WISCONSIN ENERGY CORP
Form 10-K
February 28, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2011

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 Par Value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [ ] No [X]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

The aggregate market value of the common stock of Wisconsin Energy Corporation held by non-affiliates was approximately $7.3 billion based upon the reported closing price of such securities as of June 30, 2011.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date (January 31, 2012):

Common Stock, $.01 Par Value,	230,461,537 shares outstanding

Documents Incorporated by Reference

Portions of Wisconsin Energy Corporation's Definitive Proxy Statement on Schedule 14A for its Annual Meeting of Stockholders, to be held on May 3, 2012, are incorporated by reference into Part III hereof.

2011 Form 10-K

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DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

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

Primary Subsidiaries	
We Power	W.E. Power, LLC
Wisconsin Electric	Wisconsin Electric Power Company
Wisconsin Gas	Wisconsin Gas LLC
Significant Assets	
OC 1	Oak Creek expansion Unit 1
OC 2	Oak Creek expansion Unit 2
PWGS	Port Washington Generating Station
PWGS 1	Port Washington Generating Station Unit 1
PWGS 2	Port Washington Generating Station Unit 2
VAPP	Valley Power Plant
Other Subsidiaries and Affiliates	
ATC	American Transmission Company LLC
ERGSS	Elm Road Generating Station Supercritical, LLC
ERS	Elm Road Services, LLC
Minergy	Minergy LLC
WECC	Wisconsin Energy Capital Corporation
Wispark	Wispark LLC
Wisvest	Wisvest LLC
Federal and State Regulatory Agencies	
DOE	United States Department of Energy
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
IRS	Internal Revenue Service
MPSC	Michigan Public Service Commission
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission
WDNR	Wisconsin Department of Natural Resources
Environmental Terms	
Act 141	2005 Wisconsin Act 141
BART	Best Available Retrofit Technology
BTA	Best Technology Available
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAVR	Clean Air Visibility Rule
CO_2	Carbon Dioxide
CSAPR	Cross-State Air Pollution Rule
FIP	Federal Implementation Plan
MACT	Maximum Achievable Control Technology
MATS	Mercury and Air Toxics Standards

NODA Notice of Data Availability

DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

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

NOV	Notice of Violation
NO_x	Nitrogen Oxide
$PM_{2.5}$	Fine Particulate Matter
SIP	State Implementation Plan
SO_2	Sulfur Dioxide

Other Terms and Abbreviations	
AQCS	Air Quality Control System
ARRs	Auction Revenue Rights
Bechtel	Bechtel Power Corporation
Compensation Committee	Compensation Committee of the Board of Directors
CPCN	Certificate of Public Convenience and Necessity
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Edison Sault	Edison Sault Electric Company
ERISA	Employee Retirement Income Security Act of 1974
Exchange Act	Securities Exchange Act of 1934, as amended
Fitch	Fitch Ratings
FTRs	Financial Transmission Rights
GCRM	Gas Cost Recovery Mechanism
GDP	Gross Domestic Product
Junior Notes	Wisconsin Energy's 2007 Series A Junior Subordinated Notes due 2067 issued in May 2007
LLC	Limited Liability Company
LMP	Locational Marginal Price
MISO	Midwest Independent Transmission System Operator, Inc.
MISO Energy Markets	MISO Energy and Operating Reserves Market
Moody's	Moody's Investor Service
NYMEX	New York Mercantile Exchange
OTC	Over-the-Counter
Plan	The Wisconsin Energy Corporation Retirement Account Plan
Point Beach	Point Beach Nuclear Power Plant
PTF	Power the Future
PUHCA 2005	Public Utility Holding Company Act of 2005
RCC	Replacement Capital Covenant dated May 11, 2007
RSG	Revenue Sufficiency Guarantee
RTO	Regional Transmission Organization
Settlement Agreement	Settlement Agreement and Release between ERS and Bechtel effective as of December 16, 2009
S&P	Standard & Poor's Ratings Services
WPL	Wisconsin Power and Light Company, a subsidiary of Alliant Energy Corp.

Measurements	
Btu	British Thermal Unit(s)
Dth	Dekatherm(s) (One Dth equals one million Btu)

kW	Kilowatt(s) (One kW equals one thousand Watts)

DEFINITION OF ABBREVIATIONS AND INDUSTRY TERMS

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

kWh	Kilowatt-hour(s)
MW	Megawatt(s) (One MW equals one million Watts)
MWh	Megawatt-hour(s)
Watt	A measure of power production or usage

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (Exchange Act). These statements are based upon management's current expectations and are subject to risks and uncertainties that could cause our actual results to differ materially from those contemplated in the statements. Readers are cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements include, among other things, statements concerning management's expectations and projections regarding earnings, completion of construction projects, regulatory matters, on-going legal proceedings, fuel costs, sources of electric energy supply, coal and gas deliveries, remediation costs, environmental and other capital expenditures, liquidity and capital resources and other matters. In some cases, forward-looking statements may be identified by reference to a future period or periods or by the use of forward-looking terminology such as "anticipates," "believes," "estimates," "expects," "forecasts," "goals," "guidance," "intends," "may," "objectives," "plans," "possible," "potential," "projects," "seeks," "should," "targets" or similar terms or variations of these terms.

Actual results may differ materially from those set forth in forward-looking statements. In addition to the assumptions and other factors referred to specifically in connection with these statements, factors that could cause our actual results to differ materially from those contemplated in any forward-looking statements or otherwise affect our future results of operations and financial condition include, among others, the following:

- Factors affecting utility operations such as catastrophic weather-related or terrorism-related damage; cyber-security threats and disruptions to our technology network; availability of electric generating facilities; unscheduled generation outages, or unplanned maintenance or repairs; unanticipated events causing scheduled generation outages to last longer than expected; unanticipated changes in fossil fuel, purchased power, coal supply, gas supply or water supply costs or availability due to higher demand, shortages, transportation problems or other developments; unanticipated changes in the cost or availability of materials needed to operate new environmental controls at our electric generating facilities or replace and/or repair our electric and gas distribution systems; nonperformance by electric energy or natural gas suppliers under existing power purchase or gas supply contracts; environmental incidents; electric transmission or gas pipeline system constraints; unanticipated organizational structure or key personnel changes; collective bargaining agreements with union employees or work stoppages; or inflation rates.

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

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

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

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

- The impact of recent and future federal, state and local legislative and regulatory changes, including any changes in rate-setting policies or procedures; electric and gas industry restructuring initiatives; transmission or distribution system operation and/or administration initiatives; any required changes in facilities or operations to reduce the risks or impacts of potential terrorist activities or cybersecurity threats; required approvals for new construction, and the

siting approval process for new generation and transmission facilities and new pipeline construction; changes to the Federal Power Act and related regulations and enforcement thereof by the Federal Energy Regulatory Commission (FERC) and other regulatory agencies; changes in allocation of energy assistance, including state public benefits funds; changes in environmental, tax and other laws and regulations to which we are subject; changes in the application of existing laws and regulations; and changes in the interpretation or enforcement of permit conditions by the permitting agencies.

- Restrictions imposed by various financing arrangements and regulatory requirements on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances.

- Current and future litigation, regulatory investigations, proceedings or inquiries, including FERC matters and IRS audits and other tax matters.

- Failure of the court to approve the settlement agreement reached in the lawsuit against the Wisconsin Energy Corporation Retirement Account Plan (Plan).

- Events in the global credit markets that may affect the availability and cost of capital.

- Other factors affecting our ability to access the capital markets, including general capital market conditions; our capitalization structure; market perceptions of the utility industry, us or any of our subsidiaries; and our credit ratings.

- The investment performance of our pension and other post-retirement benefit trusts.

- The financial performance of American Transmission Company LLC (ATC) and its corresponding contribution to our earnings.

- The impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and any regulations promulgated thereunder.

- The impact of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 and any related regulations.

- The effect of accounting pronouncements issued periodically by standard setting bodies, including any changes in regulatory accounting policies and practices and any requirement for U.S. registrants to follow International Financial Reporting Standards (IFRS) instead of Generally Accepted Accounting Principles (GAAP).

- Unanticipated technological developments that result in competitive disadvantages and create the potential for impairment of existing assets.

- Changes in the creditworthiness of the counterparties with whom we have contractual arrangements, including participants in the energy trading markets and fuel suppliers and transporters.

- The ability to obtain and retain short- and long-term contracts with wholesale customers.

- The cyclical nature of property values that could affect our real estate investments.

- Changes to the legislative or regulatory restrictions or caps on non-utility acquisitions, investments or projects, including the state of Wisconsin's public utility holding company law.

- Foreign governmental, economic, political and currency risks.

- Other business or investment considerations that may be disclosed from time to time in our Securities and Exchange Commission (SEC) filings or in other publicly disseminated written documents, including the risk factors set forth in Item 1A of this report.

We expressly disclaim any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS

INTRODUCTION

Wisconsin Energy Corporation was incorporated in the state of Wisconsin in 1981 and became a diversified holding company in 1986. We maintain our principal executive offices in Milwaukee, Wisconsin. Unless qualified by their context when used in this document, the terms Wisconsin Energy, the Company, our, us or we refer to the holding company and all of its subsidiaries.

We conduct our operations primarily in two operating segments: a utility energy segment and a non-utility energy segment. Our primary subsidiaries are Wisconsin Electric Power Company (Wisconsin Electric), Wisconsin Gas LLC (Wisconsin Gas) and W.E. Power, LLC (We Power).

Utility Energy Segment: Our utility energy segment consists of Wisconsin Electric and Wisconsin Gas, operating together under the trade name of "We Energies." We Energies serves approximately 1,122,500 electric customers in Wisconsin and the Upper Peninsula of Michigan. We Energies serves approximately 1,068,200 gas customers in Wisconsin and approximately 465 steam customers in metropolitan Milwaukee, Wisconsin.

Non-Utility Energy Segment: Our non-utility energy segment consists primarily of We Power, which owns and leases to Wisconsin Electric generation plants constructed as part of our PTF strategy. All four of the plants constructed as part of PTF have been placed in service. Port Washington Generating Station Unit 1 (PWGS 1) and Port Washington Generating Station Unit 2 (PWGS 2) are being leased to Wisconsin Electric under long-term leases that run for 25 years. Oak Creek expansion Unit 1 (OC 1) and Oak Creek expansion Unit 2 (OC 2) are being leased to Wisconsin Electric under long-term leases that run for 30 years.

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

Reclassifications: On January 20, 2011, our Board of Directors approved a two-for-one stock split of our common stock, which was effected through a stock dividend. New shares were distributed on March 1, 2011 to stockholders of record at the close of business on February 14, 2011. All share and per share information in this report has been restated for all periods presented to reflect this stock split.

Our annual and periodical filings with the SEC are available, free of charge, through our Internet website www.wisconsinenergy.com. These documents are available as soon as reasonably practicable after such materials are filed (or furnished) with the SEC.

UTILITY ENERGY SEGMENT

ELECTRIC UTILITY OPERATIONS

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

Wisconsin Electric participates in the MISO Energy Markets. The competitiveness of our generation offered in the MISO Energy Markets affects how our generating units are dispatched and how we buy and sell power. For further information, see Factors Affecting Results, Liquidity and Capital Resources in Item 7.

Electric Sales

Our electric energy sales to all classes of customers totaled approximately 31.3 million MWh during 2011 and approximately 30.5 million MWh during 2010. We had approximately 1,122,500 electric customers as of December 31, 2011 and 1,120,200 electric customers as of December 31, 2010.

Wisconsin Electric is authorized to provide retail electric service in designated territories in the state of Wisconsin, as established by indeterminate permits, Certificates of Public Convenience and Necessity (CPCNs) or boundary agreements with other utilities, and in certain territories in the state of Michigan pursuant to franchises granted by municipalities. Wisconsin Electric also sells wholesale electric power within the MISO Energy Markets.

Electric Sales Growth: Our service territory continued to experience growth in 2011 in sustained recovery from the significant economic recession that occurred during late 2008 and 2009. Our normalized 2011 retail electric sales, excluding our two largest customers, two iron ore mines, were approximately 0.4% higher than our normalized 2010 electric sales. As we look toward 2012 and beyond, we presently anticipate that total retail electric kWh sales of our utility energy segment and the associated peak electric demand will grow at annual rates of 0.5% to 1.0% over the next five years. These estimates assume normal weather and exclude the two iron ore mines.

Sales to Large Electric Retail Customers: We provide electric utility service to a diversified base of customers in such industries as mining, paper, foundry, food products and machinery production, as well as to large retail chains.

Our largest retail electric customers are two iron ore mines located in the Upper Peninsula of Michigan. The combined electric energy sales to the two mines accounted for 7.1% and 6.9% of our total electric utility energy sales during 2011 and 2010, respectively. The mines have notified us that they expect production at one of the mines to be reduced in 2012.

Sales to Wholesale Customers: During 2011, we sold wholesale electric energy to one municipally owned system, two rural cooperatives and two municipal joint action agencies located in the states of Wisconsin and Michigan. Our wholesale electric energy sales were also made to 14 other public utilities and power marketers throughout the region under rates approved by FERC. Wholesale sales accounted for approximately 13.1% of our total electric energy sales and 7.0% of total electric operating revenues during 2011, compared with 10.2% of total electric energy sales and 6.0% of total electric operating revenues during 2010.

Electric System Reliability Matters: Our electric sales are impacted by seasonal factors and varying weather conditions. We sell more electricity during the summer months because of the residential cooling load. The Public Service Commission of Wisconsin (PSCW) has planning reserve requirements consistent with the MISO calculated planning reserve margin. The Michigan Public Service Commission (MPSC) has not yet established guidelines in this area. In accordance with the MISO calculated planning reserve margin requirements, we had adequate capacity to meet all of our firm electric load obligations during 2011 and expect to have adequate capacity to meet all of our firm obligations during 2012. For additional information, see Factors Affecting Results, Liquidity and Capital Resources in Item 7.

Electric Supply

Our electric supply strategy is to provide our customers with energy from plants using a diverse fuel mix that is expected to maintain a stable, reliable and affordable supply of electricity. We supply a significant amount of electricity to our customers from power plants that we own. We supplement our internally generated power supply with long-term power purchase agreements, including the Point Beach Nuclear Power Plant (Point Beach) power purchase agreement discussed later in this report, and through spot purchases in the MISO Energy Markets.

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

	Dependable Capability in MW (a)		
	2011	2010	2009
Coal (b)	3,880	3,646	3,131

Natural Gas - Combined Cycle	1,090	1,090	1,090
Natural Gas/Oil - Peaking Units (c)	1,150	1,150	1,150
Renewables (d)	118	86	86
Total	6,238	5,972	5,457

(a) Dependable capability is the net power output under average operating conditions with equipment in an average state of repair as of a given month in a given year. The values were established by test and may change slightly from year to year.

(b) The increase in 2011 as compared to 2010 reflects the January 2011 in-service date of OC 2, partially offset by the March 2011 sale of our interest in Edgewater Generating Unit 5. The increase in 2010 as compared to 2009 reflects the February 2010 in-service date of OC 1. Our share of the dependable capability of OC 1 and OC 2 is 528 MW each.

(c) The dual-fueled facilities generally burn oil only if natural gas is not available due to constraints on the natural gas pipeline and/or at the local gas distribution company that delivers gas to the plants.

(d) Includes hydroelectric and wind generation. The increase in 2011 as compared to 2010 reflects the December 2011 in-service date of the Glacier Hills Wind Park. For purposes of measuring dependable capability, the 162 MW Glacier Hills Wind Park has a dependable capability of 32 MW and the 145 MW Blue Sky Green Field wind project has a dependable capability of 29 MW.

The table below indicates our sources of electric energy supply as a percentage of sales for the three years ended December 31, 2011, as well as an estimate for 2012:

	Estimate 2012		Actual 2011		2010		2009	
Coal	48.6	%	54.2	%	53.9	%	52.8	%
Wind	2.0	%	1.0	%	1.0	%	1.2	%
Hydroelectric	1.1	%	1.0	%	1.0	%	0.8	%
Natural Gas -Combined Cycle	8.2	%	6.6	%	8.4	%	7.6	%
Natural Gas/Oil-Peaking Units	0.1	%	0.1	%	0.3	%	0.2	%
Net Generation	60.0	%	62.9	%	64.6	%	62.6	%
Purchased Power	40.0	%	37.1	%	35.4	%	37.4	%
Total	100.0	%	100.0	%	100.0	%	100.0	%

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

	2011	2010	2009
Coal	$29.78	$26.44	$25.01
Natural Gas - Combined Cycle	$38.02	$43.14	$51.67
Natural Gas/Oil - Peaking Units	$119.83	$97.36	$121.18
Purchased Power	$42.79	$43.11	$42.21

Historically, the fuel costs for coal have been under long-term contracts, which helped with price stability. Coal and associated transportation services have continued to see volatility in pricing due to increased domestic and world-wide demand for coal and the impacts of diesel costs which are incorporated into fuel surcharges on rail transportation.

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

Coal-Fired Generation

Coal Supply: We diversify the coal supply for our power plants by purchasing coal from mines in Wyoming, Pennsylvania and Montana, as well as from various other states. During 2012, 100% of our projected coal

requirements of 9.7 million tons are under contracts which are not tied to 2012 market pricing fluctuations. At the end of 2011, our coal-fired generation consisted of six operating plants with a dependable capability of approximately 3,880 MW.

The annual tonnage amounts contracted for 2012 through 2014 are as follows:

Year	Annual Tonnage (Thousands)
2012	9,868
2013	6,205
2014	3,270

Coal Deliveries: Approximately 100% of our 2012 coal requirements are expected to be delivered by Wisconsin Electric-owned or leased unit trains. The unit trains will transport coal for the Oak Creek and Pleasant Prairie Power Plants from Wyoming mines, and transport coal for the Oak Creek expansion units from Pennsylvania and West Virginia. Coal from a Montana mine is also transported via rail to Lake Michigan transfer docks and delivered by lake vessel to the Milwaukee harbor for Milwaukee-based power plants. Montana and Wyoming coal for the Presque Isle Power Plant is transported via rail to Superior, Wisconsin, placed in dock storage and reloaded into lake vessels for plant delivery.

Certain of our coal transportation contracts contain fuel cost adjustments that are tied to changes in diesel fuel and crude oil prices. Currently, diesel fuel contracts are not actively traded; therefore, we use financial heating oil contracts to mitigate risk related to diesel fuel prices. We have a PSCW-approved hedging program that allows us to hedge up to 75% of our potential risks related to fuel surcharge exposure. The costs of this program are included in our fuel and purchased power costs.

Edgewater Generating Unit 5: On March 1, 2011, we sold our 25% interest in Edgewater Generating Unit 5 to Wisconsin Power and Light Company, a subsidiary of Alliant Energy Corp. (WPL), for our net book value, including working capital, of approximately $38 million.

Environmental Matters: For information regarding emission restrictions, especially as they relate to coal-fired generating facilities, see Factors Affecting Results, Liquidity and Capital Resources -- Environmental Matters in Item 7.

Natural Gas-Fired Generation

Our natural gas-fired generation consists of four operating plants with a dependable capability of approximately 1,983 MW as of December 31, 2011.

We purchase natural gas for these plants on the spot market from gas marketers, utilities and producers and we arrange for transportation of the natural gas to our plants. We have firm and interruptible transportation, balancing and storage agreements intended to support the plants' variable usage.

We have a PSCW-approved hedging program that allows us to hedge up to 65% of our estimated gas usage for electric generation in order to help manage our natural gas price risk. The costs of this program are included in our fuel and purchased power costs.

Oil-Fired Generation

Fuel oil is used for the combustion turbines at the Germantown Power Plant units 1-4, boiler ignition and flame stabilization at the Presque Isle Power Plant, and diesel engines at the Pleasant Prairie Power Plant and Valley Power Plant (VAPP). Our oil-fired generation had a dependable capability of approximately 257 MW as of December 31,

2011. Our natural gas-fired peaking units have the ability to burn oil if natural gas is not available due to delivery constraints. Fuel oil requirements are purchased under agreements with suppliers.

Renewable Generation

Hydroelectric: Wisconsin Electric's hydroelectric generating system consists of 13 operating plants with a total installed capacity of approximately 88 MW and a dependable capability of approximately 57 MW as of December 31, 2011. Of these 13 plants, 12 plants (86 MW of installed capacity) have long-term licenses from

FERC. The thirteenth plant, with an installed generating capacity of approximately 2 MW, is operated under a permit granted by another agency of the federal government.

Wind: The Blue Sky Green Field wind farm project, which has 88 turbines with an installed capacity of 145 MW and a dependable capability of 29 MW, commenced commercial operation in May 2008. The Glacier Hills Wind Park, which has 90 turbines with an installed capacity of 162 MW and a dependable capability of 32 MW, commenced commercial operation in December 2011.

Biomass: We are constructing a biomass-fueled power plant at Domtar Corporation's Rothschild, Wisconsin paper mill site. Wood waste and wood shavings will be used to produce approximately 50 MW of renewable electricity and will also support Domtar's sustainable papermaking operations. Construction commenced on June 27, 2011. We currently expect to invest between $245 million and $255 million, excluding Allowance for Funds Used During Construction (AFUDC), in the plant and we expect the plant to be completed during the fall of 2013.

Power Purchase Commitments

We enter into short and long-term power purchase commitments to meet a portion of our anticipated electric energy supply needs. The following table identifies our power purchase commitments as of December 31, 2011 with unaffiliated parties for the next five years:

Year	MW
2012	1,440
2013	1,269
2014	1,269
2015	1,269
2016	1,269

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

Electric Transmission and Energy Markets

American Transmission Company: ATC is a regional transmission company that owns, maintains, monitors and operates electric transmission systems in Wisconsin, Michigan and Illinois. ATC is expected to provide comparable service to all customers, including Wisconsin Electric, and to support effective competition in energy markets without favoring any market participant. ATC is regulated by FERC for all rate terms and conditions of service and is a transmission-owning member of MISO. MISO maintains operational control of ATC's transmission system, and Wisconsin Electric is a non-transmission owning member and customer of MISO. We owned approximately 26.2% of ATC as of December 31, 2011 and 2010. For additional information, see Note Q -- Related Parties in the Notes to Consolidated Financial Statements.

In April 2011, ATC and Duke Energy announced the creation of a joint venture, Duke-American Transmission Company (DATC), that will build, own and operate new electric transmission infrastructure in North America to address increasing demand for affordable, reliable transmission capacity.

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

Electric Utility Operating Statistics

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

SELECTED CONSOLIDATED ELECTRIC UTILITY OPERATING DATA

Year Ended December 31	2011	2010	2009	2008	2007
Operating Revenues (Millions)					
Residential	$1,159.2	$1,114.3	$977.6	$962.5	$915.5
Small Commercial/Industrial	1,006.9	922.2	860.3	869.7	840.6
Large Commercial/Industrial	763.7	677.1	599.4	646.3	664.2
Other - Retail	22.9	21.9	21.2	20.8	19.2
Total Retail Revenues	2,952.7	2,735.5	2,458.5	2,499.3	2,439.5
Wholesale - Other	154.0	134.6	116.7	77.7	83.5
Resale - Utilities	69.5	40.4	47.5	37.7	110.7
Other Operating Revenues	35.1	25.8	62.3	45.9	40.9
Total Operating Revenues	$3,211.3	$2,936.3	$2,685.0	$2,660.6	$2,674.6
MWh Sales (Thousands)					
Residential	8,278.5	8,426.3	7,949.3	8,277.1	8,416.1
Small Commercial/Industrial	8,795.8	8,823.3	8,571.6	9,023.7	9,185.4
Large Commercial/Industrial	9,992.2	9,961.5	9,140.3	10,691.7	11,036.7
Other - Retail	153.6	155.3	156.5	161.5	162.4
Total Retail Sales	27,220.1	27,366.4	25,817.7	28,154.0	28,800.6
Wholesale - Other	2,024.8	2,004.6	1,529.4	2,620.7	1,939.6
Resale - Utilities	2,065.7	1,103.8	1,548.9	881.0	1,920.7
Total Sales	31,310.6	30,474.8	28,896.0	31,655.7	32,660.9
Customers - End of Year (Thousands)					
Residential	1,005.5	1,003.6	1,001.2	999.1	995.6
Small Commercial/Industrial	113.8	113.5	113.1	112.6	110.8
Large Commercial/Industrial	0.7	0.7	0.7	0.7	0.7
Other	2.5	2.4	2.4	2.4	2.4
Total Customers	1,122.5	1,120.2	1,117.4	1,114.8	1,109.5
Customers - Average (Thousands)	1,121.0	1,118.7	1,115.5	1,111.8	1,105.5
Degree Days (a)					
Heating (6,615 Normal)	6,633	6,183	6,825	7,073	6,508
Cooling (709 Normal)	793	944	475	593	800

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

GAS UTILITY OPERATIONS

Our gas utility operations consist of Wisconsin Gas and the gas operations of Wisconsin Electric, both operating under the trade name of "We Energies." We are authorized to provide retail gas distribution service in designated territories in the state of Wisconsin, as established by indeterminate permits, CPCNs, or boundary agreements with other utilities. We also transport customer-owned gas. We are the largest natural gas distribution utility in Wisconsin and we operate throughout the state, including the City of Milwaukee, west and south of the City of Milwaukee, the Appleton area and areas within Iron and Vilas Counties.

Gas Deliveries

Our gas utility business is highly seasonal due to the heating requirements of residential and commercial customers, and annual gas sales are impacted by the variability of winter temperatures.

Total gas therms delivered, including customer-owned transported gas, were approximately 2,154.1 million therms during 2011, a 2.3% increase compared with 2010. As of December 31, 2011, we were transporting gas for approximately 1,400 customers who purchased gas directly from other suppliers. Transported gas accounted for approximately 41.8% of the total volumes delivered during 2011, 43.5% during 2010 and 40.4% during 2009. We had approximately 1,068,200 and 1,064,500 gas customers as of December 31, 2011 and 2010, respectively. Our peak daily send-out during 2011 was 1,545,577 Dth on February 9, 2011.

Sales to Large Gas Customers: We provide gas utility service to a diversified base of industrial customers who are largely within our electric service territory. Major industries served include the paper, food products and fabricated metal products industries. Fuel used for Wisconsin Electric's electric generation represents our largest transportation customer.

Gas Deliveries Growth: We currently forecast total retail therm deliveries (excluding natural gas deliveries for generation) to stay flat over the five-year period ending December 31, 2016 as new customer additions are expected to be offset by a reduction in the average use per customer. This forecast reflects a current year normalized sales level and normal weather.

Competition

Competition in varying degrees exists between natural gas and other forms of energy available to consumers. A number of our large commercial and industrial customers are dual-fuel customers that are equipped to switch between natural gas and alternate fuels. We are allowed to offer lower-priced gas sales and transportation services to dual-fuel customers. Under gas transportation agreements, customers purchase gas directly from gas marketers and arrange with interstate pipelines and us to have the gas transported to their facilities. We earn substantially the same margin (difference between revenue and cost of gas) whether we sell and transport gas to customers or only transport their gas.

Our ability to maintain our share of the industrial dual-fuel market depends on our success and the success of third-party gas marketers in obtaining long-term and short-term supplies of natural gas at competitive prices compared to other sources and in arranging or facilitating competitively-priced transportation service for those customers that desire to buy their own gas supplies.

Federal and state regulators continue to implement policies to bring more competition to the gas industry. While the gas utility distribution function is expected to remain a highly regulated, monopoly function, the sale of the natural gas commodity and related services are expected to remain subject to competition from third parties. It remains uncertain

if and when the current economic disincentives for small customers to choose an alternative gas commodity supplier may be removed such that we begin to face competition for the sale of gas to our smaller firm customers.

Gas Supply, Pipeline Capacity and Storage

We have been able to meet our contractual obligations with both our suppliers and our customers despite periods of severe cold in recent heating seasons.

Pipeline Capacity and Storage: The interstate pipelines serving Wisconsin originate in major gas producing areas of North America: the Oklahoma and Texas basins, the Gulf of Mexico, western Canada and the Rocky Mountains. We have contracted for long-term firm capacity from a number of these sources. This strategy reflects management's belief that overall supply security is enhanced by geographic diversification of the supply portfolio.

Due to the daily and seasonal variations in gas usage in Wisconsin, we have also contracted for substantial underground storage capacity, primarily in Michigan. We target storage levels at approximately 35% of winter demand. Storage capacity, along with our gas purchase contracts, enables us to manage significant changes in daily demand and to optimize our overall gas supply and capacity costs. We generally inject gas into storage during the spring and summer months when demand is lower and withdraw it in the winter months. As a result, we can contract for less long-line pipeline capacity during periods of peak usage than would otherwise be necessary and can purchase gas on a more uniform daily basis from suppliers year-round. Each of these capabilities enables us to reduce our overall costs.

We hold firm daily transportation and storage capacity entitlements from pipelines and other service providers under long-term contracts.

Term Gas Supply: We have contracts for firm supplies with terms in excess of 30 days with suppliers for gas acquired in the Chicago, Illinois market hub and in the producing areas discussed above. The pricing of the term contracts is based upon first of the month indices. Combined with our storage capability, management believes that the volume of gas under contract is sufficient to meet our forecasted firm peak-day demand.

Secondary Market Transactions: Capacity release is a mechanism by which pipeline long-line and storage capacity and gas supplies under contract can be resold in the secondary market. Local distribution companies, like Wisconsin Gas and Wisconsin Electric, must contract for capacity and supply sufficient to meet the firm peak-day demand of their customers. Peak or near peak demand days generally occur only a few times each year. Capacity release facilitates higher utilization of contracted capacity and supply during those times when the full contracted capacity and supply are not needed by the utility, helping to mitigate the fixed costs associated with maintaining peak levels of capacity and gas supply. Through pre-arranged agreements and day-to-day electronic bulletin board postings, interested parties can purchase this excess capacity and supply. The proceeds from these transactions are passed through to rate payers, subject to the Wisconsin Electric and Wisconsin Gas approved Gas Cost Recovery Mechanisms (GCRMs). During 2011, we continued to participate in the capacity release market. See Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters in Item 7 for information on the GCRMs.

Spot Market Gas Supply: We expect to continue to make gas purchases in the 30-day spot market as price and other circumstances dictate. We have supply relationships with a number of sellers from whom we purchase spot gas.

Hedging Gas Supply Prices: We have PSCW approval to hedge (i) up to 45% of planned flowing gas supply using New York Mercantile Exchange (NYMEX) based natural gas options and (ii) up to 15% of planned flowing gas supply using NYMEX based natural gas future contracts. Those approvals allow both Wisconsin Electric and Wisconsin Gas to pass 100% of the hedging costs (premiums and brokerage fees) and proceeds (gains and losses) to rate payers through their respective GCRMs. Hedge targets (volumes) are provided annually to the PSCW as part of each company's three-year gas supply plan and risk management filing.

To the extent that opportunities develop and our physical supply operating plans will support them, we also have PSCW approval to utilize NYMEX based natural gas derivatives to capture favorable forward market price differentials. That approval provides for 100% of the related proceeds to accrue to our GCRMs.

Gas Utility Operating Statistics

The following table shows certain gas utility operating statistics for the past five years:
SELECTED CONSOLIDATED GAS UTILITY OPERATING DATA

Year Ended December 31	2011	2010	2009	2008	2007
Operating Revenues (Millions)					
Residential	$737.4	$754.2	$856.6	$1,057.6	$934.3
Commercial/Industrial	369.9	373.1	442.9	572.4	485.4
Interruptible	9.4	11.8	11.9	21.3	17.5
Total Retail Gas Sales	1,116.7	1,139.1	1,311.4	1,651.3	1,437.2
Transported Gas	49.2	48.0	44.8	47.2	48.4
Other Operating Revenues	15.3	3.1	11.7	(3.9)	(4.4)
Total Operating Revenues	$1,181.2	$1,190.2	$1,367.9	$1,694.6	$1,481.2
Therms Delivered (Millions)					
Residential	776.8	741.2	803.4	841.8	791.7
Commercial/Industrial	461.7	429.6	479.4	503.2	461.9
Interruptible	16.0	19.4	19.1	23.0	22.7
Total Retail Gas Sales	1,254.5	1,190.2	1,301.9	1,368.0	1,276.3
Transported Gas	899.6	914.9	882.0	905.8	921.6
Total Therms Delivered	2,154.1	2,105.1	2,183.9	2,273.8	2,197.9
Customers - End of Year (Thousands)					
Residential	975.2	971.7	967.7	963.9	957.9
Commercial/Industrial	91.5	91.3	91.1	91.0	90.2
Interruptible	0.1	0.1	0.1	0.1	0.1
Transported Gas	1.4	1.4	1.3	1.4	1.3
Total Customers	1,068.2	1,064.5	1,060.2	1,056.4	1,049.5
Customers - Average (Thousands)	1,064.1	1,060.2	1,055.6	1,050.2	1,042.8
Degree Days (a)					
Heating (6,615 Normal)	6,633	6,183	6,825	7,073	6,508

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

OTHER UTILITY OPERATIONS

Steam Utility Operations: Our steam utility generates, distributes and sells steam supplied by our VAPP and Milwaukee County Power Plant. We operate a district steam system in downtown Milwaukee and the near south side of Milwaukee. Steam is supplied to this system from VAPP, a coal-fired cogeneration facility. We also operate the steam production and distribution facilities of the Milwaukee County Power Plant located on the Milwaukee County Grounds in Wauwatosa, Wisconsin.

Annual sales of steam fluctuate from year to year based upon system growth and variations in weather conditions. During 2011, the steam utility had $39.0 million of operating revenues from the sale of 2,733 million pounds of steam compared with $38.8 million of operating revenues from the sale of 2,740 million pounds of steam during 2010. As of December 31, 2011 and 2010, steam was used by approximately 465 customers and 460 customers, respectively, for processing, space heating, domestic hot water and humidification.

UTILITY RATE MATTERS

See Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters in Item 7.

NON-UTILITY ENERGY SEGMENT

Our non-utility energy segment consists primarily of generating plants constructed as part of our PTF strategy. As of December 31, 2011, our PTF assets represented virtually all of our non-utility energy segment assets.

We Power

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

Our PTF strategy was designed to address Wisconsin Electric's electric supply needs by increasing the electric generating capacity in Wisconsin while allowing us to maintain a diversified fuel mix, by including both new coal-fired plants and natural-gas fired plants. Because of the significant investment necessary to construct these generating units, we constructed the plants under Wisconsin's Leased Generation Law, which became effective in August 2001 and allows a non-utility affiliate to construct an electric generating facility and lease it to the public utility. The law allows a public utility that has entered into a lease approved by the PSCW to recover fully in its retail electric rates that portion of any payments under the lease that the PSCW has allocated to the public utility's Wisconsin retail electric service, and all other costs that are prudently incurred in the public utility's operation and maintenance of the electric generating facility allocated to the utility's Wisconsin retail electric service. In addition, the PSCW may not modify or terminate a lease it has approved under the Leased Generation Law except as specifically provided in the lease or the PSCW's order approving the lease. This law effectively created regulatory certainty in light of the significant investment being made to construct the units. All four PTF units were constructed under leases approved by the PSCW. For additional background information on our PTF strategy, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Corporate Developments - Corporate Strategy - Power the Future Strategy and - Factors Affecting Results, Liquidity and Capital Resources - Power the Future in Item 7 of our Form 10-K for the year ended December 31, 2007.

For further information about our PTF strategy, see Factors Affecting Results, Liquidity and Capital Resources -- Power the Future in Item 7.

Wisvest LLC

Wisvest was originally formed to develop, own and operate electric generating facilities and to invest in other energy-related entities. As a result of the change in corporate strategy to focus on our PTF strategy, Wisvest discontinued its development activity. As of December 31, 2011, Wisvest's sole operating asset and investment is Wisvest Thermal Energy Services, which provides chilled water services to the Milwaukee Regional Medical Center.

OTHER NON-UTILITY OPERATIONS

Wispark LLC and Bostco LLC

Wispark and Bostco develop and invest in real estate, and combined had $85.0 million in real estate holdings as of December 31, 2011. Wispark has developed several business parks and other commercial real estate projects, primarily in southeastern Wisconsin.

REGULATION

Wisconsin Energy Corporation

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

Non-Utility Asset Cap: Pursuant to the non-utility asset cap provisions of Wisconsin's public utility holding company law, the sum of certain assets of all non-utility affiliates in a holding company system may not exceed 25% of the assets of all public utility affiliates. However, among other items, the law exempts energy-related assets, including the generating plants constructed by We Power as part of our PTF strategy and assets used for providing environmental engineering services and for processing waste materials, from being counted against the asset cap provided that they are employed in qualifying businesses. As a result of these exemptions, our non-utility assets are significantly below the non-utility asset cap as of December 31, 2011.

Utility Energy Segment

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

Wisconsin Electric is subject to the Federal Power Act and the corresponding regulations developed by certain federal agencies. The Energy Policy Act amended the Federal Power Act in 2005 to, among other things, make electric utility industry consolidation more feasible, authorize FERC to review proposed mergers and the acquisition of generation facilities, change the FERC regulatory scheme applicable to qualifying cogeneration facilities and modify certain other aspects of energy regulations and Federal tax policies applicable to Wisconsin Electric. Additionally, the Energy Policy Act created an Electric Reliability Organization to be overseen by FERC, which established mandatory electric reliability standards and which has the authority to levy monetary sanctions for failure to comply with these standards.

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

Resources in Item 7.

The following table compares the source of our utility energy segment operating revenues by regulatory jurisdiction for each of the three years in the period ended December 31, 2011:

	2011 Amount	Percent		2010 Amount	Percent		2009 Amount	Percent	
	(Millions of Dollars)								
Electric									
Wisconsin - Retail	$2,775.8	86.4	%	$2,568.3	87.5	%	$2,379.2	88.6	%
Michigan - Retail	212.0	6.6	%	193.0	6.6	%	141.6	5.3	%
FERC - Wholesale	223.5	7.0	%	175.0	5.9	%	164.2	6.1	%
Total	3,211.3	100.0	%	2,936.3	100.0	%	2,685.0	100.0	%
Gas - Wisconsin - Retail	1,181.2	100.0	%	1,190.2	100.0	%	1,367.9	100.0	%
Steam - Wisconsin - Retail	39.0	100.0	%	38.8	100.0	%	39.1	100.0	%
Total Utility Operating Revenues	$4,431.5			$4,165.3			$4,092.0		

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

Public Benefits and Renewable Portfolio Standard

Wisconsin Act 141 establishes a goal that 10% of all electricity consumed in Wisconsin be generated by renewable resources by December 31, 2015. Under this act, we must meet certain minimum requirements for renewable energy generation. For the years 2010 through 2014, we must increase our percentage of total retail energy sales provided by renewable sources (renewable energy percentage) by at least two percentage points from our baseline renewable percentage of 2.27% to a level of 4.27%. Act 141 defines "baseline renewable percentage" as the average of an energy provider's renewable energy percentage for 2001, 2002 and 2003. As of December 31, 2011, we are in compliance with the Wisconsin renewable energy percentage of 4.27%. Act 141 further requires that for the year 2015 and beyond, the renewable energy percentage must increase at least six percentage points above the baseline to a level of 8.27%. In addition, under this Act, 1.5% of utilities' annual operating revenues were required to be used to fund energy conservation programs in 2011. The funding required by Act 141 decreased to 1.2% of annual operating revenues in 2012.

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

For additional information on Act 141 and current renewable projects, see Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters - Renewables, Efficiency and Conservation and Utility Rates and Regulatory Matters - Renewable Energy Portfolio in Item 7.

Non-Utility Energy Segment

We Power was formed to design, construct, own and lease the new generating capacity in our PTF strategy. We Power owns the interests in the companies that constructed this new generating capacity (collectively, the We Power project companies). These facilities are being leased on a long-term basis to Wisconsin Electric. We Power received

determinations from FERC that upon the transfer of the facilities by lease to Wisconsin Electric, the We Power project companies are not deemed public utilities under the Federal Power Act and thus are not subject to FERC's jurisdiction.

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

ENVIRONMENTAL COMPLIANCE

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

Expenditures for environmental compliance and remediation issues are included in anticipated capital expenditures described in Liquidity and Capital Resources in Item 7. For discussion of additional environmental issues, see Environmental Matters in Item 3. For further information concerning air and water quality standards and rulemaking initiated by the EPA, including estimated costs of compliance, see Factors Affecting Results, Liquidity and Capital Resources -- Environmental Matters in Item 7. For a discussion of matters related to certain solid waste and coal combustion product landfills, manufactured gas plant sites and air quality, see Note R -- Commitments and Contingencies in the Notes to Consolidated Financial Statements in Item 8.

Compliance with federal, state and local environmental protection requirements resulted in capital expenditures by Wisconsin Electric of approximately $120.3 million in 2011 compared with $215.5 million in 2010. Expenditures incurred during 2011 and 2010 primarily included costs associated with the installation of pollution abatement facilities at Wisconsin Electric's power plants. These expenditures are expected to be approximately $71.0 million during 2012, reflecting the addition of Nitrogen Oxide (NO_x), Sulfur Dioxide (SO_2) and other pollution control equipment needed to comply with various rules promulgated by the EPA. Operation, maintenance and depreciation expenses for fly ash removal equipment and other environmental protection systems were approximately $79.0 million and $76.2 million during 2011 and 2010, respectively.

Coal Combustion Product Fills and Landfills

We currently have a program of beneficial utilization for substantially all of our coal combustion products, including fly ash, bottom ash and gypsum, which minimizes the need for disposal in specially-designed landfills. Some early designed and constructed coal combustion product landfills, which we used prior to developing this program, may allow the release of low levels of constituents resulting in the need for various levels of remediation. Where we have become aware of these conditions, efforts have been made to define the nature and extent of any release, and work has been performed to address these conditions. In addition, fill areas for coal ash were used prior to the introduction of landfill regulations. Sites currently undergoing review include the following:

Oak Creek Site Landfills: Groundwater impacts identified near the sites, located in the Village of Caledonia and the City of Oak Creek, Wisconsin, prompted Wisconsin Electric to begin investigation in 2009 for the source of impacts found in monitoring wells on the site and surrounding area. Preliminary results indicate that the groundwater impacts may be naturally occurring or are from other sources based on groundwater flow direction and increasing concentrations of elements deeper in the ground. The WDNR began sampling work in 2011 to identify the source of the impacts.

See Item 3 Legal Proceedings -- Environmental Matters for a discussion of the bluff collapse at our Oak Creek Power Plant.

OTHER

Research and Development: We had immaterial research and development expenditures in the last three years, primarily for improvement of service and abatement of air and water pollution by our electric utility operations. Research and development activities include work done by employees, consultants and contractors, plus sponsorship of research by industry associations.

Employees: As of December 31, 2011, we had the following number of employees:

	Total Employees	Represented Employees
Utility Energy Segment		
Wisconsin Electric	4,133	2,685
Wisconsin Gas	450	314
Total	4,583	2,999
Non-Utility Energy Segment	7	—
Other	5	—
Total Employees	4,595	2,999

The employees represented under labor agreements were with the following bargaining units as of December 31, 2011:

	Number of Employees	Expiration Date of Current Labor Agreement
Wisconsin Electric		
Local 2150 of International Brotherhood of Electrical Workers	1,853	August 15, 2012
Local 317 of International Union of Operating Engineers	548	March 31, 2013
Local 2006 Unit 5 of United Steel Workers	159	October 31, 2013
Local 510 of International Brotherhood of Electrical Workers	125	April 30, 2012
Total Wisconsin Electric	2,685	
Wisconsin Gas		
Local 2150 of International Brotherhood of Electrical Workers	85	August 15, 2012
Local 2006 Unit 1 of United Steel Workers	223	November 1, 2012
Local 2006 Unit 3 of United Steel Workers	6	February 28, 2013
Total Wisconsin Gas	314	
Total Represented Employees	2,999	

ITEM 1A. RISK FACTORS

Risks Related to the Operation of Our Business

Our business is significantly impacted by governmental regulation.

We are subject to significant state, local and federal governmental regulation. We are subject to the regulation of the PSCW as to retail electric, gas and steam rates in the state of Wisconsin, standards of service, issuance of securities, short-term debt obligations, construction of certain new facilities, transactions with affiliates, billing practices and various other matters. In addition, we are subject to the regulation of the MPSC as to the various matters associated with retail electric service in the state of Michigan, except as to the issuance of securities in the ordinary course of business, construction of certain new facilities, levels of short-term debt obligations and advance approval of transactions with affiliates in the ordinary course of business. Further, Wisconsin Electric's hydroelectric facilities are regulated by FERC, and FERC also regulates our wholesale power service practices, electric reliability requirements, and participation in the interstate natural gas pipeline capacity market. Our significant level of regulation imposes restrictions on our operations and causes us to incur substantial compliance costs.

We are obligated to comply in good faith with all applicable governmental rules and regulations. If it is determined that we failed to comply with any applicable rules or regulations, whether through new interpretations or applications of the regulations or otherwise, we may be liable for customer refunds, penalties and other amounts, which could materially and adversely affect our results of operations and financial condition.

We estimate that within our regulated energy segment, approximately 86% of our electric revenues are regulated by the PSCW, 7% are regulated by the MPSC and the balance of our electric revenues is regulated by FERC. All of our natural gas and steam revenues are regulated by the PSCW. Our ability to obtain rate adjustments in the future is dependent upon regulatory action, and there can be no assurance that we will be able to obtain rate adjustments in the future that will allow us to recover our costs and expenses and to maintain our current authorized rates of return.

We believe we have obtained the necessary permits, approvals and certificates for our existing operations and that our respective businesses are conducted in accordance with applicable laws; however, the impact of any future revision or changes in interpretations of existing regulations or the adoption of new laws and regulations applicable to us cannot be predicted. Changes in regulation, interpretations of regulations or the imposition of additional regulations could influence our operating environment and may result in substantial compliance costs.

Governmental agencies could modify our permits, authorizations or licenses.

Wisconsin Electric and Wisconsin Gas are required to comply with the terms of various permits, authorizations and licenses. These permits, authorizations and licenses may be revoked or modified by the agencies that granted them if facts develop that differ significantly from the facts assumed when they were issued. In addition, discharge permits and other approvals and licenses are often granted for a term that is less than the expected life of the associated facility. Licenses and permits may require periodic renewal, which may result in additional requirements being imposed by the granting agency.

Also, if we are unable to obtain, renew or comply with these governmental permits, authorizations or licenses, or if we are unable to recover any increased costs of complying with additional license requirements or any other associated costs in our rates in a timely manner, our results of operations and financial condition could be materially and adversely affected.

Factors beyond our control could adversely affect project costs and completion of major construction projects.

We are in the process of constructing new renewable generation and adding environmental controls equipment to existing generating facilities. These types of large construction projects are subject to usual construction risks over which we will have limited or no control and which might adversely affect project costs and completion time. These risks include, but are not limited to, shortages of, the ability to obtain or the cost of labor or materials; the ability of the contractors to perform under their contracts; strikes; adverse weather conditions; the ability to obtain necessary operating permits in a timely manner; legal challenges; changes in applicable law or regulations; adverse interpretation or enforcement of permit conditions, laws and regulations by courts or the permitting agencies; other

governmental actions; and events in the global economy.

If we are unable to complete the development or construction of a facility or decide to delay or cancel construction, we may not be able to recover our investment in the facility and may incur substantial cancellation payments under equipment and construction contracts. Even if a construction project is completed, the total costs may be higher than estimated and/or higher than amounts approved by our regulators, and there is no guarantee that we will be allowed to recover these costs in rates. In addition, construction delays can result in the delay of revenues and, therefore, could affect our results of operations.

We estimate that the final cost of the Oak Creek expansion is approximately $181 million, or 8.3%, over the amount initially approved by the PSCW, of which our share is approximately $154 million. This additional amount includes the amounts payable to Bechtel Power Corporation (Bechtel) pursuant to the Settlement Agreement. The order approving the Oak Creek expansion provides that if final costs are within 5% of the costs initially approved by the PSCW, and the additional costs are deemed to be prudent by the PSCW, the final lease payments for the Oak Creek expansion to be recovered from Wisconsin Electric's ratepayers would be adjusted to reflect the actual construction costs. Costs above the 5% cap would not be included in lease payments or recovered from customers absent a finding by the PSCW that such costs were prudently incurred and were the result of force majeure conditions, an excused event and/or an event of loss. In addition, the leases provided for a guaranteed in-service date of September 29, 2009 for OC 1 and September 29, 2010 for OC 2, and imposed liquidated damages of $250,000 per day, of which Elm Road Generating Station Supercritical, LLC's (ERGSS) share is approximately $208,350 per day, for failure to achieve the guaranteed in-service date unless the delays resulted from force majeure conditions or an excused event. ERGSS is entitled to receive its share of liquidated damages from Bechtel for each day Bechtel failed to achieve the same guaranteed in-service dates, unless the delays resulted from force majeure conditions or an excused event. Bechtel was granted total schedule relief of 120 days for OC 1 and 81 days for OC 2. All liquidated damages collected are for the benefit of Wisconsin Electric's customers. There is no guarantee that the PSCW will grant ERGSS the same schedule relief. In light of the weather delays incurred on the project and other factors, we expect to request authorization from the PSCW to recover all costs associated with the units and to grant relief from liquidated damages. If the PSCW does not allow Wisconsin Electric to collect our share of the additional costs or grant ERGSS the same schedule relief, our results of operations could be adversely affected.

Customer growth in our service areas affects our results of operations.

Our results of operations are affected by customer growth in our service areas. Customer growth can be affected by population growth as well as economic factors in Wisconsin and the Upper Peninsula of Michigan, including job and income growth. Customer growth directly influences the demand for electricity and gas, and the need for additional power generation and generating facilities. Population declines and/or business closings in our service territories or slower than anticipated customer growth has a negative impact on our results of operations and cash flow.

Energy sales are impacted by seasonal factors and varying weather conditions from year-to-year.

Our electric and gas utility businesses are generally seasonal businesses. Demand for electricity is greater in the summer and winter months associated with cooling and heating. In addition, demand for natural gas peaks in the winter heating season. As a result, our overall results in the future may fluctuate substantially on a seasonal basis. In addition, we have historically had lower revenues and net income when weather conditions are milder. Our rates in Wisconsin are set by the PSCW based on estimated temperatures which approximate 20-year averages. Mild temperatures during the summer cooling season and during the winter heating season will negatively impact the results of operations and cash flows of our electric utility business. In addition, mild temperatures during the winter heating season negatively impact the results of operations and cash flows of our gas utility business.

Severe weather events, such as floods, droughts, tornadoes and blizzards, could result in substantial damage to or limit the operation of our facilities.

Severe weather events could result in substantial damage to our electric generating and gas distribution facilities, as well as ATC's transmission lines. Our hydroelectric generation operations could be adversely affected if there is a significant change in water levels in their respective waterways. In addition, a significant reduction in water levels in waterways that supply cooling water to our coal- and natural gas-fired power plants, whether by drought or otherwise, could restrict or prevent the operation of such facilities.

In the event we experience any of these weather events or other natural disaster, recovery of any costs in excess of any reserves or applicable insurance is subject to the approval of the PSCW and/or MPSC. There is no guarantee that we will be allowed to fully recover any such costs or that cost recovery will not be delayed or otherwise conditioned. Any denial or delay in recovery of any such costs could adversely affect our results of operations and cash flows.

In addition, damages resulting from severe weather events within our service territories may result in the loss of customers and reduced demand for electricity and natural gas for extended periods. Any significant loss of customers or reduction in demand could adversely affect our results of operations and cash flows.

Our financial performance may be adversely affected if we are unable to successfully operate our facilities.

Our financial performance depends on the successful operation of our electric generating and gas distribution facilities. Operation of these facilities involves many risks, including: operator error and breakdown or failure of equipment processes; fuel supply interruptions; labor disputes; operating limitations that may be imposed by environmental or other regulatory requirements; or catastrophic events such as fires, earthquakes, explosions, floods or other similar occurrences. Unplanned outages can result in additional maintenance expenses as well as incremental replacement power costs. A decrease in revenues from these facilities or an increase in operating costs could adversely affect our results of operations and cash flows.

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

As a holding company, our ability to meet our financial obligations and pay dividends on our common stock is dependent upon the ability of our subsidiaries to pay amounts to us, whether through dividends or other payments. The ability of our subsidiaries to pay amounts to us will depend on the earnings, cash flows, capital requirements and general financial condition of our subsidiaries and on regulatory limitations. Prior to distributing cash to Wisconsin Energy, our subsidiaries have financial obligations that must be satisfied, including among others, debt service and preferred stock dividends. Our subsidiaries also have dividend payment restrictions based on the terms of their outstanding preferred stock and regulatory limitations applicable to them. In addition, each of the bank back-up credit facilities for Wisconsin Energy, Wisconsin Electric and Wisconsin Gas have specified total funded debt to capitalization ratios that must be maintained. Wisconsin Energy's subsidiaries are separate legal entities and have no obligation to provide us with funds for our payment obligations.

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

Wisconsin Electric burns natural gas in several of its peaking power plants and in PWGS 1 and PWGS 2, and as a supplemental fuel at several coal-fired plants. In many instances the cost of purchased power is tied to the cost of natural gas. Disruption in the supply of natural gas due to a curtailment in production or distribution can increase the cost of natural gas, as can international market conditions and demand for natural gas. Higher natural gas costs can have the effect of increasing demand for other sources of fuel thereby increasing the costs of those fuels as well.

For Wisconsin customers, Wisconsin Electric bears the risk for the recovery of fuel and purchased power costs within a symmetrical two percent fuel tolerance band compared to the forecast of fuel and purchased power costs established in its rate structure. Our gas distribution business receives dollar for dollar recovery of the cost of natural gas, subject to tolerance bands and prudency review. However, increased natural gas costs increase the risk that customers will switch to alternative sources of fuel or reduce their usage, which could reduce future gas margins. In addition, an increase in natural gas costs combined with slower economic conditions could also expose us to greater risks of accounts receivable write-offs as more customers are unable to pay their bills. Additionally, high natural gas costs increase our working capital requirements.

We may not be able to obtain an adequate supply of coal, which could limit our ability to operate our coal-fired facilities.

We are dependent on coal for much of our electric generating capacity. Although we currently have an adequate supply of coal at our coal-fired facilities, there can be no assurance that we will continue to have an adequate supply of coal in the future. While we have coal supply and transportation contracts in place, there can be no assurance that the counterparties to these agreements will be able to fulfill their obligations to supply coal to us. The suppliers under these agreements may experience financial or operational problems that inhibit their ability to fulfill

their obligations to us. In addition, suppliers under these agreements may not be required to supply coal to us under certain circumstances, such as in the event of a natural disaster. Furthermore, international demand for coal can impact its availability and cost. If we significantly reduce our inventory of coal and are unable to obtain our coal requirements under our coal supply and transportation contracts, we may be required to purchase coal at higher prices, or we may be forced to reduce generation at our coal units and replace this lost generation from higher cost generating resources or through additional power purchases in the MISO Energy Markets.

Acts of terrorism could materially and adversely affect our financial condition and results of operations.

Our electric generation and gas distribution facilities, including the facilities of third parties on which we rely, could be targets of terrorist activities. A terrorist attack on our facilities (or those of third parties) could result in a full or partial disruption of our ability to generate, transmit, transport, purchase or distribute electricity or natural gas or cause environmental repercussions. Any operational disruption or environmental repercussions could result in a significant decrease in our revenues or significant reconstruction or remediation costs, which could materially and adversely affect our results of operations and financial condition.

We could be the subject of cyber intrusions that disrupt our electric generation and gas distribution operations and/or result in security breaches that expose us to a risk of loss or misuse of confidential and proprietary information, litigation and potential liability.

Cyber intrusions, including those targeting the electronic control systems used at our generating facilities and for the electric and gas distribution systems, could result in a full or partial disruption of our electric generation and/or gas distribution operations. Any disruption of these operations could result in a loss of service to customers and a significant decrease in revenues, as well as significant expense to repair system damage and remedy security breaches. Furthermore, we may need to obtain more expensive purchased power to meet customer demand for electricity if our electric generating facilities are unable to operate at full capacity as a result of a cyber intrusion. Any resulting loss of revenue or increase in expense could have a material adverse effect on our results of operations, cash flow and financial condition.

In addition, any theft, loss and/or fraudulent use of customer, stockholder, employee or proprietary data as a result of cyber intrusion or otherwise could subject us to significant litigation, liability and costs, as well as adversely impact our reputation with customers, stockholders and regulators, among others.

As cyber attacks become more sophisticated generally, we may be required to incur significant costs to strengthen our information and electronic control systems from outside intrusions and/or to obtain insurance coverage related to the threat of such attacks.

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

Wisconsin Electric is subject to mandatory reliability and critical infrastructure protection standards established by the North American Electric Reliability Corporation. The critical infrastructure protection standards focus on controlling access to critical and physical and cybersecurity assets. Compliance with the mandatory reliability standards could subject Wisconsin Electric to higher operating costs. If Wisconsin Electric is found to be in noncompliance with the mandatory reliability standards, it could be subject to sanctions, including substantial monetary penalties.

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

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

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

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

The use of derivative contracts could result in financial losses.

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

The Dodd-Frank Act could impact our use of over-the-counter (OTC) derivatives. Regulations to implement the Dodd-Frank Act could impose additional requirements on the use of OTC derivatives, which could affect both the use and cost of OTC derivatives. The impact, if any, cannot be determined until the regulations are finalized.

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

FERC rules related to transmission are designed to facilitate competition in the wholesale electricity markets among regulated utilities, non-utility generators, wholesale power marketers and brokers by providing greater flexibility and more choices to wholesale customers, including initiatives designed to encourage the integration of renewable sources of supply. In addition, along with transactions contemplating physical delivery of energy, futures contracts and derivatives are traded on various commodities exchanges. We currently cannot predict the impact of these developments or the effect of changes in levels of wholesale supply and demand, which are driven by factors beyond our control.

Restructuring in the regulated energy industry could have a negative impact on our business.

The regulated energy industry continues to experience significant structural changes. Increased competition in the retail and wholesale markets, which may result from restructuring efforts, could have a significant adverse financial impact on us. It is uncertain when retail access might be implemented in Wisconsin; however, Michigan has adopted retail choice which allows customers to choose their own electric generation supplier. Although competition and customer switching to alternative suppliers in our service territories in Michigan has been limited, the additional competitive pressures resulting from retail access could lead to a loss of customers and our incurring stranded costs.

FERC continues to support the existing RTOs that affect the structure of the wholesale market within those RTOs. In connection with its status as a FERC approved RTO, MISO implemented bid-based energy markets that are part of the MISO Energy Markets. The MISO Energy Markets rules require that all market participants submit day-ahead and/or real-time bids and offers for energy at locations across the MISO region. MISO then calculates the most efficient

solution for all of the bids and offers made into the market that day and establishes a Locational Marginal Price (LMP) that reflects the market price for energy. As a participant in the MISO Energy Markets, we are required to follow MISO's instructions when dispatching generating units to support MISO's responsibility for maintaining stability of the transmission system. MISO also implemented an Ancillary Services Market for operating reserves that was simultaneously co-optimized with its existing energy markets.

These market designs have the potential to increase the costs of transmission, the costs associated with inefficient

generation dispatching, the costs of participation in the market and the costs associated with estimated payment settlements.

Risks Related to Legislation and Regulation

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

Our operations are subject to extensive environmental legislation and regulation by state and federal environmental agencies governing, among other things, air emissions such as Carbon Dioxide (CO_2), SO_2, NO_x, fine particulates and mercury; water discharges; and management of hazardous, toxic and solid wastes and substances. We incur significant expenditures in complying with these environmental requirements, including expenditures for the installation of pollution control equipment, environmental monitoring, emissions fees and permits at all of our facilities. In April 2003, Wisconsin Electric reached a Consent Decree with the EPA to significantly reduce air emissions from its coal-fired generating facilities. Through the end of 2011, we had invested approximately $1.0 billion to comply with the Consent Decree. The total cost of implementing the Consent Decree is currently estimated to be approximately $1.1 billion over the ten year period ending 2013.

Several new environmental regulations have recently been proposed or adopted, including the EPA's Cross-State Air Pollution Rule (CSAPR), the Mercury and Air Toxics Standards (MATS) rule (also referred to as the utility Maximum Achievable Control Technology (MACT) rule) and new SO_2 National Ambient Air Quality Standards. Various petitioners have requested judicial and administrative review of many of these regulations, including CSAPR. The December 30, 2011 decision of the U.S. Court of Appeals for the District of Columbia to grant a motion to stay CSAPR, which was scheduled to become effective on January 1, 2012, adds substantial uncertainty as to what capital expenditures may be required to comply with new environmental regulations. Despite this uncertainty, we currently estimate the capital expenditures necessary to comply with these new environmental regulations, including the utility MACT rule, over the three year period ending 2014 could be up to $16 million more than the estimated cost of implementing the Consent Decree. These costs are included in the table under "Capital Expenditures" in the Liquidity and Capital Resources section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Existing environmental regulations may be revised or new laws or regulations may be adopted at the federal or state level which could result in significant additional expenditures, operating restrictions on our facilities and increased compliance costs. In addition, the operation of emission control equipment and further regulations on our intake and discharge of water could increase our operating costs and could reduce the generating capacity of our power plants.

In the event we are not able to recover all of our environmental expenditures from our customers in the future, our results of operations could be adversely affected.

Environmental legislation and regulation and the related compliance costs could affect future unit retirement and replacement decisions, and could result in some of our coal-fired generating units being retired or converted to an alternative type of fuel. In order to comply with new environmental requirements we are currently exploring different alternatives with regard to the Presque Isle Power Plant in the Upper Peninsula of Michigan and the VAPP in Milwaukee, Wisconsin. We have committed to convert the VAPP from coal to natural gas if we are able to determine that such conversion will have a direct economic benefit to our customers and we receive approval from the PSCW. Costs associated with these potential actions could affect our results of operations and financial condition.

Our electric and gas utility businesses are also subject to significant liabilities related to the investigation and remediation of environmental contamination at certain of our current and former facilities, and at third-party owned sites. Due to the potential for imposition of stricter standards and greater regulation in the future and the possibility

that other potentially responsible parties may not be financially able to contribute to cleanup costs, conditions may change or additional contamination may be discovered, our remediation costs could increase, and the timing of our capital and/or operating expenditures in the future may accelerate.

We may also be subject to potential liability in connection with the environmental condition of the facilities that we have previously owned and operated, regardless of whether the liabilities arose before, during or after the time we owned or operated the facilities. If we fail (or failed) to comply with environmental laws and regulations or cause (or caused) harm to the environment or persons, that failure or harm may result in the assessment of civil penalties and

damages against us. The incurrence of a material environmental liability or a material judgment in any action for personal injury or property damage related to environmental matters could have a significant adverse effect on our results of operations and financial condition.

Energy conservation and rate increases could negatively impact financial results.

Wisconsin and Michigan have adopted energy efficiency targets to reduce energy consumption by certain dates. To the extent there is any regulatory lag to adjust rates as a result of reduced sales from effective conservation measures, these measures could have a negative impact on our results of operations and cash flows.

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

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

We currently have a program of beneficial utilization for substantially all of our coal combustion products, including fly ash, bottom ash and gypsum, which minimizes the need for disposal in specially-designed landfills. Both Wisconsin and Michigan have regulations governing the use and disposal of these materials. In June 2010, the EPA issued draft rules for public comment proposing two alternative rules for regulating coal combustion products. One of the proposed rules classifies the materials as hazardous waste. We submitted comments on the proposed rules in 2010. The EPA also issued a Notice of Data Availability (NODA) in October 2011, and we submitted comments on the NODA in November 2011. If coal combustion products are classified as hazardous waste, it could have a material adverse effect on our ability to continue our current program.

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

In addition, the EPA finalized the Commercial and Industrial Solid Waste Incineration Units rule under the Clean Air Act (CAA), and finalized a Non-Hazardous Secondary Materials Rule. Both of these rules have the potential to negatively affect our ability to reburn coal ash from power plants and landfills.

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

The regulation of greenhouse gas emissions through legislation and regulation has been, and continues to be, a focus of the President and his administration. Although legislation that would impose mandatory requirements related to greenhouse gas emissions, renewable energy standards and/or energy efficiency standards has failed to pass in the U.S. Congress, we expect such legislation to be considered in the future. Although we cannot currently predict with any certainty what form these future regulations will take, the stringency of the regulations or when they will become effective, we do believe that future governmental legislation and/or regulation may require us to limit or control greenhouse gas emissions from our operations, purchase allowances for such emissions or otherwise incur costs in connection with such emissions.

While climate legislation has yet to be adopted, the EPA is pursuing regulation of greenhouse gas emissions using its existing authority under the CAA. In December 2009, the EPA issued its endangerment finding related to greenhouse gas emissions, which set in motion a regulatory process that has led to the regulation of greenhouse gas emissions from stationary sources, including electric generating units. In March 2010, the EPA issued regulations governing the applicability of the CAA's permitting requirements for greenhouse gas emissions from facilities, including electric generating units. These rules became applicable to sources that are already subject to CAA permitting requirements,

as well as new and modified sources, during 2011. Additionally, the EPA plans to propose new source performance standards pertaining to greenhouse gas emissions from certain new or modified coal-fired power plants by the end of May 2012. Regulation of greenhouse gas emissions from power plants may negatively impact our ability to perform maintenance or modify our existing facilities, and permit new facilities. Depending on the extent of rate recovery and other factors, these rules could have a material adverse impact on our financial condition.

Legislation to regulate greenhouse gas emissions and establish renewable and efficiency standards has also been considered on the state level. The state of Michigan has enacted legislation that calls for the implementation of a

renewable portfolio standard by 2015 and energy optimization (efficiency) targets up to 1% annually by 2015. The state of Wisconsin has adopted its own renewable portfolio standard and energy optimization targets. Although the Wisconsin legislature ultimately did not pass a legislative proposal to increase Wisconsin's renewable portfolio standard and energy optimization targets, there is no guarantee the legislature will not consider similar legislation in the future.

Some states and environmental groups are also bringing lawsuits against electric utilities and others to force reductions in greenhouse gas emissions based upon their contribution to the alleged public nuisance of climate change. On June 20, 2011, in Connecticut v. American Electric Power Co., however, the United States Supreme Court ruled that the plaintiffs in that litigation did not have standing to claim nuisance due to the release of greenhouse gas into the atmosphere by the defendants, and the plaintiffs have since voluntarily dismissed their remaining claims. Similar cases are pending in other courts.

There is no guarantee that we will be allowed to fully recover costs incurred to comply with any future legislation, regulation or order that requires a reduction in greenhouse gas emissions or that cost recovery will not be delayed or otherwise conditioned. Any cap-and-trade or greenhouse gas tax program that may be adopted, either at the federal or state level, or other legislation, regulation or order designed to reduce greenhouse gas emissions could have a material adverse impact on our electric generation and natural gas distribution operations. Such regulation could make some of our electric generating units uneconomic to maintain or operate, and could adversely affect our future results of operations, cash flows and possibly financial condition if such costs are not recovered through regulated rates.

We continue to monitor the legislative, regulatory and legal developments in this area. Although we expect the regulation of greenhouse gas emissions to have a material impact on our operations and rates, we believe it is premature to attempt to quantify the possible costs of the impacts.

Provisions of the Wisconsin Utility Holding Company Act limit our ability to invest in non-utility businesses and could deter takeover attempts by a potential purchaser of our common stock that would be willing to pay a premium for our common stock.

Under the Wisconsin Utility Holding Company Act, we remain subject to certain restrictions that have the potential of limiting our diversification into non-utility businesses. Under the Act, the sum of certain assets of all non-utility affiliates in a holding company system may not exceed 25% of the assets of all public utility affiliates in the system.

In addition, the Act precludes the acquisition of 10% or more of the voting shares of a holding company of a Wisconsin public utility unless the PSCW has first determined that the acquisition is in the best interests of utility customers, investors and the public. This provision and other requirements of the Act may delay or reduce the likelihood of a sale or change of control of Wisconsin Energy. As a result, stockholders may be deprived of opportunities to sell some or all of their shares of our common stock at prices that represent a premium over market prices.

Risks Related to Economic and Market Volatility

Our business is dependent on our ability to successfully access capital markets.

We rely on access to short-term and long-term capital markets to support our capital expenditures and other capital requirements, including expenditures for our utility infrastructure and to comply with future regulatory requirements. We have historically secured funds from a variety of sources, including the issuance of short-term and long-term debt securities and common stock. Successful implementation of our long-term business strategies is dependent upon our ability to access the capital markets, including the banking and commercial paper markets, under competitive terms

and rates. In addition, we rely on committed bank credit agreements as back-up liquidity which allows us to access the low cost commercial paper markets. If our access to any of these markets were limited, or our cost of capital significantly increased, due to a rating downgrade, an economic downturn or uncertainty, prevailing market conditions, concerns over foreign economic conditions and/or the ability of foreign governments and central banks to respond to changing economic conditions, a negative view of the utility industry, failures of financial institutions or other factors, our results of operations and financial condition could be materially and adversely affected.

We are exposed to risks related to general economic conditions in our service territories.

Our electric and gas utility businesses are impacted by economic cycles and the competitiveness of the customers we serve. As the demand for products produced in our service area declines, we ordinarily experience reduced demand for electricity and/or natural gas. During 2011, our service territory experienced growth, but future growth could be impacted by the overall economy in our service territories. If the economic conditions in our service territories and/or demand for products produced in our service area does not continue to improve or declines again, we could experience a reduction in demand for electricity and/or natural gas that could result in decreased earnings and cash flow. We would also expect our collections of accounts receivable to be adversely impacted.

Poor investment performance of pension plan holdings and other factors impacting pension plan costs could unfavorably impact our liquidity and results of operations.

Our cost of providing defined benefit pension plans is dependent upon a number of factors including actual plan experience and assumptions concerning the future, such as earnings on plan assets, discount rates, the level of interest rates used to measure the required minimum funding levels of the plans, future government regulation and our required or voluntary contributions to be made to the plans. Plan assets are subject to market fluctuations and may yield returns that fall below projected return rates. A decline in the market value of these assets, as experienced in prior periods, may increase our funding requirements. Changes in interest rates affect plan liabilities - as rates decrease, the liabilities increase, which could increase our funding requirements. Changes in demographics, such as an increase in the number of retirements or changes in life expectancy assumptions, may also increase our funding requirements. Changes made to the plans may also impact current and future pension costs. These additional funding obligations could have a material adverse impact on our cash flows, financial condition or results of operations.

Our ability to obtain insurance and the terms of any available insurance coverage could be adversely affected by international, national, state or local events and company-specific events, as well as the financial condition of insurers. Our insurance coverage may not provide protection against all significant losses.

Our ability to obtain insurance, as well as the cost and coverage of such insurance, could be affected by developments affecting our business, as well as by international, national, state or local events, as well as the financial condition of insurers. Insurance coverage may not continue to be available at all or at rates or terms similar to those presently available to us. A loss for which we are not fully insured could have a material adverse effect on our results of operations. In addition, our insurance may not be sufficient or effective under all circumstances and against all hazards or liabilities to which we may be subject.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own our principal properties outright, except that the major portion of our electric utility distribution lines, steam utility distribution mains and gas utility distribution mains and services are located, for the most part, on or under streets and highways and on land owned by others and are generally subject to granted easements, consents or permits.

As of December 31, 2011, we owned the following generating stations:

Name	Fuel	No. of Generating Units	Dependable Capability In MW (a)
Coal-Fired Plants			
South Oak Creek	Coal	4	1,055
Oak Creek Expansion	Coal	2	1,056
Presque Isle	Coal	5	346
Pleasant Prairie	Coal	2	1,188
Valley	Coal	2	227
Milwaukee County	Coal	3	8
Total Coal-Fired Plants		18	3,880
Hydro Plants (13 in number)		33	57
Port Washington Generating Station	Gas	2	1,090
Germantown Combustion Turbines	Gas/Oil	5	345
Concord Combustion Turbines	Gas/Oil	4	400
Paris Combustion Turbines	Gas/Oil	4	400
Other Combustion Turbines & Diesel	Gas/Oil	2	5
Byron Wind Turbines	Wind	2	—
Blue Sky Green Field	Wind	88	29
Glacier Hills	Wind	90	32
Total System		248	6,238

(a) Dependable capability is the net power output under average operating conditions with equipment in an average state of repair as of a given month in a given year. We are a summer peaking electric utility. The values are established by tests and may change slightly from year to year.

As of December 31, 2011, we operated approximately 21,632 pole-miles of overhead distribution lines and 23,780 miles of underground distribution cable, as well as approximately 350 distribution substations and 287,446 line transformers.

As of December 31, 2011, our gas distribution system included approximately 20,687 miles of distribution and transmission mains connected at 183 gate stations to the pipeline transmission systems of ANR Pipeline Company, Guardian Pipeline L.L.C., Natural Gas Pipeline Company of America, Northern Natural Pipeline Company, Great Lakes Transmission Company, Viking Gas Transmission and Michigan Consolidated Gas Company. We have liquefied natural gas storage plants which convert and store, in liquefied form, natural gas received during periods of low consumption. The liquefied natural gas storage plants have a send-out capability of 73,600 Dth per day. We also have propane air systems for peaking purposes. These propane air systems will provide approximately 2,960 Dth per day of supply to the system. Our gas distribution system consists almost entirely of plastic and coated steel pipe.

We also own office buildings, gas regulating and metering stations and major service centers, including garage and warehouse facilities, in certain communities we serve. Where distribution lines and services and gas distribution mains and services occupy private property, we have in some, but not all instances, obtained consents, permits or easements for these installations from the apparent owners or those in possession of those properties, generally without an examination of ownership records or title.

As of December 31, 2011, the combined steam systems supplied by the VAPP and Milwaukee County Power Plant consisted of approximately 43 miles of both high pressure and low pressure steam piping, nine miles of walkable

tunnels and other pressure regulating equipment.

ITEM 3. LEGAL PROCEEDINGS

In addition to those legal proceedings discussed below, we are currently, and from time to time, subject to claims and suits arising in the ordinary course of business. Although the results of these other legal proceedings cannot be predicted with certainty, management believes, after consultation with legal counsel, that the ultimate resolution of these proceedings will not have a material effect on our financial statements.

ENVIRONMENTAL MATTERS

We are subject to federal, state and certain local laws and regulations governing the environmental aspects of our operations. Management believes that our existing facilities are in material compliance with applicable environmental requirements.

Bluff Collapse: On October 31, 2011, a portion of the bluff at our Oak Creek Power Plant collapsed. The affected area, located south of the Air Quality Control System (AQCS) that is currently under construction, was a former ravine that had been filled with coal ash prior to the advent of landfill regulations.

It is estimated that approximately 23,000 cubic yards of soil, coal ash and water was released from the bluff. This mixture of materials, along with several trailers, vehicles and other construction materials from the AQCS construction site, slid down the bluff to the shoreline area. Some of the soil and coal ash mixture fell into Lake Michigan.

We worked with the U.S. Coast Guard, WDNR and EPA to coordinate an incident action plan for completing the recovery and clean-up efforts. Ash and soil materials have been removed from the area, and construction equipment and related materials have been removed from Lake Michigan. The clean-up work has been completed, and the bluff has been stabilized for the winter. We expect that permanent bluff stabilization efforts will commence during the second quarter of 2012.

We have consulted with nearby water utilities who have indicated that they have not detected any impacts to public drinking water supplies. In November 2011, the WDNR conducted a survey of Lake Michigan's lakebed. The survey did not locate any fly ash or construction materials on the lakebed immediately east and south of the Oak Creek site. Both water quality and sediment sampling have not indicated a serious risk of harm to human health or the environment.

We anticipate the WDNR will release its investigative findings during the first quarter of 2012. At this time, we cannot predict with certainty whether the WDNR or other regulatory agency will seek fines or penalties from us as a result of this incident.

In addition, on November 8, 2011, the Sierra Club provided a Notice of Intent to file a citizens suit under the CAA and Resource Conservation and Recovery Act for alleged violations related to this incident. We have responded that we do not believe there is any basis for a citizen suit. To date, Sierra Club has not indicated whether they intend to file suit.

Solvay Coke and Gas Site: Wisconsin Electric and Wisconsin Gas have been identified as potentially responsible parties at the Solvay Coke and Gas Site located in Milwaukee, Wisconsin. A predecessor company of Wisconsin Electric owned a parcel of property that is within the property boundaries of the site. A predecessor company of Wisconsin Gas had a customer and corporate relationship with the entity that owned and operated the site. In 2007, Wisconsin Electric, Wisconsin Gas and several other parties entered into an Administrative Settlement Agreement and

Order with the EPA to perform additional investigation and assessment and reimburse the EPA's oversight costs. In-field investigation activities have commenced. Under the Administrative Settlement Agreement, neither Wisconsin Electric nor Wisconsin Gas admits to any liability for the site, waives any liability defenses, or commits to perform future site remedial activities. The companies' share of the costs to perform the required work and reimburse the EPA's oversight costs, as well as potential future remediation cost estimates and reserves, are included in the estimated manufactured gas plant values reported in Note R -- Commitments and Contingencies in the Notes to Consolidated Financial Statements in Item 8.

Edgewater Generating Unit 5: In December 2009, the EPA issued a Notice of Violation (NOV) concerning several coal-fired power plants owned and operated by WPL, including Edgewater Generating Unit 5, of which Wisconsin Electric owned 25%. Due to its ownership interest at the time, Wisconsin Electric was named in the NOV. On March 1, 2011, Wisconsin Electric sold its interest to WPL. Although Wisconsin Electric sold its interest, it retained its share of liability, if any, related to the NOV. The NOV alleges that certain maintenance projects at WPL's units, including Edgewater 5, were undertaken without obtaining air permits required by the CAA. Wisconsin Electric, WPL and the co-owners of the other plants identified in the NOV are discussing resolution of this NOV with the EPA. At this time, we cannot predict the outcome of this matter.

In September 2010, the Sierra Club filed a complaint against WPL generally alleging air permitting and opacity violations at the Edgewater Generating Station. Wisconsin Electric is not a named party to this litigation. WPL, the other co-owner of the Edgewater Generating Station, and Wisconsin Electric as a former co-owner, are discussing resolution of this matter with the Sierra Club. At this time, we cannot predict the outcome of this matter.

See Environmental Compliance in Item 1 and Environmental Matters, Manufactured Gas Plant Sites, Coal Combustion Product Landfill Sites and EPA - Consent Decree in Note R -- Commitments and Contingencies in the Notes to Consolidated Financial Statements which are incorporated by reference herein, for a discussion of matters related to certain solid waste and coal combustion product landfills, manufactured gas plant sites and air quality.

UTILITY RATE MATTERS

See Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters in Item 7 for information concerning rate matters in the jurisdictions where Wisconsin Electric and Wisconsin Gas do business.

OTHER MATTERS

Used Nuclear Fuel Storage and Removal: See Factors Affecting Results, Liquidity and Capital Resources -- Nuclear Operations in Item 7 for information concerning the United States Department of Energy's (DOE) breach of contract with Wisconsin Electric that required the DOE to begin permanently removing used nuclear fuel from Point Beach by January 31, 1998.

Stray Voltage: Dairy farmers continue to make claims against Wisconsin Electric for loss of milk production and other damages to livestock allegedly caused by stray voltage resulting from the operation of its electrical system. For additional information, see Factors Affecting Results, Liquidity and Capital Resources -- Legal Matters in Item 7.

Cash Balance Pension Plan: See Factors Affecting Results, Liquidity and Capital Resources -- Legal Matters in Item 7 and Note R -- Commitments and Contingencies in the Notes to Consolidated Financial Statements for information regarding a lawsuit filed against the Plan.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages at December 31, 2011 and positions of our executive officers are listed below along with their business experience during the past five years. All officers are appointed until they resign, die or are removed pursuant to the Bylaws. There are no family relationships among these officers, nor is there any agreement or understanding between any officer and any other person pursuant to which the officer was selected.

Gale E. Klappa. Age 61.
- Wisconsin Energy -- Chairman of the Board and Chief Executive Officer since May 2004. President since April 2003.
- Wisconsin Electric -- Chairman of the Board since May 2004. President and Chief Executive Officer since August 2003.
- Wisconsin Gas -- Chairman of the Board since May 2004. President and Chief Executive Officer since August 2003.
- Director of Joy Global, Inc. and Badger Meter, Inc.
- Director of Wisconsin Energy, Wisconsin Electric and Wisconsin Gas since 2003.

Charles R. Cole. Age 65.
- Wisconsin Electric -- Senior Vice President since 2001.
- Wisconsin Gas -- Senior Vice President since July 2004.

Mr. Cole is retiring effective March 1, 2012.

Stephen P. Dickson. Age 51.
- Wisconsin Energy -- Vice President since 2005. Controller since 2000.
- Wisconsin Electric -- Vice President since 2005. Controller since 2000.
- Wisconsin Gas -- Vice President since 2005. Controller since 1998.

James C. Fleming. Age 66.
- Wisconsin Energy -- General Counsel since March 2006. Executive Vice President since January 2006.
- Wisconsin Electric -- General Counsel since March 2006. Executive Vice President since January 2006.
- Wisconsin Gas -- General Counsel since March 2006. Executive Vice President since January 2006.

Mr. Fleming is retiring effective April 1, 2012.

J. Kevin Fletcher. Age 53.
- Wisconsin Electric -- Senior Vice President since October 2011.
- Wisconsin Gas -- Senior Vice President since October 2011.
- Georgia Power -- Vice President - Community and Economic Development from 2007 to October 2011. Georgia Power is an affiliate of The Southern Company, a public utility holding company serving the southeastern United States.

Robert M. Garvin. Age 45.
- Wisconsin Energy -- Senior Vice President since April 2011.
- Wisconsin Electric -- Senior Vice President since April 2011.
- Wisconsin Gas -- Senior Vice President since April 2011.
- American Transmission Co. -- Vice President and General Counsel from 2009 to April 2011.
- NextEra Energy Resources -- Vice President from 2007 to 2009.
- Commissioner - Public Service Commission of Wisconsin -- 2001 to 2007.

Frederick D. Kuester. Age 61.

- Wisconsin Energy -- Executive Vice President since May 2004. Chief Financial Officer since March 2011.
- Wisconsin Electric -- Executive Vice President since May 2004. Chief Operating Officer from October 2003 until February 2011. Chief Financial Officer since March 2011.
- Wisconsin Gas -- Executive Vice President since May 2004. Chief Financial Officer since March 2011.

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

voluntarily filed for bankruptcy in July 2003. Other than certain Canadian subsidiaries, none of Mirant's international subsidiaries filed for bankruptcy.

Allen L. Leverett. Age 45.

- Wisconsin Energy -- Executive Vice President since May 2004. Chief Financial Officer from July 2003 until February 2011.
- Wisconsin Electric -- Executive Vice President since May 2004. Chief Financial Officer from July 2003 until February 2011.
- Wisconsin Gas -- Executive Vice President since May 2004. Chief Financial Officer from July 2003 until February 2011.

Kristine A. Rappé. Age 55.

- Wisconsin Energy -- Senior Vice President and Chief Administrative Officer since May 2004.
- Wisconsin Electric -- Senior Vice President and Chief Administrative Officer since May 2004.
- Wisconsin Gas -- Senior Vice President and Chief Administrative Officer since May 2004.

Certain executive officers also hold offices in our non-utility subsidiaries.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

NUMBER OF COMMON STOCKHOLDERS

As of December 31, 2011, based upon the number of Wisconsin Energy Corporation stockholder accounts (including accounts in our dividend reinvestment and stock purchase plan), we had approximately 42,550 registered stockholders.

COMMON STOCK LISTING AND TRADING

Our common stock is listed on the New York Stock Exchange under the ticker symbol "WEC." Daily trading prices and volume can be found in the "NYSE Composite" section of most major newspapers, usually abbreviated as WI Engy.

DIVIDENDS AND COMMON STOCK PRICES

Common Stock Dividends of Wisconsin Energy: Cash dividends on our common stock, as declared by the Board of Directors, are normally paid on or about the first day of March, June, September and December of each year. We review our dividend policy on a regular basis. Subject to any regulatory restrictions or other limitations on the payment of dividends, future dividends will be at the discretion of the Board of Directors and will depend upon, among other factors, earnings, financial condition and other requirements. For information regarding restrictions on the ability of our subsidiaries to pay us dividends, see Note I -- Common Equity in the Notes to Consolidated Financial Statements in Item 8.

On January 19, 2012, our Board of Directors approved a new dividend policy. Pursuant to this new policy, we will target a dividend payout ratio that trends toward 60% in the year 2014. At the same time, in accordance with that policy, our Board of Directors increased our quarterly dividend to $0.30 per share effective with the first quarter 2012 dividend payment, which would result in annual dividends of $1.20 per share.

On January 20, 2011, our Board of Directors approved a two-for-one stock split of our common stock, which was effected through a stock dividend. Stockholders of record at the close of business on February 14, 2011 were entitled to one additional share of Wisconsin Energy common stock for each share then owned. The additional

shares were distributed on March 1, 2011. The table below reflects the impact of the two-for-one stock split.

Range of Wisconsin Energy Common Stock Prices and Dividends:

	2011			2010		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$31.01	$28.83	$0.26	$25.71	$23.44	$0.20
Second	$31.89	$29.39	0.26	$26.90	$23.42	0.20
Third	$32.49	$27.00	0.26	$29.29	$24.71	0.20
Fourth	$35.38	$29.82	0.26	$30.51	$28.76	0.20
Annual	$35.38	$27.00	$1.04	$30.51	$23.42	$0.80

ISSUER PURCHASES OF EQUITY SECURITIES

2011	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (Millions of Dollars)
October 1 - October 31	2,598	$31.45	—	$225.1
November 1 - November 30	777,317	$32.25	777,317	$200.0
December 1 - December 31	—	$—	—	$200.0
Total	779,915	$32.24	777,317	

(a) All shares reported during October 2011 were surrendered by employees to satisfy tax withholding obligations upon vesting of restricted stock.

(b) On May 5, 2011, Wisconsin Energy's Board of Directors authorized a share repurchase program for up to $300 million of our common stock through December 31, 2013.

ITEM 6. SELECTED FINANCIAL DATA

WISCONSIN ENERGY CORPORATION

CONSOLIDATED SELECTED FINANCIAL AND STATISTICAL DATA

Financial	2011	2010	2009	2008	2007
Year Ended December 31					
Net income - Continuing Operations (Millions)	$512.8	$454.4	$375.7	$355.1	$332.4
Earnings per share - Continuing Operations					
Basic	$2.20	$1.94	$1.61	$1.52	$1.42
Diluted	$2.18	$1.92	$1.59	$1.50	$1.40
Dividends per share of common stock	$1.04	$0.80	$0.675	$0.54	$0.50
Operating revenues (Millions)					
Utility energy	$4,431.5	$4,165.3	$4,092.0	$4,395.5	$4,190.9
Non-utility energy	435.1	320.2	163.1	126.2	75.7
Eliminations and Other	(380.2)	(283.0)	(154.2)	(119.3)	(62.3)
Total operating revenues	$4,486.4	$4,202.5	$4,100.9	$4,402.4	$4,204.3
As of December 31 (Millions)					
Total assets	$13,862.1	$13,059.8	$12,697.9	$12,617.8	$11,720.3
Long-term debt (including current maturities) and capital lease obligations	$4,646.9	$4,405.4	$4,171.5	$4,136.5	$3,525.3
Common Stock Closing Price	$34.96	$29.43	$24.92	$20.99	$24.36

CONSOLIDATED SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

	(Millions of Dollars, Except Per Share Amounts) (a)			
	March		June	
Three Months Ended	2011	2010	2011	2010
Operating revenues	$1,328.7	$1,248.6	$991.7	$890.9
Operating income	295.6	228.4	174.4	163.3
Income from Continuing Operations	170.9	129.0	98.0	87.5
Income (loss) from Discontinued Operations	—	0.7	11.5	1.2
Total Net Income	$170.9	$129.7	$109.5	$88.7
Earnings per share of common stock (basic) (b)				
Continuing operations	$0.73	$0.55	$0.42	$0.37
Discontinued operations	—	—	0.05	0.01
Total earnings per share (basic)	$0.73	$0.55	$0.47	$0.38
Earnings per share of common stock (diluted) (b)				
Continuing operations	$0.72	$0.55	$0.41	$0.37
Discontinued operations	—	—	0.05	—
Total earnings per share (diluted)	$0.72	$0.55	$0.46	$0.37
	September		December	
Three Months Ended	2011	2010	2011	2010

Operating revenues	$1,052.8	$973.2	$1,113.2	$1,089.8
Operating income	224.3	203.0	193.0	215.7
Income from Continuing Operations	129.8	112.3	114.1	125.6
Income (loss) from Discontinued Operations	—	(0.1)	1.9	0.3
Total Net Income	$129.8	$112.2	$116.0	$125.9
Earnings per share of common stock (basic) (b)				
Continuing operations	$0.56	$0.48	$0.49	$0.54
Discontinued operations	—	—	0.01	—
Total earnings per share (basic)	$0.56	$0.48	$0.50	$0.54
Earnings per share of common stock (diluted) (b)				
Continuing operations	$0.55	$0.47	$0.49	$0.53
Discontinued operations	—	—	0.01	—
Total earnings per share (diluted)	$0.55	$0.47	$0.50	$0.53

(a) Quarterly results of operations are not directly comparable because of seasonal and other factors. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

(b) Quarterly earnings per share may not total to the amounts reported for the year because the computation is based on the weighted average common shares outstanding during each quarter.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CORPORATE DEVELOPMENTS

INTRODUCTION

Wisconsin Energy Corporation is a diversified holding company with subsidiaries primarily in a utility energy segment and a non-utility energy segment. Unless qualified by their context, when used in this document the terms Wisconsin Energy, the Company, our, us or we refer to the holding company and all of its subsidiaries.

Our utility energy segment primarily consists of Wisconsin Electric and Wisconsin Gas, both doing business under the trade name of "We Energies." We generate and distribute electricity in Wisconsin and the Upper Peninsula of Michigan and we distribute natural gas in Wisconsin. Our non-utility energy segment primarily consists of We Power. We Power is principally engaged in the engineering, construction and development of electric power generating facilities for long-term lease to Wisconsin Electric under our PTF strategy.

CORPORATE STRATEGY

Business Opportunities

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

Our regulated utility business primarily consists of electric generation assets and the electric and gas distribution assets that serve the electric and gas customers of We Energies. During 2011, our regulated utility earned $544.8 million of operating income. Over the next three years, we expect to invest approximately $2.0 billion in this business to construct renewable generation and environmental projects at our electric generation assets, to update the electric and gas distribution infrastructure, and for other utility projects.

We have a $349.7 million investment in ATC, which represents a 26.2% ownership interest. Our 2011 pre-tax earnings from ATC totaled $62.5 million and we received $49.7 million in dividends from ATC. Over the next three years, we expect to invest approximately $29.4 million in ATC as it continues to upgrade the transmission infrastructure within Wisconsin.

Our non-utility energy segment consists primarily of the four generation plants constructed as part of our PTF strategy. All four plants have been placed in service and are being leased to Wisconsin Electric under long-term leases that run for 25 years (PWGS 1 and PWGS 2) and 30 years (OC 1 and OC 2). We recognize revenues on a levelized basis over the life of the lease. During 2012, we expect this segment's operating income to be between $345 million and $350 million. Over the next three years, we expect to invest approximately $75 million in this segment. The PTF strategy was developed with the primary goal of constructing the four power plants discussed above. With the completion of the final PTF unit, OC 2, in January 2011, we believe that our future capital expenditures in this segment will consist primarily of smaller capital projects within the existing PTF units.

RESULTS OF OPERATIONS

CONSOLIDATED EARNINGS

The following table compares our operating income by business segment and our net income for 2011, 2010 and 2009:

Wisconsin Energy Corporation	2011	2010	2009
	(Millions of Dollars)		
Utility Energy	$544.8	$564.0	$550.9
Non-Utility Energy	348.9	252.4	120.1
Corporate and Other	(6.4)	(6.0)	(10.7)
Total Operating Income	887.3	810.4	660.3
Equity in Earnings of Transmission Affiliate	62.5	60.1	59.1
Other Income and Deductions, net	62.7	40.2	28.5
Interest Expense, net	235.8	206.4	156.7
Income from Continuing Operations Before Income Taxes	776.7	704.3	591.2
Income Tax Expense	263.9	249.9	215.5
Income from Continuing Operations	512.8	454.4	375.7
Income from Discontinued Operations, Net of Tax	13.4	2.1	6.7
Net Income	$526.2	$456.5	$382.4
Diluted Earnings Per Share			
Continuing Operations	$2.18	$1.92	$1.59
Discontinued Operations	0.06	0.01	0.03
Total Diluted Earnings Per Share	$2.24	$1.93	$1.62

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

UTILITY ENERGY SEGMENT CONTRIBUTION TO OPERATING INCOME

The following table summarizes our utility energy segment's operating income during 2011, 2010 and 2009:

Utility Energy Segment	2011	2010	2009
	(Millions of Dollars)		
Operating Revenues			
Electric	$3,211.3	$2,936.3	$2,685.0
Gas	1,181.2	1,190.2	1,367.9
Other	39.0	38.8	39.1
Total Operating Revenues	4,431.5	4,165.3	4,092.0
Fuel and Purchased Power	1,174.5	1,104.7	1,064.5
Cost of Gas Sold	728.7	751.5	912.0
Gross Margin	2,528.3	2,309.1	2,115.5
Other Operating Expenses			

Other Operation and Maintenance	1,613.4	1,587.0	1,372.3
Depreciation and Amortization	257.0	251.4	313.1
Property and Revenue Taxes	113.1	105.1	109.9
Total Operating Expenses	3,886.7	3,799.7	3,771.8
Amortization of Gain	—	198.4	230.7
Operating Income	$544.8	$564.0	$550.9

2011 vs. 2010: Our utility energy segment contributed $544.8 million of operating income during 2011 compared with $564.0 million of operating income during 2010. The decrease in operating income was primarily caused by increased other operation and maintenance expense and unfavorable weather during 2011 as compared to the prior year, partially offset by wholesale electric pricing increases and electric sales growth.

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

Electric Utility Gross Margin

The following table compares our electric utility gross margin during 2011 with similar information for 2010 and 2009, including a summary of electric operating revenues and electric sales by customer class:

	Electric Revenues and Gross Margin			MWh Sales		
Electric Utility Operations	2011	2010	2009	2011	2010	2009
	(Millions of Dollars)			(Thousands, Except Degree Days)		
Customer Class						
Residential	$1,159.2	$1,114.3	$977.6	8,278.5	8,426.3	7,949.3
Small Commercial/Industrial	1,006.9	922.2	860.3	8,795.8	8,823.3	8,571.6
Large Commercial/Industrial	763.7	677.1	599.4	9,992.2	9,961.5	9,140.3
Other - Retail	22.9	21.9	21.2	153.6	155.3	156.5
Total Retail	2,952.7	2,735.5	2,458.5	27,220.1	27,366.4	25,817.7
Wholesale - Other	154.0	134.6	116.7	2,024.8	2,004.6	1,529.4
Resale - Utilities	69.5	40.4	47.5	2,065.7	1,103.8	1,548.9
Other Operating Revenues	35.1	25.8	62.3	—	—	—
Total	3,211.3	2,936.3	2,685.0	31,310.6	30,474.8	28,896.0
Fuel and Purchased Power						
Fuel	644.4	570.5	518.3			
Purchased Power	514.8	521.0	533.8			
Total Fuel and Purchased Power	1,159.2	1,091.5	1,052.1			
Total Electric Gross Margin	$2,052.1	$1,844.8	$1,632.9			
Weather - Degree Days (a)						
Heating (6,615 Normal)				6,633	6,183	6,825
Cooling (709 Normal)				793	944	475

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

Electric Utility Revenues and Sales

2011 vs. 2010: Our electric utility operating revenues increased by $275.0 million, or 9.4%, when compared to 2010. The most significant factors that caused a change in revenues were:

- 2011 increase of approximately $198.4 million, reflecting the reduction of Point Beach bill credits to retail customers. For information on the bill credits, see Amortization of Gain below.
- Net pricing increases totaling $48.8 million, which includes rates related to our 2010 fuel recovery request that became effective March 25, 2010, and our request to review 2011 fuel costs that became effective April 29, 2011. For information on these rate orders, see Factors Affecting Results, Liquidity and Capital Resources -- Utility Rates and Regulatory Matters.

- Unfavorable weather as compared to the prior year that decreased electric revenues by an estimated $40.5 million.
- A $20.4 million increase in revenue from energy sold into the MISO Energy Markets, which was driven by increased MWh generation from our Oak Creek expansion units.
- Net economic growth that increased electric revenues by an estimated $16.2 million as compared to 2010.
- Higher MWh sales to our wholesale customers, which increased revenue by an estimated $10.4 million as compared to 2010.

As measured by cooling degree days, 2011 was 11.8% warmer than normal, but 16.0% cooler than 2010. The 1.8% decrease in residential sales volumes in 2011 is primarily attributable to weather. The estimated 1.8% impact of cooler summer weather on our small commercial/industrial sales volumes was almost entirely offset by an estimated 1.5% increase in sales due to modest economic growth. Increased sales to our largest customers, two iron ore mines, accounted for the increase in sales to our large commercial/industrial customers. If these sales are excluded, sales to our large commercial/industrial customers decreased by approximately 1.2% for 2011 as compared to 2010 primarily because of previously announced plant closings.

2010 vs. 2009: Our electric utility operating revenues increased by $251.3 million, or 9.4%, when compared to 2009. The most significant factors that caused a change in revenues were:

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

As measured by cooling degree days, 2010 was 98.7% warmer than 2009 and 35.2% warmer than normal. Collectively, retail sales to our residential and small commercial/industrial customers, who are more weather sensitive, increased by 4.4%. Sales to our large commercial/industrial customers increased by 9.0% during 2010 as compared to 2009, primarily because of an improving economy. Electric sales to our largest customers, two iron ore mines, which represented approximately 6.9% of our annual sales in 2010, increased significantly for the year. If these sales are excluded, sales to our large commercial/industrial customers increased by 3.2% for 2010 as compared to 2009. The $36.5 million decline in Other Operating Revenues primarily relates to regulatory amortizations during 2010 as compared to 2009.

Electric Fuel and Purchased Power Expenses

2011 vs. 2010: Our electric fuel and purchased power costs increased by $67.7 million, or approximately 6.2%, when compared to 2010. This increase was primarily caused by a 2.7% increase in total MWh sales as well as increased coal and related transportation costs, partially offset by lower natural gas prices.

2010 vs. 2009: Our electric fuel and purchased power costs increased by $39.4 million, or approximately 3.7%, when compared to 2009. This increase was primarily caused by a 5.5% increase in total MWh sales, partially offset by a 1.6% decrease in the average cost/MWh between periods. The average cost/MWh was comparable between periods because of a 7.7% increase in generation from our lower cost coal units and a 16.5% decrease in the cost of natural gas used at the Port Washington Generating Station (PWGS), which was sufficient to offset the impact of a 5.7% increase in coal and related transportation costs and the increase in gas generation and purchased power utilized as a result of

the increased sales.

Gas Utility Revenues, Gross Margin and Therm Deliveries

The following table compares our total gas utility operating revenues and gross margin (total gas utility operating revenues less cost of gas sold) during 2011, 2010 and 2009. Operating revenues and cost of gas sold has declined over the last three years due to the decline in the commodity cost of natural gas during this three year period.

Gas Utility Operations	2011	2010	2009
	(Millions of Dollars)		
Operating Revenues	$1,181.2	$1,190.2	$1,367.9
Cost of Gas Sold	728.7	751.5	912.0
Gross Margin	$452.5	$438.7	$455.9

We believe gross margin is a better performance indicator than revenues because changes in the cost of gas sold flow through to revenue under GCRMs. The following table compares our gas utility gross margin and therm deliveries by customer class during 2011, 2010 and 2009:

	Gross Margin			Therm Deliveries		
Gas Utility Operations	2011	2010	2009	2011	2010	2009
	(Millions of Dollars)					