO) Energy Markets.

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

- The ability to control costs and avoid construction delays during the development and construction of new environmental controls and renewable generation.

- The impact of recent and future federal, state and local legislative and regulatory changes, including any changes in rate-setting policies or procedures; electric and gas industry restructuring initiatives; transmission or distribution system operation and/or administration initiatives; any 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; changes to the Federal Power Act and related regulations under the Energy Policy Act and enforcement thereof by the Federal Energy Regulatory Commission (FERC) and other regulatory agencies; 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; changes in the application of existing laws and regulations; and changes in the interpretation or enforcement of permit conditions by the permitting agencies.

- 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.
- Current and future litigation, regulatory investigations, proceedings or inquiries, including the pending lawsuit against the Wisconsin Energy Corporation Retirement Account Plan (Plan), FERC matters, and IRS audits and other tax matters.
- Events in the global credit markets that may affect the availability and cost of capital.
- Other factors affecting our ability to access the capital markets, including general capital market conditions; our capitalization structure; market perceptions of the utility industry, us or any of our subsidiaries; and our credit ratings.
- The investment performance of our pension and other post-retirement benefit trusts.
- The financial performance of American Transmission Company LLC (ATC) and its corresponding contribution to our earnings.
- The impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and any regulations promulgated thereunder.
- The impact of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 and any related regulations.
- The effect of accounting pronouncements issued periodically by standard setting bodies, including any changes in regulatory accounting policies and practices and any requirement for U.S. registrants to follow International Financial Reporting Standards (IFRS) instead of Generally Accepted Accounting Principles (GAAP).
- 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 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 Securities and Exchange Commission (SEC) filings or in other publicly disseminated written documents, including the risk factors set forth in Item 1A of this report.

We expressly disclaim 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 Power Company (Wisconsin Electric), Wisconsin Gas LLC (Wisconsin Gas) and W.E. Power, LLC (We Power).

Utility Energy Segment:

Our utility energy segment consists of Wisconsin Electric and Wisconsin Gas, operating together under the trade name of "We Energies." We Energies serves approximately 1,120,200 electric customers in Wisconsin and the Upper Peninsula of Michigan. We Energies serves approximately 1,064,500 gas customers in Wisconsin and approximately 460 steam customers in metropolitan Milwaukee, Wisconsin.

Non-Utility Energy Segment:

Our non-utility energy segment consists primarily of We Power, which owns and leases to Wisconsin Electric generation plants constructed as part of our PTF initiative. As of December 31, 2010, three of the four plants have been placed in service. Port Washington Generating Station Unit 1 (PWGS 1) and Port Washington Generating Station Unit 2 (PWGS 2) are being leased to Wisconsin Electric under long-term leases that run for 25 years. Oak Creek expansion Unit 1 (OC 1) is being leased to Wisconsin Electric under a long-term lease that runs for 30 years. On January 12, 2011, Oak Creek expansion Unit 2 (OC 2) was placed in service and is now being leased to Wisconsin Electric under a long-term lease that runs for 30 years.

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

Our annual and periodical filings with 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. Wisconsin Electric, which is the largest electric utility in the state of Wisconsin, generates and distributes electric energy in a territory that includes southeastern (including the metropolitan Milwaukee area), east central and northern Wisconsin and the Upper Peninsula of Michigan.

Wisconsin Electric participates in the MISO Energy Markets. The competitiveness of our generation offered in the MISO Energy Markets affects 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 totaled approximately 30.5 million MWh during 2010 and approximately 28.9 million MWh during 2009. We had approximately 1,120,200 electric customers as of December 31, 2010 and 1,117,400 electric customers as of December 31, 2009.

Wisconsin Electric is authorized to provide retail electric service in designated territories in the state of Wisconsin, as established by indeterminate permits, Certificates of Public Convenience and Necessity (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.

Electric Sales Growth:

Our service territory experienced growth in 2010 after the significant economic recession that occurred during late 2008 and into 2009. Our normalized 2010 retail electric sales, excluding our two largest customers, two iron ore mines, were approximately 0.2% higher than our normalized 2009 electric sales. As we look toward 2011 and beyond, we presently anticipate total retail and municipal electric kWh sales of our utility energy segment and the associated peak electric demand will grow at annual rates of 0.5% to 1.0% over the next five years. These estimates assume normal weather and exclude the two iron ore mines.

Sales to Large Electric Retail Customers:

We provide 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.

Our largest retail electric customers are two iron ore mines located in the Upper Peninsula of Michigan. The combined electric energy sales to the two mines accounted for 6.9% and 5.3% of our total electric utility energy sales during 2010 and 2009, respectively.

Sales to Wholesale Customers:

During 2010, we sold wholesale electric energy to one municipally owned system, two rural cooperatives and two municipal joint action agencies located in the states of Wisconsin and Michigan. Our wholesale electric energy sales were also made to fourteen other public utilities and power marketers throughout the region under rates approved by FERC. Wholesale sales accounted for approximately 10.2% of our total electric energy sales and 6.0% of total electric operating revenues during 2010, compared with 10.7% of total electric energy sales and 6.1% of total electric operating revenues during 2009.

Electric System Reliability Matters:

Our electric sales are impacted by seasonal factors and varying weather conditions. We sell more electricity during the summer months because of the residential cooling load. The Public Service Commission of Wisconsin (PSCW) has planning reserve requirements consistent with the MISO calculated planning reserve margin. The Michigan Public Service Commission (MPSC) has not yet established guidelines in this area. In accordance with the MISO calculated planning reserve margin requirements, we had adequate capacity to meet all of our firm electric load obligations during 2010 and expect to have adequate capacity to meet all of our firm obligations during 2011. 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 a significant amount of electricity to our customers from power plants that we own. We supplement our internally generated power supply with long-term power purchase agreements, including the Point Beach Nuclear Power Plant (Point Beach) power purchase agreement discussed later in this report, and through spot purchases in the MISO Energy Markets.

Our installed capacity by fuel type as of December 31 is shown below:

	Dependable Capability in MW (a)		
	2010	2009	2008
Coal (b)	3,646	3,131	3,247
Natural Gas - Combined Cycle	1,090	1,090	1,090
Natural Gas/Oil - Peaking Units (c)	1,150	1,150	1,138
Renewables (d)	86	86	86
Total	5,972	5,457	5,561

(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) The increase in 2010 as compared to 2009 reflects the February 2010 in-service date of OC 1 and our share of this unit's dependable capability, which is 515 MW. In addition, in January 2011, OC 2 was placed in service and our share of this unit's dependable capability is 515 MW.

(c) 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.

(d) Includes hydroelectric and wind generation. For purposes of measuring dependable capability, the 145 MW Blue Sky Green Field wind project has a dependable capability of 29 MW.

The table below indicates our sources of electric energy supply as a percentage of sales for the three years ended December 31, 2010, as well as an estimate for 2011:

Estimate	Actual		
2011	2010	2009	2008

Coal	55.8%	53.9%	52.8%	57.3%
Wind	1.1%	1.0%	1.2%	0.6%
Hydroelectric	1.2%	1.0%	0.8%	0.9%
Natural Gas -Combined Cycle	6.8%	8.4%	7.6%	5.3%
Natural Gas/Oil-Peaking Units	0.2%	0.3%	0.2%	0.3%
Net Generation	65.1%	64.6%	62.6%	64.4%
Purchased Power	34.9%	35.4%	37.4%	35.6%
Total	100.0%	100.0%	100.0%	100.0%

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

	2010	2009	2008
Coal	$ 26.44	$ 25.01	$ 22.93
Natural Gas - Combined Cycle	$ 43.14	$ 51.67	$ 69.65
Natural Gas/Oil - Peaking Units	$ 97.36	$121.18	$160.25
Purchased Power	$ 43.11	$ 42.21	$ 46.67

Historically, the fuel costs for coal have been under long-term contracts, which helped with price stability. Coal and associated transportation services have seen greater volatility in pricing than previously experienced in these markets due to changes in the domestic and world-wide demand for coal and the impacts of diesel costs which are incorporated into fuel surcharges on rail transportation.

Natural gas costs have been volatile. We had a PSCW-approved hedging program to help manage our natural gas price risk, which expired on December 31, 2010. We have requested PSCW approval to continue this hedging program. This hedging program is generally implemented on a 36-month forward-looking basis. Proceeds related to the natural gas hedging program are reflected in the average costs of natural gas and purchased power shown above.

Coal-Fired Generation

Coal Supply:

We diversify the coal supply for our power plants by purchasing coal from mines in Wyoming, Pennsylvania and Colorado as well as from various other states. During 2011, 100% of our projected coal requirements of 11.2 million tons are under contracts which are not tied to 2011 market pricing fluctuations. In 2010, our coal-fired generation consisted of seven operating plants with a

dependable capability of approximately 3,646 MW. However, by the end of 2011, with the addition of OC 2, we expect our coal-fired generation to have a dependable capability of 4,161 MW.

The annual tonnage amounts contracted for 2011 through 2013 are as follows:

Contract Expiration Date	Annual Tonnage
	(Thousands)
Dec. 2011	11,214
Dec. 2012	9,522
Dec. 2013	3,340

Coal Deliveries:

Approximately 96% of our 2011 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 and Pleasant Prairie Power Plants from Wyoming mines, and transport coal for the Oak Creek expansion units from Pennsylvania and West Virginia. Coal from Colorado mines is also transported via rail to Lake Superior or Lake Michigan transfer docks and delivered by lake vessel to the Milwaukee harbor for Milwaukee-based power plants. Montana and Wyoming coal for the Presque Isle Power Plant is transported via rail to Superior, Wisconsin, placed in dock storage and reloaded into lake vessels for plant delivery. Colorado coal bound for the Presque Isle Power Plant is shipped via rail to Lake Superior and Lake Michigan (Chicago) coal transfer docks, respectively, for lake vessel delivery to the plant.

Certain of our coal transportation contracts contain fuel cost adjustments that are tied to changes in a diesel fuel price index. Currently, diesel fuel contracts are not actively traded; therefore, we are using financial heating oil contracts to mitigate risk. We had a PSCW-approved hedging program that allowed us to hedge up to 75% of our potential fuel for electric generation in order to help manage our risk of higher delivered cost of coal. This hedging program expired on December 31, 2010. We have requested PSCW approval to continue this program. The costs of this program are included in our fuel and purchased power costs.

Edgewater Generating Unit 5:

During the fourth quarter of 2009, we reached a contingent agreement to sell our 25% interest in Edgewater Generating Unit 5 to Wisconsin Power and Light Company, a subsidiary of Alliant Energy Corp. (WPL), for our net book value, including working capital. In March 2010, the agreement became effective and we are in the process of receiving regulatory approvals. We received approval for the sale from FERC in June 2010, and from the PSCW in November 2010. We are currently working with the MPSC to obtain approval on terms that are acceptable to us. Assuming completion of the sale, we expect to realize proceeds of between $40 million and $45 million depending on the working capital balances and our level of capital investment in the unit prior to the sale. The contractual deadline to complete the sale is June 30, 2011.

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.

Natural Gas-Fired Generation

Our natural gas-fired generation consists of four operating plants with a dependable capability of approximately 1,983 MW as of December 31, 2010. We added PWGS 1 and PWGS 2, both natural gas-fired units with a dependable capability of 545 MW each, in July 2005 and May 2008, respectively.

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.

We had a PSCW-approved hedging program that allowed us to hedge up to 75% of our estimated gas usage for electric generation in order to help manage our natural gas price risk. This hedging program expired on December 31, 2010. We have requested PSCW approval to continue this program. 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 Plant units 1-4, boiler ignition and flame stabilization at the Presque Isle Power Plant, and diesel engines at the Pleasant Prairie Power Plant and Valley Power Plant. Our oil-fired generation had a dependable capability of approximately 257 MW as of December 31, 2010. Our natural gas-fired peaking units have the ability to burn oil if natural gas is not available due to delivery constraints. Fuel oil requirements are purchased under agreements with suppliers.

Renewable Generation

Hydroelectric:

Wisconsin Electric's hydroelectric generating system consists of 13 operating plants with a total installed capacity of approximately 88 MW and a dependable capability of approximately 57 MW as of December 31, 2010. Of these 13 plants, 12 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.

Wind:

Wisconsin Electric completed the Blue Sky Green Field wind project in May 2008. This project has 88 turbines, an installed capacity of approximately 145 MW and a current dependable capability of approximately 29 MW. In July 2008, we completed the purchase of rights to a new wind farm site in Central Wisconsin, Glacier Hills Wind Park, and filed a request for a CPCN with the PSCW in October 2008. The PSCW approved the CPCN in January 2010. We currently expect to install 90 wind turbines with a total generating capacity of approximately 162 MW. This project is expected to cost between $360 million and $370 million, excluding Allowance for Funds Used During Construction (AFUDC). Construction commenced in May 2010, and we anticipate 2012 will be the first full year of operation.

Biomass:

In September 2009, we announced plans to construct a biomass-fueled power plant at Domtar Corporation's Rothschild, Wisconsin paper mill site. Wood waste and wood shavings will be used to produce approximately 50 MW of electricity and will also support Domtar's sustainable papermaking operations. We believe the biomass plant will be eligible for the federal production tax credit. We currently expect to invest approximately $255 million, excluding AFUDC, in the plant and for it to be completed during the fall of 2013, subject to regulatory and other approvals. In March 2010, we filed a request for a Certificate of Authority for the project with the PSCW. We anticipate a decision from the PSCW during the first quarter of 2011.

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 as of December 31, 2010 with unaffiliated parties for the next five years:

Year	MW Under Power Purchase Commitments
2011	1,599
2012	1,440
2013	1,269
2014	1,269
2015	1,269

Approximately 1,030 MW per year relates to the Point Beach long-term power purchase agreement. Under this agreement, we pay a predetermined price per MWh for energy delivered according to a schedule included in the agreement. The balance of these power purchase commitments are tolling arrangements whereby we are responsible for the procurement, delivery and the cost of natural gas fuel related to specific units identified in the contracts.

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 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 is a non-transmission owning member and customer of MISO. We owned approximately 26.2% of ATC as of December 31, 2010 and 2009.

MISO:

In connection with its status as a FERC approved Regional Transmission Organization (RTO), MISO developed bid-based energy markets, which were implemented on April 1, 2005. In January 2009, MISO commenced the Energy and Operating Reserves Markets, which includes the bid-based energy markets and the ancillary services market. For further information on MISO and the MISO Energy Markets, see Factors Affecting Results, Liquidity and Capital Resources -- Industry Restructuring and Competition - Electric Transmission and Energy Markets in Item 7.

Electric Utility Operating Statistics

The following table shows certain electric utility operating statistics for the past five years:

SELECTED CONSOLIDATED ELECTRIC UTILITY OPERATING DATA

Year Ended December 31	2010	2009	2008	2007	2006
Operating Revenues (Millions)					
Residential	$1,114.3	$977.6	$962.5	$915.5	$870.8
Small Commercial/Industrial	922.2	860.3	869.7	840.6	796.0
Large Commercial/Industrial	677.1	599.4	646.3	664.2	637.0
Other - Retail	21.9	21.2	20.8	19.2	18.9
Total Retail Sales	2,735.5	2,458.5	2,499.3	2,439.5	2,322.7
Wholesale - Other	134.6	116.7	77.7	83.5	68.1
Resale - Utilities	40.4	47.5	37.7	110.7	73.5
Other Operating Revenues	25.8	62.3	45.9	40.9	35.2
Total Operating Revenues	$2,936.3	$2,685.0	$2,660.6	$2,674.6	$2,499.5
MWh Sales (Thousands)					
Residential	8,426.3	7,949.3	8,277.1	8,416.1	8,154.0
Small Commercial/Industrial	8,823.3	8,571.6	9,023.7	9,185.4	8,899.0
Large Commercial/Industrial	9,961.5	9,140.3	10,691.7	11,036.7	10,972.2

Other - Retail	155.3	156.5	161.5	162.4	163.7
Total Retail Sales	27,366.4	25,817.7	28,154.0	28,800.6	28,188.9
Wholesale - Other	2,004.6	1,529.4	2,620.7	1,939.6	1,819.0
Resale - Utilities	1,103.8	1,548.9	881.0	1,920.7	1,436.2
Total Sales	30,474.8	28,896.0	31,655.7	32,660.9	31,444.1
Customers - End of Year (Thousands)					
Residential	1,003.6	1,001.2	999.1	995.6	990.4
Small Commercial/Industrial	113.5	113.1	112.6	110.8	108.7
Large Commercial/Industrial	0.7	0.7	0.7	0.7	0.7
Other	2.4	2.4	2.4	2.4	2.4
Total Customers	1,120.2	1,117.4	1,114.8	1,109.5	1,102.2
Customers - Average (Thousands)	1,118.7	1,115.5	1,111.8	1,105.5	1,097.6
Degree Days (a)					
Heating (6,612 Normal)	6,183	6,825	7,073	6,508	6,043
Cooling (698 Normal)	944	475	593	800	723

(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 operating under the trade name of "We Energies." We 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. We also transport customer-owned gas. We are the largest natural gas distribution utility in Wisconsin and we operate throughout the state, including the City of Milwaukee, west and south of the City of Milwaukee, the Appleton area and areas within Iron and Vilas Counties.

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 2,105.1 million therms during 2010, a 3.6% decrease compared with 2009. As of December 31, 2010, we were transporting gas for approximately 1,400 customers who purchased gas directly from other suppliers. Transported gas accounted for approximately 43.5% of the total volumes delivered during 2010, 40.4% during 2009 and 39.8% during 2008. We had approximately 1,064,500 and 1,060,200 gas customers as of December 31, 2010 and 2009, respectively. Our peak daily send-out during 2010 was 1,514,789 Dth on January 28, 2010.

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, 2015 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 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 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. While the gas utility distribution function is expected to remain a highly regulated, monopoly function, the sale 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 in recent heating seasons.

Pipeline Capacity and Storage:

The interstate pipelines serving Wisconsin originate in major gas producing areas of North America: the Oklahoma and Texas basins, the Gulf of Mexico, western Canada and the Rocky Mountains. We have contracted for long-term firm capacity from a number of these sources. This strategy reflects management's belief that overall supply security is enhanced by geographic diversification of the supply portfolio. We have extended our commitment on Guardian Pipeline L.L.C's (Guardian) original pipeline through December 2022. We have committed to purchase additional capacity through March 2024 on a new Guardian pipeline extension that was completed during 2009.

Due to the daily and seasonal variations in gas usage in Wisconsin, we have also contracted for substantial underground storage capacity, primarily in Michigan. Storage capacity, along with our gas purchase contracts, 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.

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 Chicago, Illinois market hub and in the 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 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 approved Gas Cost Recovery Mechanisms (GCRMs). During 2010, we continued to participate in the capacity release market. See Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters in Item 7 for information on the GCRMs.

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 New York Mercantile Exchange (NYMEX) based natural gas options and (ii) up to 15% of planned flowing gas supply using NYMEX based natural gas future contracts. 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 GCRMs. Hedge targets (volumes) are provided annually to the PSCW as part of each company's three-year gas supply plan and risk management 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 our GCRMs.

Gas Utility Operating Statistics

The following table shows certain gas utility operating statistics for the past five years:

SELECTED CONSOLIDATED GAS UTILITY OPERATING DATA

Year Ended December 31	2010	2009	2008	2007	2006
Operating Revenues (Millions)					
Residential	$754.2	$856.6	$1,057.6	$934.3	$862.4
Commercial/Industrial	373.1	442.9	572.4	485.4	443.8
Interruptible	11.8	11.9	21.3	17.5	17.0
Total Retail Gas Sales	1,139.1	1,311.4	1,651.3	1,437.2	1,323.2
Transported Gas	48.0	44.8	47.2	48.4	47.8
Other Operating Revenues	3.1	11.7	(3.9)	(4.4)	48.9
Total Operating Revenues	$1,190.2	$1,367.9	$1,694.6	$1,481.2	$1,419.9
Therms Delivered (Millions)					
Residential	741.2	803.4	841.8	791.7	727.9

Commercial/Industrial	429.6	479.4	503.2	461.9	435.9
Interruptible	19.4	19.1	23.0	22.7	21.3
Total Retail Gas Sales	1,190.2	1,301.9	1,368.0	1,276.3	1,185.1
Transported Gas	914.9	882.0	905.8	921.6	843.8
Total Therms Delivered	2,105.1	2,183.9	2,273.8	2,197.9	2,028.9
Customers - End of Year (Thousands)					
Residential	971.7	967.7	963.9	957.9	951.0
Commercial/Industrial	91.3	91.1	91.0	90.2	88.9
Interruptible	0.1	0.1	0.1	0.1	0.1
Transported Gas	1.4	1.3	1.4	1.3	1.4
Total Customers	1,064.5	1,060.2	1,056.4	1,049.5	1,041.4
Customers - Average (Thousands)	1,060.2	1,055.6	1,050.2	1,042.8	1,033.3
Degree Days (a)					
Heating (6,612 Normal)	6,183	6,825	7,073	6,508	6,043

(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:

Our steam utility generates, distributes and sells steam supplied by our Valley and Milwaukee County Power Plants. We operate a district steam system in downtown Milwaukee and the near south side of Milwaukee. Steam is supplied to this system from our Valley Power Plant, a coal-fired cogeneration facility. We also operate 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 2010, the steam utility had $38.8 million of operating revenues from the sale of 2,740 million pounds of steam compared with $39.1 million of operating revenues from the sale of 2,932 million pounds of steam during 2009. As of December 31, 2010 and 2009, steam was used by approximately 460 customers and 465 customers, respectively, for processing, space heating, domestic hot water and humidification.

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 consists primarily of generating plants constructed as part of our PTF initiative. As of December 31, 2010, our PTF assets represented virtually all of our non-utility energy segment assets.

We Power

We Power, through wholly owned subsidiaries, has designed and built approximately 2,320 MW of new generation in Wisconsin, which is being leased to Wisconsin Electric under long-term leases. This new generation consists of approximately 1,230 MW of new capacity from OC 1 and OC 2, and 1,090 MW of capacity from PWGS 1 and PWGS 2. PWGS 1 and PWGS 2 were placed in service in July 2005 and May 2008, respectively. OC 1 was placed in service in February 2010 and OC 2 was placed in service on January 12, 2011. In November 2005, two unaffiliated entities collectively purchased an ownership interest of approximately 17%, or 200 MW, in OC 1 and OC 2. Similar to the generating capacity at PWGS 1 and PWGS 2, We Power owns the remaining 1,030 MW of generating capacity at OC 1 and OC 2. 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. As of December 31, 2010, 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

Wispark LLC

Wispark develops and invests in real estate, and had $46.3 million in real estate holdings as of December 31, 2010. Wispark has developed several business parks and other commercial real estate projects, primarily in southeastern Wisconsin.

REGULATION

Wisconsin Energy Corporation

Wisconsin Energy is a holding company, but is exempt from the requirements of the Public Utility Holding Company Act of 2005 (PUHCA 2005).

Non-Utility Asset Cap:

Pursuant to the non-utility asset cap provisions of Wisconsin's 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 law exempts energy-related assets, including the generating plants constructed by We Power as part of our PTF strategy and assets 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, 2010.

Utility Energy Segment

Wisconsin Electric is a holding company by reason of its ownership interest in ATC, but is exempt from the requirements of PUHCA 2005.

Wisconsin Electric is subject to the Energy Policy Act and the corresponding regulations developed by certain federal agencies. The Energy Policy Act, among other things, made 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 cogeneration facilities and modified certain other aspects of energy regulations and Federal tax policies applicable to Wisconsin Electric. Additionally, the Energy Policy Act created an Electric Reliability Organization to be overseen by FERC, which established mandatory electric reliability standards and which has the authority to levy monetary sanctions for failure to comply with these standards.

Wisconsin Electric and Wisconsin Gas 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, construction of certain new facilities, transactions with affiliates, billing practices and various other matters. Wisconsin Electric is subject to the regulation of the PSCW as to certain levels of short-term debt obligations. Wisconsin Electric is 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 the issuance of securities in the ordinary course of business, construction of certain new facilities, levels of short-term debt obligations and advance approval of transactions with affiliates in the ordinary course of business. Wisconsin Electric's hydroelectric facilities are regulated by FERC. Wisconsin Electric is subject to the regulation of FERC with respect to wholesale power service, electric reliability requirements and accounting and with respect to our participation in the interstate natural gas pipeline capacity market. For information on how rates are set for our regulated entities, see Utility Rates and Regulatory Matters under Factors Affecting Results, Liquidity and Capital Resources in Item 7.

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, 2010:

	2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Millions of Dollars)					
Wisconsin - Retail						
Electric	$2,568.3	61.7%	$2,379.2	58.1%	$2,416.8	55.0%
Gas	1,190.2	28.6%	1,367.9	33.4%	1,694.6	38.6%
Steam	38.8	0.9%	39.1	1.0%	40.3	0.9%
Total	3,797.3	91.2%	3,786.2	92.5%	4,151.7	94.5%
Michigan - Retail						
Electric	193.0	4.6%	141.6	3.5%	128.4	2.9%
FERC - Wholesale						
Electric	175.0	4.2%	164.2	4.0%	115.4	2.6%

Total Utility Operating Revenues	$4,165.3	100.0%	$4,092.0	100.0%	$4,395.5	100.0%

The operations of Wisconsin Electric and Wisconsin Gas are also subject to regulations, where applicable, of the United States Environmental Protection Agency (EPA), the Wisconsin Department of Natural Resources (WDNR), the Michigan Department of Environmental Quality and the Michigan Department of Natural Resources.

Public Benefits and Renewable Portfolio Standard

Wisconsin Act 141 establishes a goal that 10% of all electricity consumed in Wisconsin be generated by renewable resources by December 31, 2015. Under this act, we must meet certain minimum requirements for renewable energy generation. For the years 2010 through 2014, we must increase our percentage of total retail energy sales provided by renewable sources (renewable energy percentage) by at least two percentage points from our baseline renewable percentage of 2.27% to a level of 4.27%. Act 141 defines "baseline renewable percentage" as the average of an energy provider's renewable energy percentage for 2001, 2002 and 2003. As of December 31, 2010, our renewable energy percentage is at 4.27%. Act 141 further requires that for the year 2015 and beyond, the renewable

energy percentage must increase at least six percentage points above the baseline to a level of 8.27%. In addition, under this Act, 1.2% of utilities' annual operating revenues were required to be used to fund energy conservation programs through 2010. The funding required by Act 141 increased to 1.5% of annual operating revenues in 2011 and is scheduled to increase to 1.9% in 2012.

Public Act 295 enacted in Michigan calls for the implementation of a renewable portfolio standard by 2015 and energy optimization (efficiency) targets up to 1% annually by 2015. Public Act 295 specifically calls for current recovery of costs incurred to meet the standards and provides for ongoing review and revision to assure the measures taken are cost-effective.

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 - Renewable Energy Portfolio 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). These facilities are being 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.

Environmental permits necessary for operating the facilities are the responsibility of the operating entity, Wisconsin Electric.

ENVIRONMENTAL COMPLIANCE

Our operations are subject to extensive environmental regulations by state and federal environmental agencies governing air and water quality, hazardous and solid waste management, environmental remediation, and management of natural resources. Costs associated with complying with these requirements are significant. Additional future environmental statutes and regulations or revisions to existing laws, including for example, additional regulation of greenhouse gas emissions, coal combustion products, air emissions or wastewater discharges, could significantly increase these environmental compliance costs.

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 -- Environmental Matters in Item 7. For a discussion of matters related to certain solid waste and coal combustion product landfills, manufactured gas plant sites and air quality, see Note R -- Commitments and Contingencies in the Notes to Consolidated Financial Statements in Item 8.

Compliance with federal, state and local environmental protection requirements resulted in capital expenditures by Wisconsin Electric of approximately $215.5 million in 2010 compared with $187.8 million in 2009. Expenditures incurred during 2010 and 2009 primarily included costs associated with the installation of pollution abatement facilities at Wisconsin Electric's power plants. These expenditures are expected to be approximately $158.6 million during 2011, reflecting Nitrogen Oxide (NO_x), Sulfur Dioxide (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 were approximately $76.2 million and $66.7 million during 2010 and 2009, respectively.

Coal Combustion Product Landfills

We currently have a program of beneficial utilization for substantially all of our coal combustion products, including fly ash, bottom ash and gypsum, which minimizes the need for disposal in specially-designed landfills. Some early designed and constructed coal combustion product landfills, which we used prior to developing this program, 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 made to define the nature and extent of any release, and work has been performed to address these conditions. Sites currently undergoing remediation include the following:

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 effectively implemented at this site during 1999 and 2000. 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.

South Oak Creek Landfill:

Groundwater impairments near this landfill, located in the City of Oak Creek, Wisconsin, prompted Wisconsin Electric to begin investigation in 2009 for the source of impacts identified in monitoring wells on the site and the surrounding area. Preliminary results indicate that the groundwater impacts may be naturally occurring, or are from another source. Soils from construction of the Oak Creek expansion were added to the existing cover during 2005 and 2006 to increase the thickness of cover materials. A landfill closure application will be completed when the construction documentation report for activities associated with the Oak Creek expansion is submitted to the WDNR.

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:

As of December 31, 2010, we had the following number of employees:

	Total Employees	Represented Employees
Utility Energy Segment		
Wisconsin Electric	4,128	2,696
Wisconsin Gas	444	316
Total	4,572	3,012
Non-Utility Energy Segment	19	-
Other	5	-
Total Employees	4,596	3,012

The employees represented under labor agreements were with the following bargaining units as of December 31, 2010:

	Number of Employees	Expiration Date of Current Labor

		Agreement
Wisconsin Electric		
Local 2150 of International Brotherhood of Electrical Workers	1,868	August 15, 2012
Local 317 of International Union of Operating Engineers	539	March 31, 2011
Local 2006 Unit 5 of United Steel Workers	161	November 1, 2011
Local 510 of International Brotherhood of Electrical Workers	128	April 30, 2012
Total Wisconsin Electric	2,696	
Wisconsin Gas		
Local 2150 of International Brotherhood of Electrical Workers	87	August 15, 2012
Local 2006 Unit 1 of United Steel Workers	102	November 1, 2012
Local 2006 Unit 2 of United Steel Workers	121	November 1, 2012
Local 2006 Unit 3 of United Steel Workers	6	February 28, 2011
Total Wisconsin Gas	316	
Total Represented Employees	3,012	

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 the issuance of securities in the ordinary course of business, construction of certain new facilities, levels of short-term debt obligations and advance approval of transactions with affiliates in the ordinary course of business. Further, Wisconsin Electric's hydroelectric facilities are

regulated by FERC, and FERC also regulates our wholesale power service practices, electric reliability requirements, and participation in the interstate natural gas pipeline capacity market. Our significant level of regulation imposes restrictions on our operations and causes us to incur substantial compliance costs.

We are obligated to comply in good faith 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 87% of our electric revenues are regulated by the PSCW, 7% are regulated by the MPSC and the balance of our electric revenues is regulated by FERC. All of our natural gas and steam 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 major construction projects.

We are in the process of constructing new renewable generation and adding environmental controls equipment to existing generating facilities. These types of large construction projects 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 ability to obtain or the cost of labor or materials; the ability of the contractors to perform under their contracts; strikes; adverse weather conditions; the ability to obtain necessary operating permits in a timely manner; legal challenges; 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 we are unable to complete the development or construction of a facility or decide to delay or cancel construction, we may not be able to recover our investment in the facility and may incur substantial cancellation payments under equipment and construction contracts. Even if a construction project is completed, the total costs may be higher than estimated and/or higher than amounts approved by our regulators, and there is no guarantee that we will be allowed to recover these costs in rates. In addition, construction delays can result in the delay of revenues and, therefore, could affect our results of operations.

We estimate that the final cost of the Oak Creek expansion is approximately $191 million, or 8.7%, over the amount initially approved by the PSCW, of which our share is $162 million. This additional amount includes the amounts payable to Bechtel Power Corporation (Bechtel) pursuant to the Settlement Agreement. The order approving the Oak Creek expansion provides that if final costs are within 5% of the costs initially approved by the PSCW, and the additional costs are deemed to be 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 that such costs were prudently incurred and were the result of force majeure conditions, an excused event and/or an event of loss. In addition, the leases provide for a guaranteed in-service date of September 29, 2009 for OC 1 and September 29, 2010 for OC 2, and impose liquidated damages of $250,000 per day, of which ERGSS' share is approximately $208,350 per day, for failure to achieve the guaranteed in-service date unless the delays result from force majeure conditions or an excused event. ERGSS is entitled to receive its share of liquidated damages from Bechtel for each day Bechtel failed to achieve the same guaranteed in-service dates, unless the delays resulted from force majeure conditions or an excused event. Bechtel was granted total schedule relief of 120 days for OC 1 and 81 days for OC 2. All liquidated damages collected are for the benefit of Wisconsin Electric's customers. There is no guarantee that the PSCW will grant ERGSS the same schedule relief. In light of the weather delays incurred on the project and other factors, we expect to request authorization from the PSCW to recover all costs associated with the units and to grant relief from liquidated damages. If the PSCW does not allow Wisconsin Electric to collect our share of the additional costs or grant ERGSS the same schedule relief, our results of operations could be adversely affected.

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

Our operations are subject to extensive environmental legislation and regulation by state and federal environmental agencies governing, among other things, air emissions such as Carbon Dioxide (CO_2), SO_2, NO_x, fine particulates and mercury; water discharges; and management of hazardous, toxic and solid wastes and substances. 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. The EPA has proposed a new rule, the Clean Air Transport Rule (CATR), to replace the Clean Air Interstate Rule (CAIR). We estimate the capital expenditures necessary to comply with the CATR and other new environmental regulations that are being promulgated at the federal and state level could be up to $400 million above the expected cost of implementing the Consent Decree between Wisconsin Electric and the EPA. Some of these costs are included in the table under "Capital Expenditures" in the Liquidity and Capital Resources section of Management's Discussion and Analysis of Financial Condition and Results of Operations. In addition, the operation of emission control equipment 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.

Environmental legislation and regulation and the related compliance costs could affect future unit retirement and replacement decisions, and could result in some of our coal-fired generating units being retired or converted to an alternative type of fuel. Costs associated with these potential actions could affect our results of operations and financial condition.

Our electric and gas utility businesses are also subject to significant liabilities related to the investigation and remediation of environmental contamination at certain of our current and former facilities, and 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.

We may also be subject to potential liability in connection 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 (or failed) to comply with environmental laws and regulations or cause (or caused) 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 or a material judgment in any action for personal injury or property damage related to environmental matters could have a significant adverse effect on our results of operations and financial condition.

In addition, any higher costs that are collected through rates could contribute to reduced demand for electricity, natural gas or steam, which could adversely impact our results of operations and financial condition.

We may face significant costs if coal combustion products are regulated as hazardous waste.

We currently have a program of beneficial utilization for substantially all of our coal combustion products, including fly ash, bottom ash and gypsum, which minimizes the need for disposal in specially-designed landfills. Both Wisconsin and Michigan have regulations governing the use and disposal of these materials. However, the EPA issued a draft rule for public comment proposing various scenarios for regulating coal combustion products including classifying coal combustion products as hazardous waste. If coal combustion products are classified as hazardous waste, it could have a material adverse effect on our ability to continue our current program.

In addition, if coal combustion products are classified as hazardous waste and we terminate our coal combustion products utilization program, we could be required to dispose of the coal combustion products at a significant cost to the Company, which could adversely impact our results of operations and financial condition.

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

Federal and state legislative and regulatory proposals have been introduced to regulate the emission of greenhouse gases, particularly CO_2, and the President and his administration have made it clear that they are focused on reducing such emissions through legislation and/or regulation. In addition, there have been international efforts seeking legally binding reductions in emissions of greenhouse gases.

We believe that future governmental legislation and/or regulation will require us either to limit greenhouse gas emissions from our operations or to purchase allowances for such emissions. However, we cannot currently predict with any certainty what form these future regulations will take, the stringency of the regulations or when they will become effective. We expect the U.S. Congress to continue consideration of legislation that would compel greenhouse gas emission reductions.

Legislation to regulate greenhouse gas emissions and establish renewable and efficiency standards has also been considered on the state level. The state of Michigan has enacted legislation that calls for the implementation of a renewable portfolio standard by 2015 and energy optimization (efficiency) targets up to 1% annually by 2015. The state of Wisconsin has adopted its own renewable portfolio standard and energy optimization targets. During its 2010 legislative session, the Wisconsin legislature considered, but ultimately did not pass, a proposal to increase Wisconsin's renewable portfolio standard and energy optimization targets. There is no guarantee the legislature will not consider similar legislation in the future.

In addition to these federal and state legislative efforts, the EPA is pursuing regulation of greenhouse gas emissions using its existing authority under the Clean Air Act (CAA). In December 2009, the EPA issued its endangerment finding related to greenhouse gas emissions, which set in motion a regulatory process that is leading to regulation of

greenhouse gas emissions from stationary sources, including electric generating units. In March 2010, the EPA finalized its determination of when the CAA's permitting requirements for emissions from facilities would apply to greenhouse gas emissions. The regulation of stationary sources will occur in multiple steps in the coming years, beginning with the first step that became effective January 2, 2011. This initial step covers sources that are already subject to EPA regulations for pollutants other than greenhouse gas. In July 2011, the second step is scheduled to

become effective, covering new construction projects and modifications at existing power plants. Additionally, in December 2010, the EPA reached an agreement with several states and environmental groups to propose and finalize rules regulating greenhouse gas emissions from certain new or modified coal-fired power plants and guidelines addressing greenhouse gas emissions from certain existing power plants by May 26, 2012. Regulation of greenhouse gas emissions from power plants will impact our ability to do maintenance or modify our existing facilities, and permit new facilities. Several parties have filed for judicial review of some of the EPA's new greenhouse gas rules. In December 2010, the federal court denied a motion to stay the greenhouse gas rules pending judicial review, so the rules will continue in effect unless overturned by the court. Depending on the extent of rate recovery and other factors, these rules could have a material adverse impact on our financial condition.

Some states and environmental groups are also bringing lawsuits against electric utilities and others to force reductions in greenhouse gas emissions. To date, three separate lawsuits are pending in the federal courts. In two of these cases, the federal appellate courts have found in favor of the plaintiffs, making it easier for lawsuits based upon the alleged public nuisance of climate change to move forward. These cases essentially hold that plaintiffs have standing to file suit against electric power corporations for their contribution to the alleged public nuisance of climate change, and that the court's jurisdiction over such lawsuit is not barred by the political question doctrine. One of these lawsuits (*Comer v. Murphy Oil* USA), was vacated by the U.S. Court of Appeals for the Fifth Circuit on procedural grounds. In the second lawsuit (*Connecticut v. American Electric Power Co.*), the defendants petitioned the United States Supreme Court to review the decision of the U.S. Court of Appeals for the Second Circuit, which it agreed to do.

There is no guarantee that we will be allowed to fully recover costs incurred to comply with any future legislation, regulation or order that requires a reduction in greenhouse gas emissions or that cost recovery will not be delayed or otherwise conditioned. Any cap-and-trade or greenhouse gas tax program that may be adopted, either at the federal or state level, or other legislation, regulation or order designed to reduce greenhouse gas emissions could have a material adverse impact on our electric generation and natural gas distribution operations. Such regulation could make some of our electric generating units uneconomic to maintain or operate, and could affect our 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, regulatory and legal 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. Successful implementation of our long-term business strategies is

dependent upon our ability to access the capital markets, including the banking and commercial paper markets, under competitive terms and rates. If our access to any of these markets were limited, or our cost of capital significantly increased due to a rating downgrade, prevailing market conditions, negative view of the utility industry, failures of financial institutions or other factors, our results of operations and financial condition could be materially and adversely affected.

A downgrade in the credit ratings of WEC or any of its subsidiaries could negatively affect their ability to access capital at reasonable costs and/or require the posting of collateral.

There are a number of factors that impact Wisconsin Energy's and its subsidiaries' credit ratings, including, without limitation, capital structure, regulatory environment, the ability to cover liquidity requirements, and other requirements for capital. Wisconsin Energy or any of its subsidiaries could experience a downgrade in their ratings if the rating agencies determine that the level of business or financial risk of the industry or Wisconsin Energy and/or its subsidiaries has deteriorated. Changes in rating methodologies by the rating agencies could also have a negative impact on credit ratings. If Wisconsin Energy or its subsidiaries are downgraded by the rating agencies, their borrowing costs could

increase, funding sources could decrease and, for any downgrade to below investment grade, collateral requirements may be triggered in several contracts.

The use of derivative contracts could result in financial losses.

We use derivative instruments such as swaps, options, futures and forwards to manage commodity and, to a much lesser extent, interest rate exposures. We could recognize financial losses as a result of volatility in the market value of these contracts or if a counterparty fails to perform. These risks are managed through risk management policies, which might not work as planned and cannot entirely eliminate the risks associated with these activities. In addition, although the hedging programs of Wisconsin Electric and Wisconsin Gas must be approved by the PSCW, derivative contracts entered into for hedging purposes might not offset the underlying exposure being hedged as expected, resulting in financial losses. In the absence of actively quoted market prices and pricing information from external sources, the value of these financial instruments can involve management's judgment or use of estimates. Changes in the underlying assumptions or use of alternative valuation methods could affect the value of the reported fair value of these contracts.

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.

Our revenues could be negatively impacted by competitive activity in the wholesale electricity markets.

FERC rules related to transmission are designed to facilitate competition in the wholesale electricity markets among regulated utilities, non-utility generators, wholesale power marketers and brokers by providing greater flexibility and more choices to wholesale customers, including initiatives designed to encourage the integration of renewable sources of supply. We currently cannot predict the impact of these developments or the effect of changes in levels of wholesale supply and demand, which are driven by factors beyond our control.

An increase in natural gas costs could negatively impact our electric and gas utility operations.

Wisconsin Electric burns natural gas in several of its peaking power plants and in PWGS 1 and PWGS 2, 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. For Wisconsin customers, Wisconsin Electric bears the risk for the recovery of fuel and purchased power costs within a symmetrical two percent fuel tolerance band compared to the forecast of fuel and purchased power costs established in its rate structure. Our gas distribution business receives dollar for dollar recovery of the

cost of natural gas, subject to tolerance bands and prudency review. 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, an increase in natural gas costs combined with slower economic conditions could also expose us to greater risks of accounts receivable write-offs as more customers are unable to pay their bills. Additionally, high natural gas costs increase our working capital requirements.

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. Although we currently have an adequate supply of coal at our coal-fired facilities, there can be no assurance that we will continue to have an adequate supply of coal in the future. While we have coal supply and transportation contracts in place, there can be no assurance that the counterparties to these agreements will be able to 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 significantly reduce our inventory of coal and 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 reduce generation at our coal units and replace this lost

generation from higher cost generating resources or through additional power purchases in the MISO Energy Markets.

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 defined benefit pension plans is dependent upon a number of factors including 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 pension costs. Depending upon the growth rate of the pension investments over time and other factors impacting our costs as listed above, we may 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 economic cycles and the competitiveness of the customers we serve. As the demand for products produced in our service area declines, we ordinarily experience reduced demand for electricity and/or natural gas. During 2010, our service territory experienced growth, but future growth could be impacted by the overall economy in our service territories. If the economic conditions in our service territories and/or demand for products produced in our service area does not continue to improve or declines again, we could experience a reduction in demand for electricity and/or natural gas that could result in decreased earnings and cash flow. We would also expect our collections of accounts receivable to be adversely impacted.

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. Population declines and/or business closings in our service territories or slower than anticipated customer growth has had, to a limited extent, and could continue to have, a material adverse impact on our cash flow, financial condition or results of operations.

Failure to attract and retain an appropriately qualified workforce could adversely impact our results of operations.

Events such as an aging workforce without appropriate replacements may lead to operating challenges or increased costs. These operating challenges include lack of resources, loss of knowledge and a lengthy time period associated with skill development. Failure to hire and obtain replacement employees, including the ability to transfer significant internal historical knowledge and expertise to the new employees, may adversely affect our ability to manage and operate our business. If we are unable to successfully attract and retain an appropriately qualified workforce, our results of operations could be adversely affected.

We are a holding company and rely on the earnings of our subsidiaries to meet our financial obligations.

As a holding company, 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. Prior to distributing cash to Wisconsin Energy, our subsidiaries have financial obligations that must be satisfied, including among others, debt service and preferred stock dividends. Our subsidiaries also have dividend payment restrictions based on the terms of their outstanding preferred stock and regulatory limitations applicable to them. In addition, each of the bank back-up credit facilities for Wisconsin Energy, Wisconsin Electric and Wisconsin Gas have specified total funded debt to capitalization ratios that must be maintained. Wisconsin Energy's subsidiaries are separate legal entities and have no obligation to provide us with funds for our payment obligations.

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 Act, 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 the system.

In addition, the 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 the 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 and Wisconsin Gas 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.

Wisconsin Electric could be subject to higher costs and penalties as a result of mandatory reliability standards.

Wisconsin Electric is subject to mandatory reliability standards established by the North American Electric Reliability Corporation. Compliance with the mandatory reliability standards could subject Wisconsin Electric to higher operating costs. If Wisconsin Electric is found to be in noncompliance with the mandatory reliability standards, it could be subject to sanctions, including substantial monetary penalties.

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 allows customers to choose their own electric generation supplier. 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 bid-based energy markets that are part of the MISO Energy Markets. 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 Locational Marginal Price (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. MISO also implemented an Ancillary Services Market for operating reserves that was simultaneously co-optimized with its existing energy markets.

These market designs have the potential to increase the costs of transmission, the costs associated with inefficient generation dispatching, the costs of participation in the market and the 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, 2010, we owned the following generating stations:

Name	Fuel	No. of Generating Units	Dependable Capability In MW (a)
Coal-Fired Plants			
South Oak Creek	Coal	4	1,139
Oak Creek Expansion (b)	Coal	1	515
Presque Isle	Coal	5	431
Pleasant Prairie	Coal	2	1,218
Valley	Coal	2	227
Edgewater 5 (c)	Coal	1	105
Milwaukee County	Coal	3	11
Total Coal-Fired Plants		18	3,646
Hydro Plants (13 in number)		33	57
Port Washington Generating Station	Gas	2	1,090
Germantown Combustion Turbines	Gas/Oil	5	345
Concord Combustion Turbines	Gas/Oil	4	400
Paris Combustion Turbines	Gas/Oil	4	400
Other Combustion Turbines & Diesel	Gas/Oil	2	5
Byron Wind Turbines (d)	Wind	2	-
Blue Sky Green Field (e)	Wind	88	29
Total System		158	5,972

(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 are established by tests and may change slightly from year to year.

(b) OC 2 was placed in service on January 12, 2011 and is therefore not included in the table above. Our share of the dependable capability of this unit is estimated to be 515 MW.

(c) We have a 25% interest in Edgewater Generating Unit 5, which is operated by WPL, an unaffiliated utility. During the fourth quarter of 2009, we reached a contingent agreement with WPL to sell our interest in this unit. For further information, see Note D -- Asset Sales, Divestitures and

Discontinued Operations.

(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.

(e) Blue Sky Green Field is able to generate up to approximately 145 MW of electricity; however, due to the intermittent characteristics of wind power, its dependable capability is approximately 29 MW.

As of December 31, 2010, we operated approximately 21,679 pole-miles of overhead distribution lines and 23,664 miles of underground distribution cable, as well as approximately 353 distribution substations and 285,573 line transformers.

As of December 31, 2010, our gas distribution system included approximately 20,263 miles of distribution and transmission mains connected at 186 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 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, 2010, 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, nine miles of walkable tunnels and other pressure regulating equipment.

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 our existing facilities are in material compliance with applicable environmental requirements.

Solvay Coke and Gas Site:

Wisconsin Electric and Wisconsin Gas have been identified as potentially responsible parties at the Solvay Coke and Gas Site located in Milwaukee, Wisconsin. 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. In 2007, Wisconsin Electric, Wisconsin Gas and several other parties entered into an Administrative Settlement Agreement and Order with the EPA to perform additional investigation and assessment and reimburse the EPA's oversight costs. Under the Administrative 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 required work 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 R -- Commitments and Contingencies in the Notes to Consolidated Financial Statements in Item 8.

Edgewater Generating Unit 5

: In December 2009, the EPA issued a Notice of Violation (NOV) concerning several coal-fired power plants owned and operated by WPL, including Edgewater Generating Unit 5, of which Wisconsin Electric owns 25%. Due to that ownership interest, Wisconsin Electric was named in the NOV. The NOV alleges that certain maintenance projects at WPL's units, including Edgewater 5, were undertaken without obtaining air permits required by the CAA. Wisconsin Electric, WPL, who is the primary owner and operator of the plants, and the co-owners of the other plants identified in the NOV, are discussing resolution of this NOV with the EPA. At this time, we cannot predict the outcome of this matter. In September 2010, the Sierra Club filed a complaint against WPL generally alleging air permitting and opacity violations at the Edgewater Generating Station. Wisconsin Electric is not a named party to this litigation. At this time, we cannot predict the outcome of this matter.

See Environmental Compliance in Item 1 and Environmental Matters, Manufactured Gas Plant Sites, Coal Combustion Product Landfill Sites and EPA - Consent Decree in Note R -- 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 combustion product landfills, manufactured gas plant sites and air quality.

UTILITY RATE MATTERS

See Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters in Item 7 for information concerning rate matters in the jurisdictions where Wisconsin Electric and Wisconsin Gas 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 United States Department of Energy's (DOE) 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. For additional information, see Factors Affecting Results, Liquidity and Capital Resources -- Legal Matters in Item 7.

Cash Balance Pension Plan:

See Factors Affecting Results, Liquidity and Capital Resources -- Legal Matters in Item 7 for information regarding a lawsuit filed against the Plan.

For information regarding additional legal matters, see Factors Affecting Results, Liquidity and Capital Resources -- Legal Matters in Item 7. For information concerning our PTF strategy, including the Settlement Agreement with Bechtel, see Factors Affecting Results, Liquidity and Capital Resources -- Power the Future and Note R -- Commitments and Contingencies in the Notes to Consolidated Financial Statements.

ITEM 4. [Removed and Reserved]

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages at December 31, 2010 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.

Gale E. Klappa.

Age 60.

- Wisconsin Energy -- Chairman of the Board and Chief Executive Officer since May 2004. President since April 2003.
- Wisconsin Electric -- Chairman of the Board since May 2004. President and Chief Executive Officer since August 2003.
- Wisconsin Gas -- Chairman of the Board since May 2004. President and Chief Executive Officer since August 2003.
- Director of Joy Global, Inc. and Badger Meter, Inc.
- Director of Wisconsin Energy, Wisconsin Electric and Wisconsin Gas since 2003.

Charles R. Cole.

Age 64.

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

Stephen P. Dickson.

Age 50.

- Wisconsin Energy -- Vice President since 2005. Controller since 2000.
- Wisconsin Electric -- Vice President since 2005. Controller since 2000.

- Wisconsin Gas -- Vice President since 2005. Controller since 1998.

James C. Fleming.

Age 65.

- Wisconsin Energy -- General Counsel since March 2006. Executive Vice President since January 2006.
- Wisconsin Electric -- General Counsel since March 2006. Executive Vice President since January 2006.
- Wisconsin Gas -- 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 60.

- Wisconsin Energy -- Executive Vice President since May 2004.
- Wisconsin Electric -- Executive Vice President since May 2004. Chief Operating Officer since October 2003.
- Wisconsin Gas -- Executive Vice President since May 2004.

Mirant Corporation, of which Mr. Kuester was Senior Vice President - International from 2001 to October 2003 and Chief Executive Officer of Mirant Asia - Pacific Limited from 1999 to October 2003, 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 44.

- Wisconsin Energy -- Executive Vice President since May 2004. Chief Financial Officer since July 2003.
- Wisconsin Electric -- Executive Vice President since May 2004. Chief Financial Officer since July 2003.
- Wisconsin Gas -- Executive Vice President since May 2004. Chief Financial Officer since July 2003.

Kristine A. Rappé.

Age 54.

- Wisconsin Energy -- Senior Vice President and Chief Administrative Officer since May 2004.
- Wisconsin Electric -- Senior Vice President and Chief Administrative Officer since May 2004.
- Wisconsin Gas -- Senior Vice President and Chief Administrative Officer since May 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, 2010, based upon the number of Wisconsin Energy Corporation stockholder accounts (including accounts in our dividend reinvestment and stock purchase plan), we had approximately 44,700 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 I -- Common Equity in the Notes to Consolidated Financial Statements in Item 8.

In December 2010, our Board of Directors approved a new dividend policy. Pursuant to this new policy, we will target a dividend payout ratio between 50% and 55% of earnings for 2011 and subsequent years. In accordance with the new policy, on January 20, 2011, our Board of Directors increased our quarterly dividend to $0.52 per share, which would result in annual dividends of $2.08 per share.

On January 20, 2011, our Board of Directors also approved a two-for-one stock split of our common stock, which will be effected through a stock dividend. Stockholders of record at the close of business on February 14, 2011 will be entitled to one additional share of Wisconsin Energy common stock for each share then owned. The additional shares will be distributed on March 1, 2011. Taking the stock split into account, our quarterly dividend would have been $0.26 per share, which would result in annual dividends of $1.04 per share. Except as indicated in the pro forma earnings per share information in the Consolidated Income Statements, this report does not reflect the impact of the two-for-one stock split.

Range of Wisconsin Energy Common Stock Prices and Dividends:

	2010			2009		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$51.41	$46.88	$0.40	$46.48	$36.31	$0.3375
Second	$53.80	$46.84	0.40	$42.23	$36.67	0.3375
Third	$58.58	$49.41	0.40	$46.50	$40.25	0.3375
Fourth	$61.02	$57.52	0.40	$50.62	$42.89	0.3375
Annual	$61.02	$46.84	$1.60	$50.62	$36.31	$1.35

ISSUER PURCHASES OF EQUITY SECURITIES

2010	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
				(Millions of Dollars)
October 1 - October 31	5,887	$59.25	-	$ -
November 1 - November 30	839	$59.43	-	-

December 1 - December 31	1,230	$58.61	-	-
Total	7,956	$59.17	-	$ -

(a) All shares reported during the quarter were surrendered by employees to satisfy tax withholding obligations upon vesting of restricted stock.

ITEM 6. SELECTED FINANCIAL DATA

WISCONSIN ENERGY CORPORATION

CONSOLIDATED SELECTED FINANCIAL AND STATISTICAL DATA

Financial	2010	2009	2008	2007	2006
Year Ended December 31					
Net income - Continuing Operations (Millions)	$ 454.4	$ 375.7	$ 355.1		

	$ 332.4
	$ 308.6
Earnings per share - Continuing Operations	
Basic	
	$ 3.89
	$ 3.21
	$ 3.04
	$ 2.84
	$ 2.64
Diluted	
	$ 3.84
	$ 3.19
	$ 3.00
	$ 2.81
	$ 2.61
Dividends per share of common stock	
	$ 1.60
	$ 1.35
	$ 1.08
	$ 1.00
	$ 0.92
Operating revenues (Millions)	
Utility energy	
	$ 4,165.3
	$ 4,092.0
	$ 4,395.5

	$ 4,190.9
	$ 3,946.6
Non-utility energy	
	320.2
	163.1
	126.2
	75.7
	69.1
Eliminations and Other	
	(283.0)
	(154.2)
	(119.3)
	(62.3)
	(51.3)
Total operating revenues	
	$ 4,202.5
	$ 4,100.9
	$ 4,402.4
	$ 4,204.3
	$ 3,964.4
As of December 31 (Millions)	
Total assets	
	$ 13,059.8
	$ 12,697.9
	$ 12,617.8
	$ 11,720.3

	$ 11,130.2
Long-term debt (including current maturities) and capital lease obligations	
	$ 4,405.4
	$ 4,171.5
	$ 4,136.5
	$ 3,525.3
	$ 3,370.1
Common Stock Closing Price	
	$ 58.86
	$ 49.83
	$ 41.98
	$ 48.71
	$ 47.46

CONSOLIDATED SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

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

	March	June		
Three Months Ended				
	2010	2009	2010	2009
Operating revenues				
	$ 1,248.6	$ 1,388.4		

	$	890.9
	$	835.7
Operating income		
		228.4
		241.5
		163.3
		118.4
Income from Continuing Operations		
		129.0
		141.4
		87.5
		63.0
Income (loss) from Discontinued Operations		
		0.7
		0.1
		1.2
		0.7
Total Net Income		
	$	129.7
	$	141.5
	$	88.7
	$	63.7
Earnings per share of common stock (basic) (b)		
Continuing operations		
	$	1.10
	$	1.21

	$	0.75
	$	0.54
Discontinued operations		
		0.01
		-
		0.01
		-
Total earnings per share (basic)		
	$	1.11
	$	1.21
	$	0.76
	$	0.54
Earnings per share of common stock (diluted) (b)		
Continuing operations		
	$	1.09
	$	1.20
	$	0.74
	$	0.53
Discontinued operations		
		0.01
		-
		0.01
		0.01
Total earnings per share (diluted)		
	$	1.10
	$	1.20

		$ 0.75
		$ 0.54
	September	
	December	
Three Months Ended		
	2010	
	2009	
	2010	
	2009	
Operating revenues		
		$ 973.2
		$ 815.5
		$ 1,089.8
		$ 1,061.3
Operating income		
		203.0
		104.4
		215.7
		196.0
Income from Continuing Operations		
		112.3
		58.2
		125.6
		113.1
Income (loss) from Discontinued Operations		
		(0.1)

		0.3
		0.3
		5.6
Total Net Income		
	$	112.2
	$	58.5
	$	125.9
	$	118.7
Earnings per share of common stock (basic) (b)		
Continuing operations		
	$	0.96
	$	0.50
	$	1.07
	$	0.97
Discontinued operations		
		-
		-
		0.01
		0.05
Total earnings per share (basic)		
	$	0.96
	$	0.50
	$	1.08
	$	1.02
Earnings per share of common stock (diluted) (b)		
Continuing operations		

	$	0.95
	$	0.49
	$	1.06
	$	0.96
Discontinued operations		
		-
		0.01
		-
		0.05
Total earnings per share (diluted)		
	$	0.95
	$	0.50
	$	1.06
	$	1.01

(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 because the computation is based on

the weighted average common shares outstanding during each quarter.

The selected financial data presented above does not reflect the impact of the two-for-one stock split, which will be effective March 2011.

See Note T -- Subsequent Events for further information.

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 its subsidiaries.

Our utility energy segment primarily consists of Wisconsin Electric and Wisconsin Gas, both doing business under the trade name of "We Energies." We generate and distribute electricity in Wisconsin and the Upper Peninsula of Michigan and we distribute natural gas in Wisconsin. 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 under our PTF strategy.

CORPORATE STRATEGY

Business Opportunities

We have three primary investment opportunities and earnings streams: our regulated utility business; our investment in ATC; and our generation plants within our non-utility energy segment.

Our regulated utility business consists of electric generation assets and the electric and gas distribution assets that serve the electric and gas customers of We Energies. During 2010, our regulated utility earned $564.0 million of operating income. Over the next three years, we expect to invest approximately $2.0 billion in this business to construct renewable energy generation and environmental control equipment and to update the electric and gas distribution infrastructure.

We have a $330.5 million investment in ATC, which represents a 26.2% ownership interest. Our 2010 pre-tax earnings from ATC totaled $60.1 million and we received $49.3 million in dividends from ATC. Over the next three years, we expect to invest approximately $20 million in ATC as it continues to upgrade the transmission infrastructure within Wisconsin.

Our non-utility energy segment consists primarily of the generation plants constructed as part of our PTF initiative. As of December 31, 2010, three of the four plants have been placed in service and are being leased to Wisconsin Electric under long-term leases that run for 25 years (PWGS 1 and PWGS 2) and 30 years (OC 1). OC 2 was placed in service on January 12, 2011, and is being leased to Wisconsin Electric under a long-term lease that runs for 30 years. We recognize revenues on a levelized basis over the life of the lease. During 2011, we expect this segment's operating

income to be between $340 million and $350 million. Over the next three years, we expect to invest approximately $88 million in this segment.

RESULTS OF OPERATIONS

CONSOLIDATED EARNINGS

The following table compares our operating income by business segment and our net income for 2010, 2009 and 2008:

Wisconsin Energy Corporation	2010	2009	2008
		(Millions of Dollars)	
Utility Energy	$564.0	$550.9	$576.5
Non-Utility Energy	252.4	120.1	89.3
Corporate and Other	(6.0)	(10.7)	(10.6)
Total Operating Income	810.4	660.3	655.2
Equity in Earnings of Transmission Affiliate	60.1	59.1	51.8
Other Income and Deductions, net	40.2	28.5	16.9
Interest Expense, net	206.4	156.7	153.7
Income From Continuing Operations Before Income Taxes	704.3	591.2	570.2
Income Taxes	249.9	215.5	215.1
Income From Continuing Operations	454.4	375.7	355.1
Income From Discontinued Operations, Net of Tax	2.1	6.7	4.0
Net Income	$456.5	$382.4	$359.1
Diluted Earnings Per Share			
Continuing Operations	$3.84	$3.19	$3.00
Discontinued Operations	0.02	0.05	0.04
Total Diluted Earnings Per Share	$3.86	$3.24	$3.04

An analysis of contributions to operating income by segment and a more detailed analysis of results follow.

UTILITY ENERGY SEGMENT CONTRIBUTION TO OPERATING INCOME

2010 vs. 2009:

Our utility energy segment contributed $564.0 million of operating income during 2010 compared with $550.9 million of operating income during 2009. The increase in operating income was primarily caused by favorable weather during 2010, partially offset by unfavorable recoveries of revenues associated with fuel and purchased power in 2010. During 2010, we experienced unfavorable fuel recoveries of approximately $44 million. During 2009, we experienced favorable fuel recoveries of approximately $19 million.

2009 vs. 2008:

Our utility energy segment contributed $550.9 million of operating income during 2009 compared with $576.5 million of operating income during 2008. The most significant factors that impacted operating income during 2009 were less favorable weather during the spring and summer months and a decline in economic conditions throughout 2009, both of which decreased electric sales. However, we experienced a decrease in fuel and purchased power costs largely due to lower MWh sales and a decrease in operating and maintenance expense during 2009 as compared to 2008.

The following table summarizes our utility energy segment's operating income during 2010, 2009 and 2008:

Utility Energy Segment	2010	2009	2008
		(Millions of Dollars)	
Operating Revenues			
Electric	$2,936.3	$2,685.0	$2,660.6
Gas	1,190.2	1,367.9	1,694.6
Other	38.8	39.1	40.3
Total Operating Revenues	4,165.3	4,092.0	4,395.5
Fuel and Purchased Power	1,104.7	1,064.5	1,242.3
Cost of Gas Sold	751.5	912.0	1,220.9
Gross Margin	2,309.1	2,115.5	1,932.3
Other Operating Expenses			
Other Operation and Maintenance	1,587.0	1,372.3	1,437.1
Depreciation and Amortization	251.4	313.1	300.9
Property and Revenue Taxes	105.1	109.9	105.9
Total Operating Expenses	3,799.7	3,771.8	4,307.1
Amortization of Gain	198.4	230.7	488.1
Operating Income	$564.0	$550.9	$576.5

Electric Utility Gross Margin

The following table compares our electric utility gross margin during 2010 with similar information for 2009 and 2008, including a summary of electric operating revenues and electric sales by customer class:

	Electric Revenues and Gross Margin			MWh Sales		
Electric Utility Operations	2010	2009	2008	2010	2009	2008
	(Millions of Dollars)			(Thousands, Except Degree Days)		
Customer Class						
Residential	$1,114.3	$977.6	$962.5	8,426.3	7,949.3	8,277.1
Small Commercial/Industrial	922.2	860.3	869.7	8,823.3	8,571.6	9,023.7
Large Commercial/Industrial	677.1	599.4	646.3	9,961.5	9,140.3	10,691.7
Other - Retail	21.9	21.2	20.8	155.3	156.5	161.5
Total Retail	2,735.5	2,458.5	2,499.3	27,366.4	25,817.7	28,154.0
Wholesale - Other	134.6	116.7	77.7	2,004.6	1,529.4	2,620.7
Resale - Utilities	40.4	47.5	37.7	1,103.8	1,548.9	881.0
Other Operating Revenues	25.8	62.3	45.9	-	-	-
Total	2,936.3	2,685.0	2,660.6	30,474.8	28,896.0	31,655.7
Fuel and Purchased Power						
Fuel	570.5	518.3	570.6			
Purchased Power	521.0	533.8	658.5			
Total Fuel and Purchased Power	1,091.5	1,052.1	1,229.1			
Total Electric Gross Margin	$1,844.8	$1,632.9	$1,431.5			
Weather - Degree Days (a)						
Heating (6,612 Normal)				6,183	6,825	7,073
Cooling (698 Normal)				944	475	593

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

Electric Utility Revenues and Sales

2010 vs. 2009:

Our electric utility operating revenues increased by $251.3 million, or 9.4%, when compared to 2009. The most significant factors that caused a change in revenues were:

- Net pricing increases totaling $121.0 million related to Wisconsin and Michigan rate orders that became effective in 2010. For information on these rate orders, see Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters.
- Favorable weather that increased electric revenues by an estimated $103.4 million as compared to 2009.
- Net economic growth that increased electric revenues by an estimated $43.0 million as compared to 2009.
- 2010 pricing increases totaling approximately $32.3 million, reflecting the reduction of Point Beach bill credits to retail customers. For information on the bill credits, see Amortization of Gain below.

As measured by cooling degree days, 2010 was 98.7% warmer than the same period in 2009 and 35.2% warmer than normal. Collectively, retail sales to our residential and small commercial and industrial customers, who are more weather sensitive, increased by 4.4%. Sales to our large commercial and industrial customers increased by 9.0% during 2010 as compared to the same period in 2009, primarily because of an improving economy. Electric sales to our largest customers, two iron ore mines, which represent approximately 6.9% of our annual sales, increased significantly for the year. If these sales are

excluded, sales to our large commercial and industrial customers increased by 3.2% for 2010 as compared to 2009. The $36.5 million decline in Other Operating Revenues primarily relates to regulatory amortizations during 2010 as compared to 2009.

We currently estimate that 2011 electric revenues will increase because of the completion of the Point Beach bill credits and an increase in revenues related to increased fuel costs. However, we would expect residential and small commercial and industrial sales to decrease if we experience normal weather.

2009 vs. 2008:

Our electric utility operating revenues increased by $24.4 million, or 0.9%, when compared to 2008. The most significant factors that caused a change in revenues were:

- 2009 pricing increases totaling approximately $109.9 million reflecting the reduction of Point Beach credits to retail customers.
- A one-time FERC-approved refund to our wholesale customers in 2008 associated with their share of the gain on the sale of Point Beach that reduced 2008 wholesale revenues by $62.5 million.
- Net pricing increases totaling approximately $20.4 million related to Wisconsin and Michigan rate orders.
- Unfavorable weather that reduced electric revenues by an estimated $35.3 million as compared to 2008.
- A slowdown in the economy that reduced commercial and industrial sales by an estimated $129.0 million and wholesale sales by an estimated $30.9 million.

Our total electric sales volumes decreased by approximately 8.7% as compared to 2008 due almost exclusively to a continued decline in economic conditions, which primarily affected our commercial and industrial sales, and milder weather, which primarily affected our residential sales. Total retail sales volumes declined approximately 8.3%. Of the 8.3% decline in retail sales, approximately 7.1% relates to sales volumes at our small and large commercial and industrial customers. As measured by cooling degree days, 2009 was 19.9% cooler than 2008 and 31.9% cooler than normal. The $16.4 million increase in Other Operating Revenues primarily relates to regulatory amortizations during 2009 as compared to 2008.

Electric Fuel and Purchased Power Expenses

2010 vs. 2009:

Our electric fuel and purchased power costs increased by $39.4 million, or approximately 3.7%, when compared to 2009. This increase was primarily caused by a 5.5% increase in MWh sales, partially offset by a 1.6% decrease in the average cost/MWh between periods. The average cost/MWh was comparable between periods because of a 7.7% increase in generation from our lower cost coal units and a 16.5% decrease in the cost of natural gas used at the Port Washington Generating Station (PWGS), which was sufficient to offset the impact of a 5.7% increase in coal and related transportation costs and the increase in gas generation and purchased power utilized as a result of the increased sales.

We expect electric fuel and purchased power expenses to increase in 2011 because of changes in the price of natural gas and in the cost of coal and related transportation prices.

2009 vs. 2008:

Our electric fuel and purchased power costs decreased by $177.0 million, or approximately 14.4%, when compared to 2008. This decline was primarily caused by lower MWh sales and lower natural gas and purchased power prices, partially offset by higher coal and related transportation costs. Approximately $41.2 million of this decrease related to the one-time amortization of deferred fuel costs recorded in the first quarter of 2008 pursuant to the January 2008 PSCW rate order. Adjusted for the one-time amortization, our electric fuel and purchased power costs decreased by $135.8 million, or 11.0%.

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 2010, 2009 and 2008:

Gas Utility Operations	2010	2009	2008
	(Millions of Dollars)		
Operating Revenues	$1,190.2	$1,367.9	$1,694.6
Cost of Gas Sold	751.5	912.0	1,220.9
Gross Margin	$438.7	$455.9	$473.7

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 2010, 2009 and 2008:

	Gross Margin			Therm Deliveries		
Gas Utility Operations	2010	2009	2008	2010	2009	2008
	(Millions of Dollars)			(Millions, Except Degree Days)		
Customer Class						
Residential	$282.2	$291.5	$299.5	741.2	803.4	841.8
Commercial/Industrial	95.8	104.6	109.3	429.6	479.4	503.2
Interruptible	2.2	2.0	2.4	19.4	19.1	23.0
Total Retail	380.2	398.1	411.2	1,190.2	1,301.9	1,368.0
Transported Gas	51.3	49.6	52.2	914.9	882.0	905.8
Other Operating	7.2	8.2	10.3	-	-	-

Total	$438.7	$455.9	$473.7	2,105.1	2,183.9	2,273.8
Weather - Degree Days (a)						
Heating (6,612 Normal)				6,183	6,825	7,073

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

2010 vs. 2009:

Our gas margin decreased by $17.2 million, or approximately 3.8%, when compared to 2009 primarily because of a decline in sales volumes as a result of warmer winter weather in 2010 as compared to 2009. As measured by heating degree days, 2010 was 9.4% warmer than 2009 and 6.5% warmer than normal.

We expect our 2011 gas margin to be impacted by weather; however, as noted above, 2010 was warmer than normal.

2009 vs. 2008:

Our gas margin decreased by $17.8 million, or approximately 3.8%, when compared to 2008. We estimate that milder winter weather and a decline in economic conditions caused margins to decrease by approximately $14.4 million during 2009 as compared to 2008. As measured by heating degree days, 2009 was 3.5% warmer than 2008, but 2.8% colder than normal.

Other Operation and Maintenance Expense

2010 vs. 2009:

Our other operation and maintenance expense increased by $214.7 million, or approximately 15.6%, when compared to 2009. The 2010 PSCW rate case order allowed for pricing increases related to regulatory items including PTF lease costs, bad debt expense and amortization of other deferred costs. We estimate that these items were approximately $87.3 million higher in 2010 as compared to 2009. In addition, operation and maintenance expenses at our power plants increased approximately $63.9 million primarily because of the operation of OC 1, which was placed in service in February 2010, and higher maintenance costs at our other power plants. We also had increased operation and maintenance expenses of approximately $20.8 million related to increased reliability maintenance in our distribution system in 2010 and responding to damage caused by a larger number of summer storms compared to 2009. In addition, our benefits expense increased by approximately $28.8 million in 2010 as compared to 2009 primarily because of increased pension costs.

Our utility operation and maintenance expenses are influenced by labor costs, employee benefit costs, plant outages and amortization of regulatory assets. We expect our 2011 other operation and maintenance expenses to increase slightly because of inflation related items.

2009 vs. 2008:

Our other operation and maintenance expense decreased by $64.8 million, or approximately 4.5%, when compared to 2008. The largest factor for this decrease relates to a $43.8 million one-time amortization of deferred bad debt costs in 2008 pursuant to the January 2008 PSCW rate order. The January 2008 PSCW rate order, which was in effect for all of 2009, allowed for pricing increases related to transmission costs, PTF lease costs and the amortization of other deferred costs. We estimate that these items were approximately $15.9 million higher in 2009 as compared to 2008. The remaining decrease is primarily related to reduced operating and maintenance expenses at our power plants and electric distribution system.

Depreciation and Amortization Expense

2010 vs. 2009:

Depreciation and Amortization expense decreased by $61.7 million, or approximately 19.7%, when compared to 2009. This decrease was primarily because of new depreciation rates that were implemented in connection with the 2010 PSCW rate case order. The new depreciation rates generally reflect longer lives for our utility assets.

We expect depreciation and amortization expense to increase in 2011 as a result of an overall increase in utility plant in service.

2009 vs. 2008:

Depreciation and amortization expense increased by $12.2 million, or approximately 4.1%, when compared to 2008. This increase was the result of higher depreciation related to new capital projects placed in service, including the Blue Sky Green Field wind project which was placed in service in May 2008.

Amortization of Gain

In connection with the September 2007 sale of Point Beach, we reached agreements with our regulators to allow for the net gain on the sale to be used for the benefit of our customers. The majority of the benefits are being returned to customers in the form of bill credits. The net gain was originally recorded as a regulatory liability, and it is being amortized to the income statement as we issue bill credits or make refunds to customers. When the bill credits and refunds are issued to customers, we transfer cash from the restricted accounts to the unrestricted accounts, adjusted for taxes.

During 2010, 2009 and 2008, the Amortization of Gain was as follows:

	2010	2009	2008
		(Millions of Dollars)	
Bill Credits - Retail	$198.4	$230.7	$340.6
One-Time FERC Refund	-	-	62.5
One-Time Amortization to Offset Regulatory Asset	-	-	85.0

Total Amortization of Gain	$198.4	$230.7	$488.1

All bill credits associated with the sale of Point Beach have been applied to customers as of December 31, 2010.

NON-UTILITY ENERGY SEGMENT CONTRIBUTION TO OPERATING INCOME

Our non-utility energy segment consists primarily of our PTF units (PWGS 1, PWGS 2, OC 1 and OC 2). PWGS 1 and PWGS 2 were placed in service in July 2005 and May 2008, respectively. The common facilities associated with the Oak Creek expansion include the water intake system, which was placed in service in January 2009, the coal handling system, which was placed in service in November 2007, and other smaller assets. OC 1 and OC 2 were placed in service in February 2010 and January 2011, respectively.

The table below reflects:

- A full year's earnings for 2010, 2009 and 2008 for PWGS 1;
- A full year's earnings for 2010 and 2009 and approximately seven months of earnings for 2008 for PWGS 2;
- A full year's earnings for 2010, 2009 and 2008 for the coal handling system for the Oak Creek expansion;
- A full year's earnings for 2010 and 2009 for the water intake system for the Oak Creek expansion; and
- Approximately eleven months of earnings for 2010 for OC 1.

This segment reflects the lease revenues on the new units as well as the depreciation expense. The operating and maintenance costs associated with the plants are the responsibility of Wisconsin Electric and are recorded in the utility segment.

	Year Ended December 31, 2010			
	(Millions of Dollars)			
	Port Washington	Oak Creek Expansion	All Other	Total
Operating Revenues	$104.6	$203.3	$12.3	$320.2
Operation and Maintenance Expense	0.8	4.7	8.8	14.3
Depreciation Expense	19.8	32.0	1.7	53.5
Operating Income	$84.0	$166.6	$1.8	$252.4

Year Ended December 31, 2009

(Millions of Dollars)

	Port Washington	Oak Creek Expansion	All Other	Total
Operating Revenues	$104.8	$48.0	$10.3	$163.1
Operation and Maintenance Expense	0.9	5.2	7.7	13.8
Depreciation Expense	19.8	7.8	1.6	29.2
Operating Income	$84.1	$35.0	$1.0	$120.1

Year Ended December 31, 2008

(Millions of Dollars)

	Port Washington	Oak Creek Expansion	All Other	Total
Operating Revenues	$84.0	$30.5	$11.7	$126.2

Operation and Maintenance Expense	1.0	5.9	8.1	15.0
Depreciation Expense	15.8	4.5	1.6	21.9
Operating Income	$67.2	$20.1	$2.0	$89.3

In 2011, we expect our non-utility energy segment to continue to generate higher operating income because OC 2 went into service on January 12, 2011.

CORPORATE AND OTHER CONTRIBUTION TO OPERATING INCOME

2010 vs. 2009:

Corporate and other affiliates had an operating loss of $6.0 million in 2010 compared with an operating loss of $10.7 million in 2009. This change is primarily due to a reduction in other operation and maintenance expense.

2009 vs. 2008:

Corporate and other affiliates had an operating loss of $10.7 million in 2009 compared with an operating loss of $10.6 million in 2008.

CONSOLIDATED OTHER INCOME AND DEDUCTIONS, NET

Other Income and Deductions, net	2010	2009	2008
		(Millions of Dollars)	
AFUDC - Equity	$32.5	$16.0	$7.8
Gain on Property Sales	4.4	1.7	2.6
Other, net	3.3	10.8	6.5
Total Other Income and Deductions, net	$40.2	$28.5	$16.9

2010 vs. 2009:

Other income and deductions, net increased by approximately $11.7 million, or 41.1%, when compared to 2009. This increase primarily relates to increased AFUDC - Equity related to the construction of the Oak Creek Air Quality Control System (AQCS) project.

During 2011, we expect to see an increase in AFUDC - Equity with the continued construction of the Oak Creek AQCS project and the Glacier Hills Wind Park.

2009 vs. 2008:

Other income and deductions, net increased by $11.6 million when compared to 2008 primarily due to higher interest income and an increase in AFUDC - Equity related to the construction of the Oak Creek AQCS project.

CONSOLIDATED INTEREST EXPENSE, NET

Interest Expense, net	2010	2009	2008
		(Millions of Dollars)	
Gross Interest Costs	$258.7	$235.4	$240.3
Less: Capitalized Interest	52.3	78.7	86.6
Interest Expense, net	$206.4	$156.7	$153.7

2010 vs. 2009:

Our gross interest costs increased by $23.3 million, or 9.9%, during 2010, primarily because of higher long-term debt balances compared to 2009. In February 2010, we issued $530 million of long-term debt in connection with the commercial operation of OC 1 and used the net proceeds to repay short-term debt incurred during construction. Our capitalized interest decreased by $26.4 million primarily because we stopped capitalizing interest on OC 1 when it was placed in service in February 2010. As a result, our net interest expense increased by $49.7 million, or 31.7%, as compared to 2009.

During 2011, we expect interest expense, net to increase because we will no longer be capitalizing interest expense related to OC 2 as it was placed into service in January 2011. In addition, in January 2011, we issued $420.0 million of long-term debt and used the net proceeds to repay the short-term borrowings that we incurred during the construction of OC 2.

2009 vs. 2008:

Interest expense, net increased by $3.0 million during 2009 when compared with 2008. Our gross interest costs decreased by $4.9 million and our capitalized interest decreased by $7.9 million primarily due to lower short-term interest rates and lower capital expenditures.

CONSOLIDATED INCOME TAXES

2010 vs. 2009:

Our effective tax rate applicable to continuing operations was 35.5% in 2010 compared to 36.5% in 2009. This reduction in our effective tax rate was primarily the result of increased AFUDC - Equity and increased production activities tax deductions. For further information see Note H -- Income Taxes in the Notes to Consolidated Financial Statements. We expect our 2011 annual effective tax rate to range between 35.0% and 36.0%.

2009 vs. 2008:

Our effective tax rate applicable to continuing operations was 36.5% in 2009 compared to 37.7% in 2008. This reduction in our effective tax rate was the result of tax credits associated with wind production.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

The following table summarizes our cash flows during 2010, 2009 and 2008:

Wisconsin Energy Corporation	2010	2009	2008
		(Millions of Dollars)	
Cash Provided by (Used in)			
Operating Activities	$810.4	$628.9	$736.3
Investing Activities	($633.5)	($736.1)	($906.3)
Financing Activities	($172.6)	$95.7	$175.0

Operating Activities

2010 vs. 2009:

Cash provided by operating activities was $810.4 million during 2010, which was an increase of $181.5 million over 2009. This increase is primarily related to a $289.3 million contribution to our qualified benefit plans in 2009. No such contributions were made in 2010. This increase was partially offset by an increase in cash paid for taxes during 2010.

2009 vs. 2008:

Cash provided by operating activities was $628.9 million during 2009, which was $107.4 million lower than 2008. Although we experienced an increase in net income and depreciation during 2009, our operating cash flows declined because of the $289.3 million contribution to our qualified benefit plans in 2009. This amount is compared to approximately $48.4 million contributed to our qualified benefit plans in 2008.

Investing Activities

2010 vs. 2009:

Cash used in investing activities was $633.5 million during 2010, which was $102.6 million lower than the same period in 2009 because of lower capital expenditures, lower investments in ATC and higher proceeds from asset sales. During 2010, we received $63 million of proceeds from the sale of Edison Sault.

The following table identifies capital expenditures by year:

Capital Expenditures	2010	2009	2008
	(Millions of Dollars)		
Utility	$687.0	$547.0	$604.2
We Power	109.3	253.2	529.3
Other	1.9	14.4	0.4
Total Capital Expenditures	$798.2	$814.6	$1,133.9

2009 vs. 2008:

Cash used in investing activities was $736.1 million during 2009, which was $170.2 million lower than the same period in 2008. This decline primarily reflects lower capital expenditures and cash flows from the release of restricted cash related to the Point Beach bill credits during 2009.

During 2009, our capital expenditures decreased by $319.3 million, primarily due to the reduction in capital expenditures for OC 1 and OC 2 and the completion of PWGS 2 in 2008.

During 2009, we released $153.1 million less from restricted cash as compared to the same period in 2008. In September 2007, we sold Point Beach and placed approximately $924 million of cash in restricted accounts to be used for the payment of taxes and for the benefit of our customers. We release the restricted cash, adjusted for taxes, as we issue bill credits to our customers, which is reflected as an amortization of the gain on our income statement.

Financing Activities

The following table summarizes our cash flows from financing activities:

	2010	2009	2008
	(Millions of Dollars)		
Net Increase in Debt	$71.1	$263.2	$316.8
Dividends on Common Stock	(187.0)	(157.8)	(126.3)
Common Stock, Net	(65.7)	(12.6)	(11.4)
Other	9.0	2.9	(4.1)
Cash (Used in) Provided by Financing	($172.6)	$95.7	$175.0

2010 vs. 2009:

Cash used for financing activities during 2010 was $172.6 million, compared to $95.7 million of cash provided in 2009. During 2010, we issued a total of $530.0 million in long-term debt and retired $291.7 million of long-term debt. The net proceeds from the new issuance of debt were used to repay short-term debt incurred to finance the construction of OC 1 and for other corporate purposes. For additional information on the debt issues, see Note J -- Long-Term Debt and Capital Lease Obligations in the Notes to Consolidated Financial Statements.

Our common stock dividends increased in 2010 as we raised our dividend rate by 18.5%. In January 2011, our Board of Directors approved a 30.0% increase in the quarterly common stock dividend.

2009 vs. 2008:

Cash provided by financing activities during 2009 was $95.7 million, compared to $175.0 million during the same period in 2008. During 2009, we issued a total of $261.5 million in long-term debt and retired $74.1 million of long-term debt. Substantially all of the net proceeds were used to repay short-term debt. During 2009, we paid approximately $157.8 million in cash dividends and Wisconsin Electric repurchased $147 million of outstanding tax-exempt bonds in August 2009.

Our common stock dividends increased in 2009 as we raised our dividend rate by 25%.

No new shares of Wisconsin Energy's common stock were issued in 2010, 2009 or 2008. During these years, our plan agents purchased, in the open market, 2.9 million shares at a cost of $156.6 million, 0.7 million shares at a cost of $29.6 million and 0.5 million shares at a cost of $23.0 million, respectively, to fulfill exercised stock options and restricted stock awards. In 2010, 2009 and 2008, we received proceeds of $90.9 million, $17.0 million and $11.6 million, respectively, related to the exercise of stock options. In addition, we instructed our independent agents to purchase shares of our common stock in the open market to satisfy our obligations under our dividend reinvestment plan and various employee benefit plans.

CAPITAL RESOURCES AND REQUIREMENTS

Working Capital

As of December 31, 2010, our current liabilities exceeded our current assets by approximately $390.0 million. This negative working capital balance is primarily the result of financing the construction of OC 2, as well as our new renewable generation and environmental upgrades, with significant amounts of short-term debt. OC 2 was placed in service on January 12, 2011. In January 2011, we issued $420.0 million of long-term debt and used the net proceeds to repay short-term debt and for other corporate purposes. This transaction significantly improved our working capital position.

Liquidity

We anticipate meeting our capital requirements during 2011 primarily through internally generated funds and short-term borrowings, supplemented by the issuance of intermediate or long-term debt securities depending on market conditions and other factors. Beyond 2011, we anticipate meeting our capital requirements through internally generated funds supplemented, when required, by short-term borrowings and the issuance of debt securities.

We currently have access to the capital markets and have been able to generate funds internally and externally to meet our capital requirements. Our ability to attract the necessary financial capital at reasonable terms is critical to our overall strategic plan. We currently believe that we have adequate capacity to fund our operations for the foreseeable future through our existing borrowing arrangements, access to capital markets and internally generated cash.

Wisconsin Energy, Wisconsin Electric and Wisconsin Gas maintain bank back-up credit facilities, which provide liquidity support for each company's obligations with respect to commercial paper and for general corporate purposes.

As of December 31, 2010, we had approximately $1.2 billion of available, undrawn lines under our bank back-up credit facilities. As of December 31, 2010, we had approximately $657.9 million of commercial paper outstanding on a consolidated basis that was supported by the available lines of credit. For additional information regarding our commercial paper balances during 2010, see Note K -- Short-Term Debt in the Notes to Consolidated Financial Statements.

We review our bank back-up credit facility needs on an ongoing basis and expect to be able to maintain adequate credit facilities to support our operations. The following table summarizes such facilities as of December 31, 2010:

Company	Total Facility	Letters of Credit	Credit Available	Facility Expiration
		(Millions of Dollars)		
Wisconsin Energy	$450.0	$1.1	$448.9	December 2013
Wisconsin Electric	$500.0	$3.4	$496.6	December 2013
Wisconsin Gas	$300.0	$ -	$300.0	December 2013

On December 20, 2010, Wisconsin Energy entered into an unsecured three-year $450 million bank back-up credit facility to replace a $900 million credit facility with an expiration date of April 2011. This new facility will expire in December 2013.

On December 20, 2010, Wisconsin Electric entered into an unsecured three-year $500 million bank back-up credit facility to replace a $500 million five-year credit facility with an expiration date of March 2011. This new facility will expire in December 2013.

On December 20, 2010, Wisconsin Gas entered into an unsecured three-year $300 million bank back-up credit facility to replace a $300 million five-year credit facility with an expiration date of March 2011. This new facility will expire in December 2013.

Each of these facilities has a renewal provision for two one-year extensions, subject to lender approval.

The following table shows our capitalization structure as of December 31, 2010 and 2009, as well as an adjusted capitalization structure that we believe is consistent with the manner in which the rating agencies currently view the Junior Notes:

	2010		2009	
Capitalization Structure	Actual	Adjusted	Actual	Adjusted
	(Millions of Dollars)			
Common Equity	$3,802.1	$4,052.1	$3,566.9	$3,816.9
Preferred Stock of Subsidiary	30.4	30.4	30.4	30.4
Long-Term Debt (including current maturities)	4,405.4	4,155.4	4,171.5	3,921.5
Short-Term Debt	657.9	657.9	825.1	825.1
Total Capitalization	$8,895.8	$8,895.8	$8,593.9	$8,593.9
Total Debt	$5,063.3	$4,813.3	$4,996.6	$4,746.6
Ratio of Debt to Total Capitalization	56.9%	54.1%	58.1%	55.2%

Included in Long-Term Debt on our Consolidated Balance Sheet as of December 31, 2010 and 2009 is $500 million aggregate principal amount of the Junior Notes. The adjusted presentation attributes $250 million of the Junior Notes

to Common Equity and $250 million to Long-Term Debt. We believe this presentation is consistent with the 50% or greater equity credit the majority of rating agencies currently attribute to the Junior Notes.

The adjusted presentation of our consolidated capitalization structure is presented as a complement to our capitalization structure presented in accordance with GAAP. Management evaluates and manages Wisconsin Energy's capitalization structure, including its total debt to total capitalization ratio, using the GAAP calculation as adjusted by the rating agency treatment of the Junior Notes. Therefore, we believe the non-GAAP adjusted presentation reflecting this treatment is useful and relevant to investors in understanding how management and the rating agencies evaluate our capitalization structure.

As described in Note I -- Common Equity, in the Notes to Consolidated Financial Statements, certain restrictions exist on the ability of our subsidiaries to transfer funds to us. We do not expect these restrictions to have any material effect on our operations or ability to meet our cash obligations.

Wisconsin Electric is the obligor under two series of tax exempt pollution control refunding bonds in outstanding principal amounts of $147 million. In August 2009, Wisconsin Electric terminated letters of credit that provided credit and liquidity support for the bonds, which resulted in a mandatory tender of the bonds. Wisconsin Electric issued commercial paper to fund the purchase of the bonds. As of December 31, 2010, the repurchased bonds were still outstanding, but were reported as a reduction in our consolidated long-term debt because they are held by Wisconsin Electric. Depending on market conditions and other factors, Wisconsin Electric may change the method used to determine the interest rate on the bonds and have them remarketed to third parties.

Bonus Depreciation Provisions

In December 2010, the President of the United States signed tax legislation extending the bonus depreciation rules to certain projects placed in service in 2011 and 2012. As a result of this change in law, we anticipate that certain projects will benefit from the increased bonus depreciation in 2011 and 2012. We estimate $100 million in cash benefits from bonus depreciation in 2011 and $200 million in 2012.

Credit Rating Risk

We do not have any credit agreements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. We do have certain agreements in the form of commodity contracts and employee benefit plans that could require collateral or a termination payment in the event of a credit rating change to below BBB- at S&P and/or Baa3 at Moody's. As of December 31, 2010, we estimate that the collateral or the termination payment required under these agreements totaled approximately $201.6 million. Generally, collateral may be provided by a Wisconsin Energy guaranty, letter of credit or cash. We also have commodity contracts that in the event of a credit rating downgrade could result in a reduction of our unsecured credit granted by counterparties.

In addition, access to capital markets at a reasonable cost is determined in large part by credit quality. Any credit ratings downgrade could impact our ability to access capital markets.

In October 2010, Moody's affirmed the ratings and stable outlook of Wisconsin Energy (commercial paper, P-2;

senior unsecured, A3; junior unsecured, Baa1) and WECC (senior unsecured, A3). In November 2010, Moody's downgraded the long-term debt ratings of Wisconsin Electric (senior unsecured to A2 from A1; commercial paper, P-1), Wisconsin Gas (senior unsecured to A2 from A1; commercial paper, P-1) and ERGSS (senior notes to A2 from A1). Moody's affirmed the stable ratings outlook assigned to Wisconsin Electric, Wisconsin Gas and ERGSS.

In July 2010, S&P affirmed the ratings of Wisconsin Energy (commercial paper, A-2; senior unsecured, BBB+), Wisconsin Electric (commercial paper, A-2; senior unsecured, A-), Wisconsin Gas (commercial paper, A-2; senior unsecured, A-), WECC (senior unsecured, BBB+) and ERGSS (senior notes, A-) and the stable ratings outlooks assigned to each company.

In June 2010, Fitch affirmed the ratings of Wisconsin Energy (commercial paper, F2; senior unsecured, A-; junior unsecured, BBB), Wisconsin Electric (commercial paper, F1; senior unsecured, A+), Wisconsin Gas (commercial paper, F1; senior unsecured, A+), WECC (senior unsecured, A-) and ERGSS (senior notes, A+). Fitch also revised the ratings outlooks assigned to Wisconsin Energy, Wisconsin Electric, WECC and ERGSS from negative to stable. The ratings outlook of Wisconsin Gas did not change and remains stable.

Subject to other factors affecting the credit markets as a whole, we believe our current ratings should provide a significant degree of flexibility in obtaining funds on competitive terms. However, these security ratings reflect the views of the rating agencies only. An explanation of the significance of these ratings may be obtained from each rating agency. Such ratings are not a recommendation to buy, sell or hold securities. Any rating can be revised upward or downward or withdrawn at any time by a rating agency.

Capital Requirements

Capital Expenditures:

Our estimated 2011, 2012 and 2013 capital expenditures are as follows:

Capital Expenditures	2011	2012	2013
		(Millions of Dollars)	
Utility			
Renewable	$332.9	$131.9	$10.4
Environmental	165.5	67.5	71.1
Base Spending	415.4	425.6	411.8
Total Utility	913.8	625.0	493.3
We Power	31.7	12.6	39.4
Other	5.7	18.5	3.7

Total	$951.2	$656.1	$536.4

Our actual future long-term capital requirements may vary from these estimates because of changing environmental and other regulations such as air quality standards, renewable energy standards and electric reliability initiatives that impact our utility energy segment.

Investments in Outside Trusts:

We use outside trusts to fund our pension and certain other post-retirement obligations. These trusts had investments of approximately $1.3 billion as of December 31, 2010. These trusts hold investments that are subject to the volatility of the stock market and interest rates.

In January 2009, we contributed $270 million to our qualified pension plan due to poor investment returns during 2008. We did not make contributions to the plan during 2010 as it was adequately funded. In January 2011, we contributed $101.4 million to our qualified pension plans. Future contributions to the plans will be dependent upon many factors, including the performance of existing plan assets and long-term discount rates. For additional information, see Note N -- Benefits in the Notes to Consolidated Financial Statements.

Off-Balance Sheet Arrangements:

We are a party to various financial instruments with off-balance sheet risk as a part of our normal course of business, including financial guarantees and letters of credit which support construction projects, commodity contracts and other payment obligations. We believe that these agreements do not have, and are not reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our investors. For additional information, see Note G -- Variable Interest Entities and Note O -- Guarantees in the Notes to Consolidated Financial Statements in this report.

Contractual Obligations/Commercial Commitments:

We have the following contractual obligations and other commercial commitments as of December 31, 2010:

	Payments Due by Period				
Contractual Obligations (a)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(Millions of Dollars)				
Long-Term Debt Obligations (b)	$7,707.6	$692.2	$822.2	$1,063.6	$5,129.6
Capital Lease Obligations (c)	332.8	37.5	79.4	85.4	130.5
Operating Lease Obligations (d)	86.2	22.8	22.8	7.9	32.7
Purchase Obligations (e)	12,925.7	1,031.8	1,483.1	938.5	9,472.3

Other Long-Term Liabilities (f)	97.6	97.6	-	-	-
Total Contractual Obligations	$21,149.9	$1,881.9	$2,407.5	$2,095.4	$14,765.1

(a) The amounts included in the table are calculated using current market prices, forward curves and other estimates.

(b) Principal and interest payments on Long-Term Debt (excluding capital lease obligations). For the purpose of determining our contractual obligations and commercial commitments only, we assumed the Junior Notes would be retired in 2017 with the proceeds from the issuance of qualifying securities pursuant to the terms of the RCC.

(c) Capital Lease Obligations of Wisconsin Electric for power purchase commitments.

(d) Operating Lease Obligations for power purchase commitments and vehicle and rail car leases.

(e) Purchase Obligations under various contracts for the procurement of fuel, power, gas supply and associated transportation related to utility operations and for construction, information technology and other services for utility and We Power operations. This includes the power purchase agreement for all of the energy produced by Point Beach.

(f) Other Long-Term Liabilities includes the expected 2011 supplemental executive retirement plan obligation. For additional information on employer contributions to our benefit plans, see Note N -- Benefits in the Notes to Consolidated Financial Statements.

The table above does not include liabilities related to the accounting treatment for uncertainty in income taxes. For additional information regarding these liabilities, refer to Note H -- Income Taxes in the Notes to Consolidated Financial Statements in this report.

Obligations for utility operations have historically been included as part of the rate-making process and therefore are generally recoverable from customers.

FACTORS AFFECTING RESULTS, LIQUIDITY AND CAPITAL RESOURCES

MARKET RISKS AND OTHER SIGNIFICANT RISKS

We are exposed to market and other significant risks as a result of the nature of our businesses and the environment in which those businesses operate. These risks, described in further detail below, include but are not limited to:

Regulatory Recovery:

Our utility energy segment accounts for its regulated operations in accordance with accounting guidance for regulated entities. Our rates are determined by regulatory authorities. Our primary regulator is the PSCW. Regulated entities are allowed to defer certain costs that would otherwise be charged to expense, if the regulated entity believes the recovery of these costs is probable. We record regulatory assets pursuant to specific orders or by a generic order issued by our regulators, and recovery of these deferred

costs in future rates is subject to the review and approval of those regulators. We assume the risks and benefits of ultimate recovery of these items in future rates. If the recovery of

these costs is not approved by our regulators, the costs are charged to income in the current period. We expect to recover our outstanding regulatory assets in rates over a period of no longer than 20 years. Regulators can impose liabilities on a prospective basis for amounts previously collected from customers and for amounts that are expected to be refunded to customers. We record these items as regulatory liabilities.

Commodity Prices:

In the normal course of providing energy, we are subject to market fluctuations of the costs of coal, natural gas, purchased power and fuel oil used in the delivery of coal. We manage our fuel and gas supply costs through a portfolio of short and long-term procurement contracts with various suppliers for the purchase of coal, natural gas and fuel oil. In addition, we manage the risk of price volatility by utilizing gas and electric hedging programs.

Wisconsin's retail electric fuel cost adjustment procedure mitigates some of Wisconsin Electric's risk of electric fuel cost fluctuation. If cumulative fuel and purchased power costs for electric utility operations deviate from a prescribed range (plus or minus 2% for 2010) when compared to the costs projected in the most recent retail rate proceeding, retail electric rates may be adjusted prospectively. Beginning in 2011, the PSCW has implemented new fuel rules which allow for a deferral of prudently incurred fuel costs that fall outside of a symmetrical band (plus or minus 2% for 2011). Under the rules, any fuel costs deferred at the end of the year would be incorporated into fuel cost recovery rates in future years. For information regarding the fuel rules, see Utility Rates and Regulatory Matters.

The PSCW has authorized dollar for dollar recovery for the majority of natural gas costs for our gas utility operations through GCRMs, which mitigates most of the risk of gas cost variations. For information concerning the natural gas utilities' GCRMs, see Utility Rates and Regulatory Matters.

Natural Gas Costs:

Higher natural gas costs increase our working capital requirements and result in higher gross receipts taxes in the state of Wisconsin. 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. Higher natural gas costs may also lead to increased energy efficiency investments by our customers to reduce utility usage and/or fuel substitution.

In March 2005, the PSCW authorized the use of the escrow method of accounting for bad debt costs allowing for deferral of Wisconsin residential bad debt expense that exceeds amounts allowed in rates. As part of the January 2010 PSCW rate order, the PSCW authorized continued use of the escrow method of accounting for bad debt costs through December 31, 2011.

As a result of GCRMs, our gas distribution subsidiaries receive dollar for dollar recovery on the cost of natural gas. However, increased natural gas costs increase the risk that customers will switch to alternative fuel sources, which could reduce future gas margins.

Weather:

Our Wisconsin utility rates are set by the PSCW based upon estimated temperatures which approximate 20-year averages. Wisconsin Electric's electric revenues and sales are unfavorably sensitive to below normal temperatures during the summer cooling season, and to some extent, to above normal temperatures during the winter heating season. Our gas revenues and sales are unfavorably sensitive to above normal temperatures during the winter heating season. A summary of actual weather information in

the utility segment's service territory during 2010, 2009 and 2008, as measured by degree days, may be found above in Results of Operations.

Interest Rate:

We have various short-term borrowing arrangements to provide working capital and general corporate funds. We also have variable rate long-term debt outstanding as of December 31, 2010. Borrowing levels under these arrangements vary from period to period depending on capital investments and other factors. Future short-term interest expense and payments will reflect both future short-term interest rates and borrowing levels.

We performed an interest rate sensitivity analysis as of December 31, 2010 of our outstanding portfolio of commercial paper and variable rate long-term debt. As of December 31, 2010, we had $657.9 million of commercial paper outstanding with a weighted average interest rate of 0.30% and $147.0 million of variable-rate long-term debt outstanding with a weighted average interest rate of 0.50%. A one-percentage point change in interest rates would cause our annual interest expense to increase or decrease by approximately $6.6 million before taxes from commercial paper and by $1.5 million before taxes from variable rate long-term debt outstanding.

Marketable Securities Return:

We use various trusts to fund our pension and Other Post-Retirement Employee Benefit (OPEB) obligations. These trusts invest in debt and equity securities. Changes in the market prices of these assets can affect future pension and OPEB expenses. Additionally, future contributions can also be affected by the investment returns on trust fund assets. We believe that the financial risks associated with investment returns would be partially mitigated through future rate actions by our various utility regulators.

The fair value of our trust fund assets as of December 31, 2010 was approximately:

Wisconsin Energy Corporation	Millions of Dollars
Pension trust funds	$1,059.5
Other post-retirement benefits trust funds	$216.7

The expected long-term rate of return on plan assets is 7.25% and 7.5%, respectively, for the pension and other post-retirement benefit plans for 2011.

Fiduciary oversight of the pension and OPEB trust fund investments is the responsibility of an Investment Trust Policy Committee. The Committee works with external actuaries and investment consultants on an ongoing basis to establish and monitor investment strategies and target asset allocations. Forecasted cash flows for plan liabilities are regularly updated based on annual valuation results. Target asset allocations are determined utilizing projected benefit payment cash flows and risk analyses of appropriate investments. The targeted asset allocations are intended to reduce risk, provide long-term financial stability for the plans and maintain funded levels which meet long-term plan obligations while preserving sufficient liquidity for near-term benefit payments. Investment strategies utilize a wide diversification of asset types and qualified external investment managers.

We consult with our investment advisors on an annual basis to help us forecast expected long-term returns on plan assets by reviewing actual historical returns and calculating expected total trust returns using the weighted-average of

long-term market returns for each of the major target asset categories utilized in the fund.

Economic Conditions:

Our service territory is within the state of Wisconsin and the Upper Peninsula of Michigan. We are exposed to market risks in the regional midwest economy.

Inflation:

We continue to monitor the impact of inflation, especially with respect to the costs of medical plans, fuel, transmission access, construction costs, regulatory and environmental compliance and new generation in order to minimize its effects in future years through pricing strategies, productivity improvements and cost reductions. We do not believe the impact of general inflation will have a material impact on our future results of operations.

For additional information concerning risk factors, including market risks, see the Cautionary Statement Regarding Forward-Looking Information at the beginning of this report and Risk Factors in Item 1A.

POWER THE FUTURE

As of January 12, 2011, all of the PTF units have been placed into service and are positioned to provide a significant portion of our future generation needs. The PTF units include PWGS 1, PWGS 2, OC 1 and OC 2. The following table identifies certain key items related to the units:

Unit Name	In Service	Cash Costs (a)
PWGS 1	July 2005	$ 333 million
PWGS 2	May 2008	$ 331 million
OC 1	February 2010	$ 1,355 million
OC 2	January 2011	$ 668 million

(a) Cash costs represent actual and current projected costs, excluding capitalized interest. Approximate costs for OC 1 and OC 2 include the cost of the settlement agreement with Bechtel adjusted for our ownership percentage.

We are recovering our costs in these units through lease payments associated with PWGS 1, PWGS 2 and OC 1 that are billed from We Power to Wisconsin Electric and then recovered in Wisconsin Electric's rates as authorized by the PSCW, the MPSC and FERC. Wisconsin Electric is recovering the lease payments associated with OC 2 as authorized by the PSCW and FERC, and will request authorization from the MPSC with the next rate case. Under the lease terms, our return is calculated using a 12.7% return on equity and the equity ratio is assumed to be 53% for the PWGS Units and 55% for the Oak Creek Units. The interest component of the return has been determined at rates in effect at the time of commercial operation.

Background:

The PSCW issued orders granting CPCNs for the construction of the PWGS and the Oak Creek expansion in 2002 and 2003, respectively.

PWGS consists of two 545 MW natural gas-fired combined cycle generating units on the site of Wisconsin Electric's former Port Washington Power Plant, the natural gas lateral to supply the new plant, and the transmission system upgrades required of ATC. PWGS 1 and PWGS 2 were completed within the PSCW approved cost parameters and were placed in service in July 2005 and May 2008, respectively.

The Oak Creek expansion is located adjacent to the site of Wisconsin Electric's existing Oak Creek Power Plant. OC 1 and OC 2 were placed into service on February 2, 2010 and January 12, 2011, respectively. The total cost for the two units was set at $2.191 billion. We estimate that the final cost of the Oak Creek expansion is approximately $191 million, or 8.7%, over the amount initially approved by the PSCW, of which our share is $162 million. The additional amount includes the amounts payable to Bechtel pursuant to the Settlement Agreement. The order approving the Oak Creek expansion provides for recovery of excess costs of up to 5% of the total project, subject to a prudence review by the PSCW. Costs above the 5% cap would also be included in lease payments and recovered from customers if the PSCW finds that such costs were prudently incurred and were the result of force majeure conditions, an excused event and/or event of loss. In addition, the leases provide for a guaranteed in-service date of September 29, 2009 for OC 1 and September 29, 2010 for OC 2, and impose liquidated damages of $250,000 per day, of which ERGSS' share is approximately $208,350 per day, for failure to achieve the guaranteed in-service date unless the delays result from force majeure conditions or an excused event. In light of the weather delays incurred on the project and other factors, we expect to request authorization from the PSCW to recover all costs associated with the units and to grant relief from liquidated damages.

ERGSS is entitled to receive its share of $250,000 per day from Bechtel under the contract with Bechtel for each day Bechtel failed to achieve the guaranteed in-service dates of September 29, 2009 and September 29, 2010, unless the delays resulted from force majeure conditions or excused events. Pursuant to the terms of the Settlement Agreement and a change order signed concurrent with the turnover of OC 2, Bechtel was granted total schedule relief of 120 days for OC 1 and 81 days for OC 2. Therefore, Bechtel is responsible for 5 days of liquidated damages for OC 1 and 23 days for OC 2. All liquidated damages collected are for the benefit of Wisconsin Electric's customers. Although we anticipate the PSCW will agree that the excused delays were caused by force majeure and other conditions, there is no guarantee that it will grant ERGSS the same schedule relief.

For information regarding the Settlement Agreement, see Oak Creek Construction Contract in Note R -- Commitments and Contingencies in the Notes to Consolidated Financial Statements.

Lease Terms:

The PSCW approved the lease agreements and related documents under which Wisconsin Electric will staff, operate and maintain PWGS 1, PWGS 2, OC 1 and OC 2. Key terms of the leased generation contracts are as follows:

PWGS 1 & PWGS 2

- Initial lease term of 25 years with the potential for subsequent renewals at reduced rates;
- Cost recovery over a 25 year period on a mortgage basis amortization schedule;
- Imputed capital structure of 53% equity, 47% debt;

- Authorized rate of return of 12.7% after tax on equity;
- Fixed construction cost of PWGS 1 and PWGS 2 at $309.6 million and $280.3 million (2001 dollars) subject to escalation at the GDP inflation rate;
- Recovery of carrying costs during construction; and
- Ongoing PSCW supervisory authority over those lease terms and conditions specifically identified in the order, which do not include the key financial terms.

OC 1 & OC 2

- Initial lease term of 30 years with the potential for subsequent renewals at reduced rates;
- Cost recovery over a 30 year period on a mortgage basis amortization schedule;
- Imputed capital structure of 55% equity, 45% debt;
- Authorized rate of return of 12.7% after tax on equity;
- Recovery of carrying costs during construction; and
- Ongoing PSCW supervisory authority over those lease terms and conditions specifically identified in the order, which do not include the key financial terms.

WPDES Permit:

In order to resolve all outstanding challenges to the Wisconsin Pollution Discharge Elimination System (WPDES) permit issued by the WDNR in connection with the Oak Creek expansion, a settlement agreement was reached with Clean Wisconsin, Inc. and Sierra Club, in which we committed to contribute our share of $5 million (approximately $4.2 million) towards projects to reduce greenhouse gas emissions. We also agreed (i) for the 25 year period ending 2034, subject to regulatory approval and cost recovery, to contribute our share of up to $4 million per year (approximately $3.3 million) to fund projects to address Lake Michigan water quality, and (ii) subject to regulatory approval and cost recovery, to develop new solar and biomass generation projects. We also agreed to support state legislation to increase the renewable portfolio standard to 10% by 2013 and 25% by 2025, and to retire 116 MW of coal-fired generation at our Presque Isle Power Plant.

In its December 2009 decision, based upon a proposal submitted by the parties to the settlement agreement, the PSCW authorized recovery of $2.0 million per year for 2010 and 2011 related to costs associated with projects to address Lake Michigan water quality and recovery of $2.0 million of the second $2.5 million payment related to projects to reduce greenhouse gas emissions. Based upon this decision, the parties are proceeding to carry out the settlement agreement. We are responsible for our pro rata share of these payments.

UTILITY RATES AND REGULATORY MATTERS

The PSCW regulates our retail electric, natural gas and steam rates in the state of Wisconsin, while FERC regulates our wholesale power, electric transmission and interstate gas transportation service rates. The MPSC regulates our retail electric rates in the state of Michigan. Within our regulated segment, we estimate that approximately 87% of our electric revenues are regulated by the PSCW, 7% are regulated by the MPSC and the balance of our electric revenues is regulated by FERC. In Wisconsin, a general rate case is typically filed every two years. We anticipate filing a rate case in 2011 for rates effective in January 2012. All of our natural gas and steam revenues are regulated by the PSCW. Orders from the PSCW can be viewed at http://psc.wi.gov/ and orders from the MPSC can be viewed at www.michigan.gov/mpsc/.

2010 Wisconsin Rate Case:

In March 2009, Wisconsin Electric and Wisconsin Gas initiated rate proceedings with the PSCW. Wisconsin Electric initially asked the PSCW to approve a rate increase for its Wisconsin retail electric customers of approximately $76.5 million, or 2.8%, and a rate increase for its natural gas customers of approximately $22.1 million, or 3.6%. In addition, Wisconsin Electric requested increases of approximately $1.4 million, or 5.8%, and approximately $1.3 million, or 6.8%, for its Milwaukee Downtown (Valley) steam utility customers and Milwaukee County steam utility customers, respectively. Wisconsin Gas asked the PSCW to approve a rate increase for its natural gas customers of approximately $38.9 million, or 4.6%.

In July 2009, Wisconsin Electric filed supplemental testimony with the PSCW updating its rate increase request for retail electric customers to reflect the impact of lower sales as a result of the decline in the economy. The effect of the change resulted in Wisconsin Electric increasing its request from $76.5 million to $126.0 million.

In December 2009, the PSCW authorized rate adjustments related to Wisconsin Electric's and Wisconsin Gas' requests to increase electric, natural gas and steam rates. The PSCW approved the following rate adjustments:

- An increase of approximately $85.8 million (3.35%) in retail electric rates for Wisconsin Electric, which was partially offset by bill credits in 2010 and included a decrease in base fuel revenues of approximately $111.0 million, or a fuel rate component decrease of 13.8%;
- A decrease of approximately $2.0 million (0.35%) for natural gas service for Wisconsin Electric;
- An increase of approximately $5.7 million (0.70%) for natural gas service for Wisconsin Gas; and
- A decrease of approximately $0.4 million (1.65%) for Wisconsin Electric's Valley steam utility customers and a decrease of approximately $0.1 million (0.47%) for its Milwaukee County steam utility customers.

These rate adjustments became effective January 1, 2010. In addition, the PSCW lowered the authorized return on equity for Wisconsin Electric from 10.75% to 10.4% and for Wisconsin Gas from 10.75% to 10.5%.

The PSCW also made, among others, the following determinations:

- New depreciation rates were incorporated into the new base rates approved in the rate case;
- Certain regulatory assets that were scheduled to be fully amortized over four years are instead being amortized over eight years; and
- Wisconsin Electric will continue to receive AFUDC on 100% of Construction Work in Progress for the environmental control projects at our Oak Creek Power Plant and at Edgewater Generating Unit 5, and on the Glacier Hills Wind Park.

As part of its final decision in the 2010 rate case, the PSCW authorized Wisconsin Electric to reopen the docket in 2010 to review updated 2011 fuel costs. On September 3, 2010, Wisconsin Electric filed an application with the PSCW to reopen the docket to review updated 2011 fuel costs and to set rates for 2011 that reflect those costs. Wisconsin Electric requested an increase in 2011 Wisconsin retail electric rates of $38.4 million, or 1.4%, related to the increase in 2011 monitored fuel costs as compared to the level of monitored fuel costs currently embedded in rates. In December 2010, Wisconsin Electric reduced its request by approximately $6 million. The net increase of $32.4 million is being driven primarily by an increase in the delivered cost of coal. We expect to receive approval for the increased rates in the first quarter of 2011.

2010 Michigan Rate Increase Request

: In July 2009, Wisconsin Electric filed a $42 million rate increase request with the MPSC, primarily to recover the costs of PTF projects. Michigan law allows utilities, upon the satisfaction of certain conditions, to self-implement a rate increase request, subject to refund with interest. In December 2009, the MPSC approved Wisconsin Electric's modified self-implementation plan to increase electric rates in Michigan by approximately $12 million, effective upon commercial operation of OC 1, which occurred on February 2, 2010. On July 1, 2010, the MPSC issued the final order, approving an additional increase of $11.5 million effective July 2, 2010. The combined

total increase is $23.5 million annually, or 14.2%. In August 2010, our largest customers, two iron ore mines, filed an appeal with the MPSC regarding this rate order. In October 2010, the MPSC ruled on the mines' appeal and reduced the rate increase by approximately $0.3 million annually, effective November 1, 2010. On November 12, 2010, the mines filed a Claim of Appeal of the October 2010 order with the Michigan Court of Appeals. On December 28, 2010, the MPSC filed a Motion for Remand with the Court of Appeals.

2008 Wisconsin Rate Increase:

During 2007, Wisconsin Electric and Wisconsin Gas initiated rate proceedings. In January 2008, the PSCW approved pricing increases for Wisconsin Electric and Wisconsin Gas as follows:

- $389.1 million (17.2%) in electric rates for Wisconsin Electric - the pricing increase was offset by bill credits in 2008 and 2009;
- $4.0 million (0.6%) for natural gas service from Wisconsin Electric;
- $3.6 million (11.2%) for steam service from Wisconsin Electric; and
- $20.1 million (2.2%) for natural gas service from Wisconsin Gas.

In addition, the PSCW lowered the return on equity for Wisconsin Electric and Wisconsin Gas from 11.2% to 10.75%. The PSCW also determined that $85.0 million of the Point Beach proceeds should be immediately applied to offset certain regulatory assets.

2008 Michigan Rate Increase:

In January 2008, Wisconsin Electric filed a rate increase request with the MPSC. This request represented an increase in electric rates of 14.7%, or $22.0 million, to support the growing demand for electricity, continued investment in renewable programs, compliance with environmental regulations, addition of distribution infrastructure and increased operational expenses. In November 2008, a settlement agreement with the MPSC staff and intervenors for a rate increase of $7.2 million, or 4.6%, was approved by the MPSC, effective January 1, 2009.

Limited Rate Adjustment Requests

2010 Fuel Recovery Request:

In February 2010, Wisconsin Electric filed a $60.5 million rate increase request with the PSCW to recover forecasted increases in fuel and purchased power costs. The increase in fuel and purchased power costs was driven primarily by increases in the price of natural gas compared to the forecasted prices included in the 2010 PSCW rate case order, changes in the timing of plant outages and increased MISO costs. Effective March 25, 2010, the PSCW approved an annual increase of $60.5 million in Wisconsin retail electric rates on an interim basis. The revenues that we collect are subject to refund with interest at a rate of 10.4%. We expect PSCW review and final approval in the first quarter of 2011.

2009 Fuel Order:

Wisconsin Electric operates under a fuel cost adjustment clause for fuel and purchased power costs associated with the generation of electricity for its retail customers in Wisconsin. Under the fuel rules in effect in 2008 and 2009, a Wisconsin utility could request an emergency rate increase if projected costs fell outside of a prescribed range of costs which was plus or minus 2% of the fuel rate approved in a general rate proceeding.

In March 2008, Wisconsin Electric filed a request for an emergency rate increase with the PSCW to recover forecasted increases in fuel and purchased power costs. The PSCW authorized a total increase of $118.9 million. In April 2009, Wisconsin Electric filed a request with the PSCW to decrease annual Wisconsin retail electric rates by $67.2 million because it forecasted that its monitored fuel cost for 2009 would fall outside the range prescribed by the PSCW and would be less than the fuel cost reflected in then authorized rates. The PSCW approved this request on an

interim basis with rates effective May 1, 2009.

The PSCW staff is currently auditing the fuel costs for the year 2009 to determine whether Wisconsin Electric collected excess revenues as a result of the fuel surcharges that were in place in 2008 and 2009. Under the fuel rules, if a utility collects excess revenues in a year in which it implemented an emergency

fuel surcharge, it is required to refund to customers the over-collected fuel surcharge revenue up to the amount of the excess revenues.

The PSCW staff issued for comment a memorandum detailing different alternatives for calculating excess revenues. We do not believe the amount to be refunded to customers, if any, should be material. We anticipate a decision in this matter in the first quarter of 2011.

Other Utility Rate Matters

Oak Creek Air Quality Control System Approval:

In July 2008, we received approval from the PSCW granting Wisconsin Electric authority to construct wet flue gas desulfurization and selective catalytic reduction facilities at Oak Creek Power Plant units 5-8. Construction of these emission controls began in late July 2008, and we expect the installation to be completed during 2012. We currently expect the cost of completing this project to be approximately $780 million ($910 million including AFUDC). The cost of constructing these facilities has been included in our previous estimates of the costs to implement the Consent Decree with the EPA.

Michigan Legislation:

During October 2008, Michigan enacted legislation to make significant changes in regulatory procedures, which should provide for more timely cost recovery. Public Act 286 allows the use of a forward-looking test year in rate cases rather than historical data, and allows us to put interim rates into effect six months after filing a complete case. Rate filings for which an order is not issued within 12 months are deemed approved. In addition, we could seek a CPCN for new investment, and could recover interest on the investment during construction. Public Act 286 also gives the MPSC expanded authority over proposed mergers and acquisitions, and requires action within 180 days of filing.

Wisconsin Fuel Rules:

Embedded within Wisconsin Electric's base rates is an amount to recover fuel costs. Under the fuel rules prior to January 1, 2011, no adjustments were made to rates under the fuel cost adjustment clause as long as fuel and purchased power costs were expected to be within a band of the costs embedded in current rates for the 12-month period ending December 31. If, however, annual fuel costs were expected to fall outside of the band, and actual costs fell outside of established fuel bands, then we could file for a change in fuel recoveries on a prospective basis.

In April 2010, the Wisconsin legislature passed the Fuel Rule Bill, and the Governor signed it in May 2010. This bill instructed the PSCW to defer, for subsequent rate recovery or refund, any under-collection or over-collection of fuel

costs that are outside of the utility's symmetrical fuel cost tolerance, which the PSCW set at plus or minus 2% of the utility's approved fuel cost plan. In August 2010, the PSCW proposed new fuel rules pursuant to this legislation, which the Wisconsin legislature reviewed and sent back to the PSCW for additional rule-making. In December 2010, the PSCW revised the proposed rules as requested by the legislature and sent the revised rules back to the legislature for review. The new fuel rules are now in effect and fuel cost plans approved by the PSCW after January 1, 2011 will be subject to the new rules.

Electric Transmission Cost Recovery:

Wisconsin Electric divested its transmission assets with the formation of ATC in January 2001. We now procure transmission service from ATC at FERC approved tariff rates. In connection with the formation of ATC, our transmission costs have escalated due to the socialization of costs within ATC and increased transmission infrastructure requirements in the state. In 2002, in connection with the increased costs experienced by our customers, the PSCW issued an order which allowed us to use escrow accounting whereby we deferred transmission costs that exceeded amounts embedded in our rates. We were allowed to earn a return on the unrecovered transmission costs we deferred at our weighted-average cost of capital. As of December 31, 2010, we had deferred $138.0 million of unrecovered transmission costs. The escrow accounting treatment has been discontinued as our 2008 and 2010 PSCW rate orders have provided for recovery of these costs.

Gas Cost Recovery Mechanism:

Our natural gas operations operate under GCRMs as approved by the PSCW. Generally, the GCRMs allow for a dollar for dollar recovery of gas costs. Prior to 2010, there was an incentive mechanism under the GCRMs that allowed for increased revenues if we acquired gas at prices lower than benchmarks approved by the PSCW. However, as part of the January 2010 PSCW rate

order, the PSCW approved changing from an incentive method to a modified one for one method. The new method does not have revenue sharing. The GCRMs measure commodity purchase costs against a monthly benchmark which includes a 2% tolerance. Costs in excess of this monthly benchmark are subject to additional review by the PSCW before they can be passed through to our customers. The modified one for one is the same method used by the other utilities in Wisconsin.

Bad Debt Costs:

In March 2005, the PSCW approved our use of escrow accounting for residential bad debt costs. The escrow method of accounting for bad debt costs allows for deferral of Wisconsin residential bad debt expense that exceeds amounts allowed in rates. As part of the January 2010 PSCW rate order, the escrow accounting method for bad debt costs was extended through December 31, 2011.

Depreciation Rates:

In January 2009, we filed a depreciation study with the PSCW, proposing new depreciation rates that would reduce annual depreciation expense by approximately $55 million. The PSCW approved the depreciation study and the new depreciation rates began on January 1, 2010. We estimate that the new depreciation rates did not have a material

impact on earnings because the new depreciation rates were considered when the PSCW set our 2010 electric and gas rates.

Renewables, Efficiency and Conservation:

In March 2006, Wisconsin revised the requirements for renewable energy generation by enacting Act 141. Act 141 defines "baseline renewable percentage" as the average of an energy provider's renewable energy percentage for 2001, 2002 and 2003. A utility's renewable energy percentage is equal to the amount of its total retail energy sales that are provided by renewable sources. Wisconsin Electric's baseline renewable energy percentage is 2.27%. Under Act 141, Wisconsin Electric could not decrease its renewable energy percentage for the years 2006-2009, and for the years 2010-2014, it must increase its renewable energy percentage at least two percentage points to a level of 4.27%. As of December 31, 2010, our renewable energy percentage is at 4.27%. Act 141 further requires that for the year 2015 and beyond, the renewable energy percentage must increase at least six percentage points above the baseline to a level of 8.27%. Act 141 establishes a goal that 10% of all electricity consumed in Wisconsin be generated by renewable resources by December 31, 2015. To comply with increasing requirements, Wisconsin Electric has developed and contracted for several hundred megawatts of wind generation and is in the process of seeking permits and approvals for approximately 50 MW of biomass fueled generation. Assuming the additional wind generation currently under construction and the proposed biomass project is approved and completed on schedule, we expect to be in compliance with Act 141 through the year 2015. To remain in compliance with Act 141, we would need to construct or contract for the equivalent of approximately 500 MW of additional renewable generating capacity by 2020. See Renewable Energy Portfolio discussion below for additional information regarding the development of renewable energy generation.

Act 141 allows the PSCW to delay a utility's implementation of the renewable portfolio standard if it finds that achieving the renewable requirement would result in unreasonable rate increases or would lessen reliability, or that new renewable projects could not be permitted on a timely basis or could not be served by adequate transmission facilities. Act 141 provides that if a utility is in compliance with the renewable energy and energy efficiency requirements as determined by the PSCW, then the utility may not be ordered to achieve additional energy conservation or efficiency. Prior to Act 141, there had been no agreement on how to determine compliance with the Energy Priorities law, which provides that it is the policy of the PSCW, to the extent it is cost-effective and technically feasible, to consider the following options in the listed order when reviewing energy-related applications: (1) energy conservation and efficiency, (2) noncombustible renewable energy resources, (3) combustible renewable energy resources, (4) natural gas, (5) oil or low sulfur coal and (6) high sulfur coal and other carbon-based fuels.

Act 141 also redirects the administration of energy efficiency, conservation and renewable programs from the Wisconsin Department of Administration back to the PSCW and/or contracted third parties. In addition, Act 141 required that 1.2% of utilities' annual operating revenues be used to fund these programs. The funding required by Act 141 increased to 1.5% of annual operating revenues in 2011 and is scheduled to increase to 1.9% in 2012.

Public Act 295 enacted in Michigan calls for the implementation of a renewable portfolio standard by 2015 and energy optimization (efficiency) targets up to 1% annually by 2015. Public Act 295 specifically calls for current recovery of costs incurred to meet the standards and provides for ongoing review and revision to assure the measures taken are cost-effective.

Renewable Energy Portfolio:

In May 2008, the Blue Sky Green Field wind farm project, which has 88 turbines with an installed capacity of 145 MW, reached commercial operation. In July 2008, we completed the purchase of rights to a new wind farm site in Central Wisconsin, Glacier Hills Wind Park, and filed a request for a CPCN with the PSCW in October 2008. The PSCW approved the CPCN in January 2010. We currently expect to install 90 wind turbines with a total generating capacity of approximately 162 MW. This project is expected to cost between $360 million and $370 million, excluding AFUDC. Construction commenced in May 2010, and we anticipate 2012 will be the first full year of operation.

In September 2009, we announced plans to construct a biomass-fueled power plant at Domtar Corporation's Rothschild, Wisconsin paper mill site. Wood waste and wood shavings will be used to produce approximately 50 MW of renewable electricity and will also support Domtar's sustainable papermaking operations. We believe the biomass plant will be eligible for the federal production tax credit. We currently expect to invest approximately $255 million, excluding AFUDC, in the plant and for it to be completed during the fall of 2013, subject to regulatory and other approvals. In March 2010, we filed a request for a Certificate of Authority for the project with the PSCW. We anticipate a decision from the PSCW during the first quarter of 2011.

Edgewater Generating Unit 5:

During the fourth quarter of 2009, we reached a contingent agreement to sell our 25% interest in Edgewater Generating Unit 5 to WPL for our net book value, including working capital. In March 2010, the agreement became effective and we are in the process of receiving regulatory approvals. We received approval for the sale from FERC in June 2010, and from the PSCW in November 2010. We are currently working with the MPSC to obtain approval on terms that are acceptable to us. Assuming completion of the sale, we expect to realize proceeds of between $40 million and $45 million depending on the working capital balances and our level of capital investment in the unit prior to the sale. The contractual deadline to complete the sale is June 30, 2011.

ELECTRIC SYSTEM RELIABILITY

In response to customer demand for higher quality power required by modern equipment, we are evaluating and updating our electric distribution system. We are taking steps to reduce the likelihood of outages by upgrading substations and rebuilding lines to upgrade voltages and reliability. These improvements, along with better technology for analysis of our existing system, better resource management to speed restoration and improved customer communication, are near-term efforts to enhance our current electric distribution infrastructure. For the lo