

WISCONSIN ENERGY CORP
Form 10-Q
August 02, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended

June 30, 2006

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (June 30, 2006):

Common Stock, \$.01 Par Value, 116,978,883 shares outstanding.

WISCONSIN ENERGY CORPORATION

FORM 10-Q REPORT FOR THE QUARTER ENDED JUNE 30,
2006

TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
Introduction	3
<u>Part I -- Financial Information</u>	
1. Financial Statements	
Consolidated Condensed Income Statements	4
Consolidated Condensed Balance Sheets	5
Consolidated Condensed Statements of Cash Flows	6
Notes to Consolidated Condensed Financial Statements	7
2. Management's Discussion and Analysis of	

	Financial Condition and Results of Operations	17
3.	Quantitative and Qualitative Disclosures About Market Risk	38
4.	Controls and Procedures	39
<u>Part II -- Other Information</u>		
1.	Legal Proceedings	39
1A.	Risk Factors	41
2.	Unregistered Sales of Equity Securities and Use of Proceeds [and Issuer Purchases of Equity Securities]	42
4.	Submission of Matters to a Vote of Security Holders	42
5.	Other Information	43
6.	Exhibits	44
	Signatures	45

INTRODUCTION

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

Utility Energy Segment:

Our utility energy segment consists of: Wisconsin Electric, which serves electric customers in Wisconsin and the Upper Peninsula of Michigan, gas customers in Wisconsin and steam customers in metro Milwaukee, Wisconsin; Wisconsin Gas, which serves gas customers in Wisconsin and water customers in suburban Milwaukee, Wisconsin;

and Edison Sault Electric Company (Edison Sault), which serves electric customers in the Upper Peninsula of Michigan. Wisconsin Electric and Wisconsin Gas operate under the trade name of "We Energies."

Non-Utility Energy Segment:

Our non-utility energy segment primarily consists of We Power. We Power was formed in 2001 to construct, own and lease to Wisconsin Electric the new generating capacity included in our *Power the Future* strategy, which is described further in this report.

Other:

Other includes all other non-utility activities, primarily non-utility real estate investment and development by Wispark LLC (Wispark). As of June 30, 2006, Wispark had \$89.5 million of assets.

Discontinued Operations:

Effective May 31, 2005, we sold our Calumet Energy (Calumet) facility, which was part of our non-utility energy segment. In August 2005, we announced our intent to sell Minergy Neenah, LLC (Minergy Neenah). For further information, see Note 3 -- Discontinued Operations and Assets Held for Sale in the Notes to Consolidated Condensed Financial Statements in this report.

We have prepared the unaudited interim financial statements presented in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). We have condensed or omitted some information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles pursuant to these rules and regulations. This Form 10-Q, including the financial statements contained herein, should be read in conjunction with our 2005 Annual Report on Form 10-K, including the financial statements and notes therein.

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WISCONSIN ENERGY CORPORATION
CONSOLIDATED CONDENSED INCOME STATEMENTS

(Unaudited)

Three Months Ended June
30

Six Months Ended June 30

Edgar Filing: WISCONSIN ENERGY CORP - Form 10-Q

	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(Millions of Dollars, Except Per Share Amounts)			
Operating Revenues	\$814.4	\$788.5	\$2,061.4	\$1,883.2
Operating Expenses				
Fuel and purchased power	184.8	186.4	354.0	344.4
Cost of gas sold	129.6	142.0	610.0	552.7
Other operation and maintenance	290.1	268.5	588.0	522.9
Depreciation, decommissioning and amortization	78.8	79.0	161.4	160.8
Property and revenue taxes	24.0	22.7	49.3	45.7
Total Operating Expenses	<u>707.3</u>	<u>698.6</u>	<u>1,762.7</u>	<u>1,626.5</u>
Operating Income	107.1	89.9	298.7	256.7
Other Income, Net	27.7	16.6	48.6	34.3
Interest Expense	<u>42.6</u>	<u>41.5</u>	<u>87.8</u>	<u>83.9</u>
Income From Continuing				
Operations Before Income Taxes	92.2	65.0	259.5	207.1
Income Taxes	<u>32.5</u>	<u>8.2</u>	<u>95.4</u>	<u>60.3</u>
Income from Continuing Operations	59.7	56.8	164.1	146.8
Income from Discontinued				
Operations, Net of Tax (Note 3)	<u>3.2</u>	<u>5.2</u>	<u>4.5</u>	<u>5.1</u>
Net Income	<u>\$62.9</u>	<u>\$62.0</u>	<u>\$168.6</u>	<u>\$151.9</u>
Earnings Per Share (Basic)				
Continuing operations	\$0.51	\$0.49	\$1.40	\$1.26
Discontinued operations	<u>0.03</u>	<u>0.04</u>	<u>0.04</u>	<u>0.04</u>
Total Earnings Per Share (Basic)	<u>\$0.54</u>	<u>\$0.53</u>	<u>\$1.44</u>	<u>\$1.30</u>
Earnings Per Share (Diluted)				
Continuing operations	\$0.50	\$0.48	\$1.38	\$1.24
Discontinued operations	<u>0.03</u>	<u>0.04</u>	<u>0.04</u>	<u>0.04</u>
Total Earnings Per Share (Diluted)	<u>\$0.53</u>	<u>\$0.52</u>	<u>\$1.42</u>	<u>\$1.28</u>
Weighted Average Common				
Shares Outstanding (Millions)				
Basic	117.0	117.0	117.0	117.0
Diluted	118.4	118.3	118.4	118.3
Dividends Per Share of Common Stock	\$0.23	\$0.22	\$0.46	\$0.44

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

4

WISCONSIN ENERGY CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS

	(Unaudited) <u>June 30, 2006</u>	<u>December 31, 2005</u>
	(Millions of Dollars)	
<u>Assets</u>		
Property, Plant and Equipment		
In service	\$8,959.8	\$8,849.6
Accumulated depreciation	(3,373.3)	(3,288.5)
	5,586.5	5,561.1
Construction work in progress	887.8	596.6
Leased facilities, net	90.4	93.2
Nuclear fuel, net	113.2	112.0
Net Property, Plant and Equipment	6,677.9	6,362.9
Investments		
Nuclear decommissioning trust fund	802.6	782.1
Equity investment in transmission affiliate	219.9	205.8
Other	46.5	92.1
Total Investments	1,069.0	1,080.0
Current Assets		
Cash and cash equivalents	18.1	73.2
Accounts receivable	341.5	441.8
Accrued revenues	143.6	262.9

Edgar Filing: WISCONSIN ENERGY CORP - Form 10-Q

Materials, supplies and inventories	342.9	451.6
Prepayments and Other	126.1	130.1
Assets held for sale	16.0	17.4
Total Current Assets	988.2	1,377.0
Deferred Charges and Other Assets		
Regulatory assets	1,038.7	1,025.6
Goodwill, net	441.9	441.9
Other	184.7	174.6
Total Deferred Charges and Other Assets	1,665.3	1,642.1
Total Assets	\$10,400.4	\$10,462.0
<u>Capitalization and Liabilities</u>		
Capitalization		
Common equity	\$2,796.4	\$2,680.1
Preferred stock of subsidiary	30.4	30.4
Long-term debt	3,025.4	3,031.0
Total Capitalization	5,852.2	5,741.5
Current Liabilities		
Long-term debt due currently	224.9	496.0
Short-term debt	557.3	456.3
Accounts payable	277.7	418.1
Accrued liabilities	181.3	134.4
Other	155.4	142.0
Total Current Liabilities	1,396.6	1,646.8
Deferred Credits and Other Liabilities		
Regulatory liabilities	1,387.6	1,373.2
Asset retirement obligations	364.0	355.5
Deferred income taxes - long-term	569.4	593.7
Other	830.6	751.3
Total Deferred Credits and Other Liabilities	3,151.6	3,073.7
Total Capitalization and Liabilities	\$10,400.4	\$10,462.0

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

WISCONSIN ENERGY CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

		Six Months Ended June 30	
		2006	2005
		(Millions of Dollars)	
Operating Activities			
Net income		\$168.6	\$151.9
Income from discontinued operations, net of tax		(4.5)	(5.1)
Reconciliation to cash			
	Depreciation, decommissioning and amortization	166.0	173.4
	Nuclear fuel expense amortization	14.7	10.1
	Equity in earnings of unconsolidated affiliates	(22.9)	(16.9)
	Distributions from unconsolidated affiliates	14.9	12.9
	Deferred income taxes and investment tax credits, net	(25.5)	17.4
Change in -	Accounts receivable and accrued revenues	219.6	82.2
	Inventories	108.7	86.5
	Other current assets	(22.4)	6.7
	Accounts payable	(156.7)	(8.1)
	Accrued income taxes, net	82.6	(58.4)
	Deferred costs, net	(13.1)	(50.1)
	Other current liabilities	7.0	20.2
	Other	43.6	12.3
Cash Provided by Operating Activities		580.6	435.0
Investing Activities			
	Capital expenditures	(420.9)	(321.8)
	Proceeds from asset sales, net	41.5	54.7

Edgar Filing: WISCONSIN ENERGY CORP - Form 10-Q

Nuclear fuel	(16.0)	(12.5)
Nuclear decommissioning funding	(8.8)	(8.8)
Proceeds from investments within nuclear decommissioning trust	301.7	195.9
Purchases of investments within nuclear decommissioning trust	(301.7)	(195.9)
Other	2.7	3.2
	_____	_____
Cash Used in Investing Activities	(401.5)	(285.2)
Financing Activities		
Exercise of stock options	7.6	37.7
Purchase of common stock	(13.1)	(59.9)
Dividends paid on common stock	(53.8)	(51.5)
Retirement of long-term debt	(277.3)	(3.0)
Change in short-term debt	101.0	(88.1)
Other, net	1.4	-
	_____	_____
Cash Used in Financing Activities	(234.2)	(164.8)
	_____	_____
Change in Cash and Cash Equivalents from Continuing Operations	(55.1)	(15.0)
Cash and Cash Equivalents at Beginning of Period	73.2	35.6
	_____	_____
Cash and Cash Equivalents at End of Period	\$18.1	\$20.6
	_____	_____
Supplemental Information - Cash Paid For		
Interest (net of amount capitalized)	\$110.8	\$98.8
Income taxes (net of refunds)	\$46.3	\$100.3

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

WISCONSIN ENERGY CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1 -- GENERAL INFORMATION

Our accompanying unaudited consolidated condensed financial statements should be read in conjunction with Item 8, Financial Statements and Supplementary Data, in our 2005 Annual Report on Form 10-K. In the opinion of management, we have included all adjustments, normal and recurring in nature, necessary to a fair presentation of the results of operations, cash flows and financial position in the accompanying income statements, statements of cash flows and balance sheets. The results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the results which may be expected for the entire fiscal year 2006 because of seasonal and other factors.

Modifications to Prior Statements:

We have modified certain income statement and cash flows presentations. Prior year financial statement amounts have been reclassified to conform to their current year presentation. These reporting changes had no impact on total earnings per share or cash provided, or used in, operating, investing or financing activities.

The most significant reclassifications relate to the reporting of discontinued operations pursuant to Statement of Financial Accounting Standards (SFAS) 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Previously, these were included as components of continuing operations. Prior year financial statement amounts have been reclassified to conform to their current year presentation. These reclassifications had no effect on total earnings per share.

We have changed the presentation of the investing activities within our nuclear decommissioning trusts on the accompanying Consolidated Condensed Statements of Cash Flows to present proceeds from investments within the nuclear decommissioning trusts and purchases of investments within the nuclear decommissioning trusts. Previously, these items were excluded from the Consolidated Statements of Cash Flows as the nuclear decommissioning trusts are considered restricted investments. This reporting change had no impact on net cash provided by, or used in, operating, investing or financing activities.

Interim Accounting for Electric Fuel Revenues:

For 2006, Wisconsin Electric will have to refund to customers any electric fuel revenues that it receives that are in excess of fuel and purchased power costs that it incurs, as defined by the Wisconsin fuel rules. We do not recognize revenue for any amounts that are currently billable if it is probable that we will refund those amounts to customers.

2 -- POWER THE FUTURE

In July 2005, the first unit at Port Washington Generating Station (PWGS) was placed in service. This asset has a cost of approximately \$364.3 million which includes approximately \$31.1 million of capitalized interest. The asset is being depreciated over its estimated useful life of approximately 37 years. The cost of the plant, plus a return, is expected to be recovered through Wisconsin Electric's rates over a 25 year period at an annual amount of approximately \$48 million.

We capitalize interest expense during the construction of our *Power the Future* power plants. For the three months ended June 30, 2006 and 2005, we capitalized \$7.3 million and \$7.9 million of interest costs at an average rate of 6.4% for each period. For the six months ended June 30, 2006 and 2005, we capitalized \$13.3 million and \$14.9 million of interest costs at an average rate of 6.5% for each period.

7

Under the lease agreements associated with our *Power the Future* plants, we are able to recover from utility customers the carrying costs associated with the construction of these power plants. We defer these carrying costs on our balance sheet and they will be amortized to revenue over the individual lease term. For the three months ended June 30, 2006 and 2005, we deferred \$17.2 million and \$17.7 million of carrying costs at an average rate of 14% for each period. For the six months ended June 30, 2006 and 2005, we deferred \$31.0 million and \$33.7 million of carrying costs at an average rate of 14% for each period.

3 -- DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

The earnings of the assets identified below are reflected in discontinued operations in the accompanying Consolidated Condensed Income Statements. The combined operating revenues for these operations were approximately \$5.6 million and \$5.7 million for the three months ended June 30, 2006 and 2005, and approximately \$10.7 million and \$11.1 million for the six months ended June 30, 2006 and 2005.

Minergy Neenah:

In August 2005, we announced our intent to sell Minergy Neenah. In July 2006, Minergy Corp. signed a purchase agreement with Thermagen Power Group, LLC for the sale of 100% of the membership interests in Minergy Neenah. We expect to complete the sale of Minergy Neenah in the third quarter of 2006. The sale of Minergy Neenah is subject to regulatory approval and satisfaction of other conditions.

The primary assets of Minergy Neenah are the Glass Aggregate Plant and related operating contracts. The plant recycles paper sludge from paper mills into electricity, steam and a glass aggregate product. The largest source of revenue for Minergy Neenah is from a long-term steam contract with a nearby paper mill owned by P.H. Glatfelter Company (Glatfelter). Glatfelter permanently closed the mill as of June 30, 2006. Minergy Neenah is owed a termination fee due to the mill closing. We expect that the net effect of the sale of the plant and the termination fee from Glatfelter will be insignificant. We do not expect that the sale of our plant will have a material financial impact on Wisconsin Energy as we have previously recorded impairment charges on this asset to reflect an expected realizable value.

Wisvest - Calumet:

Effective May 31, 2005, we sold our Calumet facility for approximately \$37.0 million in cash to Tenaska Power Fund, L.P. (Tenaska). The primary assets of Calumet were a 308-megawatt natural gas-fired peaking power facility in Chicago, Illinois and related operating contracts. This transaction generated a gain on sale of approximately \$4.7 million and approximately \$32.0 million in cash tax benefits.

4 -- COMMON EQUITY

Comprehensive Income:

Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to owners. We recorded the following total comprehensive income during the six months ended June 30, 2006 and 2005:

Comprehensive Income	Six Months Ended June 30	
	2006	2005
	(Millions of Dollars)	
Net Income	\$168.6	\$151.9
Other Comprehensive Income (Loss)		
Hedging	0.2	(0.3)
Total Other Comprehensive Income (Loss)	0.2	(0.3)
Total Comprehensive Income	\$168.8	\$151.6

Share-Based Compensation Plans:

Effective January 1, 2006, we adopted SFAS 123R, Share-Based Payment, using the modified prospective method and using a binomial pricing model to estimate the fair value of stock options granted subsequent to December 31, 2005. Prior to January 1, 2006, we accounted for share based compensation under Accounting Principles Board Opinion 25 (APB 25), Accounting for Stock Issued to Employees, and we disclosed the pro forma impact of share based compensation expense under SFAS 123, Accounting for Stock-Based Compensation. Historically, all stock options have been granted with an exercise price equal to the fair market value of the common stock on the date of grant and expire no later than ten years from the grant date. Accordingly, no compensation expense was recognized in connection with option grants. All options granted subsequent to December 31, 2004 vest on a cliff-basis after a three year period. Prior to January 1, 2006, we reported benefits of tax deductions in excess of recognized compensation costs as operating cash flows. SFAS 123R requires that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid.

We utilize the straight-line attribution method for recognizing stock-based compensation expense under SFAS 123R. We recorded compensation expense, net of tax, for stock option awards made to our employees and directors of \$1.2 million (\$0.01 per share) and \$2.3 million (\$0.02 per share) for the three and six months ended June 30, 2006. Tax benefits associated with our stock-based compensation arrangements for the three and six months ended June 30, 2006 were \$0.4 million and \$2.2 million.

Edgar Filing: WISCONSIN ENERGY CORP - Form 10-Q

Results for the three and six months ended June 30, 2005 have not been restated. Had compensation expense for employee stock options been determined based on fair value at the grant date consistent with SFAS 123R, our net income and earnings per share for the three and six months ended June 30, 2005 would have been reduced to the pro forma amounts indicated below.

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
	(Millions of Dollars, Except Per Share Amounts)	
Net Income		
As reported	\$62.0	\$151.9
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	0.5	0.9
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	1.0	2.0
Pro forma	<u>\$61.5</u>	<u>\$150.8</u>
Basic Earnings Per Common Share		
As reported	\$0.53	\$1.30
Pro forma	\$0.53	\$1.29
Diluted Earnings Per Common Share		
As reported	\$0.52	\$1.28
Pro forma	\$0.52	\$1.27

In the first six months of 2006, the Compensation Committee of the Board of Directors granted 1,292,275 options that had an estimated weighted average grant date fair value of \$7.55 per share using a binomial option-pricing model. In the first six months of 2005, the Compensation Committee of the Board of Directors granted 1,328,966 options that had an estimated grant date fair value of \$8.32 per share using the Black-Scholes model. The following assumptions were used to value the options in the indicated grant year:

9

	Grants	
	2006	2005
Risk free interest rate	4.3% - 4.4%	4.4%

Edgar Filing: WISCONSIN ENERGY CORP - Form 10-Q

Dividend yield	2.4%	2.5%
Expected volatility	17% - 20%	19%
Expected life (years)	6.31	10

The risk-free interest rate is based on the U.S. Treasury interest rate whose term is consistent with the expected life of the stock options. Dividend yield, expected volatility and expected life assumptions, for 2006, are based on our historical experience.

Our 1993 Omnibus Stock Incentive Plan, as amended (OSIP), as approved by stockholders, enables us to provide a long-term incentive through equity interests in Wisconsin Energy, to outside directors, selected officers and key employees of the Company. The OSIP provides for the granting of stock options, stock appreciation rights, stock awards and performance shares. Awards may be paid in common stock, cash or a combination thereof.

The exercise price of a stock option under the OSIP is to be no less than 100% of the common stock's fair market value on the grant date and options may not be exercised within six months of the grant date except in the event of a change in control. In December 2004, the Compensation Committee of the Board of Directors approved the acceleration of vesting of all unvested options awarded to executive officers and other key employees in 2002, 2003 and 2004. Options granted subsequent to December 31, 2004 are non-qualified stock options which vest on a cliff-basis after a three year period. Generally, options expire no later than ten years from the date of grant.

The following is a summary of our stock option activity through the three and six months ended June 30, 2006.

Stock Options	Number of Options	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding at April 1, 2006	8,611,108	\$29.97	
Granted	-	\$ -	
Exercised	(73,777)	\$26.21	
Forfeited	-	\$ -	
Outstanding at June 30, 2006	<u>8,537,331</u>	\$30.01	6.9
Outstanding at January 1, 2006	7,569,619	\$28.10	
Granted	1,292,275	\$39.48	
Exercised	(324,563)	\$23.22	
Forfeited	-	\$ -	
Outstanding at June 30, 2006	<u>8,537,331</u>	\$30.01	6.9

The aggregate intrinsic value of stock options exercised during the three and six months ended June 30, 2006 was approximately \$1.1 million and \$5.6 million.

The following table summarizes information about stock options outstanding at June 30, 2006:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number	Weighted -Average Exercise Price	Life (years)	Number	Weighted-Average Exercise Price	Life (years)
\$10.86 to \$19.97	338,983	\$18.60	3.4	338,983	\$18.60	3.4
\$20.39 to \$23.05	1,454,203	\$22.00	5.2	1,454,203	\$22.00	5.2
\$25.31 to \$27.65	1,858,279	\$25.73	5.9	1,849,394	\$25.73	5.9
\$29.13 to \$39.48	4,885,866	\$34.81	8.1	2,273,141	\$32.51	7.0
	<u>8,537,331</u>	\$30.01	6.9	<u>5,915,721</u>	\$27.01	6.0
Aggregate Intrinsic Value (Millions)	Options Outstanding			Options Exercisable		
June 30, 2006	\$87.9			\$78.6		

The following table summarizes the status of our non-vested options:

Non-Vested Stock Options	Number of Options	Weighted- Average Fair Value
Non-vested at April 1, 2006	2,633,279	\$7.94
Granted	-	\$ -
Vested	(11,669)	\$6.83
Forfeited	-	\$ -
Non-vested at June 30, 2006	<u>2,621,610</u>	\$7.94
Non-vested at January 1, 2006	1,360,153	\$8.30
Granted	1,292,275	\$7.55
Vested	(30,818)	\$7.18
Forfeited	-	\$ -
Non-vested at June 30, 2006	<u>2,621,610</u>	\$7.94

The total fair value of options vesting during the three and six months ended June 30, 2006 was approximately \$0.2 million and \$0.3 million. As of June 30, 2006, total compensation cost related to non-vested stock options not yet recognized was approximately \$12.8 million, which is expected to be recognized over the next 25 months on a weighted average basis.

The Compensation Committee has also approved restricted stock grants to certain key employees and directors. The following restricted stock activity occurred during the three and six months ended June 30, 2006:

11

Restricted Shares	Number of Shares	Weighted- Average Market Price
Outstanding at April 1, 2006	210,980	
Granted	829	\$39.19
Released / Forfeited	(9,468)	\$31.30
Outstanding at June 30, 2006	<u>202,341</u>	
Outstanding at January 1, 2006	193,657	
Granted	18,152	\$39.97
Released / Forfeited	(9,468)	\$31.30
Outstanding at June 30, 2006	<u>202,341</u>	

Recipients of the restricted shares, who have the right to vote the shares and to receive dividends, are not required to provide consideration to us other than rendering service. Forfeiture provisions on the restricted stock generally expire 10 years after award grant, subject to an accelerated expiration schedule based on the achievement of certain financial performance goals.

We record the market value of the restricted stock awards on the date of grant and then we charge their value to expense over the vesting period of the awards. We also adjust expense for acceleration of vesting due to achievement of performance goals.

In January 2004, the Compensation Committee granted 159,159 performance shares to officers and other key employees. In January 2006 and 2005 the Compensation Committee granted 150,281 and 101,834 performance units to officers and other key employees under the Wisconsin Energy Performance Unit Plan. Under the grants, the ultimate number of units which will be awarded is dependent upon the achievement of certain financial performance of our stock over a three year period. Under the terms of the award, participants may earn between 0% and 175% of the base performance award. We are accruing compensation costs over the three year period based on our estimate of

the final expected value of the award. The 2004 grant will be settled in common stock or cash. The 2005 and 2006 grants will be settled in cash.

Common Stock Activity:

No new shares of common stock were issued during the six months ended June 30, 2006. During the first six months of 2006, we received proceeds of \$7.6 million related to the exercise of stock options, compared with \$37.7 million during the same period in 2005. We instructed our plan agent to purchase common stock in the open market at a cost of \$13.1 million to fulfill the exercised stock options in the first six months of 2006, compared with \$59.9 million during the same period in 2005. This cost is included in purchase of common stock on our Consolidated Condensed Statements of Cash Flows.

5 -- ASSET RETIREMENT OBLIGATIONS

Our asset retirement obligations under SFAS 143, Accounting for Asset Retirement Obligations, primarily relate to the future decommissioning costs for our Point Beach Nuclear Plant (Point Beach) and to asbestos related removal costs associated with other power plants. Our asset retirement obligations at June 30, 2006 were \$364.0 million.

We adopted Financial Accounting Standards Board (FASB) Interpretation 47 (FIN 47), Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS 143, effective December 31, 2005. FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset

12

retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The adoption of FIN 47 had no effect on net income due to the regulatory treatment of asset retirement costs.

If we had adopted interpretation FIN 47 at the beginning of fiscal 2005, we would have reported the following asset retirement obligations on our Consolidated Condensed Balance Sheets in "Asset Retirement Obligations:"

<u>Asset Retirement Obligations</u>	<u>June 30, 2006</u>	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Reported	\$364.0	\$355.5	\$762.2
Pro forma	\$364.0	\$355.5	\$798.4

The most significant asset retirement obligation is for Point Beach. The liability decreased significantly from December 31, 2004 to December 31, 2005 due to an updated Decommissioning Cost Study that had lower estimated costs to decommission the plant than the previous study. For further information regarding the change in the asset retirement obligation between December 31, 2005 and 2004 see Note F -- Asset Retirement Obligations and Note I -- Nuclear Operations in our 2005 Annual Report on Form 10-K.

6 -- DERIVATIVE INSTRUMENTS

We follow SFAS 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS 149, an amendment of SFAS 133 on Derivative Instruments and Hedging Activities, which requires that every derivative instrument be recorded on the balance sheet as an asset or liability measured at its fair value and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. For most energy related physical and financial contracts in our regulated operations that qualify as derivatives under SFAS 133, the Public Service Commission of Wisconsin (PSCW) allows the effects of the fair market value accounting to be offset to regulatory assets and liabilities.

7 -- BENEFITS

The components of our net periodic pension and other post-retirement benefit costs for the three and six months ended June 30, 2006 and 2005 were as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2006	2005	2006	2005
	(Millions of Dollars)			
<u>Three Months Ended June 30</u>				
Net Periodic Benefit Cost				
Service cost	\$7.9	\$7.7	\$2.8	\$4.1
Interest cost	17.5	17.1	4.4	5.8
Expected return on plan assets	(20.8)	(22.4)	(3.8)	(5.8)
Amortization of:				
Transition obligation	-	0.1	0.2	0.8
Prior service cost (credit)	1.4	1.3	(3.4)	0.2
Actuarial loss	5.6	6.1	2.0	1.6
Net Periodic Benefit Cost	<u>\$11.6</u>	<u>\$9.9</u>	<u>\$2.2</u>	<u>\$6.7</u>

13

	Pension Benefits		Other Post-retirement Benefits	
	2006	2005	2006	2005
	(Millions of Dollars)			
<u>Six Months Ended June 30</u>				
Net Periodic Benefit Cost				

Edgar Filing: WISCONSIN ENERGY CORP - Form 10-Q

Service cost	\$17.0	\$16.6	\$6.2	\$6.9
Interest cost	34.9	34.8	9.0	11.0
Expected return on plan assets	(41.0)	(43.8)	(7.5)	(7.7)
Amortization of:				
Transition obligation	-	-	0.2	0.8
Prior service cost (credit)	2.7	2.6	(6.8)	0.3
Actuarial loss	11.7	10.4	4.4	3.6
Net Periodic Benefit Cost	<u>\$25.3</u>	<u>\$20.6</u>	<u>\$5.5</u>	<u>\$14.9</u>

Employee Benefit Plans and Post-retirement Benefits:

In October 2005, we announced that we were offering to our retirees a Medicare Advantage program as an option within our existing post-retirement medical and drug plans. The Medicare Advantage program is part of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The program offers post-65 medical and drug benefits through private insurance carriers. The Medicare Advantage program is expected to reduce the cost of post-65 medical and drug costs for our retirees and us. Due to this change, we remeasured the fair value of our other post-retirement plans in the fourth quarter of 2005 in accordance with SFAS 106, Employer's Accounting for Post-Retirement Benefits Other than Pensions. As a result of the Medicare Advantage program, our 2006 other post-retirement costs for the three and six months ended June 30, 2006 are less than our 2005 costs in the comparative periods.

8 -- GUARANTEES

We enter into various guarantees to provide financial and performance assurance to third parties on behalf of affiliates. As of June 30, 2006, we had the following guarantees:

	Maximum Potential Future Payments	Outstanding at June 30, 2006	Liability Recorded at June 30, 2006
	(Millions of Dollars)		
Wisconsin Energy Non-Utility Energy	\$ -	\$ -	\$ -
Other	7.0	7.0	-
Wisconsin Electric Subsidiary	235.2 10.8	0.1 10.5	- -
Total	<u>\$253.0</u>	<u>\$17.6</u>	<u>\$ -</u>

A Non-Utility Energy segment guarantee in support of Wisvest-Connecticut, which we sold in December 2002 to PSEG, provides financial assurance for potential obligations relating to environmental remediation under the original purchase agreement for Wisvest-Connecticut with United Illuminating. The potential obligations for environmental remediation, which are unlimited, are reimbursable by PSEG under the terms of the sale agreement in the event that we are required to perform under the guarantee.

Other guarantees support obligations of our affiliates to third parties under loan agreements and surety bonds. In the event our affiliates fail to perform, we would be responsible for the obligations.

Wisconsin Electric guarantees the potential retrospective premiums that could be assessed under Wisconsin Electric's nuclear insurance program.

Subsidiary guarantees support loan obligations and surety bonds between our affiliates and third parties. In the event our affiliates fail to perform, our subsidiary would be responsible for the obligations.

Postemployment benefits:

Postemployment benefits provided to former or inactive employees are recognized when an event occurs. The estimated liability, excluding severance benefits, for such benefits was \$19.7 million as of June 30, 2006 and \$17.3 million as of December 31, 2005.

9 -- SEGMENT INFORMATION

Summarized financial information concerning our reportable operating segments for the three and six month periods ended June 30, 2006 and 2005 is shown in the following table.

Wisconsin Energy Corporation	Reportable Operating Segments		Corporate & Other (a) & Reconciling Items	Total Consolidated
	Utility	Non-Utility		
(Millions of Dollars)				
<u>Three Months Ended</u>				
June 30, 2006				
Operating Revenues (b)	\$812.3	\$20.2	(\$18.1)	\$814.4
Operating Income (Loss)	\$98.6	\$11.5	(\$3.0)	\$107.1
Interest Expense	\$26.5	\$3.6	\$12.5	\$42.6
Income Tax Expense	\$35.6	\$3.7	(\$6.8)	\$32.5
Income from Discontinued Operations, Net	\$ -			