WPS RESOURCES CORP
Form 10-Q
August 06, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from __________ to __________

Commission File Number	Registrants; State of Incorporation; Address; and Telephone Number	IRS Employer Identification No.
1-11337	WPS RESOURCES CORPORATION (A Wisconsin Corporation) 700 North Adams Street P. O. Box 19001 Green Bay, WI 54307-9001 920-433-4901	39-1775292
1-3016	WISCONSIN PUBLIC SERVICE CORPORATION (A Wisconsin Corporation) 700 North Adams Street P. O. Box 19001 Green Bay, WI 54307-9001 800-450-7260	39-0715160

Indicate by check mark whether the registrants (1) have 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) have been subject to such filing requirements for the past 90 days.

WPS Resources Corporation	Yes [x] No [ ]
Wisconsin Public Service Corporation	Yes [x] No [ ]

Indicate by check mark whether the registrants are accelerated filers (as defined in Rule 12b-2 of the Act).

WPS Resources Corporation	Yes [x] No [ ]
Wisconsin Public Service Corporation	Yes [ ] No [x]

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date:

WPS RESOURCES CORPORATION	Common stock, $1 par value, 37,253,483 shares outstanding at July 31, 2004
WISCONSIN PUBLIC SERVICE CORPORATION	Common stock, $4 par value, 23,896,962 shares outstanding at July 31, 2004

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WPS RESOURCES CORPORATION
AND
WISCONSIN PUBLIC SERVICE CORPORATION
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2004

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FORWARD-LOOKING STATEMENTS

Except for historical data and statements of current fact, the information contained or incorporated by reference in this document constitutes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Any references to plans, goals, beliefs or expectations in respect to future events and conditions or to estimates are forward-looking statements. Although we believe that statements of our expectations are based on reasonable assumptions, forward-looking statements are inherently uncertain and subject to risks and should be viewed with caution. Actual results or experience could differ materially from the forward-looking statements as a result of many factors. Forward-looking statements included or incorporated in this document include, but are not limited to statements regarding:

- expectations regarding future revenues or expenses,
- estimated future capital expenditures,
- expected costs of purchased power in the future,
- costs of decommissioning generation plants,
- recovery of deferred costs,
- future cleanup costs associated with manufactured gas plant sites,
- future compliance costs with environmental clean air regulations, and
- statements regarding trends or estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations.

We cannot predict the course of future events or anticipate the interaction of multiple factors beyond our control and their effect on revenues, project timing, and costs. Some risk factors that could cause results different from any forward-looking statement include those described in the Risk Factors Section of our Annual Report on Form 10-K for the year ended December 31, 2003 and the following:

- General economic, business, and regulatory conditions
- Legislative and regulatory initiatives regarding deregulation and restructuring of the utility industry which could affect costs and investment recovery
- State and federal rate regulation, including the inability to obtain necessary regulatory approvals
- Changes in generally accepted accounting principles
- Growth and competition and the extent and timing of new business development in the markets of subsidiary companies
- The performance of projects undertaken or acquired by subsidiary companies
- Business combinations among our competitors and customers
- Energy supply and demand
- Financial market conditions, including availability, terms, and use of capital
- Nuclear and environmental issues
- Weather and other natural phenomena
- Commodity price and interest rate risk
- Counter-party credit risk
- Federal and state tax policies
- Acts of terrorism or war

We make no commitment to disclose any revisions to the forward-looking statements as a result of facts, events, or circumstances after the date of this report.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

WPS RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)	Three Months Ended		Six Months Ended	
	June 30		June 30	
(Millions, except share amounts)	2004	2003	2004	2003
Nonregulated revenue	$770.1	$711.1	$1,756.7	$1,631.0
Utility revenue	275.8	260.8	662.5	622.7
Total revenues	1,045.9	971.9	2,419.2	2,253.7
Nonregulated cost of fuel, gas, and purchased power	747.5	689.6	1,689.7	1,571.7
Utility cost of fuel, gas, and purchased power	110.6	111.7	307.6	304.8
Operating and maintenance expense	132.2	122.6	257.8	236.6
Depreciation and decommissioning expense	26.6	26.7	52.3	51.1
Taxes other than income	11.5	10.8	23.3	21.5
Operating income	17.5	10.5	88.5	68.0
Miscellaneous income	6.1	7.5	10.9	8.9
Interest expense and distributions on trust preferred securities	(13.0)	(13.8)	(26.5)	(27.8)
Minority interest	1.1	1.2	1.1	2.3
Other expense	(5.8)	(5.1)	(14.5)	(16.6)
Income before taxes	11.7	5.4	74.0	51.4
Provision (benefit) for income taxes	1.0	(3.9)	16.9	6.4
Income from continuing operations	10.7	9.3	57.1	45.0
Discontinued operations, net of tax	(5.3)	(5.8)	(8.3)	(10.9)
Net income before cumulative effect of change in accounting principles	5.4	3.5	48.8	34.1
Cumulative effect of change in accounting principles, net of tax	-	-	-	3.2
Net income before preferred stock dividends of subsidiary	5.4	3.5	48.8	37.3
Preferred stock dividends of subsidiary	0.8	0.8	1.6	1.6
Income available for common shareholders	$4.6	$2.7	$47.2	$35.7
Average shares of common stock				
Basic	37.3	32.4	37.2	32.3
Diluted	37.5	32.7	37.4	32.7
Earnings per common share (basic)				

Income from continuing operations	$0.27	$0.26	$1.49	$1.34
Discontinued operations	($0.15)	($0.18)	($0.22)	($0.34)
Cumulative effect of change in accounting principles	-	-	-	$0.10
Earnings per common share (basic)	$0.12	$0.08	$1.27	$1.10
Earnings per common share (diluted)				
Income from continuing operations	$0.26	$0.26	$1.48	$1.33
Discontinued operations	($0.14)	($0.18)	($0.22)	($0.34)
Cumulative effect of change in accounting principles	-	-	-	$0.10
Earnings per common share (diluted)	$0.12	$0.08	$1.26	$1.09
Dividends per common share declared	$0.545	$0.535	$1.090	$1.070

The accompanying condensed notes are an integral part of these statements.

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WPS RESOURCES CORPORATION

CONSOLIDATED BALANCE SHEETS (Unaudited) (Millions)	June 30 2004	December 31 2003
Assets		
Cash and cash equivalents	$66.3	$50.7
Restricted funds	3.7	3.2
Accounts receivable - net of reserves of $7.1 and $6.6, respectively	356.2	502.4
Accrued unbilled revenues	56.9	90.0
Inventories	123.1	178.3
Current assets from risk management activities	390.1	518.1
Assets held for sale	119.3	116.4
Other current assets	90.5	86.4
Current assets	1,206.1	1,545.5
Property, plant, and equipment - net of reserves of $1,558.5 and $1,511.7, respectively	1,876.3	1,828.7
Nuclear decommissioning trusts	336.1	332.3
Regulatory assets	127.4	127.7
Long-term assets from risk management activities	82.7	104.3
Other	366.9	353.8
Total assets	$3,995.5	$4,292.3
Liabilities and Shareholders' Equity		
Short-term debt	$68.0	$38.0
Current portion of long-term debt	6.3	56.6
Note payable to preferred stock trust	-	51.5

Accounts payable	423.2	510.7
Current liabilities from risk management activities	360.2	517.3
Liabilities held for sale	2.6	2.7
Current deferred income taxes	1.1	1.7
Other current liabilities	85.0	86.9
Current liabilities	946.4	1,265.4
Long-term debt	869.5	871.9
Long-term deferred income taxes	88.6	78.8
Deferred investment tax credits	16.9	17.7
Regulatory liabilities	295.6	304.4
Environmental remediation liabilities	37.3	37.9
Pension and postretirement benefit obligations	147.5	137.7
Long-term liabilities from risk management activities	68.8	92.2
Asset retirement obligations	354.0	344.0
Other	83.1	88.0
Long-term liabilities	1,961.3	1,972.6
Commitments and contingencies		
Preferred stock of subsidiary with no mandatory redemption	51.1	51.1
Common stock equity	1,036.7	1,003.2
Total liabilities and shareholders' equity	$3,995.5	$4,292.3

The accompanying condensed notes are an integral part of these statements.

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WPS RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)	Six Months Ended June 30	
(Millions)	2004	2003
Operating Activities		
Net income before preferred stock dividends of subsidiary	$48.8	$37.3
Adjustments to reconcile net income before preferred stock dividends of subsidiary to net cash provided by operating activities		
Discontinued operations, net of tax	8.3	10.9
Depreciation and decommissioning	52.3	51.1
Amortization of nuclear fuel and other	18.0	20.3
Unrealized gain on investments	(2.3)	(2.3)

Equity (earnings)/losses from nonconsolidated investments	(3.1)	1.1
Pension and post retirement expense	20.8	13.9
Deferred income taxes	5.0	0.2
Unrealized (gains)/losses on nonregulated energy contracts	(1.0)	5.2
Gain on sale of partial interest in synthetic fuel operation	(3.7)	(3.7)
Cumulative effect of change in accounting principles, net of tax	-	(3.2)
Other	(6.7)	(17.0)
Changes in working capital		
Receivables, net	164.3	(7.6)
Inventories	53.4	(41.2)
Other current assets	(4.8)	(20.1)
Accounts payable	(89.0)	64.2
Other current liabilities	(13.2)	(4.9)
Net cash operating activities	247.1	104.2
Investing Activities		
Capital expenditures	(113.5)	(69.5)
Sale of property, plant and equipment	3.2	22.8
Purchase of equity investments and other acquisitions	(19.1)	(45.3)
Dividends received from equity investment	9.2	3.7
Decommissioning funding	(0.3)	(1.4)
Other	3.4	1.7
Net cash investing activities	(117.1)	(88.0)
Financing Activities		
Short-term debt - net	30.0	77.0
Repayment of long-term debt and note to preferred stock trust	(103.2)	(76.1)
Payment of dividends		
Preferred stock	(1.6)	(1.6)
Common stock	(40.3)	(34.1)
Issuance of common stock	16.3	17.5
Purchase of common stock	-	(0.8)
Other	(1.8)	12.3
Net cash financing activities	(100.6)	(5.8)
Change in cash and cash equivalents - continuing operations	29.4	10.4
Change in cash and cash equivalents - discontinued operations	(13.8)	0.6
Change in cash and cash equivalents	15.6	11.0
Cash and cash equivalents at beginning of period	50.7	43.3
Cash and cash equivalents at end of period	$66.3	$54.3

The accompanying condensed notes are an integral part of these statements.

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WISCONSIN PUBLIC SERVICE CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)	Three Months Ended June 30		Six Months Ended June 30	
(Millions)	2004	2003	2004	2003
Operating revenues				
Electric	$190.2	$172.6	$388.6	$350.7
Gas	69.6	72.2	243.2	245.8
Total operating revenues	259.8	244.8	631.8	596.5
Operating expenses				
Electric production fuels	33.3	32.9	67.1	67.1
Purchased power	27.2	24.2	54.2	48.1
Gas purchased for resale	46.3	50.3	174.6	181.1
Other operating expenses	77.5	72.9	154.7	142.8
Maintenance	22.0	23.2	40.1	42.8
Depreciation and decommissioning	22.9	23.0	44.8	43.5
Federal income taxes	4.4	1.2	19.0	12.7
Investment tax credit restored	(0.4)	(0.4)	(0.7)	(0.7)
State income taxes	1.2	0.5	5.1	3.4
Gross receipts tax and other	9.6	9.2	19.4	18.3
Total operating expense	244.0	237.0	578.3	559.1
Operating income	15.8	7.8	53.5	37.4
Other income and (deductions)				
Allowance for equity funds used during construction	0.5	0.5	1.0	1.4
Other, net	5.2	7.2	9.0	10.5
Income taxes	(0.7)	(1.3)	(1.0)	(1.8)
Total other income	5.0	6.4	9.0	10.1
Interest expense				
Interest on long-term debt	7.6	6.9	15.0	14.3
Other interest	0.6	1.5	1.8	2.5
Allowance for borrowed funds used during construction	(0.1)	(0.3)	(0.3)	(0.7)
Total interest expense	8.1	8.1	16.5	16.1
Minority interest	-	(1.0)	-	(1.6)
Net income	12.7	5.1	46.0	29.8
Preferred stock dividend requirements	0.8	0.8	1.6	1.6
Earnings on common stock	$11.9	$4.3	$44.4	$28.2

The accompanying condensed notes are an integral part of these statements.

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WISCONSIN PUBLIC SERVICE CORPORATION

CONSOLIDATED BALANCE SHEETS (Unaudited) (Millions)	June 30 2004	December 31 2003
ASSETS		
Utility plant		
Electric	$2,163.7	$2,121.2
Gas	490.4	457.2
Total	2,654.1	2,578.4
Less - Accumulated depreciation	1,169.0	1,132.4
Total	1,485.1	1,446.0
Nuclear decommissioning trusts	336.1	332.3
Construction in progress	90.0	81.7
Nuclear fuel, less accumulated amortization	19.0	20.3
Net utility plant	1,930.2	1,880.3
Current assets		
Cash and cash equivalents	14.2	4.7
Customer and other receivables, net of reserves of $4.7 at June 30, 2004 and $4.4 at December 31, 2003	96.0	103.6
Receivables from related parties	4.2	15.6
Accrued unbilled revenues	31.9	51.3
Fossil fuel, at average cost	14.3	14.9
Gas in storage, at average cost	34.9	50.9
Materials and supplies, at average cost	28.6	26.2
Current assets from risk management activities	6.1	4.5
Prepayments and other	43.6	38.8
Total current assets	273.8	310.5
Regulatory assets	124.7	125.0
Pension assets	65.7	67.8
Goodwill	36.4	36.4
Investments and other assets	166.0	157.7
Total assets	$2,596.8	$2,577.7
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity	$806.2	$798.2
Preferred stock with no mandatory redemption	51.2	51.2

Long-term debt to parent	12.1	12.4
Long-term debt	496.0	495.4
Total capitalization	1,365.5	1,357.2
Current liabilities		
Current portion of long-term debt	-	49.9
Short-term debt	43.0	10.0
Accounts payable	99.7	104.9
Payables to related parties	18.1	14.9
Accrued interest and taxes	7.3	9.3
Other	29.1	16.5
Total current liabilities	197.2	205.5
Long-term liabilities and deferred credits		
Long-term deferred income taxes	142.4	134.7
Accumulated deferred investment tax credits	15.8	16.5
Regulatory liabilities	276.4	285.4
Environmental remediation liability	35.6	36.2
Pension and postretirement benefit obligations	145.9	135.9
Asset retirement obligations	354.0	344.0
Other long-term liabilities	64.0	62.3
Total long-term liabilities and deferred credits	1,034.1	1,015.0
Commitments and contingencies	-	-
Total capitalization and liabilities	$2,596.8	$2,577.7

The accompanying condensed notes are an integral part of these statements.

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WISCONSIN PUBLIC SERVICE CORPORATION

CONSOLIDATED STATEMENTS OF CAPITALIZATION (Unaudited) (Millions, except share amounts)	June 30 2004	December 31 2003
Common stock equity		
Common stock	$95.6	$95.6
Premium on capital stock	439.5	438.3
Accumulated other comprehensive income (loss)	(14.9)	(14.9)
Retained earnings	286.0	279.2
Total common stock equity	806.2	798.2

Preferred stock		
Cumulative, $100 par value, 1,000,000 shares authorized		
with no mandatory redemption -		
Series Shares Outstanding		
5.00% 132,000	13.2	13.2
5.04% 30,000	3.0	3.0
5.08% 50,000	5.0	5.0
6.76% 150,000	15.0	15.0
6.88% 150,000	15.0	15.0
Total preferred stock	51.2	51.2
Long-term debt to parent		
Series Year Due		
8.76% 2015	5.0	5.2
7.35% 2016	7.1	7.2
Total long-term debt to parent	12.1	12.4
Long-term debt		
First mortgage bonds		
Series Year Due		
6.90% 2013	22.0	22.0
7.125% 2023	0.1	50.0
Senior notes		
Series Year Due		
6.125% 2011	150.0	150.0
4.875% 2012	150.0	150.0
4.8% 2013	125.0	125.0
6.08% 2028	50.0	50.0
Total	497.1	547.0
Unamortized discount and premium on bonds, net	(1.1)	(1.7)
Total long-term debt	496.0	545.3
Current portion	-	(49.9)
Total long-term debt	496.0	495.4
Total capitalization	$1,365.5	$1,357.2

The accompanying condensed notes are an integral part of these statements.

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WISCONSIN PUBLIC SERVICE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)	Six Months Ended June 30	
(Millions)	2004	2003
Cash flows from operating activities:		
Net income	$46.0	$29.8
Adjustments to reconcile net income to net cash from operating activities -		
Depreciation and decommissioning	44.8	43.5
Amortization	17.9	19.8
Deferred income taxes	6.9	7.0
Investment tax credit restored	(0.7)	(0.7)
Allowance for equity funds used during construction	(1.0)	(1.4)
Unrealized (gain) loss on investments	(2.3)	(2.3)
Equity income, net of minority interest	(5.6)	(5.2)
Pension and post retirement expense	15.3	9.7
Other	(3.6)	(9.5)
Changes in -		
Customer and other receivables	15.1	9.7
Accrued utility revenues	19.4	22.0
Fossil fuel inventory	0.6	1.7
Gas in storage	16.0	2.0
Miscellaneous assets	(7.2)	(9.7)
Accounts payable	(2.0)	(33.9)
Accrued taxes and interest	(2.0)	(2.4)
Miscellaneous current and accrued liabilities	4.5	2.5
Net cash operating activities	162.1	82.6
Cash flows from investing activities:		
Capital expenditures	(105.9)	(63.2)
Sale of property, plant and equipment	-	20.1
Decommissioning funding	(0.3)	(1.4)
Dividends received and return of capital from equity method investment	5.8	2.7
Other	2.2	1.2
Net cash investing activities	(98.2)	(40.6)
Cash flows from financing activities:		
Short-term debt - net	33.0	51.0
Payments of long-term debt	(49.9)	(59.1)

Dividends to parent	(37.5)	(34.5)
Preferred stock dividends	(1.6)	(1.6)
Other	1.6	4.0
Net cash financing activities	(54.4)	(40.2)
Change in cash and equivalents	9.5	1.8
Cash and equivalents at beginning of period	4.7	3.4
Cash and equivalents at end of period	$14.2	$5.2

The accompanying condensed notes are an integral part of these statements.

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WPS RESOURCES CORPORATION AND SUBSIDIARIES
WISCONSIN PUBLIC SERVICE CORPORATION AND SUBSIDIARY
CONDENSED NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1--FINANCIAL INFORMATION

We have prepared the consolidated financial statements of WPS Resources Corporation and Wisconsin Public Service Corporation under the rules and regulations of the Securities and Exchange Commission. These financial statements have not been audited. Certain items from the prior period have been reclassified to conform to the current year presentation. We have condensed or omitted certain financial information and footnote disclosures normally included in our annual audited financial statements. We believe that the disclosures made are adequate to make the information presented not misleading. These financial statements should be read along with the financial statements and notes included with our annual audited financial statements for the year ended December 31, 2003.

NOTE 2--ACCOUNTING POLICIES

Gross Physical Volumes

WPS Energy Services' gross physical volumes of natural gas and electricity delivered for the three and six months ended June 30, 2004, and June 30, 2003, are reported in the following table:

	Quarter Ended June 30		Six Months Ended June 30	
WPS Energy Services' Gas Results	2004	2003	2004	2003
Wholesale sales volumes in billion cubic feet *	54.5	64.0	123.8	137.4
Retail sales volumes in billion cubic feet *	56.6	50.3	144.4	128.5

* Represents gross volumes physically delivered

	Quarter Ended June 30		Six Months Ended June 30	
WPS Energy Services' Electric Results	2004	2003	2004	2003
Wholesale sales in million kilowatt-hours *	1,040.8	562.0	2,209.4	794.3

Retail sales in million kilowatt-hours *	1,597.6	1,516.6	3,206.2	2,938.3

* Represents gross volumes physically delivered

NOTE 3--CASH AND CASH EQUIVALENTS

We consider short-term investments with an original maturity of three months or less to be cash equivalents.

The following is supplemental disclosure to the WPS Resources and Wisconsin Public Service Statements of Cash Flows:

(Millions)	Six Months Ended June 30	
WPS Resources	2004	2003
Cash paid for interest	$26.5	$30.7
Cash paid for income taxes	20.1	9.7
Wisconsin Public Service		
Cash paid for interest	$14.1	$15.2
Cash paid for income taxes	14.4	12.6

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NOTE 4--RISK MANAGEMENT ACTIVITIES

As part of our regular operations, WPS Resources enters into contracts, including options, swaps, futures, forwards, and other contractual commitments, to manage market risks such as changes in commodity prices, interest rates, and foreign currency exchange rates.

WPS Resources evaluates its derivative contracts in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. Statement No. 133 establishes accounting and financial reporting standards for derivative instruments and requires, in part, that we recognize certain derivative instruments on the balance sheet as assets or liabilities at their fair value. Subsequent changes in fair value of the derivatives are recorded currently in earnings unless certain hedge accounting criteria are met. If the derivatives qualify for regulatory deferral subject to the provisions of Statement No. 71, "Accounting for the Effects of Certain Types of Regulation," the derivatives are marked to fair value pursuant to Statement No. 133 and are offset with a corresponding regulatory asset or liability.

In the fourth quarter of 2003, WPS Resources adopted Emerging Issues Task Force Issue 03-11, "Reporting Realized Gains and Losses on Derivative Instruments that are Subject to FASB Statement No. 133 and Not 'Held for Trading Purposes' as Defined in Issue No. 02-03," which resulted in recording revenues net of cost of fuel, gas and purchased power for energy-related transactions entered into after October 1, 2003 that settle financially and for which the commodity does not physically transfer. Had we applied the provisions of Issue 03-11 to arrangements entered into before October 1, 2003, previously reported nonregulated revenue would have decreased $41.9 million for the six months ended June 30, 2003, with a corresponding $41.9 million decrease to nonregulated cost of fuel, gas, and purchased power. Neither margins, income, nor cash flows were impacted by the adoption of Issue 03-11.

Utility Segment

Wisconsin Public Service has entered into a limited number of natural gas and electric purchase contracts to service customers that are accounted for as derivatives. The Public Service Commission of Wisconsin approved recognizing a regulatory asset or liability for the fair value of derivative amounts as a result of these contracts pursuant to Statement No. 71. Thus, management believes any gains or losses resulting from the eventual settlement of these contracts will be collected from or refunded to customers. As of June 30, 2004, we recorded an asset from risk management activities and an offsetting regulatory liability of $11.9 million related to these contracts. We recorded an asset from risk management activities and an offsetting regulatory liability of $8.4 million related to these contracts at December 31, 2003.

Nonregulated Segments

Our nonregulated segments have also entered into contracts that are accounted for as derivatives under Statement No. 133, as amended and interpreted. At June 30, 2004, those derivatives not designated as hedges are primarily commodity contracts used to manage price risk associated with wholesale and retail natural gas purchase and sale activities and electric energy contracts. Changes in the fair value of derivatives that have not qualified for hedge accounting are recognized currently in earnings. At June 30, 2004, the fair value of these contracts was recorded as an asset from risk management activities of $410.8 million and a liability from risk management activities of $398.5 million. At December 31, 2003, the fair value of these contracts was recorded as an asset from risk management activities of $578.1 million and a liability from risk management activities of $582.1 million.

Our nonregulated segments also enter into derivative contracts that are designated as either fair value or cash flow hedges. Fair value hedges are used to mitigate the risk of changes in prices of natural gas held in inventory and changes in fair value of foreign currency denominated assets and liabilities. The changes in the fair value of these hedges are recognized currently in earnings as are the changes in fair value of the hedged items. At June 30, 2004, the fair value of the contracts designated as fair value hedges, excluding foreign exchange contracts, are recorded as an asset from risk management activities of $1.1 million and a liability from risk management activities of $2.0 million. Fair value hedge ineffectiveness recorded in nonregulated revenue on the Consolidated Statements of Income was

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insignificant during the first six months of 2004 and 2003. At December 31, 2003, the fair value of the contracts designated as fair value hedges, excluding foreign exchange contracts, was recorded as an asset from risk management activities of $0.3 million and a liability from risk management activities of $4.0 million.

Forward foreign exchange contracts designated as fair value hedges are utilized to manage the risk associated with currency fluctuations on certain firm sales and purchase commitments denominated in Canadian dollars and certain Canadian dollar denominated asset and liability positions, as well as certain firm sales and purchase commitments denominated in United States dollars pertaining to transactions entered into by a Canadian subsidiary of WPS Energy Services. The terms of our forward foreign exchange contracts are consistent with the terms of the underlying transactions, generally one year or less. Unrealized gains and losses resulting from the impact of currency exchange rate movements on forward foreign exchange contracts designated to offset certain non-United States dollar denominated assets and liabilities are recognized in earnings and offset the foreign currency gains and losses on the underlying exposures being hedged. The contract amounts of forward foreign exchange contracts outstanding at June 30, 2004 are recorded as an asset from risk management activities of $3.7 million and a liability from risk management activities of $2.2 million. The contract amounts of forward foreign exchange contracts outstanding at December 31, 2003 were recorded as an asset from risk management activities of $10.6 million and a liability from risk management activities of $4.3 million. All of the foreign exchange contracts designated as fair value hedges were determined to be effective.

Cash flow hedges consist of commodity contracts associated with our energy marketing activities and an interest rate swap. At June 30, 2004, the fair value of commodity contracts designated as cash flow hedges is recorded as an asset from risk management activities of $38.8 million and a liability from risk management activities of $13.2 million. These cash flow hedges extend through December 2006. The majority of the commodity contracts were determined to be effective; therefore, the changes in the values of these contracts are included in other comprehensive income, net of deferred taxes. Amounts recorded in other comprehensive income related to these cash flow hedges will be recognized in earnings as the related contracts are settled or if the hedged transaction is discontinued. WPS Energy Services reclassified $1.3 million in the second quarter of 2004 and $2.8 million in the six months ended June 30, 2004 (from other comprehensive income) into earnings as a result of the discontinuance of cash flow hedge accounting for certain hedge transactions where it was determined that the original forecasted transaction was no longer probable of occurring. In the next 12 months, we expect to recognize $14.8 million in earnings due to contracts being settled. The portion of these contracts that was determined to be ineffective was not significant at June 30, 2004, and was recorded as a component of nonregulated revenue. When testing for effectiveness, no portion of the derivative instruments were excluded. At December 31, 2003, those commodity contracts designated as cash flow hedges were recorded as an asset from risk management activities of $25.0 million and a liability from risk management activities of $9.0 million.

The interest rate swap designated as a cash flow hedge is used to fix the interest rate for the full term of a variable rate loan due in March 2018 used to finance the purchase of the Sunbury generation plant. At June 30, 2004, we recorded a liability from risk management activities of $7.5 million related to this swap. At December 31, 2003, we recorded a liability from risk management activities of $10.1 million related to this swap. Because the swap was determined to be effective, the changes in the value of this contract are included in other comprehensive income, net of deferred taxes. Amounts recorded in other comprehensive income related to this swap will be recognized as expense as the interest is paid. In the next 12 months, we expect to expense $2.2 million, assuming interest rates comparable to those at June 30, 2004 and assuming the hedged transaction continues after the sale of Sunbury (see Note 5, "Assets Held for Sale", for more information). We did not exclude any components of the derivative instrument's change in fair value from the assessment of hedge effectiveness.

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Cumulative Effect of Change in Accounting Principle

WPS Energy Services had been applying the accounting standards of Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," from the first quarter of 2000 until this standard was rescinded by Issue 02-03 in October 2002. WPS Energy Services was defined as a trading company under Issue 98-10 and was required to mark all of its energy related contracts to market. On October 25, 2002, the Emerging Issues Task Force rescinded Issue 98-10, thus precluding mark-to-market accounting for energy trading contracts entered into after that date that are not derivatives and requiring a cumulative change in accounting principle to be recorded effective January 1, 2003 for all nonderivative contracts entered into on or prior to October 25, 2002. On January 1, 2003, WPS Resources recorded an after-tax cumulative effect of a change in accounting principle of $3.5 million (primarily related to the operations of WPS Energy Services) to increase income available for common shareholders as a result of removing from its balance sheet the mark-to-market effects of those contracts entered into on or prior to October 25, 2002 that do not meet the definition of a derivative under Statement No. 133. The required change in accounting had no impact on the underlying economics or cash flows of the contracts.

NOTE 5--ASSETS HELD FOR SALE

On October 24, 2003, WPS Power Development entered into a definitive agreement to sell its Sunbury generation plant located in Pennsylvania. This facility currently sells power on a wholesale basis, and provides energy for a 200-megawatt around-the-clock outtake contract that expires on December 31, 2004. The sale will enable WPS Resources to reduce uncontracted merchant exposure and redeploy capital into markets with different risk profiles. Based on the terms of the asset sale agreement, the sale price is anticipated to be approximately $120 million, subject to various working capital adjustments. WPS Power Development has also entered into an agreement for the sale of certain silt reserves that were utilized in the operation of the Sunbury generation plant. The sale price for the silt reserves is anticipated to be approximately $1.9 million.

At June 30, 2004 and December 31, 2003, the assets and liabilities associated with the Sunbury generation plant that will be transferred to the buyer, as well as the silt reserves, have been classified as held for sale in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Statement No. 144 requires that a long-lived asset classified as held for sale be measured at the lower of its carrying amount or fair value, less costs to sell, and cease being depreciated. No adjustments to write down assets held for sale were required during the six months ended June 30, 2004. WPS Resources plans to complete the sale of the Sunbury generation plant in late summer/early fall of 2004 and the sale of the silt reserves is anticipated to close in the third quarter of 2004. The major classes of assets and liabilities held for sale are as follows:

(Millions)	June 30, 2004	December 31, 2003
Inventories	$ 4.7	$ 4.2
Other current assets	5.2	5.1
Property, plant, and equipment, net	73.2	71.5
Other assets (includes emission credits)	36.2	35.6
Assets held for sale	$119.3	$116.4
Other current liabilities	$ 0.4	$ 0.6
Asset retirement obligations	2.2	2.1
Liabilities held for sale	$ 2.6	$ 2.7

WPS Power Development financed Sunbury with equity from WPS Resources and debt financing, including non-recourse debt and a related interest rate swap. The interest rate swap is designated as a cash flow hedge and, as a result, the mark-to-market loss has been recorded as a component of other comprehensive income. If management determines that the hedged transactions (i.e., future interest payments on the debt) will not continue after the sale, WPS Resources will be required to recognize the

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amount accumulated within other comprehensive income ($4.9 million net of tax at June 30, 2004) currently in earnings. No such determination had been made at June 30, 2004.

WPS Power Development has an obligation to service a 200-megawatt outtake contract through December 31, 2004. WPS Power Development entered into the contract in conjunction with the acquisition of the Sunbury generating assets. At June 30, 2004, WPS Power Development hedged its obligation to service its 200-megawatt outtake contract subsequent to the date of the anticipated sale of Sunbury. The revenues from the outtake contract are $4.4 million less than the hedged cost of purchased power. This loss will be included as a component of the loss from discontinued operations in the Consolidated Statements of Income when realized. The amount of the loss is subject to change depending on the closing date of the sale.

A summary of the components of discontinued operations recorded in the Consolidated Statements of Income for the quarters ended June 30 are as follows:

(Millions)	2004	2003
Nonregulated revenue	$13.6	$18.9
Operating expenses	(21.0)	(25.3)
Interest expense	(1.4)	(1.9)
Loss before taxes	(8.8)	(8.3)
Income tax benefit	(3.5)	(2.5)
Discontinued operations, net of tax	$ (5.3)	$ (5.8)

A summary of the components of discontinued operations recorded in the Consolidated Statements of Income for the six months ended June 30 are as follows:

(Millions)	2004	2003
Nonregulated revenue	$27.3	$40.8
Operating expenses	(38.1)	(53.0)
Interest expense	(2.8)	(3.3)
Loss before taxes	(13.6)	(15.5)
Income tax benefit	(5.3)	(4.6)
Discontinued operations, net of tax	$ (8.3)	$(10.9)

Interest expense represents the nonrecourse term loans directly related to Sunbury.

A summary of the components of the change in cash and cash equivalents related to discontinued operations recorded in the Consolidated Statements of Cash Flows for the six months ended June 30 are as follows:

(Millions)	2004	2003
Net cash operating activities	$(10.6)	$2.3
Net cash investing activities	(1.6)	(0.4)
Net cash financing activities	(1.6)	(1.3)
Change in cash and cash equivalents	$(13.8)	$0.6

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NOTE 6--ACQUISITIONS AND SALES OF ASSETS

Kewaunee Nuclear Power Plant

On November 7, 2003, Wisconsin Public Service entered into a definitive agreement to sell its 59% ownership interest in the Kewaunee nuclear power plant to a subsidiary of Dominion Resources, Inc. The other joint owner of Kewanee, Wisconsin Power and Light Company, also agreed to sell its 41% ownership interest in Kewaunee to Dominion. The transaction is subject to approval from various regulatory agencies, including the Public Service Commission of Wisconsin, the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission, and several other state utility regulatory agencies and is projected to close in the fourth quarter of 2004. Approval has been obtained from the Federal Trade Commission, the Iowa Utilities Board, the Minnesota Public Utilities Commission, and the Illinois Commerce Commission, and certain approvals have been obtained from the Federal Energy Regulatory Commission. The Nuclear Regulatory Commission approved the transfer of the operating license to Dominion in June 2004. In addition, Wisconsin Public Service received a favorable private letter ruling from the Internal Revenue Service on transferring the decommissioning trust to Dominion. Approval from the Michigan Public Service Commission is expected in August. The Public Service Commission of Wisconsin is expected to rule on the transaction in fall, 2004.

Wisconsin Public Service estimates that its share of the cash proceeds from the sale will approximate $130 million, subject to various post-closing adjustments. The cash proceeds from the sale are expected to slightly exceed the carrying value of the Wisconsin Public Service assets being sold. In addition to the cash proceeds, Wisconsin Public Service will retain ownership of the assets contained in its non-qualified decommissioning trust, one of two funds that were established to cover the eventual decommissioning of Kewaunee. The pretax fair value of the non-qualified decommissioning trust's assets at June 30, 2004 was $119.0 million. Dominion will assume responsibility for the eventual decommissioning of Kewaunee and will receive Wisconsin Public Service's qualified decommissioning trust assets that had a pretax fair value of $240.6 million at June 30, 2004. Wisconsin Public Service has requested deferral of the gain expected to result from this transaction and related costs from the Public Service Commission of Wisconsin. Accordingly, Wisconsin Public Service anticipates most of the gain on the sale of the plant assets and the related non-qualified decommissioning trust assets will be returned to customers under future rate orders. As of June 30, 2004, Wisconsin Public Service's share of the carrying value of the assets and liabilities included within the sale agreement were as follows:

(Millions)	2004
Property, plant, and equipment, net	$412.4
Other current assets	5.6
Total assets	$418.0
Regulatory liabilities	$ (40.8)
Asset retirement obligations	353.6
Total liabilities	$312.8

The assets and liabilities disclosed above do not meet the criteria to be classified as held for sale on the Consolidated Balance Sheets under the provisions of FASB Statement No. 144 due to uncertainties inherent in the regulatory approval process.

Upon the closing of the sale, Wisconsin Public Service will enter into a long-term power purchase agreement with Dominion to purchase energy and capacity virtually equivalent to the amounts that would have been received had current ownership in the Kewaunee nuclear power plant continued. The power purchase agreement, which also will require regulatory approval, will extend through 2013 when the plant's current operating license will expire. Fixed monthly payments under the power purchase agreement will approximate the expected costs of production had Wisconsin Public Service continued to own the plant. Therefore, management believes that the sale of Kewaunee and the related power purchase agreement will provide more price certainty for Wisconsin Public Service's customers and reduce our risk profile. In April 2004, Wisconsin Public Service entered into an exclusivity agreement with

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Dominion. Under this agreement, if Dominion decides to extend the operating license of Kewaunee, Dominion agreed to negotiate only with Wisconsin Public Service for its share of the plant output for a new power purchase agreement that would extend beyond Kewaunee's current operating license termination date. This agreement allows for the same exclusivity rights for Wisconsin Power and Light and its share of output of the plant. The exclusivity period will start on the closing date of the sale and extend through December 21, 2011.

Advantage Energy Inc.

On July 1, 2004, WPS Energy Services acquired all of the outstanding stock of Advantage Energy Inc., a New York based energy marketing company. Founded in 1997, Advantage serves approximately 8,200 residential and commercial customers with a peak load of approximately 275 megawatts. Consideration for the purchase consisted of an initial cash payment for the tangible and intangible net worth of the company and an earn-out with a maximum cap and a declining percentage to the seller over a three-year period.

NOTE 7--GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill recorded by WPS Resources Corporation was $36.4 million at June 30, 2004, and December 31, 2003. The goodwill relates to Wisconsin Public Service's 2001 merger with Wisconsin Fuel and Light and is recorded in it's natural gas segment.

Goodwill and purchased intangible assets are included in other assets on the Consolidated Balance Sheets of WPS Resources. Information in the tables below relates to total purchased identifiable intangible assets for the years indicated (excluding assets held for sale).

(Dollars in millions)		June 30, 2004		
Asset Class	Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Emission credits	1 to 30	$ 6.9	$(1.3)	$5.6
Customer related	1 to 5	3.7	(3.5)	0.2
Other	1 to 30	3.3	(0.6)	2.7
Total		$13.9	$(5.4)	$8.5

(Millions)		December 31, 2003		
Asset Class	Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Emission credits	1 to 30	$ 7.4	$(1.1)	$6.3
Customer related	1 to 5	3.7	(3.0)	0.7
Other	1 to 30	3.3	(0.6)	2.7
Total		$14.4	$(4.7)	$9.7

Intangible asset amortization expense, in the aggregate, for the six months ended June 30, 2004 and June 30, 2003 were $0.7 million and $3.4 million, respectively.

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NOTE 8--LONG-TERM DEBT

(Dollars in millions)	June 30, 2004	December 31, 2003
First mortgage bonds - Wisconsin Public Service		

	Series	Year Due		
	6.90%	2013	$ 22.0	$ 22.0
	7.125%	2023	0.1	50.0
Senior notes - Wisconsin Public Service				
	Series	Year Due		
	6.125%	2011	150.0	150.0
	4.875%	2012	150.0	150.0
	4.80%	2013	125.0	125.0
	6.08%	2028	50.0	50.0
First mortgage bonds - Upper Peninsula Power				
	Series	Year Due		
	10.0%	2008	-	0.9
	9.32%	2021	16.2	16.2
Unsecured senior notes - WPS Resources				
	Series	Year Due		
	7.00%	2009	150.0	150.0
	5.375%	2012	100.0	100.0
Term loans - nonrecourse, collateralized by nonregulated assets			84.9	87.2
Tax exempt bonds			27.0	27.0
Senior secured note			2.8	2.9
Total			878.0	931.2
Unamortized discount and premium on bonds and debt			(2.2)	(2.7)
Total long-term debt			875.8	928.5
Less current portion			(6.3)	(56.6)
Total long-term debt			$869.5	$871.9

On January 19, 2004, Wisconsin Public Service retired $49.9 million of its 7.125% series first mortgage bonds. These bonds had an original maturity date of July 1, 2023.

NOTE 9--COMPANY-OBLIGATED MANDATORILY REDEEMABLE TRUST PREFERRED SECURITIES OF PREFERRED STOCK TRUST

On July 30, 1998, WPSR Capital Trust I, a Delaware business trust, issued $50.0 million of trust preferred securities to the public. WPS Resources owned all of the outstanding trust common securities of the Trust, and the only asset of the Trust was $51.5 million of subordinated debentures issued by WPS Resources. The debentures were due on June 30, 2038 and bore interest at 7% per year. The terms and interest payments on the debentures corresponded to the terms and distributions on the trust preferred securities. On January 8, 2004, WPS Resources redeemed all of the subordinated debentures that were initially issued to the Trust for $51.5 million.

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NOTE 10--ASSET RETIREMENT OBLIGATIONS

Legal retirement obligations, as defined by the provisions of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," identified at Wisconsin Public Service relate primarily to the final decommissioning of the Kewaunee nuclear plant. Wisconsin Public Service has a legal obligation to decommission the irradiated portions of the Kewaunee nuclear plant in accordance with the Nuclear Regulatory Commission's minimum decommissioning requirements. The liability, calculated under the provisions of Statement No. 143, is based on several significant assumptions, including the scope of decommissioning work to be performed, the timing of the future cash flows, and inflation and discount rates. Some of these assumptions differ significantly from the assumptions authorized by the Public Service Commission of Wisconsin to calculate the nuclear decommissioning liability for funding purposes. In accordance with Statement No. 71, Wisconsin Public Service established a regulatory liability to record the differences between ongoing expense recognition under Statement No. 143 and the ratemaking practices for retirement costs authorized by the Public Service Commission of Wisconsin. As of June 30, 2004, the pre-tax market value of external nuclear decommissioning trusts established for future retirement costs, authorized by the Public Service Commission of Wisconsin, was approximately $359.6 million. See Note 6, "Acquisitions and Sales of Assets," for information on the pending sale of the Kewaunee nuclear plant. We have also identified other legal retirement obligations related to utility plant assets that are not currently significant to the financial statements.

WPS Power Development has identified a legal retirement obligation related to the closure of an ash basin located at the Sunbury generation plant. The adoption of Statement No. 143 at WPS Power Development resulted in a $0.3 million negative after-tax cumulative effect of change in accounting principle in the first quarter of 2003 related to recording a liability for the closure of this ash basin. The asset retirement obligation associated with Sunbury is recorded as a liability held for sale on the consolidated balance sheets. See Note 5, "Assets Held for Sale," for information on the pending sale of the Sunbury plant.

The following table describes all changes to the asset retirement obligation liabilities of WPS Resources.

(Millions)	Wisconsin Public Service	WPS Power Development	Total
Asset retirement obligations at December 31, 2003	$344.0	$2.1	$346.1
Accretion expense	10.0	0.1	10.1
Asset retirement obligation at June 30, 2004	$354.0	$2.2	$356.2

NOTE 11--INCOME TAXES

The provision for income taxes is based on the estimated annual effective tax rate, which differs from the federal tax rate of 35% primarily due to the effects of tax credits and state income taxes.

NOTE 12--COMMITMENTS AND CONTINGENCIES

Commodity and Purchase Order Commitments

WPS Resources routinely enters into long-term purchase and sale commitments that have various quantity requirements and durations. The commitments described below are as of June 30, 2004.

WPS Energy Services has unconditional purchase obligations related to energy supply contracts that total $1.8 billion. The majority of these obligations end by 2008 with some obligations, primarily firm transport obligations, extending from 2009 through 2012. WPS Energy Services' total obligations from 2009 through 2012 are $1.4 million. The energy supply obligations generally have offsetting energy sales contracts.

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Wisconsin Public Service has obligations related to nuclear fuel, coal, purchased power, and natural gas. Nuclear fuel contracts total $46.4 million and extend through 2010. Assuming the Kewaunee nuclear power plant is sold as discussed in Note 6, "Acquisitions and Sales of Assets," these nuclear fuel contracts would be assigned to Dominion. Obligations related to coal supply and transportation extend through 2016 and total $488.1 million. Through 2015, Wisconsin Public Service has obligations totaling $365.9 million for either capacity or energy related to purchased power. Also, there are natural gas supply and transportation contracts with total estimated demand payments of $133.3 million through 2010. Wisconsin Public Service expects to recover these costs in future customer rates. Additionally, Wisconsin Public Service has contracts to sell electricity and natural gas to customers.

WPS Power Development has entered into purchase contracts totaling $14.1 million. The majority of these contracts relate to coal purchases for the Sunbury generation plant and expire in 2004. The purchaser of Sunbury will assume any remaining terms in these contracts at the time of sale. See Note 5, "Assets Held for Sale," for more information on the pending sale.

Upper Peninsula Power has made commitments for the purchase of commodities, mainly capacity or energy related to purchased power, which total $14.3 million and extend through 2006.

WPS Resources also has commitments in the form of purchase orders issued to various vendors. At June 30, 2004, these purchase orders totaled $490.7 million for WPS Resources and Wisconsin Public Service committed $483.6 million of the total. The majority of these commitments relate to large construction projects including the construction of the 500-megawatt coal-fired generation facility near Wausau, Wisconsin.

Nuclear Plant Operation

In accordance with Nuclear Regulatory Commission industry requirements, during the completed spring 2003 refueling outage, a visual inspection of the Kewaunee plant reactor vessel head was conducted. There were no problems with the vessel head during the most recently completed operating cycle.

After evaluating the cost of continued required inspections of the existing reactor vessel head and the cost to replace the reactor vessel head, the Kewaunee nuclear power plant owners submitted a construction authorization request to the Public Service Commission of Wisconsin for replacement of the reactor vessel head. Approval of the request was received in 2003. The replacement is scheduled to occur during the fall 2004 refueling outage at a cost of up to $14.2 million for Wisconsin Public Service's share of the project.

The Price Anderson Act ensures that funds will be available to pay for public liability claims arising out of a nuclear incident. This Act may require Wisconsin Public Service to pay up to a maximum of $59.4 million per incident. The payments will not exceed $5.9 million per incident in a given calendar year. These amounts correspond to Wisconsin Public Service's 59% ownership in the Kewaunee nuclear power plant.

See Note 6, "Acquisitions and Sales of Assets," for information on the pending sale of the Kewaunee nuclear plant.

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Clean Air Regulations

The United States Environmental Protection Agency has designated southeastern Wisconsin as an ozone non-attainment area. Under the Clean Air Act, the State of Wisconsin developed a nitrogen oxide reduction plan for Wisconsin's ozone non-attainment area. The nitrogen oxide reductions began in 2003 and gradually increase to 2007. This plan affects Edgewater Unit 4, of which Wisconsin Public Service owns 31.8%. A compliance plan for this unit was initiated in 2000. The plan includes a combination of combustion optimization and emissions trading at a cost to Wisconsin Public Service of about $5 million, nearly all of which has been incurred as of June 30, 2004. The project is almost complete.

The State of Wisconsin is also seeking voluntary reductions from utility units outside the ozone non-attainment area, which may lead to additional expenditures for nitrogen oxide reductions at other units. Wisconsin Public Service is participating in voluntary efforts to reduce nitrogen oxide levels at the Columbia Energy Center. Wisconsin Public Service owns 31.8% of Columbia. The Public Service Commission of Wisconsin has approved recovery of the costs associated with voluntary nitrogen oxide reductions.

Air quality modeling by the Wisconsin Department of Natural Resources revealed that Weston Units 1 and 2 contribute to a modeled exceedance of the sulfur dioxide ambient air quality standard (the current and projected fuel meets the sulfur content limit). Wisconsin Public Service is cooperating with the Wisconsin Department of Natural Resources to develop an approach to resolve this issue.

United States Environmental Protection Agency Section 114 Request

In November 1999, the United States Environmental Protection Agency

announced the commencement of a Clean Air Act enforcement initiative targeting the utility industry. This initiative resulted in the issuance of several notices of violation/findings of violation and the filing of lawsuits against utilities. In these enforcement proceedings, the United States Environmental Protection Agency claims that the utilities made modifications to the coal-fired boilers and related equipment at the utilities' electric generating stations without first obtaining appropriate permits under the United States Environmental Protection Agency's pre-construction permit program and without installing appropriate air pollution control equipment. In addition, the United States Environmental Protection Agency is claiming, in certain situations, that there were violations of the Clean Air Act's "new source performance standards." In the matters where actions have been commenced, the federal government is seeking penalties and the installation of pollution control equipment.

In December 2000, Wisconsin Public Service received from the United States Environmental Protection Agency a request for information under Section 114 of the Clean Air Act. The United States Environmental Protection Agency sought information and documents relating to work performed on the coal-fired boilers located at the Pulliam and Weston electric generating stations of Wisconsin Public Service. Wisconsin Public Service filed a response with the United States Environmental Protection Agency in early 2001.

On May 22, 2002, Wisconsin Public Service received a follow-up request from the United States Environmental Protection Agency seeking additional information regarding specific boiler-related work performed on Pulliam Units 3, 5 and 7, as well as information on Wisconsin Public Service's life extension program for Pulliam Units 3-8 and Weston Units 1 and 2. Wisconsin Public Service made an initial response to the United States Environmental

Protection Agency's follow-up information request on June 12, 2002, and filed a final response on June 27, 2002.

In 2000, 2001 and 2002, Wisconsin Power and Light Company received a similar series of United States Environmental Protection Agency information requests relating to work performed on certain coal-fired boilers and related equipment at the Columbia generating station (a facility located in Portage, Wisconsin, jointly owned by Wisconsin Power and Light Company, Madison Gas and Electric Company and Wisconsin Public Service). Wisconsin Power and Light Company is the operator of the plant and is responsible for responding to governmental inquiries relating to the operation of the facility. Wisconsin Power and Light Company filed its most recent response for the Columbia facility on July 12, 2002.

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Depending upon the results of the United States Environmental Protection Agency's review of the information, the United States Environmental Protection Agency may issue "notices of violation" or "findings of violation" asserting that a violation of the Clean Air Act occurred and/or seek additional information from Wisconsin Public Service and/or third parties who have information relating to the boilers or close out the investigation. To date, the United States Environmental Protection Agency has not responded to the filings made by Wisconsin Public Service and Wisconsin Power and Light. In addition, under the federal Clean Air Act, citizen groups may pursue a claim. Wisconsin Public Service has received no notice of a claim from a citizen suit.

In response to the United States Environmental Protection Agency Clean Air Act enforcement initiative, several utilities have elected to settle with the United States Environmental Protection Agency, while others are in litigation. In general, those utilities that have settled have entered into consent decrees which require the companies to pay fines and penalties, undertake supplemental environmental projects and either upgrade or replace pollution controls at existing generating units or shut down existing units and replace these units with new electric generating facilities. Several of the settlements involve multiple facilities. The fines and penalties (including the capital costs of supplemental environmental projects) associated with these settlements range between $7 million and $30 million. Factors typically considered in settlements include, but are not necessarily limited to, the size and number of facilities as well as the duration of alleged violations and the presence or absence of aggravating circumstances. The regulatory interpretations upon which the lawsuits or settlements are based may change based on future court decisions that may be rendered in pending litigations.

If the federal government decided to bring a claim against Wisconsin Public Service and if it were determined by a court that historic projects at the Pulliam and Weston electric generating stations required either a state or federal Clean Air Act permit, Wisconsin Public Service may, under the applicable statutes, be required to:

- shut down any unit found to be operating in non-compliance,
- install additional pollution control equipment,
- pay a fine and/or
- pay a fine and conduct a supplemental environmental project in order to resolve any such claim.

At the end of December 2002, the United States Environmental Protection Agency issued new rules governing the federal new source review program. The rules are not yet effective in Wisconsin. They are also not retroactive. Wisconsin has proposed amending its new source review program to substantially conform with the federal regulations. The rules are anticipated to be finalized in the second half of 2004.

Mercury and Interstate Quality Rules

In June 2004, the Wisconsin Department of Natural Resources approved a final rule to control mercury emissions. Coal-fired generation plants are the primary target of this effort. The final rule will become effective if approved by the Wisconsin State Legislature. This approval may occur in the fall of 2004. According to the final rule, annual system mercury emission control will be achieved in phases. The first phase will occur in 2008 and 2009. In this phase, the annual mercury emissions are capped at the average annual system mercury emissions for the period 2002 through 2004. The next phase will run from 2010 through 2014 and requires a 40% reduction from average annual 2002 through 2004 mercury input amounts. After 2015, a 75% reduction is required with a goal of an 80% reduction by 2018. If federal regulations are promulgated, we believe the state of Wisconsin will revise the Wisconsin rule to be consistent with the federal rule. Wisconsin Public Service estimates capital costs of approximately $112 million to achieve the proposed 75% reductions.

In December 2003, the United States Environmental Protection Agency proposed mercury "maximum achievable control technology" standards and an alternative mercury "cap and trade" program substantially modeled on the Clear Skies legislation initiative. The United States Environmental Protection Agency also proposed the Clean Air Interstate Rule (formerly known as the Interstate Air Quality Rule), which would reduce sulfur dioxide and nitrogen oxide emissions from utility boilers located

in 29 states, including Wisconsin. As to the mercury "maximum achievable control technology" proposal, it requires existing units burning sub-bituminous coal to achieve an annual average mercury emission rate limit of 5.8 pounds per trillion Btu on a unit-by-unit or plant-wide basis. New units must achieve an emission rate limit of 0.020 pounds per gigawatt-hour. If the proposed rule is promulgated, Wisconsin Public Service's current analysis indicates that the emission control equipment on the existing units may be sufficient to achieve the proposed limitation. New units will require additional mercury control techniques to reduce mercury emissions by 65% to 85%. As to the mercury cap and trade program, Wisconsin Public Service is studying its long-term compliance strategy to meet the targets set forth in the proposed rule. Based on the current rule proposal and current projections, Wisconsin Public Service anticipates meeting the proposed targets. Mercury control technology is still in development. Wisconsin Public Service is assessing potential mercury control technologies for application to future new coal-fired units. The proposed alternative mercury cap and trade program would require a 30% reduction in national mercury emissions in 2010 and a 70% reduction in national mercury emissions beginning in 2018. Wisconsin Public Service estimates the cost to comply with the proposed alternative mercury cap and trade program is similar to the cost to comply with the Wisconsin rule.

As to the Clean Air Interstate Rule proposal, the proposal allows the affected states (including Wisconsin) to either require utilities located in the state to participate in an interstate cap and trade program or meet the state's emission budget for sulfur dioxide and nitrogen oxide through measures to be determined by the state. Wisconsin has not adopted a preference as to which option it would select in the event the rules become final, but the state is investigating a possible cap and trade program. The effect of the rule, if adopted, on Wisconsin Public Service's facilities is uncertain. Currently, Wisconsin Public Service is evaluating a number of options that include using the cap and trade program and/or installing controls. For planning purposes, it is assumed that additional sulfur dioxide and nitrogen oxide controls will be needed on existing units or the existing units will need to be converted to natural gas by 2010. The installation of any controls and/or any conversion to natural gas will need to be scheduled as part of Wisconsin Public Service's long-term maintenance plan for its existing units. As such, controls or conversions may need to take place before 2010. On a preliminary basis and assuming controls or conversion are required, Wisconsin

Public Service estimates capital costs of $288 million in order to meet an assumed 2010 compliance date. This estimate is based on costs of current control technology and current information regarding the proposed rule. The costs may change based on the requirements of the final rule.

WPS Power Development Generation Facilities

The generation assets of WPS Power Development are subject to regulations on sulfur dioxide and nitrogen oxide emissions similar to those that apply to Wisconsin Public Service. In addition, the Sunbury generation facilities of WPS Power Development are located in an ozone transport region. As a result, these generation facilities are subject to additional restrictions on emissions of nitrogen oxide. WPS Power Development has some emission allowances for 2004 for the Sunbury facility. At June 30, 2004, 11,198 additional allowances have been purchased at market rates for the Sunbury facility. WPS Power Development estimates purchasing approximately 15,000 allowances in total, at market rates, to meet its 2004 requirements.

Columbia (Jointly Owned Generation Facility)

In the fourth quarter of 2003, the Wisconsin Environmental Law Advocates filed a complaint in the United States Court for the Western District of Wisconsin against Wisconsin Power and Light Company and its parent, Alliant Energy Corporation, alleging violations of the federal Clean Water Act at the Columbia generating station (a facility jointly owned by Wisconsin Power and Light, Madison Gas and Electric Company and Wisconsin Public Service that is operated by Wisconsin Power and Light). The complaint seeks certain upgrades to the Columbia facility's wastewater treatment program, as well as unspecified penalties and attorney fees. In addition, the Wisconsin Department of Natural Resources has been pursuing enforcement of this same matter and referred the matter to the Wisconsin Attorney General's office. In March 2004, the Wisconsin Attorney General's office filed a civil complaint against Alliant Energy Corporation and Wisconsin Power and Light for violating the terms of the wastewater discharge permit for the Columbia generating station. In July 2004, the matter was settled. Under the

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settlement agreement, the joint owners have agreed to pay a total of $150,000 in forfeitures, fees and other costs plus implement certain new operating procedures at the facility.

Other Environmental Issues

Groundwater testing at a former ash disposal site of Upper Peninsula Power indicated elevated levels of boron and lithium. Supplemental remedial investigations were performed, and a revised remedial action plan was developed. The Michigan Department of Environmental Quality approved the plan in January 2003. A liability of $1.4 million and an associated regulatory asset of $1.4 million were recorded for estimated future expenditures associated with remediation of the site. Upper Peninsula Power received an order from the Michigan Public Service Commission permitting deferral and future recovery of these costs. Upper Peninsula Power has an informal agreement, with the owner of another landfill, under which it has agreed to pay 17% of the investigation and remedial costs. It is estimated that the cost of addressing the site over the next three years is $1.7 million. Upper Peninsula Power has recorded $0.3 million of this amount as its share of the liability as of June 30, 2004.

Manufactured Gas Plant Remediation

Wisconsin Public Service continues to investigate the environmental cleanup of ten manufactured gas plant sites. As of the fall of 2003, cleanup of the land portion of the Oshkosh, Stevens Point, Green Bay, Manitowoc and two Sheboygan sites was substantially complete. Groundwater treatment and monitoring at these sites will continue into the future. Cleanup of the land portion of four sites will be addressed in the future. River sediment remains to be addressed at six sites with sediment contamination. Remedial investigation work commenced on the sediment portion of the Sheboygan site in the first quarter of 2004. Sediment removal work at the Marinette site is scheduled for the fall of 2004. Work at the other sites remains to be scheduled.

Costs of these cleanups are within the range expected for these sites. Wisconsin Public Service estimates future undiscounted investigation and cleanup costs to be in the range of $35.6 million to $40.6 million. Wisconsin Public Service may adjust these estimates in the future contingent upon remedial technology, regulatory requirements and the assessment of natural resource damages.

Wisconsin Public Service currently has a $35.6 million liability recorded for cleanup. Wisconsin Public Service has received $12.7 million in insurance recoveries. Wisconsin Public Service expects to recover actual cleanup costs, net of insurance recoveries, in future customer rates. Under current Public Service Commission of Wisconsin policies, Wisconsin Public Service will not recover carrying costs associated with the cleanup expenditures. Wisconsin Public Service will include long-term operation and maintenance costs associated with these sites in future rate requests.

Flood Damage

On May 14, 2003, a fuse plug at the Silver Lake reservoir owned by Upper Peninsula Power was breached. This breach resulted in subsequent flooding downstream on the Dead River, which is located in Michigan's Upper Peninsula near Marquette, Michigan.

A dam owned by Marquette Board of Light and Power, which is located downstream from the Silver Lake reservoir near the mouth of the Dead River, also failed during this event. In addition, high water conditions and siltation resulted in damage at the Presque Isle Power Plant owned by Wisconsin Electric Power Company. Presque Isle, which is located downstream from the Marquette Board of Light and Power dam, was ultimately forced into a temporary shutdown.

The Federal Energy Regulatory Commission's Independent Board of Review issued its report in December of 2003 and concluded that the root cause of the incident was the failure of the design to take into account the highly erodible nature of the fuse plug's foundation materials and spillway channel, resulting in the complete loss of the fuse plug, foundation and spillway channel, which caused the release of Silver Lake far beyond the intended design of the fuse plug. The fuse plug was designed for the Silver Lake reservoir by an outside engineering firm.

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WPS Resources maintains a comprehensive insurance program that includes Upper Peninsula Power and which provides both property insurance for its facilities and liability insurance for liability to third parties. WPS Resources is insured in amounts that it believes are sufficient to cover its responsibilities in connection with this event. Deductibles and self-insured retentions on these policies are not material to WPS Resources.

In November 2003, Upper Peninsula Power received approval from the Michigan Public Service Commission and the Federal Energy Regulatory Commission for deferral of costs that are not reimbursable through insurance or recoverable through the power supply cost recovery mechanism. Recovery of costs deferred will be addressed in future rate proceedings. As of June 30, 2004, Upper Peninsula Power has deferred $2.8 million pretax and expensed $1.3 million pretax of costs for damages resulting from the flood. In addition, Upper Peninsula Power has recorded a $1.1 million insurance receivable at June 30, 2004. Insurance payments of $1.0 million were received during the second quarter of 2004.

Wausau, Wisconsin, to Duluth, Minnesota, Transmission Line

Construction of the 220-mile, 345-kilovolt Wausau, Wisconsin, to Duluth, Minnesota, transmission line began in the first quarter of 2004.

American Transmission Company has assumed primary responsibility for the overall management of the project and will own and operate the completed line. Wisconsin Public Service received approval from the Public Service Commission of Wisconsin and the Federal Energy Regulatory Commission to transfer ownership of the project to American Transmission Company. Wisconsin Public Service will continue to manage construction of the project and be responsible for obtaining property rights in Wisconsin necessary for the construction of the project.

WPS Resources committed to fund 50% of total project costs incurred up to $198 million. WPS Resources will receive additional equity in American Transmission Company in exchange for a portion of the project funding. During the six months ended June 30, 2004, WPS Resources invested $2.9 million in American Transmission Company, related to its agreement to fund approximately half of the Wausau to Duluth transmission line. WPS Resources may terminate funding if the project extends beyond January 1, 2010. On December 19, 2003, Wisconsin Public Service and American Transmission Company received approval to continue the project with the new cost estimate of $420.3 million. The updated cost estimate reflects additional costs for the project resulting from time delays, added regulatory requirements, changes and additions to the project at the request of local governments and American Transmission Company and overhead costs. Completion of the line is expected in 2008. WPS Resources has the right, but not the obligation, to provide additional funding in excess of $198 million up to its portion of the revised cost estimate. For the period 2004 through 2006, we expect to fund up to $128 million for our portion of the Wausau to Duluth transmission line. Our commitment to fund this transmission line could decrease up to 50% if Minnesota Power exercises its option to fund a portion of the project.

Synthetic Fuel Production Facility

We have significantly reduced our consolidated federal income tax liability for the past four years through tax credits available to us under Section 29 of the Internal Revenue Code for the production and sale of solid synthetic fuel from coal. In order to maximize the value of our synthetic fuel production facility, we have reduced our interest in the facility from 67% to 23% through sales to third parties. Our ability to fully utilize the Section 29 tax credits that remain available to us in connection with our remaining interest in the facility will depend on whether the amount of our federal income tax liability is sufficient to permit the use of such credits. The Internal Revenue Service strictly enforces compliance with all of the technical requirements of Section 29. Section 29 tax credits are currently scheduled to expire at the end of 2007. Other future tax legislation and Internal Revenue Service review may also affect the value of the tax credits and the value of our share of the facility.

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We have recorded the tax benefit of approximately $90.1 million of Section 29 tax credits as reductions of income tax expense from the project's inception in June 1998 through June 30, 2004. As a result of alternative minimum tax rules, approximately $57.8 million of this tax benefit has been carried forward as a deferred tax asset as of June 30, 2004.

The tax benefit recorded with respect to WPS Resources' share of tax credits from the facility is based on our expected consolidated tax liability for all open tax years including the current year, and all future years in which we expect to utilize deferred tax credits to offset our future tax liability. Reductions in our expected consolidated tax liability for any of these years could result in disallowance of previously recorded credits, and/or a change in the amount of the tax benefit deferred to future periods. A reduction in our expected consolidated tax liability for the current year may result in a reduction of the level of synthetic fuel production at the facility. A portion of future payments under one of the agreements covering the sale of a portion of our interest in the facility are contingent on the facility's continued production of synthetic fuel. Pre-tax gains approximating $7 million annually are expected to be realized through 2007 from this sell-down.

NOTE 13--EMPLOYEE BENEFIT PLANS

The following table provides the components of net periodic benefit cost (credit) for WPS Resources' benefit plans for the quarters ended June 30:

WPS Resources	Pension Benefits		Other Benefits	
(Millions)	2004	2003	2004	2003
Net periodic benefit cost				
Service cost	$ 5.2	$ 4.1	$2.0	$1.9
Interest cost	10.2	9.3	4.3	3.9
Expected return on plan assets	(12.3)	(11.2)	(3.1)	(2.5)
Amortization of transition (asset) obligation	-	-	0.1	0.3
Amortization of prior-service cost (credit)	1.4	1.5	(0.5)	(0.4)
Amortization of net (gain) loss	1.2	0.3	1.2	0.7
Special termination benefits	-	0.8	-	-
Net periodic benefit cost	$ 5.7	$ 4.8	$4.0	$3.9

Wisconsin Public Service's share of net periodic benefit cost (credit) for the quarters ended June 30 is included in the table below:

Wisconsin Public Service	Pension Benefits		Other Benefits	
(Millions)	2004	2003	2004	2003
Net periodic benefit cost				
Service cost	$ 4.3	$3.2	$1.8	$1.7
Interest cost	8.5	7.8	3.9	3.6
Expected return on plan assets	(11.0)	(9.9)	(3.0)	(2.5)
Amortization of transition (asset) obligation	-	-	0.1	0.3
Amortization of prior-service cost (credit)	1.3	1.3	(0.5)	(0.3)
Amortization of net (gain) loss	0.6	0.2	0.9	0.6
Net periodic benefit cost	$ 3.7	$2.6	$3.2	$3.4

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The following table provides the components of net periodic benefit cost (credit) for WPS Resources' benefit plans for the six months ended June 30:

WPS Resources	Pension Benefits		Other Benefits	
(Millions)	2004	2003	2004	2003

Net periodic benefit cost				
Service cost	$10.3	$ 7.6	$3.9	$3.7
Interest cost	19.8	18.4	8.7	7.7
Expected return on plan assets	(22.9)	(23.3)	(5.8)	(5.3)
Amortization of transition (asset) obligation	0.1	-	0.2	0.6
Amortization of prior-service cost (credit)	2.8	2.9	(1.1)	(0.8)
Amortization of net (gain) loss	2.2	0.3	2.6	1.3
Special termination benefits	-	0.8	-	-
Net periodic benefit cost	$12.3	$ 6.7	$8.5	$7.2

Wisconsin Public Service's share of net periodic benefit cost (credit) for the six months ended June 30 is included in the table below:

Wisconsin Public Service	Pension Benefits		Other Benefits	
(Millions)	2004	2003	2004	2003
Net periodic benefit cost				
Service cost	$ 8.3	$ 6.0	$3.6	$3.4
Interest cost	16.6	15.3	7.8	7.1
Expected return on plan assets	(20.4)	(20.9)	(5.7)	(5.1)
Amortization of transition (asset) obligation	0.1	-	0.2	0.5
Amortization of prior-service cost (credit)	2.5	2.6	(0.9)	(0.5)
Amortization of net (gain) loss	1.1	0.3	2.1	1.0
Net periodic benefit cost	$ 8.2	$ 3.3	$7.1	$6.4

For the three and six months ended June 30, 2004, no contributions were made to the pension or other postretirement benefit plans. WPS Resources expects to contribute $1.6 million to its pension plans and $16.2 million to its other postretirement benefit plans in 2004.

NOTE 14--STOCK OPTION PLANS

Shareholders approved the WPS Resources Corporation 2001 Omnibus Incentive Compensation Plan and the WPS Resources Corporation 1999 Stock Option Plan for certain management personnel. The Board of Directors approved the WPS Resources Corporation 1999 Non-Employee Directors Stock Option Plan. WPS Resources accounts for these plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock option-based compensation cost is reflected in net income, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if WPS Resources had applied the fair value recognition provisions of Statement of Financial Accounting Standards Statement No. 123, "Accounting for Stock Based Compensation," to stock option-based employee compensation:

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	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions, except per share amounts)	2004	2003	2004	2003
Income available for common shareholders	$4.6	$2.7	$47.2	$35.7
	(0.2)	(0.1)	(0.4)	(0.2)

Deduct: Total stock option-based employee compensation expense determined under fair value based method for all awards, net of related tax effects				
Pro forma income	$4.4	$2.6	$46.8	$35.5
Basic earnings per common share				
As reported	$0.12	$0.08	$1.27	$1.10
Pro forma	0.12	0.08	1.26	1.10
Diluted earnings per common share				
As reported	$0.12	$0.08	$1.26	$1.09
Pro forma	0.12	0.08	1.25	1.09

NOTE 15--COMPREHENSIVE INCOME

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," requires the reporting of other comprehensive income in addition to income available for common shareholders. Total comprehensive income includes all changes in equity during a period except those resulting from investments by shareholders and distributions to shareholders. Total comprehensive income includes income available for common shareholders, unrealized gains and losses on securities classified as available-for-sale, changes in the fair value of cash flow hedges, and foreign currency translation adjustments. WPS Resources' total comprehensive income is:

	Three Months Ended June 30,	
(Millions)	2004	2003
Income available for common shareholders	$4.6	$ 2.7
Cash flow hedges, net of tax of $3.4 and $(1.7)	5.1	(2.4)
Foreign currency translation, net of tax of $(0.7)	-	(1.1)
Total comprehensive income (loss)	$9.7	$(0.8)

	Six Months Ended June 30,	
(Millions)	2004	2003
Income available for common shareholders	$47.2	$35.7
Cash flow hedges, net of tax of $6.2 and $1.1	9.3	1.7
Foreign currency translation, net of tax of $(0.7)	-	(1.1)
Total comprehensive income	$56.5	$36.3

The following table shows the changes to Accumulated Other Comprehensive Income from December 31, 2003 to June 30, 2004.

(Millions)	2004
December 31, 2003 balance	$(15.0)
Cash flow hedges recognized in income	(13.6)
Cash flow hedges not yet settled	22.9
June 30, 2004 balance	$ (5.7)

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NOTE 16--VARIABLE INTEREST ENTITIES

The Financial Accounting Standards Board has issued Interpretation No. 46R (as revised), "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51," in order to improve financial reporting by companies involved with variable interest entities. Interpretation No. 46R requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. The primary beneficiary is the party that absorbs the majority of the expected losses and/or receives the majority of the expected residual returns of the variable interest entity's activities.

WPS Resources adopted the provisions of Interpretation No. 46R for variable interest entities not defined as special purpose entities effective March 31, 2004. The required adoption had no impact on our consolidated financial statements, as we did not identify significant variable interests in any unconsolidated variable interest entities where we were determined to be the primary beneficiary. We have identified our equity ownership in a synthetic fuel producing facility as a variable interest in a variable interest entity. Through an affiliate of WPS Power Development, WPS Resources owns a partial interest in a synthetic fuel facility located in Kentucky and received tax credits pursuant to Section 29 of the Internal Revenue Code based on sales to unaffiliated third-party purchasers of synthetic fuel produced from coal. At June 30, 2004, WPS Resources had a 23% ownership interest in the synthetic fuel facility. No other variable interests were identified. WPS Resources' maximum exposure to loss as a result of our involvement with this variable interest entity is limited to our investment in this entity, which was not significant at June 30, 2004. We were not identified as the primary beneficiary of this entity and, therefore, were not required to consolidate the synthetic fuel facility into our financial statements at June 30, 2004. The adoption of Interpretation No. 46R also included an analysis of our power purchase and sale agreements. We do not believe that any of our power purchase or sale agreements constitute significant variable interests that would lead us to consolidate entities not currently consolidated or deconsolidate any entities currently consolidated.

NOTE 17--EARNINGS PER SHARE

WPS Resources' common stock shares, $1 par value	June 30, 2004	December 31, 2003
Total shares issued, 200,000,000 shares authorized	37,236,284	36,830,556
Treasury shares	12,700	15,700
Average cost of treasury shares	$25.19	$25.19
Shares in deferred compensation trust	217,816	192,880
Average cost of deferred compensation trust shares	$36.24	$33.72

Earnings per share is computed by dividing income available for common shareholders for the period by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available for common shareholders for the period by the weighted average number of shares of common stock outstanding during the period adjusted for the exercise and/or conversion of all potentially dilutive securities. Such dilutive items include in-the-money stock options. Diluted earnings per share for the periods shown are calculated excluding some stock option plan shares that had an anti-dilutive effect. The number of anti-dilutive shares is immaterial for the periods ended June 30, 2004 and June 30, 2003.

The following table reconciles the computation of basic and diluted earnings per share:

Reconciliation of Earnings Per Share (Millions, except per share amounts)	Three Months Ended June 30 2004	Three Months Ended June 30 2003	Six Months Ended June 30 2004	Six Months Ended June 30 2003
Income available to common shareholders	$4.6	$2.7	$47.2	$35.7
Basic weighted average shares	37.3	32.4	37.2	32.3
Incremental issuable shares	0.2	0.3	0.2	0.4
Diluted weighted average shares	37.5	32.7	37.4	32.7
Basic earnings per common share	$0.12	$0.08	$1.27	$1.10
Diluted earnings per common share	$0.12	$0.08	$1.26	$1.09

NOTE 18--SEGMENTS OF BUSINESS

We manage our reportable segments separately due to their different operating and regulatory environments. Our utility business segments are the regulated electric utility operations of Wisconsin Public Service and Upper Peninsula Power and the regulated gas utility operations of Wisconsin Public Service. Our other reportable segments include two nonregulated companies, WPS Energy Services and WPS Power Development. WPS Energy Services is a diversified energy supply and services company. WPS Power Development is an electric generation company. The Holding Company and Other segment includes the operations of WPS Resources and WPS Resources Capital Corporation as holding companies and the nonutility activities at Wisconsin Public Service and Upper Peninsula Power.

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	Regulated Utilities			Nonutility and Nonregulated Operations				
Segments of Business (Millions)	Electric	Gas	Total Utility	WPS Energy Services	WPS Power Development(1)	Holding Company & Other	Reconciling Eliminations	WPS Resources Consolidated
Quarter Ended June 30, 2004								
External revenues	$206.3	$ 69.5	$275.8	$ 761.7	$ 8.4	$ -	$ -	$1,045.9
Intersegment revenues	4.5	0.1	4.6	4.8	5.4	0.3	(15.1)	-
Income available for common shareholders	9.9	(0.4)	9.5	2.1	(8.2)	1.2	-	4.6
Quarter Ended June 30, 2003								
External revenues	$188.8	$ 72.0	$260.8	$ 691.0	$20.1	$ -	$ -	$ 971.9
Intersegment revenues	6.2	0.2	6.4	4.3	2.8	0.3	(13.8)	-
Income available for common shareholders	5.4	(1.9)	3.5	3.3	(3.4)	(0.7)	-	2.7
Six Months Ended June 30, 2004								
External revenues	$423.5	$239.0	$662.5	$1,735.4	$21.3	$ -	$ -	$2,419.2

Intersegment revenues	10.2	4.2	14.4	7.2	11.2	0.6	(33.4)	-
Income available for common shareholders	28.1	13.2	41.3	14.2	(9.2)	0.9	-	47.2
Six Months Ended <u>June 30, 2003</u>								
External revenues	$380.8	$241.9	$622.7	$1,589.4	$41.6	$ -	$ -	$2,253.7
Intersegment revenues	15.6	3.8	19.4	10.0	4.4	0.6	(34.4)	-
Income available for common shareholders	17.8	10.7	28.5	15.4	(6.0)	(2.6)	0.4	35.7

(1) All revenue and costs of WPS Power Development's discontinued operations are combined and reported on a net basis in the Consolidated Statements of Income for all periods presented. Accordingly, the above table does not show the revenues from discontinued operations, but the loss from discontinued operations is included as a component of WPS Power Development's loss in the table. Nonregulated revenues reclassified to discontinued operations for the six months ended June 30, 2004 and June 30, 2003, were $27.3 million and $40.8 million, respectively.

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Wisconsin Public Service's principal business segments are the regulated electric utility operations and the regulated gas utility operations.

Segments of Business <u>(Millions)</u>	<u>Electric</u>	<u>Gas</u>	Total <u>Utility</u>	<u>Other</u>	Reconciling <u>Eliminations</u>	Wisconsin Public Service <u>Consolidated</u>
Quarter Ended <u>June 30, 2004</u>						
External revenues	$190.2	$ 69.6	$259.8	$0.3	$(0.3)	$259.8
Earnings on common stock	10.0	(0.4)	9.6	2.3	-	11.9
Quarter Ended <u>June 30, 2003</u>						
External revenues	$172.6	$ 72.2	$244.8	$0.4	$(0.4)	$244.8
Earnings on common stock	4.3	(1.9)	2.4	1.9	-	4.3
Six Months Ended <u>June 30, 2004</u>						
External revenues	$388.6	$243.2	$631.8	$0.7	$(0.7)	$631.8

Earnings on common stock	26.6	13.2	39.8	4.6	-	44.4