

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**
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FILER

WISCONSIN NATURAL GAS CO

CIK: **107830** | IRS No.: **390713260** | State of Incorpor.: **WI** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-20369** | Film No.: **94528367**
SIC: **4922** Natural gas transmission

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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 2-2066

WISCONSIN NATURAL GAS COMPANY
(Exact name of registrant as specified in its charter)

Wisconsin 39-0713260
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

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
----- \$1 Par Value Common Stock	----- 1,725,000 Shares

The registrant meets the conditions set forth in General Instruction H(1) (a)
and (b) of Form 10-Q for omission of data by certain wholly-owned subsidiaries
and is therefore filing this Form with the reduced disclosure format.

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WISCONSIN NATURAL GAS COMPANY
PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WISCONSIN NATURAL GAS COMPANY
CONDENSED INCOME STATEMENT
(Unaudited)

<CAPTION>

Three Months Ended March 31	
-----	-----
1994	1993*

	----- (Thousands of Dollars) <S>	----- <S>
Operating Revenues	\$147,579	\$123,920
Operating Expenses		
Cost of gas sold	91,153	76,559
Other operation expenses	18,298	15,112
Maintenance	1,517	1,455
Revitalization	10,400	-
Depreciation	4,146	4,038
Income taxes	7,814	9,315
	-----	-----
Total Operating Expenses	133,328	106,479
Operating Income	14,251	17,441
Other Income and Deductions		
Miscellaneous - net	129	78
Income taxes	(54)	(32)
	-----	-----
Total Other Income and Deductions	75	46
Income Before Interest Charges	14,326	17,487
Interest Charges	2,092	2,192
	-----	-----
Net Income	\$ 12,234	\$ 15,295
	=====	=====

<FN>

* Restated to reflect the merger of Wisconsin Southern Gas Company, Inc. into Wisconsin Natural Gas Company effective on 1/1/94.

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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WISCONSIN NATURAL GAS COMPANY

CONDENSED BALANCE SHEET

(Unaudited)

<CAPTION>

Assets	March 31, 1994	December 31, 1993 *
-----	-----	-----
	(Thousands of Dollars)	
<S>	<C>	<C>
Utility Plant		
Plant	\$447,281	\$444,453
Accumulated provision for depreciation	(208,466)	(205,247)
	-----	-----
Net Utility Plant	238,815	239,206
Other Property and Investments	1,073	1,013
Current Assets		
Cash and cash equivalents	9,889	6,964
Accounts receivable	49,724	27,715
Accrued utility revenues	9,362	39,153
Materials, supplies and natural gas stored	12,589	43,089
Prepayments and other assets	3,982	3,768
	-----	-----
Total Current Assets	85,546	120,689

Deferred Charges and Other Assets		
Accumulated deferred income taxes	14,341	14,370
Other	11,381	10,182
	-----	-----
Total Deferred Charges and Other Assets	\$ 25,722	\$ 24,552
	-----	-----
Total Assets	\$351,156	\$385,460
	=====	=====
Capitalization and Liabilities		

Capitalization		
Common stock	\$ 81,016	\$ 81,016
Retained earnings	56,405	46,797
	-----	-----
Total Common Stock Equity	137,421	127,813
Long-term debt	69,934	80,482
	-----	-----
Total Capitalization	207,355	208,295
Current Liabilities		
Long-term debt due currently	11,770	2,653
Short-term debt	22,943	75,308
Accounts payable	23,891	29,561
Accrued liabilities	16,815	9,918
Other	3,864	3,448
	-----	-----
Total Current Liabilities	79,283	120,888
Deferred Credits and Other Liabilities		
Accumulated deferred income taxes	30,510	30,083
Other	34,008	26,194
	-----	-----
Total Deferred Credits and Other Liabilities	64,518	56,277
	-----	-----
Total Capitalization and Liabilities	\$351,156	\$385,460
	=====	=====

<FN>

* Restated to reflect the merger of Wisconsin Southern Gas Company, Inc. into Wisconsin Natural Gas Company effective on 1/1/94.

See accompanying notes to financial statements.

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WISCONSIN NATURAL GAS COMPANY

STATEMENT OF CASH FLOWS

(Unaudited)

<CAPTION>

Three Months Ended March 31

1994 1993*

(Thousands of Dollars)

<S>

<C> <C>

Operating Activities:

Net income	\$12,234	\$15,295
Reconciliation to cash:		
Depreciation	4,146	4,038
Revitalization - net	8,574	-
Deferred income taxes - net	456	443
Investment tax credit - net	(124)	(114)
Change in: Accounts receivable	(22,009)	(20,669)
Inventories	30,500	12,641
Accounts payable	(5,670)	(4,243)
Other current assets	29,577	17,630
Other current liabilities	7,313	8,926
Other	(1,519)	(1,341)
	-----	-----

Cash Provided by Operating Activities	63,478	32,606
Investing Activities:		
Construction expenditures	(3,089)	(3,704)
Other	(1,016)	(105)
	-----	-----
Cash Used in Investing Activities	(4,105)	(3,809)
Financing Activities:		
Sale of long-term debt	9,290	(27)
Retirement of long-term debt	(10,748)	(1,030)
Change in short-term debt	(52,365)	(26,379)
Dividends on stock - common	(2,625)	(2,394)
Other	-	6
	-----	-----
Cash Used in Financing Activities	(56,448)	(29,824)
	-----	-----
Change in Cash and Cash Equivalents	\$ 2,925	\$ (1,027)
	=====	=====

Supplemental Information Disclosures:

Cash Paid for -		
Interest (net of amount capitalized)	\$ 2,595	\$ 2,644
Income taxes	1,650	903

<FN>

* Restated to reflect the merger of Wisconsin Southern Gas Company, Inc. into Wisconsin Natural Gas Company effective on 1/1/94.

See accompanying notes to financial statements.

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WISCONSIN NATURAL GAS COMPANY

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 Natural Gas Company recorded a \$10.4 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 NATURAL GAS COMPANY

PART I - FINANCIAL INFORMATION

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

RESULTS OF OPERATIONS

The \$23.7 million increase in gas operating revenues during the first three months of 1994, relative to the same period in 1993, adjusted for the merger of Wisconsin Southern Gas Company Inc. ("Wisconsin Southern") into Wisconsin Natural Gas Company ("Wisconsin Natural") effective January 1, 1994, reflects increased natural gas therm deliveries, the \$9.2 million, or 3.3%, annualized rate increase effective since September 2, 1993 and the recovery of increased purchased gas costs.

The merger of Wisconsin Southern into Wisconsin Natural was structured to qualify as a pooling of interests for accounting and financial reporting purposes beginning in 1994. Accordingly, historical financial data is restated to include Wisconsin Southern.

Operating expenses during the first quarter of 1994 include a non-recurring restructuring charge of approximately \$6 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 Natural. It is anticipated that this charge will be offset by the end of 1995 through savings in operation and maintenance costs. Excluding the non-recurring charge, earnings would have increased approximately \$3 million during the first quarter of 1994 compared to the same period during 1993.

GAS DELIVERIES

Three Months Ended March 31

	1994	1993*	% Change
Therms Delivered - Thousands			

Residential	167,669	147,302	13.8
Commercial and Industrial	93,491	88,653	5.5
Interruptible	16,978	10,710	58.5
	-----	-----	
Total Sales	278,138	246,665	12.8
Transported Customer Owned Gas	69,263	78,555	(11.8)
	-----	-----	
Total Gas Delivered	347,401	325,220	6.8

* Note: The 1993 amounts for gas therms delivered have been restated to reflect the merger of Wisconsin Southern Gas Company, Inc. into Wisconsin Natural effective on 1/1/94.

Natural gas therm deliveries 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.

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WISCONSIN NATURAL GAS COMPANY

PART I - FINANCIAL INFORMATION (Cont'd)

GAS DELIVERIES - Cont'd

Wisconsin Natural transports gas for its customers who purchase gas directly from other suppliers, which accounted for approximately 19.9% of total therms delivered by Wisconsin Natural during the first quarter of 1994 compared to 24.2% during the first quarter of 1993. Largely due to the Federal Energy Regulatory Commission ("FERC") Order 636, which has fostered increased competition in the natural gas industry, Wisconsin Natural believes that some of its existing gas transportation customers will switch to purchasing gas directly from Wisconsin Natural, reducing the amount of customer-owned gas to be transported. However, since rates charged for transportation services are designed to recover the same margin as gas sold directly by Wisconsin Natural, no significant impact on operating income is expected due to this change.

SOURCES OF NATURAL GAS

As a result of FERC Order 636, the number of service choices now available to Wisconsin Natural has expanded, but the responsibility for selecting the proper mix and level of services has commensurately increased.

Wisconsin Natural arranges for its own gas supply under contracts with terms of various lengths. Changes in the cost of natural gas purchased at market prices are passed through to customers via Wisconsin Natural's purchased gas adjustment clause.

With the decoupling of rates and services under FERC Order 636, Wisconsin Natural has been purchasing more gas than it has in the past for storage pending future withdrawal during the heating season under various arrangements that it has made with gas storage facilities. This storage effectively replaces storage used by the pipeline companies to provide gas sales service to Wisconsin Natural in the pre-FERC Order 636 environment. At March 31, 1994 the cost of natural gas stored for future use was \$9.1 million, representing an \$8.7 million increase over the cost of natural gas stored at March 31, 1993. Gas stored at these facilities is purchased by Wisconsin Natural from a number of suppliers.

For additional information regarding matters pertaining to gas operations, refer to ITEM 1. BUSINESS - GAS UTILITY OPERATIONS in PART I of Wisconsin Natural's Annual Report on Form 10-K for the year ended December 31, 1993.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits. The following Exhibits are filed with this report:

Exhibit No.

- (3)-1 Bylaws of Wisconsin Natural Gas Company, as amended to April 1, 1994 to decrease the size of the Board from six to five members. (Section 1 of Bylaw II).

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WISCONSIN NATURAL GAS COMPANY

PART II - OTHER INFORMATION (Cont'd)

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K - Cont'd

Exhibit No.

- (4)-1 Securities Resolution No. 3 of Wisconsin Natural Gas Company, dated March 29, 1994, authorizing issuance of \$2,290,000 principal amount of 10-1/4% Debentures due January 15, 1998 under the Indenture dated as of September 1, 1992.
- 2 Securities Resolution No. 4 of Wisconsin Natural Gas Company, dated March 29, 1994, authorizing issuance of \$7,000,000 principal amount of 9.47% Debentures due March 1, 2006 under the Indenture dated as of September 1, 1992.

(b) Reports on Form 8-K:

A report on Form 8-K dated January 1, 1994 was filed by Wisconsin Natural reporting the effectiveness of the acquisition of Wisconsin Southern Gas Company, Inc. by Wisconsin Energy through a merger of Wisconsin Southern Gas Company, Inc. into Wisconsin Natural, a wholly-owned subsidiary of Wisconsin Energy, and filing the related historical financial statements and pro forma financial information.

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

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WISCONSIN NATURAL GAS 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 NATURAL GAS COMPANY

(Registrant)

Date: May 13, 1994

s/J. W. Boston

J. W. Boston, President and Chief
Operating Officer

Date: May 13, 1994

s/A. K. Klisurich

A. K. Klisurich, Controller
(Chief Accounting Officer)

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Wisconsin Natural Gas Company

EXHIBIT INDEX

Exhibit
Number

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principal amount of 9.47% Debentures due March 1, 2006 under
the Indenture dated as of September 1, 1992.

BYLAWS

OF

WISCONSIN NATURAL GAS COMPANY

AS AMENDED TO APRIL 1, 1994, INCLUSIVE

BYLAWS
OF
WISCONSIN NATURAL GAS COMPANY

BYLAW I. STOCKHOLDERS

SECTION 1. DATE OF ANNUAL MEETING

The annual meeting of the stockholders of the corporation shall be held on or before the first day of June of each year, on the date and at the time designated by the Board of Directors or the Chairman of the Board or the President, for the purposes of electing directors and of transacting such other business as may properly be brought before the meeting.

SECTION 2. CALL OF SPECIAL MEETINGS

Special meetings of the stockholders may be held upon call of the Board of Directors, the Executive Committee, the Chairman of the Board or the President or the holders of not less than one-tenth (defined as provided in Section 5 of this Bylaw) of all shares of the corporation entitled to vote at the meeting at such time as may be stated in the call and notice; or in case the meeting is for the purpose of enabling the holders of the \$100 Par Value Serial Preferred Stock to elect directors of the corporation, upon the conditions set forth in the Articles of Incorporation, then, upon call as therein provided.

SECTION 3. PLACE OF MEETINGS

The Board of Directors may designate any place, either within or without the State of Wisconsin, as the place of meeting for any annual meeting or for any special meeting called by the Board of Directors. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the principal business office of the corporation in the State of Wisconsin or such other suitable place in the county of such principal office as may be designated by the person calling such meeting, but any meeting may be adjourned to reconvene at any place designated by vote of a majority (defined

as provided in Section 5 of this Bylaw) of the shares represented thereat.

SECTION 4. NOTICE OF MEETINGS

Notice of the time and place of every meeting of the stockholders, and in the case of a special meeting further stating the purposes for which such meeting is called, shall be delivered personally or mailed at least ten (10) days before the meeting to each stockholder of record entitled to vote at the meeting, at his address as it may appear on the books of the corporation. Such further notice shall be given by mail, publication or otherwise, as may be required by law. Whenever any notice whatever is required to be given to any stockholder of the corporation under the Articles of Incorporation, Bylaws or any provision of law, a waiver thereof in writing, signed at any time, whether before or after the time of meeting, by the stockholder entitled to such notice, shall be deemed equivalent to the giving of such notice.

February 23, 1988

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SECTION 5. VOTING AT MEETINGS

A. Proxies

Every stockholder entitled to vote at any meeting may so vote either in person or by proxy.

B. Balloting and Inspectors of Election

Voting at meetings of stockholders need not be by written ballot unless so determined in a resolution of the Board of Directors relating thereto. Voting at meetings of stockholders shall be conducted by one or more inspectors of election appointed by the Board of Directors. However, no director or person who is a candidate for the office of director shall be appointed as such inspector. The inspectors or persons representing the inspector if the inspector is an institution, before entering upon the discharge of their duties, shall take and subscribe an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of their ability.

C. Quorum

Except as otherwise provided in the Articles of Incorporation, a majority (defined as provided below in this Section 5) of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of stockholders. If a quorum is present, the affirmative vote of the majority (as so defined) of the shares represented at the meeting and entitled to vote on the subject matter

shall be the act of the stockholders unless the vote of a greater number or voting by classes is required by law, the Articles of Incorporation or any other provisions of the Bylaws. Though less than a quorum of the outstanding shares are represented at a meeting, a majority (as so defined) of the shares so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed.

D. Proxies Upon Accrual of Special Right

In connection with the first election of a majority of the members of the Board of Directors by the holders of the \$100 Par Value Serial Preferred Stock upon accrual of the special right of such holders to elect a majority of the members of the Board, as provided in Article III of the Articles of Incorporation, the corporation shall prepare and mail to such holders of record such proxy forms, communications and documents as may be deemed appropriate (and also such as may be required by any governmental authority having jurisdiction) for the purpose of soliciting proxies for the election of directors by such holders, voting separately as a class without regard to series.

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E. Majority, Etc., to be Based on Votes Entitled to be Cast

The references in Sections 2 and 3 and this Section 5 of Bylaw I and in Section 2 of Bylaw II to one-tenth or a majority of specified shares shall mean one-tenth or a majority, as the case may be, of the votes entitled to be cast by holders of such specified shares.

SECTION 6. CONDUCT OF MEETINGS

Meetings of the stockholders shall be presided over by the Chairman of the Board if there be an incumbent in that office, or in his absence or at his request, by the President, or if he is not present, by a Vice President, or if no Vice President is present, by a chairman to be chosen at the meeting. The Secretary of the corporation, or if he is not present, an Assistant Secretary of the corporation, or if no Assistant Secretary is present, a person appointed by the chairman of the meeting, shall act as secretary of the meeting.

SECTION 7. CLOSING OF TRANSFER BOOKS OR FIXING OF RECORD DATE

For the purpose of determining stockholders entitled to notice of or to vote

at any meeting of stockholders or any adjournment thereof, or stockholders entitled to receive payment of any dividend, or in order to make a determination of stockholders for any other proper purpose, the Board of Directors may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, fifty days. If the stock transfer books shall be closed for the purpose of determining stockholders entitled to notice of or to vote at a meeting of stockholders, such books shall be closed for at least ten days immediately preceding such meeting. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of stockholders, such date in any case to be not more than fifty days and, in case of a meeting of stockholders, not less than ten days prior to the date on which the particular action, requiring such determination of stockholders, is to be taken. If the stock transfer books are not closed and no record date is fixed for the determination of stockholders entitled to notice of or to vote at a meeting of stockholders, or stockholders entitled to receive payment of a dividend, the close of business on the date on which notice of the meeting is mailed or on the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of stockholders. When a determination of stockholders entitled to vote at any meeting of stockholders has been made as provided in this Section 7, such determination shall apply to any adjournment thereof except where the determination has been made through the closing of the stock transfer books and the stated period of closing has expired.

SECTION 8. UNANIMOUS CONSENT WITHOUT A MEETING

Any action required by the Articles of Incorporation, Bylaws or any provision of law to be taken at a meeting of stockholders or any

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other action which may be taken at such a meeting may be taken without a meeting if consent in writing setting forth the action so taken shall be signed by all of the stockholders entitled to vote with respect to the subject matter thereof and such consent shall have the same force and effect as a unanimous vote.

BYLAW II. DIRECTORS

SECTION 1. NUMBER

The number of directors constituting the whole Board of Directors shall be such number as shall be fixed from time to time by the affirmative vote of the whole Board but in no event shall the number be less than three. Until so fixed at a different number, the number shall be five. The number of directors at any time constituting the whole Board shall not be reduced so as

to shorten the term of any director then in office.

The directors shall hold office until the next annual meeting of stockholders at which their respective terms of office shall expire and until their respective successors are duly elected and qualified.

SECTION 2. VACANCIES

Any vacancy occurring among the directors, including a vacancy created by an increase in the number of directors, shall be filled by the affirmative vote of a majority of the remaining directors and each director so elected shall hold office until the next annual meeting of stockholders. However, in filling any vacancy occurring among the directors elected by the holders of the \$100 Par Value Serial Preferred Stock, the Board shall be limited to voting upon a candidate or candidates nominated by the remaining director or a majority of the remaining directors elected by the holders of the \$100 Par Value Serial Preferred Stock; in filling any vacancy occurring among the directors elected by the Common stockholders, the Board shall be limited to voting upon candidates nominated by the remaining director or a majority of the remaining directors elected by the Common stockholders.

At any meeting of the stockholders, the holders of a majority (defined as provided in Section 5 of Bylaw I) of shares of the \$100 Par Value Serial Preferred Stock of the corporation, voting separately as a class without regard to series, may remove any director theretofore elected by the holders of the \$100 Par Value Serial Preferred Stock or elected by the Board to fill a vacancy among the directors elected by the holders of the \$100 Par Value Serial Preferred Stock, and may fill any vacancy in the Board for the unexpired term thus caused; and the holders of a majority (defined as provided in Section 5 of Bylaw I) of the shares of Common Stock of the corporation, voting separately as a class, may remove any director theretofore elected by the Common stockholders or elected by the Board to fill a vacancy among the directors elected by the Common stockholders, and may fill the vacancy in the Board for the unexpired term thus caused.

April 1, 1994

SECTION 3. REMOVAL

A director may be removed from office only by affirmative vote by a majority if for cause, or at least 80% if without cause, of the aggregate number of votes which the holders of the then outstanding shares of Common Stock and Preferred Stock are entitled to cast, voting together as a class, in the election of directors.

SECTION 4. REGULAR MEETINGS

Regular meetings of the Board of Directors shall be held at such time and place within or without the State of Wisconsin as may from time to time be fixed by the Board without notice other than the resolution or other action of the Board establishing the time and place of such regular meeting.

SECTION 5. SPECIAL MEETINGS

Special meetings of the Board of Directors may be called by or at the request of the Board of Directors, the Executive Committee, the Chairman of the Board, the President, or any two directors. The persons calling any special meeting of the Board of Directors may fix any place, either within or without the State of Wisconsin, as the place for holding any special meeting of the Board of Directors called by them, and if no other place is fixed, the place of meeting shall be the principal business office of the corporation.

SECTION 6. NOTICE OF MEETINGS

Notice of each meeting of the Board of Directors (unless otherwise provided in or pursuant to Section 4 of this Bylaw) shall be given by written notice delivered personally or mailed or given by telephone or telegram to each director at his business address or at such other address as such director shall have designated in writing filed with the Secretary, in each case not less than 6 hours prior thereto. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company; if by telephone, at the time the call is completed. Whenever any notice whatever is required to be given to any director of the corporation under the Articles of Incorporation, Bylaws or any provision of law, a waiver thereof in writing, signed at any time, whether before or after the time of meeting, by the director entitled to such notice, shall be deemed equivalent to the giving of such notice. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting and objects thereto to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in the notice or waiver of notice of such meeting.

February 23, 1988

SECTION 7. QUORUM

A majority of the members of the Board shall constitute a quorum for the transaction of business, but if at any meeting of the Board there shall be less than a quorum present, a majority of the directors present may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall have been obtained, when any business may be transacted which might have been transacted at the meeting as first convened had there been a quorum.

SECTION 8. MANNER OF ACTING

The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by the Articles of Incorporation, Bylaws or any provision of law.

SECTION 9. EXECUTIVE COMMITTEE.

The Board of Directors, by resolution adopted by the affirmative vote of a majority of all the directors then in office, may appoint an Executive Committee, to consist of not less than three directors, as the Board may from time to time determine. The Executive Committee shall have and may exercise, when the Board is not in session, all of the powers vested in the Board, except that it may not: (a) authorize distributions; (b) approve or propose to shareholders action that the Wisconsin Business Corporation Law requires be approved by shareholders; (c) fill vacancies on the Board of Directors or any of its committees, except that the Board of Directors may provide by resolution that any vacancies on the Executive Committee shall be filled by the affirmative vote of a majority of the remaining committee members; (d) amend the Articles of Incorporation; (e) adopt, amend or repeal Bylaws; (f) approve a plan of merger not requiring shareholder approval; (g) authorize or approve reacquisition of shares, except according to a formula or method prescribed by the Board of Directors or (h) authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, except within limits prescribed by the Board of Directors.

The Board shall have the power at any time to fill vacancies in, to change the membership of, or to dissolve, the Executive Committee. The Executive Committee may make rules for the conduct of its business and may appoint such assistants as it shall from time to time deem necessary. A majority of the Executive Committee shall constitute a quorum.

SECTION 10. OTHER COMMITTEES

The Board of Directors, by resolution adopted by the affirmative vote of a majority of all the directors then in office, may also create one or more other committees, each committee to consist of two (2) or more directors as members, which to the extent provided in the resolution as initially adopted, and as thereafter supplemented or amended by further resolution adopted by a like vote, may exercise the authority of the Board of Directors, except that no committee may: (a) authorize distributions; (b) approve or propose to shareholders action that the Wisconsin Business Corporation Law requires be approved by shareholders; (c) fill vacancies on the Board of Directors or any of its committees, except that the Board of Directors may provide by resolution that any vacancies on a committee shall be filled by the affirmative vote of a majority of the remaining committee members; (d) amend the Articles of Incorporation; (e) adopt, amend or repeal Bylaws; (f) approve a plan of merger not requiring shareholder approval; (g) authorize or approve reacquisition of shares, except according to a formula or method prescribed by the Board of Directors or (h) authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, except within limits prescribed by the Board of Directors. The Board of Directors may elect one or more of its members as alternate members of any such committee who may take the place of any absent member or members at any meeting of such committee, upon request by the Chairman of the Board, if there is one, the President or upon request by the chairman of such meeting. Each such committee shall fix its own rules (consistent with the Wisconsin Business Corporation Law, the Articles of Incorporation and these Bylaws) governing the conduct of its activities and shall make such reports to the Board of Directors of its activities as the Board of Directors may request. Unless otherwise provided by the Board of Directors in creating a committee, a committee may employ counsel, accountants and other consultants to assist it in the exercise of authority. The creation of a committee, delegation of authority to a committee or action by a committee does not relieve the Board of Directors or any of its members of any responsibility imposed on the Board of Directors or its members by law. A majority of any such committee may determine its actions and fix the time and place of its meetings, unless the Board shall otherwise provide.

SECTION 11. COMPENSATION

The Board of Directors, by affirmative vote of a majority of the directors then in office, and irrespective of any personal interest of any of its members, may (a) establish reasonable compensation of all directors for services to the corporation as directors, officers or otherwise, and the manner and time and payment thereof, and (b) provide for reasonable pensions,

disability or death benefits, and other benefits or payments, to directors, officers and employees and to their estates, families, dependents or beneficiaries on account of prior services rendered by such directors, officers and employees to the corporation.

November 23, 1992

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SECTION 12. PRESUMPTION OF ASSENT

A director who is present at a meeting of the Board of Directors or a committee thereof of which he is a member at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 13. UNANIMOUS CONSENT WITHOUT A MEETING

Any action required by the Articles of Incorporation, Bylaws or any provision of law to be taken at a meeting of directors or any other action which may be taken at such a meeting may be taken without a meeting if a consent in writing setting forth the action so taken shall be signed by all of the directors or members of a committee thereof entitled to vote with respect to the subject matter thereof and such consent shall have the same force and effect as a unanimous vote.

BYLAW III. OFFICERS

SECTION 1. POSITIONS

The Board of Directors, as soon as may be after the election of directors held in each year, shall elect one of its number Chairman of the Board unless it determines not to fill such office, and shall elect one of its number President of the corporation, and shall elect one or more Vice Presidents, a Secretary and a Treasurer and from time to time shall appoint such Assistant Secretaries, Assistant Treasurers and other officers as it may deem proper. Any two or more offices may be held by the same person, except the offices of President and Secretary and the offices of President and Vice President.

SECTION 2. TERM OF OFFICE

The term of office of all officers shall be one year or until their respective successors are duly chosen or until their prior death, resignation or removal. Any officer may be removed from office at any time by the affirmative vote of

February 23, 1988

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SECTION 3. POWERS AND DUTIES

Subject to such limitations as the Board of Directors may from time to time prescribe, the officers of the corporation shall each have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as from time to time may be conferred by the Board of Directors or the Executive Committee. The Treasurer and the Assistant Treasurers may be required to give bond for the faithful discharge of their duties, in such sum and of such character as the Board may from time to time prescribe.

BYLAW IV. INDEMNIFICATION

SECTION 1. MANDATORY INDEMNIFICATION

The corporation shall indemnify to the fullest extent permitted by law any person who is or was a party or threatened to be made a party to any legal proceeding by reason of the fact that such person is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of another enterprise, against expenses (including attorney fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such legal proceeding.

SECTION 2. CERTAIN DEFINITIONS

As used in this Bylaw IV, (a) "indemnify" includes the advancement of expenses upon receipt of an undertaking to repay upon specified conditions, (b) "fullest extent permitted by law" means the fullest extent to which indemnity may lawfully be provided by, pursuant to or consistently with, the provisions of subsections (1) and (2) of Section 180.05 of the Wisconsin Statutes (or any successor provision), a bylaw under subsection (6) of that Section (or any successor provision) or any other applicable law, whether statutory or otherwise, (c) "person" includes the person's heirs, executors and administrators, (d) "legal proceeding" means any threatened, pending or completed action, suit or proceeding, whether or not by or in right of the corporation, (e) "other enterprise" includes any corporation, partnership, joint venture, trust, dividend reinvestment plan, stock purchase plan, employee benefit plan or other plan or entity, (f) "expenses" include expenses in the enforcement of

rights under this Bylaw and any excise taxes assessed with respect to an employee benefit plan and (g) in respect of any of such plans, (i) "serving at the request of the corporation as a director or officer" includes serving at the request of the corporation in any capacity that involves services or duties with respect to the plan or its participants or beneficiaries and (ii) action reasonably believed to be in the interest of such participants or beneficiaries shall be deemed reasonably believed to be in, or not opposed to, the best interests of the corporation.

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SECTION 3. LEGAL ENFORCEABILITY

The rights provided to any person by the terms of this Bylaw IV shall be legally enforceable against the corporation by such person, who shall be presumed to have relied on the provisions of this Bylaw in undertaking or continuing any of the positions with the corporation or other enterprise referred to in Section 1 of this Bylaw IV.

SECTION 4. LIMITATION ON MODIFICATION OR TERMINATION

No modification or termination of this Bylaw IV shall be effected which would impair any rights hereunder arising at any time out of events occurring prior to such modification or termination.

SECTION 5. NON-EXCLUSIVE BYLAW

This Bylaw IV is not intended to be exclusive and accordingly shall not be construed as impairing in any way the power and authority of the corporation, to the extent legally permissible without regard to this Bylaw IV, in its discretion to indemnify or agree to indemnify, or to purchase insurance indemnifying, any employee, agent or other person.

BYLAW V. STOCK CERTIFICATES AND TRANSFER

SECTION 1. STOCK CERTIFICATES AND FACSIMILE SIGNATURES

The interest of each stockholder in the corporation shall be evidenced by certificates for shares of stock of the corporation in such form as the Board of Directors may from time to time pre-scribe. The certificates for shares of stock of the corporation shall be signed by the President or a Vice President, and by the Secretary or an Assistant Secretary of the corporation, and sealed with the seal of the corporation (which may be a facsimile, engraved or printed) and shall be countersigned and registered in such manner, if any, as

the Board of Directors may from time to time prescribe. Whenever any such certificate is manually signed by a transfer agent or a registrar, other than the corporation itself or an employee of the corporation, the signature of the transfer agent or registrar, whichever did not sign manually, and the signatures of the aforesaid officers of the corporation upon such certificate may be facsimiles. The transfer agent and the registrar may but need not be the same person or agency. In case any such person acting as an officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon such certificate, shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be used by the corporation with the same effect as if such officer, transfer agent or registrar had not ceased to be such at the date of its issue.

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SECTION 2. TRANSFER OF STOCK

The shares of stock of the corporation shall be transferable on the books of the corporation upon request by the holders thereof or by duly authorized attorney, upon surrender and cancellation of certificates for a like number of shares of the same class of stock, with duly executed assignment and power of transfer endorsed thereon or attached thereto, and with such proof of the authenticity of the signature as the corporation or its agents may reasonably require.

Prior to due presentment of a certificate for shares for registration of transfer the corporation may treat the registered owner of such shares as the person exclusively entitled to vote, to receive notifications and otherwise to have and exercise all the rights and powers of an owner. Where a certificate for shares is presented to the corporation with a request to register for transfer, the corporation shall not be liable to the owner or any other person suffering loss as a result of such registration of transfer if (a) there were on or with the certificate the necessary endorsements, and (b) the corporation had no duty to inquire into adverse claims or has discharged any such duty. The corporation may require reasonable assurance that said endorsements are genuine and effective and in compliance with such other regulations as may be prescribed by or under the authority of the Board of Directors.

SECTION 3. LOST, DESTROYED OR STOLEN CERTIFICATES

Where the owner claims that his certificate for shares has been lost, destroyed or wrongfully taken, a new certificate shall be issued in place

thereof if the owner (a) so requests before the corporation has notice that such shares have been acquired by a bona fide purchaser, and (b) files with the corporation a sufficient indemnity bond, and (c) satisfies such other reasonable requirements as may be prescribed by or under the authority of the Board of Directors.

BYLAW VI. CONTRACTS, CHECKS, NOTES, BONDS, ETC.

SECTION 1. CONTRACTS

The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute or deliver any document or instrument, whether of conveyance or otherwise, in the name of and on behalf of the corporation, and such authorization may be general or confined to specific instances.

SECTION 2. CHECKS, DRAFTS, ETC.

All checks and drafts on the corporation's bank accounts and all bills of exchange and promissory notes, and all acceptances, obligations and other instruments for the payment of money, shall be signed or, in the case of wire transfers, shall be authorized by such officer or officers, employee or employees, or agent or agents

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as shall be thereunto authorized from time to time by the Board of Directors; provided that checks drawn on the corporation's bank accounts may bear the facsimile signature of such officer or officers, employee or employees, or agent or agents as the Board of Directors shall authorize; and provided further that in the case of notes, bonds or debentures issued under a trust instrument of the corporation and required to be signed by two officers of the corporation, the signatures of either or both of such officers may be in facsimile if specifically authorized and directed by the Board of Directors of the corporation and if such notes, bonds or debentures are required to be authenticated by a corporate trustee which is a party to the trust instrument. In case any such officer who has signed, or whose facsimile signature has been placed upon such instrument shall have ceased to be such officer before such instrument is issued, it may be issued by the corporation with the same effect as if such officer had not ceased to be such at the date of its issue.

BYLAW VII. FISCAL YEAR

The fiscal year of the corporation shall begin on the first day of January in each year and shall end on the thirty-first day of December following.

BYLAW VIII. CORPORATE SEAL

The corporate seal shall have inscribed thereon the name of the corporation and the words "Corporate Seal."

BYLAW IX. EFFECT OF HEADINGS

The descriptive headings in these Bylaws were formulated, used and inserted herein for convenience only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

BYLAW X. AMENDMENTS

SECTION 1.

The Bylaws of the corporation may be altered, amended, added to, rescinded or repealed and new Bylaws may be adopted at any meeting of the stockholders, provided notice of the proposed change is given in the notice of the meeting.

SECTION 2.

Subject to the power of the stockholders to alter, amend, or repeal any Bylaws made by the Board of Directors, the Board may make additional Bylaws for the corporation and may from time to time alter and amend these Bylaws.

February 23, 1988

SECTION 3.

Notwithstanding anything in these Bylaws to the contrary, the provisions of Section 8 of Bylaw I, Sections 1, 3 and 6 of Bylaw II, Bylaw IV and this Section 3 of Bylaw X, may be amended only by the affirmative vote of at least 80% of the aggregate number of votes which the holders of the then outstanding shares of Common Stock and Preferred Stock, voting together as a class, are entitled to cast in an election of directors.

February 23, 1988

10-1/4% DEBENTURES DUE JANUARY 15, 1998

SECURITIES RESOLUTION NO. 3
OF
WISCONSIN NATURAL GAS COMPANY

The actions described below are taken by the Board (as defined in the Indenture referred to below) of WISCONSIN NATURAL GAS COMPANY (the "Company") pursuant to resolutions adopted by the Board of Directors of the Company as of December 13, 1993 and February 21, 1994, and Section 2.01 of the Indenture dated as of September 1, 1992 (the "Indenture") between the Company and Firststar Trust Company (formerly First Wisconsin Trust Company), as trustee. Terms used herein and not defined have the same meaning as in the Indenture.

RESOLVED, that a new series of Securities is authorized as follows:

1. The title of the series is 10-1/4% Debentures due January 15, 1998 ("10-1/4% Debentures").
2. The form of the 10-1/4% Debentures shall be substantially in the form of Exhibit 1 hereto.
3. The 10-1/4% Debentures shall have the terms set forth in Exhibit 1.
4. The 10-1/4% Debentures shall be issued in exchange for the \$2,290,000 principal amount of the Wisconsin Southern Gas Company, Inc. ("Wisconsin Southern") First Mortgage Bonds, 10-1/4% Series K, due January 15, 1998 held by Aid Association for Lutherans, Appleton, Wisconsin, which were assumed by the Company following the acquisition of Wisconsin Southern by Wisconsin Energy Corporation, the Company's parent, on January 1, 1994 and simultaneous merger of Wisconsin Southern into the Company, on the following terms:

Exchange Price : 100.00%
Closing Date: March 29, 1994

This Securities Resolution shall be effective as of March 29, 1994.

THIS DEBENTURE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD OR TRANSFERRED UNLESS REGISTERED THEREUNDER OR UNLESS SOLD OR TRANSFERRED IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF SAID ACT.

No. _____
PPN _____

\$ _____

WISCONSIN NATURAL GAS COMPANY
10-1/4% Debentures due January 15, 1998

WISCONSIN NATURAL GAS COMPANY
promises to pay to _____

or registered assigns
the principal sum of _____ Dollars on January 15, 1998

Interest Payment Dates: January 15 and July 15
Record Dates: December 31 and June 30

Dated:

FIRSTAR TRUST COMPANY
Transfer Agent and Paying Agent

WISCONSIN NATURAL GAS COMPANY

by

Authenticated:

[Title of Authorized Officer]

FIRSTAR TRUST COMPANY
Registrar, by

(CORPORATE SEAL)

Authorized Signature

[Assistant] Secretary

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WISCONSIN NATURAL GAS COMPANY
10-1/4% Debentures due January 15, 1998

1. INTEREST.

Wisconsin Natural Gas Company (the "Company"), a Wisconsin corporation, promises to pay interest on the principal amount of this Security at the rate per annum shown above. The Company will pay interest semiannually on January 15 and July 15 of each year commencing July 15, 1994. Interest on the Securities will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from January 15, 1994. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

2. METHOD OF PAYMENT.

The Company will pay interest on the Securities to the persons who are registered holders of Securities at the close of business on the record date for the next interest payment date, except as otherwise provided in the Indenture. Unless otherwise agreed upon by the Company and a holder, holders must surrender Securities to a Paying Agent to collect principal payments. If requested by the Company, the holder of any Security which has been paid in full, whether by redemption, at maturity or otherwise, shall promptly return such Security to the Company for cancellation. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. Unless otherwise agreed upon by the Company and a holder, the Company may pay principal and interest by check payable in such money and may mail an interest check to a holder's registered address.

3. SECURITIES AGENTS.

Initially, Firststar Trust Company, 615 East Michigan Street, Milwaukee, WI 53202, will act as Paying Agent, Transfer Agent and Registrar. The Company may change any Paying Agent or Transfer Agent without notice. The Company or any Affiliate may act in any such capacity. Subject to certain conditions, the Company may change the Trustee.

4. INDENTURE.

The Company issued the securities of this series (the "Securities") under an Indenture dated as of September 1, 1992 (the "Indenture") between the Company and Firststar Trust Company (formerly First Wisconsin Trust Company) (the "Trustee"). The terms of the

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Securities include those stated in the Indenture and in the Securities Resolution creating the Securities and those made part of the Indenture by the Trust Indenture Act of 1939 (15 U.S. Code ss 77aaa-77bbb). Securityholders are referred to the Indenture, the Securities Resolution and the Act for a statement of such terms.

5. REDEMPTION.

(a) At Company's Option. On or after January 15, 1995, the Company may redeem all the Securities at any time or some of them from time to time at the following redemption prices (expressed in percentages of principal amount), plus accrued interest to the redemption date.

If redeemed during the 12-month period beginning January 15,

Year	Percentage
1995	102.28%
1996	101.14

and thereafter at 100%.

Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of Securities to be redeemed at such holder's registered address.

(b) At Holder's Option. In the event the Company shall fail to exchange the Securities for First Mortgage Bonds of Wisconsin Electric as required by Section 11 hereof, and such failure shall not have been remedied within 30 days after written notice thereof shall have been received by the Company from any holder of the Securities, then such holder may, at its option, in addition to any other right, power or remedy permitted by law or equity, by notice in writing to the Company, require the Company to redeem all of the Securities held by such holder, in which case, the Company shall, within five business days after the receipt of such notice, redeem all Securities held by such holder by the payment of the redemption price set forth in Section 5(a) above, plus accrued interest on the Securities to the redemption date.

6. SINKING FUND

As and or for a sinking fund for the retirement of the Securities, the Company will, until all the Securities are paid or payment thereof provided for, deposit with the Trustee, on or prior to January 15 in each year

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beginning with the year 1995, an amount in cash sufficient to redeem on each such January 15, \$570,000 aggregate principal amount of the Securities, in each case at a redemption price equal to the principal amount thereof, together with accrued interest to the redemption date.

7. DENOMINATIONS, TRANSFER, EXCHANGE.

The Securities are in registered form without coupons in denominations of \$1,000 and whole multiples of \$1,000. The

transfer of Securities may be registered and Securities may be exchanged as provided in the Indenture. The Transfer Agent may require a holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or the Indenture. The Transfer Agent need not exchange or register the transfer of any Security or portion of a Security selected for redemption. Also, it need not exchange or register the transfer of any Securities for a period of 15 days before a selection of Securities to be redeemed.

8. PERSONS DEEMED OWNERS.

The registered holder of a Security may be treated as its owner for all purposes.

9. AMENDMENTS AND WAIVERS.

Subject to certain exceptions, the Indenture or the Securities may be amended with the consent of the holders of a majority in principal amount of the Securities of all series affected by the amendment. Subject to certain exceptions, a default on a series may be waived with the consent of the holders of a majority in principal amount of the series.

Without the consent of any Securityholder, the Indenture or the Securities may be amended, among other things, to cure any ambiguity, omission, defect or inconsistency; to provide for assumption of Company obligations to Securityholders; or to make any change that does not materially adversely affect the rights of any Securityholder.

10. RESTRICTIVE COVENANTS.

The Securities are unsecured general obligations of the Company limited to \$2,290,000 principal amount. The Indenture does not limit other unsecured debt. Sections 4.07, 4.08 and 4.09 of the Indenture, which if applicable limit certain mortgages and other liens, the issuance of additional first mortgage bonds and certain sale and leaseback transactions, will apply with

respect to the Securities. The limitations are subject to a number of important qualifications and exceptions, and will terminate in the event of a merger of the Company into, consolidation with, or transfer of all or substantially all of its assets to Wisconsin Electric Power Company or a successor thereto. As provided in Section 11, in the event of any such merger, consolidation or transfer of assets, the holders of the Securities shall have the right to exchange the Securities for First Mortgage Bonds of Wisconsin Electric. On January 24, 1994, Wisconsin Energy Corporation announced its intent to merge the Company into Wisconsin Electric.

11. EXCHANGE RIGHT UPON MERGER INTO WISCONSIN ELECTRIC POWER COMPANY

(a) In the event that the Company shall merge into, consolidate with, or transfer all or substantially all of its assets (the "MERGER") to Wisconsin Electric Power Company ("WISCONSIN ELECTRIC"), the Company shall promptly provide written notice (the "MERGER NOTICE") of such fact to all holders of the Securities then outstanding. The Merger Notice shall be delivered promptly upon the effectiveness of the Merger, but in no event later than two business days thereafter. The Merger Notice shall be in writing and shall set forth (i) a statement that the Merger has taken place, (ii) the date on which the Merger took place, (iii) a reference to this Section 11 and the right of the holders of the Securities to require the Company to exchange the outstanding Securities for First Mortgage Bonds of Wisconsin Electric (the "WE BONDS") issued under and secured by that certain Indenture dated October 28, 1938 from Wisconsin Electric to Firststar Trust Company (formerly First Wisconsin Trust Company), as Trustee (the "WE INDENTURE") and (iv) an irrevocable offer to exchange the Securities for WE Bonds. Each holder of the Securities then outstanding shall have the right to accept such offer and require the Company to exchange all the Securities held by such holder by written notice to the Company (the "EXCHANGE NOTICE") given not later than 180 days prior to the date of maturity for the Securities.

Upon receipt by the Company of an Exchange Notice from any holder of Securities, the Company will promptly take all actions necessary for the due authorization, execution and delivery of such WE Bonds including, without limitation, (i) the filing, within 30 days after receipt of the Exchange Notice, of applications with the Public Service Commission of Wisconsin and any other governmental commission, board or regulatory body in order to obtain the requisite approvals, authorization, consents and orders necessary for the

issuance of the WE Bonds, (ii) compliance with all requirements of the WE Indenture for the issuance and delivery of a new series of WE Bonds and (iii) the taking of all other actions the holders of the Securities may reasonably request in connection with the delivery of the WE Bonds, including the delivery of legal opinions and an exchange agreement between the Company and the holders of the Securities in form and substance reasonably satisfactory to the holders of the Securities. In no event shall WE Bonds be delivered later than 90 days after receipt of all regulatory approvals required for the issuance of the WE Bonds.

Without limiting the foregoing, notwithstanding any failure on the part of the Company to give the Merger Notice following the Merger, each holder of the Securities that shall not have received such Merger Notice shall have the right to require the Company to exchange the Securities held by such holder for WE Bonds, and the Company will exchange such Securities for WE Bonds in a manner consistent with this Section 11.

(b) WE Bonds exchanged for Securities shall be issued under and secured by the WE Indenture, shall rank on a parity with all other first mortgage bonds issued and outstanding under the WE Indenture, shall be dated the last date to which interest has been paid on the Securities, shall bear interest at the rate of 10-1/4% per annum, payable semiannually on the fifteenth day of January and the fifteenth day of July in each year (commencing on the first of such dates following the exchange), until the entire principal is paid, shall have sinking fund and redemption provisions identical to those applicable to the Securities and shall otherwise be substantially in the form required by the WE Indenture.

12. SUCCESSORS.

When a successor assumes all the obligations of the Company it is required to assume under the Securities and the Indenture, the

Company will be released from all of its obligations under the Securities and the Indenture.

13. DEFEASANCE PRIOR TO MATURITY.

Subject to certain conditions, the Company at any time may terminate some or all of its obligations under the Securities and the Indenture if the Company deposits with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the Securities to maturity. U.S. Government obligations are securities backed by the full faith and credit of

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the United States of America or certificates representing an ownership interest in such Obligations.

14. DEFAULTS AND REMEDIES.

An Event of Default includes: default for 30 days in payment of interest on the Securities; default in payment of principal on the Securities; default by the Company for a specified period after notice to it in the performance of any of its other agreements applicable to the Securities; certain events of bankruptcy or insolvency; and any other event of default provided for in the series. If an Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in principal amount of the Securities may declare the principal of all the Securities to be due and payable immediately.

The following event shall also constitute an Event of Default with respect to the Securities: default or the happening of any event shall occur under any indenture, agreement, or other instrument under which the Company shall have outstanding at least \$5,000,000 aggregate principal amount of indebtedness for borrowed money, and such default or event shall continue beyond the period of grace, if any, allowed with respect thereto.

Securityholders may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Indenture or the Securities. Subject to certain limitations, holders of a majority in principal amount of the Securities may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Securityholders notice of any continuing default (except a default in payment of principal or interest) if it determines that withholding notice is in their interests. The Company must furnish an annual compliance certificate to the Trustee.

15. TRUSTEE DEALINGS WITH COMPANY.

Firststar Trust Company, the Trustee under the Indenture, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company or its Affiliates, and may otherwise deal with those persons, as if it were not Trustee.

16. NO RECOURSE AGAINST OTHERS.

A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of or

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by reason of such obligations or their creation. Each Securityholder by accepting a Security waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

17. AUTHENTICATION.

This Security shall not be valid until authenticated by a manual signature of the Registrar.

18. ABBREVIATIONS.

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as: TEN COM (=tenants in common), TEN ENT (=tenants by the entireties), JT TEN (=joint tenants with right of survivorship and not as tenants in common), CUST (=custodian), U/G/M/A (=Uniform Gifts to Minors Act), and U/T/M/A (=Uniform Transfers to Minors Act).

THE COMPANY WILL FURNISH TO ANY SECURITYHOLDER UPON WRITTEN REQUEST AND WITHOUT CHARGE A COPY OF THE INDENTURE AND THE SECURITIES RESOLUTION, WHICH CONTAINS THE TEXT OF THIS SECURITY IN LARGER TYPE. REQUESTS MAY BE MADE TO: CORPORATE SECRETARY, WISCONSIN NATURAL GAS COMPANY, 231 WEST MICHIGAN STREET, P.O. BOX 2046, MILWAUKEE, WI 53201.

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9.47% DEBENTURES DUE MARCH 1, 2006

SECURITIES RESOLUTION NO. 4
OF
WISCONSIN NATURAL GAS COMPANY

The actions described below are taken by the Board (as defined in the Indenture referred to below) of WISCONSIN NATURAL GAS COMPANY (the "Company") pursuant to resolutions adopted by the Board of Directors of the Company as of December 13, 1993 and February 21, 1994, and Section 2.01 of the Indenture dated as of September 1, 1992 (the "Indenture") between the Company and Firststar Trust Company (formerly First Wisconsin Trust Company), as trustee. Terms used herein and not defined have the same meaning as in the Indenture.

RESOLVED, that a new series of Securities is authorized as follows:

1. The title of the series is 9.47% Debentures due March 1, 2006 ("9.47% Debentures").
2. The form of the 9.47% Debentures shall be substantially in the form of Exhibit 1 hereto.
3. The 9.47% Debentures shall have the terms set forth in Exhibit 1.
4. The 9.47% Debentures shall be issued in exchange for the \$7,000,000 principal amount of the Wisconsin Southern Gas Company, Inc. ("Wisconsin Southern") First Mortgage Bonds, 9.47% Series L, due March 1, 2006 held by Aid Association for Lutherans, Appleton, Wisconsin, which were assumed by the Company following the acquisition of Wisconsin Southern by Wisconsin Energy Corporation, the Company's parent, on January 1, 1994 and simultaneous merger of Wisconsin Southern into the Company, on the following terms:

Exchange Price : 100.00%
Closing Date: March 29, 1994

This Securities Resolution shall be effective as of March 29, 1994.

THIS DEBENTURE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD OR TRANSFERRED UNLESS REGISTERED THEREUNDER OR UNLESS SOLD OR TRANSFERRED IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF SAID ACT.

No. _____
PPN _____

\$ _____

WISCONSIN NATURAL GAS COMPANY
9.47% Debentures due March 1, 2006

WISCONSIN NATURAL GAS COMPANY
promises to pay to _____

or registered assigns
the principal sum of _____ Dollars on March 1, 2006

Interest Payment Dates: March 1 and September 1
Record Dates: February 15 and August 15

Dated:

FIRSTAR TRUST COMPANY
Transfer Agent and Paying Agent

WISCONSIN NATURAL GAS COMPANY

by

Authenticated:

[Title of Authorized Officer]

FIRSTAR TRUST COMPANY
Registrar, by

(CORPORATE SEAL)

Authorized Signature

[Assistant] Secretary

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WISCONSIN NATURAL GAS COMPANY
9.47% Debentures due March 1, 2006

1. INTEREST.

Wisconsin Natural Gas Company (the "Company"), a Wisconsin corporation, promises to pay interest on the principal amount of this Security at the rate per annum shown above. The Company will pay interest semiannually on March 1 and September 1 of each year commencing September 1, 1994. Interest on the Securities will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from March 1, 1994. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

2. METHOD OF PAYMENT.

The Company will pay interest on the Securities to the persons who are registered holders of Securities at the close of business on the record date for the next interest payment date, except as otherwise provided in the Indenture. Unless otherwise agreed upon by the Company and a holder, holders must surrender Securities to a Paying Agent to collect principal payments. If requested by the Company, the holder of any Security which has been paid in full, whether by redemption, at maturity or otherwise, shall promptly return such Security to the Company for cancellation. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. Unless otherwise agreed to by the Company and a holder, the Company may pay principal and interest by check payable in such money and may mail an interest check to a holder's registered address.

3. SECURITIES AGENTS.

Initially, Firststar Trust Company, 615 East Michigan Street, Milwaukee, WI 53202, will act as Paying Agent, Transfer Agent and Registrar. The Company may change any Paying Agent or Transfer

Agent without notice. The Company or any Affiliate may act in any such capacity. Subject to certain conditions, the Company may change the Trustee.

4. INDENTURE.

The Company issued the securities of this series (the "Securities") under an Indenture dated as of September 1, 1992 (the "Indenture") between the Company and Firststar Trust Company (formerly First Wisconsin

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Trust Company) (the "Trustee"). The terms of the Securities include those stated in the Indenture and in the Securities Resolution creating the Securities and those made part of the Indenture by the Trust Indenture Act of 1939 (15 U.S. Code ss 77aaa-77bbb). Securityholders are referred to the Indenture, the Securities Resolution and the Act for a statement of such terms.

5. REDEMPTION.

(a) At Company's Option. Any or all of the Securities shall be redeemable at any time and from time to time, at the option of the Company and upon the notice and in the manner and with the effect provided in Article 3 of the Indenture, by the payment of the principal amount of the Securities called for redemption and accrued interest thereon to the date of redemption, together with a premium equal to the Make-Whole Amount. In the event of the partial redemption of any Securities, the proceeds of such redemption shall be applied ratably to all outstanding Securities in accordance with the unpaid principal amounts thereof and shall be deemed to be applied first to the amount of principal scheduled to remain unpaid on March 1, 2006, and then to the remaining scheduled principal payments in inverse chronological order.

As used in this Section 5, the term "Make-Whole Amount" shall mean, in connection with any optional redemption of the Securities, the excess, if any, of (i) the aggregate present value

as of the date of such redemption of each dollar of principal being redeemed (taking into account the required application of such optional redemption to the scheduled payments and prepayments of the Securities) and the amount of interest (exclusive of interest accrued to the date of such optional redemption) that would have been payable in respect of such dollar if such redemption had not been made, determined by discounting such amounts at the Reinvestment Rate from the respective dates on which they would have been payable, over (ii) 100% of the principal amount of the outstanding Securities being redeemed. If the Reinvestment Rate is equal to or higher than 9.47%, the Make-Whole Amount shall be zero. The Make-Whole Amount, if any, to be paid in connection with the optional redemption of any Securities shall be determined as of the date three business days prior to the date of such redemption. For purposes of any determination of the Make-Whole Amount:

"Reinvestment Rate" shall mean the sum of (x) 0.50%, (y) plus the arithmetic mean of the yields under the respective headings "This Week" and

"Last Week" published in the Statistical Release under the caption "Treasury Constant Maturities" for the maturity (rounded to the nearest month) corresponding to the Weighted Average Life to Maturity of the principal being redeemed (taking into account the required application of such optional redemption to the scheduled payments and prepayments of the Securities). For purposes of the preceding sentence, if no maturity exactly corresponds to such Weighted Average Life to Maturity, yields for the two published maturities most closely corresponding to such Weighted Average Life to Maturity shall be calculated pursuant to the immediately preceding sentence and the Reinvestment Rate shall be interpolated or extrapolated from

such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For the purpose of calculating the Reinvestment Rate, the most recent Statistical Release published prior to the date of determination of the Make-Whole Amount shall be used.

"Statistical Release" shall mean the then most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded U.S. Government Securities adjusted to constant maturities or, if such statistical release is not published at the time of any determination hereunder, then such other reasonably comparable index which shall be designated by the holders of 66-2/3% in aggregate principal amount of the outstanding Securities.

"Weighted Average Life to Maturity" of the principal amount of the Securities being redeemed shall mean, as of the time of any determination thereof, the number of years obtained by dividing the then Remaining Dollar-Years of such principal by the aggregate amount of such principal. The term "Remaining Dollar-Years" of such principal shall mean the amount obtained by (i) multiplying (x) the remainder of (1) the amount of principal that would have become due on each scheduled payment date if such redemption had not been made, less (2) the amount of principal on the Securities scheduled to become due on such date after giving effect to such redemption and the required application thereof, by (y) the number of years (calculated to the nearest one-twelfth) which will elapse between the date of determination and such scheduled payment date, and (ii) totalling the products obtained in (i).

Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of Securities to be redeemed at his registered address.

(b) At Holder's Option. In the event the Company shall fail to exchange the Securities for First Mortgage Bonds of Wisconsin Electric as required by Section 11 hereof, and such failure shall not have been remedied within 30 days after written notice thereof shall have been received by the Company from the holder of any Security, then such holder may, at its option, in addition to any other right, power or remedy permitted by law or equity, by notice in writing to the Company, require the Company to redeem all of the Securities held by such holder, in which case, the Company shall, within five business days after the receipt of such notice, redeem the Securities held by such holder by the payment of the entire principal amount of the Securities so called for redemption and all accrued interest on the Securities to the date of redemption, together with a premium equal to the Make-Whole Amount (as defined in Section 5(a) hereof).

6. SINKING FUND

As and or for a sinking fund for the retirement of the Securities, the Company will, until all the Securities are paid or payment thereof provided for, deposit with the Trustee, on or prior to March 1 in each year beginning with the year 1997, an amount in cash sufficient to redeem on each such March 1, \$700,000 aggregate principal amount of the Securities, in each case at a redemption price equal to the principal amount thereof, together with accrued interest to the redemption date.

7. DENOMINATIONS, TRANSFER, EXCHANGE.

The Securities are in registered form without coupons in denominations of \$1,000 and whole multiples of \$1,000. The transfer of Securities may be registered and Securities may be exchanged as provided in the Indenture. The Transfer Agent may require a holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or the Indenture. The Transfer Agent need not exchange or register the transfer of any Security or portion of a Security selected for redemption. Also, it need not exchange or register the transfer of any Securities for a period of 15 days before a selection of Securities to be redeemed.

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8. PERSONS DEEMED OWNERS.

The registered holder of a Security may be treated as its owner for all purposes.

9. AMENDMENTS AND WAIVERS.

Subject to certain exceptions, the Indenture or the Securities may be amended with the consent of the holders of a majority in principal amount of the Securities of all series affected by the amendment. Subject to certain exceptions, a default on a series may be waived with the consent of the holders of a majority in principal amount of the series.

Without the consent of any Securityholder, the Indenture or the Securities may be amended, among other things, to cure any ambiguity, omission, defect or inconsistency; to provide for assumption of Company obligations to Securityholders; or to make any change that does not materially adversely affect the rights of any Securityholder.

10. RESTRICTIVE COVENANTS.

The Securities are unsecured general obligations of the Company limited to \$7,000,000 principal amount. The Indenture does not limit other unsecured debt. Sections 4.07, 4.08 and 4.09 of the Indenture, which if applicable limit certain mortgages and other liens, the issuance of additional first mortgage bonds and certain sale and leaseback transactions, will apply with respect to the Securities. The limitations are subject to a number of important qualifications and exceptions, and will terminate in the event of a merger of the Company into, consolidation with, or transfer of all or substantially all of its assets to Wisconsin Electric Power Company or a successor thereto. As provided in Section 11, in the event of any such merger, consolidation or transfer of assets, the holders of the Securities shall have the right to exchange the Securities for First Mortgage Bonds of Wisconsin Electric. On January 24, 1994, Wisconsin Energy Corporation announced its

intent to merge the Company into Wisconsin Electric.

11. EXCHANGE RIGHT UPON MERGER INTO WISCONSIN ELECTRIC POWER COMPANY

(a) In the event that the Company shall merge into, consolidate with, or transfer all or substantially all of its assets (the "MERGER") to Wisconsin Electric Power Company ("WISCONSIN ELECTRIC"), the Company shall promptly provide written notice (the "MERGER NOTICE") of such fact to all holders of the Securities then

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outstanding. The Merger Notice shall be delivered promptly upon the effectiveness of the Merger, but in no event later than two business days thereafter. The Merger Notice shall be in writing and shall set forth (i) a statement that the Merger has taken place, (ii) the date on which the Merger took place, (iii) a reference to this Section 11 and the right of the holders of the Securities to require the Company to exchange the outstanding Securities for First Mortgage Bonds of Wisconsin Electric (the "WE BONDS") issued under and secured by that certain Indenture dated October 28, 1938 from Wisconsin Electric to Firststar Trust Company (formerly First Wisconsin Trust Company), as Trustee (the "WE INDENTURE") and (iv) an irrevocable offer to exchange the Securities for WE Bonds. Each holder of the Securities then outstanding shall have the right to accept such offer and require the Company to exchange all the Securities held by such holder by written notice to the Company (the "EXCHANGE NOTICE") given not later than 180 days prior to the date of maturity for the Securities.

Upon receipt by the Company of an Exchange Notice from any holder of Securities, the Company will promptly take all actions necessary for the due authorization, execution and delivery of such WE Bonds including, without limitation, (i) the filing, within 30 days after receipt of the Exchange Notice, of applications with the Public Service Commission of Wisconsin and

any other governmental commission, board or regulatory body in order to obtain the requisite approvals, authorization, consents and orders necessary for the issuance of the WE Bonds, (ii) compliance with all requirements of the WE Indenture for the issuance and delivery of a new series of WE Bonds and (iii) the taking of all other actions the holders of the Securities may reasonably request in connection with the delivery of the WE Bonds, including the delivery of legal opinions and an exchange agreement between the Company and the holders of the Securities in form and substance reasonably satisfactory to the holders of the Securities. In no event shall WE Bonds be delivered later than 90 days after receipt of all regulatory approvals required for the issuance of the WE Bonds.

Without limiting the foregoing, notwithstanding any failure on the part of the Company to give the Merger Notice following the Merger, each holder of the Securities that shall not have received such Merger Notice shall have the right to require the Company to exchange the Securities held by such holder for WE Bonds, and the Company will exchange such Securities for WE Bonds in a manner consistent with this Section 11.

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(b) WE Bonds exchanged for Securities shall be issued under and secured by the WE Indenture, shall rank on a parity with all other first mortgage bonds issued and outstanding under the WE Indenture, shall be dated the last date to which interest has been paid on the Securities, shall bear interest at the rate of 9.47% per annum, payable semiannually on the first day of March and the first day of September in each year (commencing on the first of such dates following the exchange), until the entire principal is paid, shall have sinking fund and redemption provisions identical to those applicable to the Securities and shall otherwise be substantially in the form required by the WE Indenture.

12. SUCCESSORS.

When a successor assumes all the obligations of the Company it is required to assume under the Securities and the Indenture, the Company will be released from all of its obligations under the Securities and the Indenture.

13. DEFEASANCE PRIOR TO MATURITY.

Subject to certain conditions, the Company at any time may terminate some or all of its obligations under the Securities and the Indenture if the Company deposits with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the Securities to maturity. U.S. Government Obligations are securities backed by the full faith and credit of the United States of America or certificates representing an ownership interest in such Obligations.

14. DEFAULTS AND REMEDIES.

An Event of Default includes: default for 30 days in payment of interest on the Securities; default in payment of principal on the Securities; default by the Company for a specified period after notice to it in the performance of any of its other agreements applicable to the Securities; certain events of bankruptcy or insolvency; and any other event of default provided for in the series. If an Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in principal amount of the Securities may declare the principal of all the Securities to be due and payable immediately.

The following event shall also constitute an Event of Default with respect to the Securities: default or the happening of any event shall occur under any indenture, agreement, or other instrument under which the Company shall have outstanding at least \$5,000,000 aggregate

principal amount of indebtedness for borrowed money, and such default or event shall continue beyond the period of grace, if any, allowed with respect thereto.

Securityholders may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Indenture or the Securities. Subject to certain limitations, holders of a majority in principal amount of the Securities may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Securityholders notice of any continuing default (except a default in payment of principal or interest) if it determines that withholding notice is in their interests. The Company must furnish an annual compliance certificate to the Trustee.

15. TRUSTEE DEALINGS WITH COMPANY.

Firststar Trust Company, the Trustee under the Indenture, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company or its Affiliates, and may otherwise deal with those persons, as if it were not Trustee.

16. NO RECOURSE AGAINST OTHERS.

A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. Each Securityholder by accepting a Security waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

17. AUTHENTICATION.

This Security shall not be valid until authenticated by a manual signature of the Registrar.

18. ABBREVIATIONS.

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as: TEN COM (=tenants in common), TEN ENT (=tenants by the entirety), JT TEN (=joint tenants with right of survivorship and not as tenants in common), CUST (=custodian), U/G/M/A (=Uniform Gifts to Minors Act), and U/T/M/A (=Uniform Transfers to Minors Act).

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THE COMPANY WILL FURNISH TO ANY SECURITYHOLDER UPON WRITTEN REQUEST AND WITHOUT CHARGE A COPY OF THE INDENTURE AND THE SECURITIES RESOLUTION, WHICH CONTAINS THE TEXT OF THIS SECURITY IN LARGER TYPE. REQUESTS MAY BE MADE TO: CORPORATE SECRETARY, WISCONSIN NATURAL GAS COMPANY, 231 WEST MICHIGAN STREET, P.O. BOX 2046, MILWAUKEE, WI 53201.

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