

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**  
SEC Accession No. [0000107815-94-000014](#)

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**WISCONSIN ELECTRIC POWER CO**

CIK: **107815** | IRS No.: **390476280** | State of Incorpor.: **WI** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-01245** | Film No.: **94528356**  
SIC: **4931** Electric & other services combined

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231 W MICHIGAN ST  
PO BOX 2046  
MILWAUKEE WI 53201  
4142212345

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 1994

OR

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

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

Commission file number 1-1245

WISCONSIN ELECTRIC POWER COMPANY  
(Exact name of registrant as specified in its charter)

Wisconsin  
(State or other jurisdiction of incorporation or organization)

39-0476280  
(I.R.S. Employer Identification No.)

231 West Michigan Street, P.O. Box 2046, Milwaukee, Wisconsin 53201  
(Address of principal executive offices) (Zip Code)

(414) 221-2590  
(Registrant's telephone number, including area code)

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class                                | Outstanding at May 2, 1994 |
|--------------------------------------|----------------------------|
| -----<br>\$10 Par Value Common Stock | -----<br>33,289,327 Shares |

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<TABLE>

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WISCONSIN ELECTRIC POWER COMPANY

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WISCONSIN ELECTRIC POWER COMPANY

CONDENSED INCOME STATEMENT

(Unaudited)

<CAPTION>

|                    | Three Months Ended March 31 |           |
|--------------------|-----------------------------|-----------|
|                    | 1994                        | 1993      |
|                    | -----                       | -----     |
|                    | ----                        | ----      |
|                    | (Thousands of Dollars)      |           |
| <S>                | <C>                         | <C>       |
| Operating Revenues |                             |           |
| Electric           | \$355,239                   | \$333,908 |

|  |           |           |
|--|-----------|-----------|
| Steam  | 6,863     | 5,743     |
|  | -----     | -----     |
| Total Operating Revenues                                 | 362,102   | 339,651   |
| Operating Expenses                                       |           |           |
| Fuel   | 72,476    | 68,187    |
| Purchased power  | 11,594    | 13,938    |
| Other operation expenses                                 | 91,103    | 80,834    |
| Maintenance  | 31,999    | 35,978    |
| Revitalization   | 63,500    | -         |
| Depreciation   | 39,893    | 36,208    |
| Taxes other than income taxes                            | 19,140    | 17,634    |
| Federal income tax                                       | 16,752    | 17,882    |
| State income tax   | 4,016     | 4,376     |
| Deferred income taxes - net                              | (16,536)  | 2,517     |
| Investment tax credit - net                              | (1,020)   | (990)     |
|  | -----     | -----     |
| Total Operating Expenses                                 | 332,917   | 276,564   |
| Operating Income   | 29,185    | 63,087    |
| Other Income and Deductions                              |           |           |
| Interest income  | 3,614     | 3,514     |
| Allowance for other funds used<br>during construction    | 1,253     | 2,006     |
| Miscellaneous - net                                      | 1,798     | 3,330     |
| Income taxes   | (609)     | (1,083)   |
|  | -----     | -----     |
| Total Other Income and Deductions                        | 6,056     | 7,767     |
| Income Before Interest Charges                           | 35,241    | 70,854    |
| Interest Charges   |           |           |
| Interest expense   | 25,082    | 25,694    |
| Allowance for borrowed funds used<br>during construction | (708)     | (1,093)   |
|  | -----     | -----     |
| Total Interest Charges                                   | 24,374    | 24,601    |
|  | -----     | -----     |
| Net Income   | 10,867    | 46,253    |
| Preferred Stock Dividend Requirement                     | 389       | 1,447     |
|  | -----     | -----     |
| Earnings Available for Common Stockholder                | \$ 10,478 | \$ 44,806 |
|  | =====     | =====     |

<FN>  
Note - Earnings and dividends per share of common stock are not applicable because all of the company's common stock is owned by Wisconsin Energy Corporation.

See accompanying notes to financial statements.

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</TABLE>

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<TABLE>

WISCONSIN ELECTRIC POWER COMPANY

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CONDENSED BALANCE SHEET

(Unaudited)

<CAPTION>

|  | March 31, 1994         | December 31, 1993 |
|--|------------------------|-------------------|
|  | -----                  | -----             |
|  | (Thousands of Dollars) |                   |
| Assets                                 |                        |                   |
| -----                                  |                        |                   |
| <S>                                    | <C>                    | <C>               |
| Utility Plant                          |                        |                   |
| Electric                               | \$4,111,747            | \$4,079,794       |
| Steam                                  | 39,902                 | 39,113            |
| Accumulated provision for depreciation | (1,825,593)            | (1,784,110)       |
|  | -----                  | -----             |
| Construction work in progress          | 2,326,056              | 2,334,797         |
| Nuclear fuel - net                     | 223,612                | 208,834           |
|  | 51,501                 | 52,665            |
|  | -----                  | -----             |
| Net Utility Plant                      | 2,601,169              | 2,596,296         |

|   |             |             |
|---|-------------|-------------|
| Other Property and Investments          | 383,783     | 375,457     |
| Current Assets                          |             |             |
| Cash and cash equivalents               | 27,131      | 13,421      |
| Accounts receivable                     | 91,793      | 91,849      |
| Accrued utility revenues                | 83,653      | 89,306      |
| Materials, supplies and fossil fuel     | 111,204     | 127,312     |
| Prepayments and other assets            | 57,328      | 53,812      |
|   | -----       | -----       |
| Total Current Assets                    | 371,109     | 375,700     |
|   | -----       | -----       |
| Deferred Charges and Other Assets       |             |             |
| Accumulated deferred income taxes       | 116,200     | 97,788      |
| Other                                   | 246,514     | 248,315     |
|   | -----       | -----       |
| Total Deferred Charges and Other Assets | 362,714     | 346,103     |
|   | -----       | -----       |
| Total Assets                            | \$3,718,775 | \$3,693,556 |
|   | =====       | =====       |

Capitalization and Liabilities  
-----

|  |             |             |
|--|-------------|-------------|
| Capitalization                               |             |             |
| Common stock                                 | \$ 487,566  | \$ 472,566  |
| Retained earnings                            | 903,653     | 927,120     |
|  | -----       | -----       |
| Total Common Stock Equity                    | 1,391,219   | 1,399,686   |
| Preferred stock - redemption not required    | 30,451      | 30,451      |
| Preferred stock - redemption required        | 5,250       | 5,250       |
| Long-term debt                               | 1,185,195   | 1,188,744   |
|  | -----       | -----       |
| Total Capitalization                         | 2,612,115   | 2,624,131   |
| Current Liabilities                          |             |             |
| Long-term debt due currently                 | 18,247      | 19,254      |
| Short-term debt                              | 104,939     | 117,903     |
| Accounts payable                             | 59,590      | 81,630      |
| Accrued liabilities                          | 73,204      | 61,775      |
| Other  | 19,325      | 13,238      |
|  | -----       | -----       |
| Total Current Liabilities                    | 275,305     | 293,800     |
| Deferred Credits and Other Liabilities       |             |             |
| Accumulated deferred income taxes            | 449,565     | 444,717     |
| Other  | 381,790     | 330,908     |
|  | -----       | -----       |
| Total Deferred Credits and Other Liabilities | 831,355     | 775,625     |
|  | -----       | -----       |
| Total Capitalization and Liabilities         | \$3,718,775 | \$3,693,556 |
|  | =====       | =====       |

<FN>

See accompanying notes to financial statements

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</TABLE>

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<TABLE>

WISCONSIN ELECTRIC POWER COMPANY

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STATEMENT OF CASH FLOWS

(Unaudited)

<CAPTION>

Three Months Ended March 31

1994 1993  
----

(Thousands of Dollars)

<S>

<C>

<C>

Operating Activities:

|   |           |           |
|---|-----------|-----------|
| Net income                                      | \$ 10,867 | \$ 46,253 |
| Reconciliation to cash:                         |           |           |
| Depreciation                                    | 39,893    | 36,208    |
| Nuclear fuel expense - amortization             | 5,816     | 5,890     |
| Conservation expense - amortization             | 6,152     | 3,342     |
| Debt premium, discount & expense - amortization | 3,657     | 2,306     |
| Revitalization - net                            | 50,807    | -         |
| Deferred income taxes - net                     | (16,536)  | 2,517     |
| Investment tax credit - net                     | (1,020)   | (990)     |

|   |           |             |
|---|-----------|-------------|
| Allowance for other funds used during construction    | (1,253)   | (2,006)     |
| Change in: Accounts receivable                        | 56        | (5,602)     |
| Inventories   | 16,108    | 20,589      |
| Accounts payable                                      | (22,040)  | (16,630)    |
| Other current assets                                  | 2,137     | 2,153       |
| Other current liabilities                             | 17,516    | 21,002      |
| Other   | 1,410     | (4,792)     |
|   | -----     | -----       |
| Cash Provided by Operating Activities                 | 113,570   | 110,240     |
| Investing Activities:                                 |           |             |
| Construction expenditures                             | (48,737)  | (52,471)    |
| Allowance for borrowed funds used during construction | (708)     | (1,093)     |
| Nuclear fuel  | (4,806)   | (2,916)     |
| Nuclear decommissioning trust                         | (3,113)   | (2,451)     |
| Conservation investments - net                        | (4,355)   | (5,842)     |
| Other   | (1,212)   | 234         |
|   | -----     | -----       |
| Cash Used in Investing Activities                     | (62,931)  | (64,539)    |
| Financing Activities:                                 |           |             |
| Sale of long-term debt                                | -         | 223,765     |
| Retirement of long-term debt                          | (4,876)   | (243,480)   |
| Change in short-term debt                             | (12,964)  | (29,798)    |
| Stockholder contribution                              | 15,000    | -           |
| Dividends on stock - common                           | (33,700)  | (16,250)    |
| - preferred   | (389)     | (1,447)     |
|   | -----     | -----       |
| Cash Used in Financing Activities                     | (36,929)  | (67,210)    |
|   | -----     | -----       |
| Change in Cash and Cash Equivalents                   | \$ 13,710 | \$ (21,509) |
|   | =====     | =====       |
| Supplemental Information Disclosures:                 |           |             |
| Cash Paid for -                                       |           |             |
| Interest (net of amount capitalized)                  | \$ 22,842 | \$ 20,336   |
| Income taxes  | 7,501     | 11,500      |

<FN>

See accompanying notes to financial statements.

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WISCONSIN ELECTRIC POWER COMPANY

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NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. The accompanying unaudited financial statements should be read in conjunction with the company's 1993 Annual Report on Form 10-K. In the opinion of management, all adjustments necessary to a fair statement of the results of operations and financial position of the company have been included in the accompanying income statement and balance sheet. The results of operations for the three months ended March 31, 1994 are not, however, necessarily indicative of the results which may be expected for the year 1994 because of seasonal and other factors.
2. In the first quarter of 1994, Wisconsin Electric Power Company recorded a \$63.5 million charge related to its revitalization program. The charge reflects primarily the costs of voluntary severance and early retirement packages which are being used to reduce employee staffing levels.

WISCONSIN ELECTRIC POWER COMPANY

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PART I - FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by Wisconsin Electric Power Company's ("Wisconsin Electric") operating activities totaled \$114 million during the three months ended March 31, 1994. This compares to \$110 million provided during the same period in 1993.

Wisconsin Electric's investing activities totaled \$63 million for the three months ended March 31, 1994 compared to \$65 million during the same period in 1993. Investments during the first quarter of 1994 include \$49 million for the construction of new or improved facilities, \$5 million for acquisition of nuclear fuel, \$4 million for net capitalized conservation expenditures and \$3 million for payments to an external trust for the eventual decommissioning of Wisconsin Electric's Point Beach Nuclear Plant.

Capital requirements for the remainder of 1994 are expected to be principally for construction expenditures, capitalized conservation programs and payments to the external trust for the eventual decommissioning of the Point Beach Nuclear Plant. Exclusive of possible debt refundings, Wisconsin Electric tentatively plans to issue approximately \$100 million of long-term debt in a public offering later in 1994. The specific form, amount and timing of debt securities to be issued have not yet been determined and will depend, to a large extent, on market conditions.

RESULTS OF OPERATIONS

Earnings decreased \$34 million during the first quarter of 1994 compared to the same period during 1993, primarily reflecting a non-recurring restructuring charge of approximately \$39 million (net of tax). This charge includes the cost of voluntary severance and early retirement packages which are being used to reduce employee staffing levels at Wisconsin Electric. It is anticipated that this charge will be offset by the end of 1995 through savings in operation and maintenance costs. Contributing positively to earnings during the first quarter of 1994 were increased kilowatt-hour sales. Excluding the non-recurring charge, earnings would have increased

approximately \$5 million during the first quarter of 1994 compared to the same period during 1993.

The 6.6% increase in operating revenues reflects higher kilowatt-hour sales and various rate increases at Wisconsin Electric.

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WISCONSIN ELECTRIC POWER COMPANY

PART I - FINANCIAL INFORMATION (Cont'd)

RESULTS OF OPERATIONS - Cont'd

The projected annualized revenue impact of rate changes authorized by regulatory commissions which impact 1993 and 1994 operating revenues are as follows:

| Company/Service       | Revenue Increase (Decrease) | Percent Change in Rates | Effective Date |
|-----------------------|-----------------------------|-------------------------|----------------|
| Wisconsin Electric    |                             |                         |                |
| * Retail electric, WI | \$2,448,000                 | 0.2%                    | 02/17/93       |
| Steam heating         | 505,000                     | 3.5                     | 02/17/93       |
| Wholesale electric    | 6,000,000                   | 10.6                    | 06/09/93       |
| Retail electric, MI   | 1,366,000                   | 4.3                     | 07/09/93       |

\* The \$2.4 million annualized rate increase effective February 17, 1993 represents the net rate increase after the elimination of a fuel adjustment rate reduction in effect since May 1992.

ELECTRIC SALES

Three Months Ended March 31

| Electric Sales - Megawatt Hours | 1994      | 1993      | % Change |
|---------------------------------|-----------|-----------|----------|
| Residential                     | 1,795,445 | 1,702,184 | 5.5      |
| Small Commercial and Industrial | 1,657,786 | 1,571,359 | 5.5      |
| Large Commercial and Industrial | 2,462,432 | 2,377,866 | 3.6      |
| Other                           | 439,421   | 498,756   | (11.9)   |
| Total Retail and Municipal      | 6,355,084 | 6,150,165 | 3.3      |
| Resale-Utilities                | 391,458   | 233,707   | 67.5     |
| Total Sales                     | 6,746,542 | 6,383,872 | 5.7      |

Total electric kilowatt-hour sales during the first quarter of 1994 were positively impacted by, among other things, colder weather conditions. As measured by heating degree days, the first quarter of 1994 was 9.4% colder compared to the same period during 1993.

Electric energy sales to the Empire and Tilden iron ore mines, Wisconsin Electric's two largest customers, increased 2.6% during the quarter ended March 31, 1994 compared to the same period during 1993. Excluding the mines, total electric sales increased 6.0% and sales to all other large commercial and industrial customers increased 3.8% during the first quarter of 1994 compared to the same period during 1993.

For certain other information which may impact Wisconsin Electric's future financial condition or results of operations, see ITEM 5. OTHER INFORMATION in Part II.

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## PART II - OTHER INFORMATION

## ITEM 5. OTHER INFORMATION

## KIMBERLY COGENERATION FACILITY

As previously reported, in November 1993, the Public Service Commission of Wisconsin ("PSCW"), after conducting a competitive bidding process, issued an order selecting a proposal submitted by an unaffiliated independent power producer ("IPP") to construct a 220 megawatt generation facility to meet a portion of Wisconsin Electric's anticipated increase in system supply needs. Included among the competing bids was Wisconsin Electric's proposed Kimberly Cogeneration Facility, a 220 megawatt cogeneration facility which was intended to also provide process steam to Repap Wisconsin, Inc. ("Repap") starting in mid-1995.

Prior to the PSCW selection, Wisconsin Electric had made commitments toward its proposed facility amounting to approximately \$70 million, of which approximately \$60 million had been expended prior to December 31, 1993. These commitments were primarily associated with the procurement of combustion turbines, the steam turbine and the heat recovery boiler in order to achieve the in-service dates as agreed to in a steam service contract with Repap.

Wisconsin Electric is currently evaluating its options regarding its Kimberly Cogeneration Facility investment if the project does not proceed. (Wisconsin Electric's Kimberly project was given second preference by the PSCW should the selected IPP proposal fail to proceed.) The material procured to date is a technology of natural gas-fired combined cycle generation equipment that is marketed worldwide. Wisconsin Electric believes that a market for the equipment exists and is investigating opportunities to sell the equipment or to use it in another power project. At this time, Wisconsin Electric does not believe that the PSCW's selection of an IPP proposal will have a material adverse effect on its financial condition.

For additional information regarding this matter, see ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS in PART II of Wisconsin Electric's Annual Report on Form 10-K for the year ended December 31, 1993 and ITEM 5. OTHER INFORMATION in PART II of Wisconsin Electric's Quarterly Reports on Form 10-Q for the quarters ended June 30, 1993 and September 30, 1993.

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

## (a) Exhibits.

None.

## (b) Reports on Form 8-K:

A report on Form 8-K dated January 24, 1994 was filed by Wisconsin Electric reporting the announced plan to merge Wisconsin Energy's wholly-owned natural gas utility subsidiary, Wisconsin Natural into Wisconsin Electric, anticipated to be effective by year-end 1994.

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WISCONSIN ELECTRIC POWER COMPANY

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WISCONSIN ELECTRIC POWER COMPANY

(Registrant)



s/ R. A. Abdo

Date: May 13, 1994

-----  
R. A. Abdo, Chairman of the Board  
and Chief Executive Officer

s/ A. K. Klisurich

Date: May 13, 1994

-----  
A. K. Klisurich, Controller - Chief  
Accounting Officer