MGE ENERGY INC. NDQ-MGEE

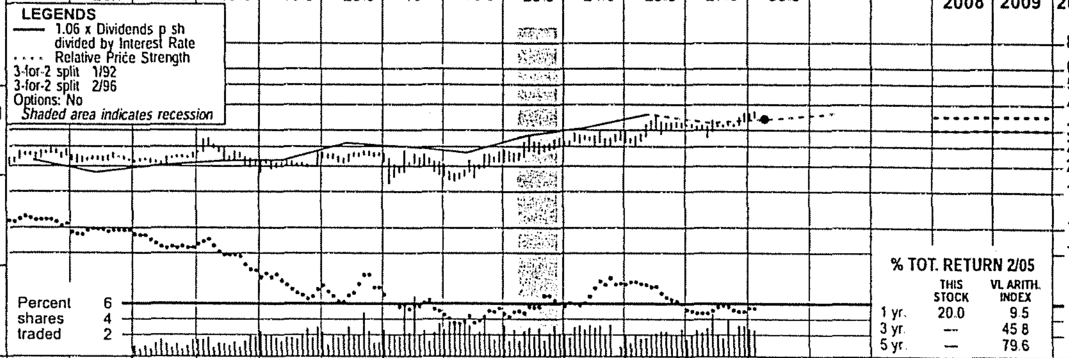
RECENT PRICE 34.10 | P/E RATIO 18.5 (Trailing: 19.3 Median: 15.0) | RELATIVE P/E RATIO .99 | DIV'D YLD 4.0%

TIMELINESS 5 Lowered 11/19/04
SAFETY 1 New 1/3/03
TECHNICAL 3 Raised 3/18/05
BETA .60 (1.00 = Market)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
High:	23.3	23.3	27.5	23.8	23.8	23.9	23.7	27.8	30.1	35.8	36.4	37.2
Low:	20.7	20.3	19.6	18.5	20.6	16.4	16.8	20.9	24.6	25.0	27.6	33.3

Target Price Range 2008 | 2009 | 2010

LEGENDS
— 1.06 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 1/92
3-for-2 split 2/96
Options: No
Shaded area indicates recession



2008-10 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(+5%)	5%
Low	30	(-10%)	1%

Insider Decisions

	M	J	J	A	S	O	N	D	J
to Buy	4	1	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	31	28	42
to Sell	27	19	15
Hld's(000)	4291	4450	4750

% TOT. RETURN 2/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	20.0	9.5
3 yr.	—	45.8
5 yr.	—	79.6

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
13.93	13.77	14.47	14.21	15.18	15.23	15.46	15.75	16.46	15.53	16.96	19.50	19.55	19.75	21.89	20.84	*21.30*	*22.05*	Revenues per sh	*23.30*
2.94	2.96	2.83	2.79	2.86	2.92	3.03	2.41	3.26	3.59	3.81	3.89	3.78	3.33	2.94	2.88	*3.10*	*3.25*	"Cash Flow" per sh	*4.00*
1.30	1.36	1.52	1.45	1.51	1.53	1.49	.82	1.40	1.38	1.48	1.67	1.62	1.69	1.71	1.77	*1.90*	*2.00*	Earnings per sh A	*2.45*
1.12	1.15	1.17	1.19	1.19	1.25	1.26	1.28	1.29	1.30	1.31	1.32	1.33	1.34	1.35	1.36	*1.37*	*1.38*	Div'd Decl'd per sh B ■	*1.44*
1.98	1.43	1.24	.77	1.47	1.64	1.19	1.36	1.35	1.92	3.16	4.44	2.47	4.45	4.52	4.70	*4.55*	*4.00*	Cap'l Spending per sh	*2.25*
10.30	10.62	10.98	11.24	11.51	11.78	12.01	11.14	11.25	11.34	11.49	12.05	12.67	12.94	14.34	16.59	*15.45*	*17.40*	Book Value per sh C	*18.85*
15.62	16.02	16.05	16.05	16.08	16.08	16.08	16.08	16.08	16.08	16.16	16.62	17.07	17.57	18.34	20.39	*20.40*	*20.40*	Common Shs Outst'g D	*20.40*
11.8	10.8	11.3	14.3	15.2	14.3	14.5	28.1	14.5	16.2	14.0	11.7	14.8	16.0	17.5	18.0	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	*13.5*
.89	.80	.72	.87	.90	.94	.97	1.76	.84	.84	.80	.76	.76	.87	1.00	.95	*estimates*		Relative P/E Ratio	*.95*
7.3%	7.8%	6.8%	5.7%	5.2%	5.7%	5.8%	5.5%	6.3%	5.8%	6.3%	6.7%	5.5%	5.0%	4.5%	4.3%			Avg Ann'l Div'd Yield	*4.6%*

CAPITAL STRUCTURE as of 12/31/04
Total Debt $255.6 mill. Due in 5 Yrs $65.0 mill.
LT Debt $202.3 mill. LT Interest $12.0 mill.
(LT interest earned: 4.3x)

Leases, Uncapitalized Annual rentals $1.4 mill.
Pension Assets-12/04 $108.7 mill.
Obligation $154.6 mill.

Pfd Stock None

Common Stock 20,389,619 shs.

MARKET CAP: $700 million (Small Cap)

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006		08-10
248.6	253.3	264.7	249.8	274.0	324.1	333.7	347.1	401.5	424.9	*435*	*450*	Revenues ($mill)	*475*
24.0	13.2	22.5	22.2	23.8	27.4	27.2	29.2	30.6	33.8	*36.0*	*38.0*	Net Profit ($mill)	*47.0*
26.7%	55.1%	37.5%	37.1%	36.9%	36.5%	36.9%	39.1%	39.4%	37.9%	*38.0%*	*38.0%*	Income Tax Rate	*38.0%*
--	--	.2%	.9%	1.9%	1.9%	2.2%	--	2.2%	1.7%	*1.7%*	*1.7%*	AFUDC % to Net Profit	*2.0%*
53.5%	41.9%	41.8%	46.7%	44.5%	47.8%	42.2%	45.8%	43.5%	37.4%	*37.0%*	*37.0%*	Long-Term Debt Ratio	*35.0%*
46.5%	58.1%	58.2%	53.3%	55.5%	52.2%	57.8%	54.2%	56.5%	62.6%	*63.0%*	*63.0%*	Common Equity Ratio	*65.0%*
415.4	308.0	310.8	342.0	334.3	383.7	373.9	419.5	465.3	540.5	*550*	*565*	Total Capital ($mill)	*590*
315.0	312.2	284.7	258.6	260.1	342.8	401.2	451.5	537.5	607.4	*615*	*620*	Net Plant ($mill)	*625*
7.0%	5.9%	8.8%	8.0%	8.8%	8.8%	9.0%	8.1%	7.8%	7.3%	*7.5%*	*8.0%*	Return on Total Cap'l	*9.0%*
12.4%	7.4%	12.4%	12.2%	12.8%	13.7%	12.6%	12.8%	11.6%	10.0%	*10.0%*	*10.5%*	Return on Shr. Equity	*12.0%*
12.4%	7.4%	12.4%	12.2%	12.8%	13.7%	12.6%	12.8%	11.6%	10.0%	*10.0%*	*10.5%*	Return on Com Equity E	*12.0%*
1.9%	NMF	1.0%	.7%	1.5%	2.9%	2.3%	2.6%	2.5%	1.8%	*2.5%*	*2.8%*	Retained to Com Eq	*4.6%*
85%	NMF	92%	94%	89%	79%	82%	79%	79%	82%	*78%*	*74%*	All Div'ds to Net Prof	*63%*

ELECTRIC OPERATING STATISTICS

	2001	2002	2003
% Change Retail Sales (KWH)	-1.6	+5.5	-0.7
Avg. Indust. Use (MWH)	4629	4624	4293
Avg. Indust. Revs. per KWH (¢)	4.11	4.40	4.37
Capacity at Peak (Mw)	768	763	812
Peak Load, Summer (Mw)	664	714	690
Annual Load Factor (%)	48.1	59.1	48.1
% Change Customers (avg.)	+.5	+1.0	+1.6
Fixed Charge Cov. (%)	352	388	352

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '08-'10
Revenues	3.5%	5.0%	.5%
"Cash Flow"	1.5%	1.5%	.5%
Earnings	1.0%	7.0%	6.0%
Dividends	1.0%	1.0%	.5%
Book Value	1.5%	3.5%	7.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	98.3	74.0	79.4	95.4	347.1
2003	128.5	82.6	87.9	102.5	401.5
2004	135.4	85.4	86.8	117.3	424.9
2005	*140*	*92.0*	*94.0*	*109*	*435*
2006	*144*	*96.0*	*97.0*	*113*	*450*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.64	.26	.60	.19	1.69
2003	.53	.33	.56	.29	1.71
2004	.74	.30	.48	.25	1.77
2005	*.71*	*.33*	*.55*	*.31*	*1.90*
2006	*.74*	*.35*	*.57*	*.34*	*2.00*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.331	.331	.333	.333	1.33
2002	.333	.333	.336	.336	1.34
2003	.336	.336	.338	.338	1.35
2004	.338	.338	.342	.342	1.36
2005	.342				

BUSINESS: MGE Energy Inc. is a holding company for Madison Gas and Electric, which provides electric service to nearly 132,000 customers in a 250-square-mile area of Dane County and gas service to 129,000 customers in 1,375 square miles in seven counties in Wisconsin. Electric revenue breakdown, '04: residential, 35%; commercial, 49%; industrial, 6%; public authorities, 8%; other, 2%. Generating sources, '04: fossil-fueled steam, 65%; purchased power, 33%; other, 2%. Fuel costs: 43% of revenues. '04 reported deprec. rate: electric, 3.4%; gas, 3.3%. Has 693 employees, 18,000 stockholders. Chairman, President & CEO: Gary J. Wolter. Inc.: Wisconsin. Address: 133 South Blair St., P.O. Box 1231, Madison, WI 53701-1231. Tel.: 608-252-7000. Internet: www.mge.com.

MGE Energy still expects to finish construction on the West Campus Cogeneration Facility by mid-year or so. Located on the University of Wisconsin-Madison (UW-M) campus, the $185 million gas-fired plant will have the capacity to produce approximately 150 megawatts of electricity. The residual thermal energy that is wasted in standard electrical power plants will also be used. Captured steam will heat the UW-M campus; chilled water will provide air conditioning during the summer. MGE also recently inked a 20-year purchase power agreement for 40 megawatts of renewable energy from a new wind farm proposed for the Waupun area. Both projects should help MGE meet its power needs and burnish its well-established reputation as an environmentally responsible corporate citizen.

Prospects for the next decade or so remain favorable. It is estimated that customers' peak demand will grow 3% a year above and beyond the impact of energy-savings initiatives. Favorable demographics within MGE's south-central Wisconsin service area are largely to thank. Dane County's population, including the city of Madison and UW-M, has been growing at an annual clip of 1.5%. That is nearly 50% higher than the national average.

Investment in the transmission grid should help avoid power disruptions. MGE is currently working with American Transmission Co. (ATC) on a plan for some $95 million of improvements on the electric transmission system that serves MGE customers. MGE is part-owner in ATC and earns a return on its investment in ATC's transmission assets.

Untimely MGE shares are probably best suited for income-oriented investors. Their current yield, at 4.0%, is relatively attractive. What's more, the prospect for future, albeit modest, dividend increases is good, as the company has increased its dividends annually for the past 28 years. Still, capital appreciation potential to 2008-2010 is negligible, particularly given the stock's strong run up in price over the past few years and an above-average valuation based on forward earnings.

Nils C. Van Lie *April 1, 2005*

(A) Excl. nonrecurring loss: '96, 42¢. Next earnings report due late April. (B) Dividends historically paid in mid-March, June, September, December. ■ Dvd. reinvestment plan available. (C) Incl. deferred charges. In '01: $27.1 mill., $1.59/sh. (D) In millions, adjusted for stock splits. (E) Rate allowed on common equity in '02: 12.9%; earned on average common equity, '02: 13.0%. Regulatory Climate: Above Average.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	40
Earnings Predictability	90

VECTREN CORP. NYSE-VVC

RECENT PRICE 26.25 | P/E RATIO 15.9 (Trailing: 18.2 Median: NMF) | RELATIVE P/E RATIO 0.85 | DIV'D YLD 4.5% | VALUE LINE

TIMELINESS 3 Raised 4/1/05
SAFETY 2 Lowered 1/5/01
TECHNICAL 3 Lowered 9/10/04
BETA .75 (1.00 = Market)

High:	26.5	24.4	26.1	26.1	27.1	28.0	
Low:	15.8	19.8	18.0	19.7	22.9	25.8	

Target Price Range 2008 | 2009 | 2010

2008-10 PROJECTIONS

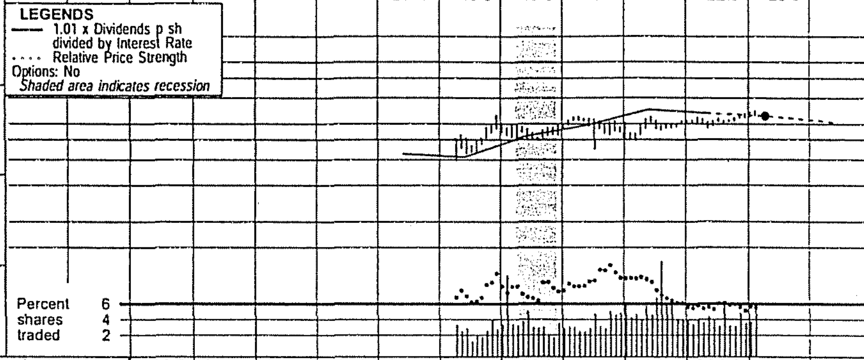
	Price	Gain	Ann'l Total Return
High	30	(+15%)	8%
Low	20	(-25%)	-1%

Insider Decisions

	M	J	J	A	S	O	N	D	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	1	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	71	79	93
to Sell	75	54	49
Hld's(000)	30370	29257	29841



% TOT. RETURN 2/05

	THIS STOCK	VL ARITH. INDEX
1 yr	13.6	9.5
3 yr	24.5	45.8
5 yr	—	79.6

Vectren was formed on March 31, 2000 through the merger of Indiana Energy and SIGCORP. The merger was consummated with a tax-free exchange of shares and has been accounted for as a pooling of interests. Indiana Energy common stockholders received one Vectren common share for each share held. SIGCORP stockholders exchanged each common share for 1.333 common shares of Vectren. Data prior to the merger are pro forma.

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
--	--	--	--	16.88	26.84	32.05	26.53	21.00	22.25	22.95	23.90	Revenues per sh	26.75
--	--	--	--	2.87	2.88	2.89	3.43	3.17	3.25	3.70	3.90	"Cash Flow" per sh	4.30
--	--	--	--	1.48	1.17	1.08	1.68	1.56	1.44	1.75	1.85	Earnings per sh A	1.95
--	--	--	--	.95	.98	1.03	1.07	1.11	1.15	1.19	1.23	Div'd Decl'd per sh B■	1.35
--	--	--	--	--	2.67	3.48	3.22	3.12	3.45	2.95	3.05	Cap'l Spending per sh	3.10
--	--	--	--	11.55	11.91	12.53	12.79	14.18	14.45	15.00	15.60	Book Value per sh C	17.25
--	--	--	--	61.47	61.42	67.70	68.01	75.60	76.00	76.20	76.50	Common Shs Outst'g D	77.40
--	--	--	--	--	17.4	20.3	14.2	14.8	17.3	Bold figures are		Avg Ann'l P/E Ratio	13.0
--	--	--	--	--	1.13	1.04	.78	.84	.92	Value Line		Relative P/E Ratio	.85
--	--	--	--	--	4.8%	4.7%	4.5%	4.8%	4.6%	estimates		Avg Ann'l Div'd Yield	5.2%
--	--	--	--	1037.4	1648.7	2170.0	1804.3	1587.6	1689.8	1750	1830	Revenues ($mill)	2070
--	--	--	--	90.8	72.0	73.1	114.0	111.2	109.6	135	140	Net Profit ($mill)	150
--	--	--	--	33.6%	32.2%	20.3%	25.4%	25.3%	25.0%	25.0%	25.0%	Income Tax Rate	25.0%
--	--	--	--	--	--	7.7%	4.6%	4.5%	4.0%	3.0%	3.0%	AFUDC % to Net Profit	3.0%
--	--	--	--	40.0%	45.8%	54.4%	52.3%	50.0%	49.5%	48.5%	47.5%	Long-Term Debt Ratio	44.5%
--	--	--	--	58.4%	53.0%	45.5%	47.7%	50.0%	50.5%	51.5%	52.5%	Common Equity Ratio	55.5%
--	--	--	--	1215.8	1380.6	1863.1	1824.4	2144.7	2170	2215	2265	Total Capital ($mill)	2410
--	--	--	--	1336.3	1555.8	1595.0	1648.1	2003.7	2130	2205	2285	Net Plant ($mill)	2465
--	--	--	--	8.6%	6.1%	5.5%	7.7%	6.6%	6.5%	7.5%	7.5%	Return on Total Cap'l	7.5%
--	--	--	--	12.5%	9.6%	8.6%	13.1%	10.4%	10.0%	11.5%	12.0%	Return on Shr. Equity	11.5%
--	--	--	--	12.6%	9.7%	8.5%	13.1%	10.4%	10.0%	11.5%	12.0%	Return on Com Equity E	11.5%
--	--	--	--	4.8%	1.5%	.3%	4.8%	3.0%	2.0%	3.5%	4.0%	Retained to Com Eq	3.5%
--	--	--	--	63%	85%	96%	63%	71%	80%	68%	66%	All Div'ds to Net Prof	69%

CAPITAL STRUCTURE as of 9/30/04
Total Debt $1398.9 mill. Due in 5 Yrs $395.9 mill.
LT Debt $1065.0 mill. LT Interest $61.0 mill.
(LT interest earned: 3.4x)

Pension Assets-12/03 $147.8 mill. **Oblig.** $222.7 mill.

Pfd Stock $ 1 mill. **Pfd Div'd** - -
2,277 shs. 8.5%, no par. redeem. at $100.

Common Stock 75,981,012 shs. as of 10/31/04
MARKET CAP: $2.0 billion (Mid Cap)

ELECTRIC OPERATING STATISTICS

	2001	2002	2003
% Change Retail Sales (KWH)	+.3	+6.3	-4.4
Avg. Indust. Use (MWH)	12320	12772	15593
Avg. Indust. Revs. per KWH (¢)	4.17	5.32	5.78
Capacity at Peak (Mw)	1448	1528	1478
Peak Load, Summer (Mw)	1209	1258	1272
Annual Load Factor (%)	55.0	56.1	55.4
% Change Customers (yr-end)	+.7	+1.4	.8
Fixed Charge Cov. (%)	164	262	257

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '08-'10
Revenues	--	--	Nil
"Cash Flow"	--	--	4.5%
Earnings	--	--	4.5%
Dividends	--	--	3.5%
Book Value	--	--	4.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2002	630.4	380.1	304.3	489.5	1804.3
2003	626.7	268.4	240.3	452.2	1587.6
2004	645.4	276.7	254.4	513.3	1689.8
2005	675	295	275	505	1750
2006	695	315	295	525	1830

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2002	.67	.18	.20	.63	1.68
2003	.82	.06	.10	.58	1.56
2004	.72	.04	.13	.55	1.44
2005	.85	.10	.15	.65	1.75
2006	.90	.10	.15	.70	1.85

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.255	.255	.255	.265	1.03
2002	.265	.265	.265	.275	1.07
2003	.275	.275	.275	.285	1.11
2004	.285	.285	.285	.295	1.15
2005	.295				

BUSINESS: Vectren is a holding company formed through the merger of Indiana Energy and SIGCORP. Supplies electricity and gas to an area nearly two-thirds of the state of Indiana. Has a customer base of 1,110,000. 2003 Elect. (gas) revs: resid., 34% (67%); commer., 27% (25%); indust., 37% (8%); other, 2% (nil). Revenue sources: Elect., 23%; Gas, 77%. Fuel costs: elect., 31%; gas, 69%. Also provides energy-related products and services and has an investment subsidiary. Est'd plant age: electric, 10 years. '03 deprec. rate: 3.5%. Has 1,858 employees. 12,689 shareholders. Chairman, Chief Executive Officer, and President: Niel C. Ellerbrook. Inc.: IN. Address: 20 Northwest 4th St., Evansville, Indiana 47741. Tel.: 812-465-5300. Internet: www.vectren.com.

Vectren's unregulated businesses are growing at a healthy rate. ProLiance, a 61%-owned affiliate, trades and markets natural gas, sells gas to the company's two regulated subsidiaries, and services other large end-use customers. It contributed about $0.30 a share to corporate net last year and may be more profitable in 2005. But a note of caution: ProLiance lost a lawsuit in which it was accused of breach of contract. An unfavorable outcome on appeal could be materially adverse to earnings. (We would treat any charge as nonrecurring.) VVC also owns and operates two low-sulfur coal mines that not only supply company plants but sell one million tons a year in the open market. Higher contract prices point to improved earnings in 2005. In addition, the company has a 50% stake in Pace Carbon Synfuels, which earns tax credits through the sale of coal-based synthetic fuels. These enterprises should account for 25% of company net this year. Moreover, we expect them to grow at a faster rate than the regulated utilities through 2008-2010.

The company awaits a rate order on its filing in Ohio. The request calls for an increase of $25 million and an allowed return of 12.25% to recover the cost of operating and expanding the 5,200-mile distribution system. The application also includes a tariff that would enable VVC to support the reduction of energy consumption. The petition addresses nongas costs only. A commission order is due shortly.

Earnings may set a record in 2005. Positives include last year's rate hikes in northern and southern Indiana and the likelihood of an increase in Ohio. The company will also benefit from recovery of environmental expenditures to reduce emissions of nitrogen oxide. But higher pension costs are a negative. All told, we estimate a 22% rise in 2005 earnings, to $1.75 a share. Improved results in the unregulated area should help lift earnings next year.

Income-oriented investors might take a look here. Based on our forecast of earnings gains to 2008-2010, dividend growth prospects over the same timeframe are more than double those of the group. What's more, these shares are of good quality.

Arthur H. Medalie — *April 1, 2005*

(A) Diluted EPS. Next earnings report due late Apr. Excl. nonrecur. gain (losses): '00, 8¢; '01, (13¢); '03, (6¢); incl. charges for merger costs: '00, 60¢; '01, 17¢. (B) Div'ds historically paid in early March, early June, early September, and early December. ■Div'd reinvest. plan avail. (C) Incl. intang. in '03, $3.89/sh. (D) In millions. (E) Electric rate base determination: fair value. Rate allowed on common equity in '95: 12.25%. Earned on avg. com. eq. '03: 11.5%. Regulatory Climate: Above Average.

Company's Financial Strength	A
Stock's Price Stability	95
Price Growth Persistence	70
Earnings Predictability	70

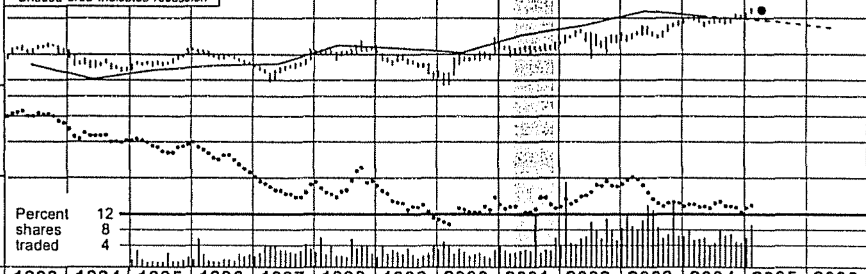
WPS RESOURCES NYSE-WPS

RECENT PRICE 52.53 | P/E RATIO 12.2 (Trailing: 12.9 Median: 13.0) | RELATIVE P/E RATIO 0.66 | DIV'D YLD 4.3%

TIMELINESS 3 Raised 2/11/05
SAFETY 2 Lowered 4/4/03
TECHNICAL 3 Raised 3/25/05
BETA .75 (1.00 = Market)

High:	33.6	34.3	34.4	34.3	37.5	35.8	39.0	36.8	42.7	46.8	50.5	54.9	
Low:	26.3	26.8	28.3	23.4	29.9	24.4	22.6	31.0	30.5	36.8	43.5	47.7	

LEGENDS
—— 0.95 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area indicates recession



Target Price Range
2008 | 2009 | 2010
120 100 80 64 48 32 24 20 16 12 8

2008-10 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	65	(+25%)	9%
Low	45	(-15%)	1%

Insider Decisions

	M	J	J	A	S	O	N	D	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	1	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	81	76	84
to Sell	56	54	57
Hld's(000)	10959	11071	11869

Percent shares traded 12 8 4

% TOT. RETURN 2/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	14.7	9.5
3 yr.	57.6	45.8
5 yr.	191.9	79.6

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
25.59	25.73	27.24	26.62	28.48	28.20	30.12	35.91	36.76	40.06	40.91	72.68	85.80	83.55	117.07	130.75	132.70	129.25	Revenues per sh	139.40
4.79	4.80	5.03	5.09	5.00	4.56	5.06	4.71	5.37	5.01	5.34	6.11	5.27	5.91	6.23	8.05	8.85	9.35	"Cash Flow" per sh	11.70
1.98	2.00	2.23	2.35	2.47	2.21	2.32	2.00	2.13	1.76	2.24	2.43	2.74	2.74	2.76	4.07	4.10	4.20	Earnings per sh A	4.30
1.60	1.64	1.68	1.72	1.76	1.80	1.84	1.88	1.92	1.96	2.00	2.04	2.08	2.12	2.16	2.20	2.24	2.28	Div'd Decl'd per sh B■	2.40
3.17	2.68	2.84	3.99	2.87	2.87	3.35	3.55	2.44	3.57	4.93	5.94	7.98	7.16	4.77	5.35	7.30	6.90	Cap'l Spending per sh	6.75
16.30	16.26	16.13	17.33	18.18	18.69	19.39	19.56	20.00	19.48	19.97	20.21	22.96	24.45	27.18	29.00	31.05	31.40	Book Value per sh C	37.50
22.89	22.89	22.89	23.85	23.90	23.90	23.90	23.90	23.90	26.55	26.85	26.85	31.18	32.01	36.91	37.40	37.60	40.00	Common Shs Outst'g D	40.60
11.4	11.0	11.3	12.6	13.7	13.0	12.8	15.7	13.1	18.9	13.2	12.2	12.5	14.0	14.9	11.5	Bold figures are		Avg Ann'l P/E Ratio	13.0
.86	.82	.72	.76	.81	.85	.86	.98	.76	.98	.75	.79	.64	.76	.85	.61	Value Line		Relative P/E Ratio	.85
7.1%	7.4%	6.6%	5.8%	5.2%	6.2%	6.2%	6.0%	6.9%	5.9%	6.7%	6.9%	6.1%	5.5%	5.3%	4.7%	estimates		Avg Ann'l Div'd Yield	4.3%

CAPITAL STRUCTURE as of 9/30/04
Total Debt $1018.7 mill. Due in 5 Yrs $182.3 mill.
LT Debt $868.8 mill. LT Interest $44.4 mill.
(LT interest earned: 4.3x)
Leases, Uncapitalized Annual rentals $5.0 mill.
Pension Assets-12/03 $567.9 mill Oblig. $610.9 mill.
Pfd Stock $51.1 mill. Pfd Div'd $3.1 mill.
512,000 shs. 5.00% to 6.88%, callable $101 to $107.50; sinking fund began 11/1/79. All cumulative, $100 par.

Common Stock 37,386,727 shs. as of 10/31/04
MARKET CAP: $2.0 billion (Mid Cap)

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006		08-10
719.8	858.3	878.3	1063.7	1098.5	1951.6	2675.5	2674.9	4321.3	4890.6	4990	5170	Revenues ($mill)	5660
58.5	50.5	54.0	49.8	62.7	67.4	80.7	94.4	94.5	153.7	155	165	Net Profit ($mill)	175
34.5%	32.5%	34.0%	32.3%	32.2%	6.7%	5.6%	20.8%	26.3%	26.0%	26.0%	26.0%	Income Tax Rate	26.0%
.4%	.5%	.4%	--	--	--	--	3.2%	2.5%	3.0%	4.0%	4.0%	AFUDC % to Net Profit	3.0%
37.3%	37.1%	36.5%	35.7%	47.8%	50.6%	47.1%	48.3%	45.3%	46.0%	44.5%	42.5%	Long-Term Debt Ratio	42.5%
56.4%	56.7%	57.4%	53.8%	43.9%	41.6%	46.3%	45.8%	52.1%	51.5%	53.5%	55.0%	Common Equity Ratio	55.5%
821.2	824.5	833.0	961.4	1222.0	1303.9	1544.8	1708.3	1926.2	2110	2190	2280	Total Capital ($mill)	2745
870.1	892.9	886.4	820.1	863.7	905.1	1463.6	1610.2	1828.7	1880	1975	2040	Net Plant ($mill)	2055
8.5%	7.4%	7.8%	6.4%	6.2%	6.8%	6.8%	7.0%	6.1%	9.0%	8.5%	8.5%	Return on Total Cap'l	8.0%
11.4%	9.7%	10.2%	8.0%	9.8%	10.5%	9.9%	10.7%	9.0%	13.5%	13.0%	13.0%	Return on Shr. Equity	11.5%
11.9%	10.1%	10.6%	9.0%	11.1%	11.9%	10.8%	11.7%	9.1%	14.0%	13.0%	13.0%	Return on Com Equity E	11.5%
2.5%	.5%	1.0%	NMF	1.2%	1.9%	2.7%	3.1%	2.0%	6.5%	6.0%	6.0%	Retained to Com Eq	5.0%
81%	95%	91%	102%	85%	80%	76%	74%	79%	55%	56%	55%	All Div'ds to Net Prof	57%

ELECTRIC OPERATING STATISTICS

	2001	2002	2003
% Change Retail Sales (KWH)	+1.6	+3.6	+1.0
Avg. Indust. Use (KWH)	17727	16982	16089
Avg. Indust. Revs. per KWH (¢)	3.10	3.72	3.76
Capacity at Peak (Mw)	1978	1947	2285
Peak Load, Summer (Mw)	2173	1947	1888
Annual Load Factor (%)	70.6	74.5	74.5
% Change Customers (yr-end)	+1.5	+1.7	+1.6
Fixed Charge Cov. (%)	173	197	182

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '08-'10
Revenues	13.5%	20.5%	5.5%
"Cash Flow"	1.5%	3.0%	10.5%
Earnings	1.5%	7.0%	6.5%
Dividends	2.0%	2.0%	2.0%
Book Value	3.5%	5.0%	6.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	671.3	579.4	609.6	814.6	2674.9
2003	1281.8	971.9	989.3	1078.3	4321.3
2004	1373.3	1045.9	1072.5	1398.9	4890.6
2005	1450	1110	1140	1290	4990
2006	1500	1150	1180	1340	5170

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.89	.36	.77	.72	2.74
2003	.92	.08	1.04	.72	2.76
2004	1.22	.26	.99	1.60	4.07
2005	1.40	.30	1.00	1.40	4.10
2006	1.45	.30	1.00	1.45	4.20

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.515	.515	.525	.525	2.08
2002	.525	.525	.535	.535	2.12
2003	.535	.535	.545	.545	2.16
2004	.545	.545	.555	.555	2.20
2005	.555				

BUSINESS: WPS Resources Corporation is a holding company for subsidiaries that provide products and services in both regulated and nonregulated energy markets. Acq'd Upper Peninsula Energy 9/98. 2003 revenues: electric, 17%; gas, 10%; nonregulated energy and other, 73%. Electric revenue breakdown, '03: residential, 36%; commercial and industrial, 50%; other, 14%. Generating sources, '03, regul: coal, 61%; nuclear, 18%; hydro, 2%; other and purchased, 19%. Fuel costs: 45% of revenues. '03 deprec. rate: 3.6%. Est'd plant age: 9 years. Has 3,080 employees, 22,172 common stockholders. Chairman, President & CEO: Larry L. Weyers. Incorporated: WI. Address: 700 N. Adams Street, Green Bay, WI 54307. Telephone: 800-236-1551. Internet: www.wpsr.com.

WPS Resources has received higher rates; two requests are pending. Last December, the Wisconsin regulators granted the company increased electric rates of $60.7 million and higher posted gas tariffs of $5.6 million. The decision allows an 11.5% return on equity, down from the previous 12.0%. The reduced return is the result of lower interest rates. The order reimburses the company for higher employee medical benefits, upgrades to the generation and distribution systems, and construction work in progress at the 500 megawatt (mw) coal-fired Weston 4 plant (See below). It also covers the cost of operating more expensive gas-fired peaking plants and buying increased amounts of energy from outside suppliers. Separately, WPS awaits orders on a $7.2 million filing for an unplanned outage at the Kewaunee nuclear facility and on a request in Michigan for $5.7 million.

The company is building a coal-fired plant. WPS has begun construction of a 500-megawatt (mw) unit at an estimated cost of $770 million. The location at the existing Weston site will reduce costs by sharing fixed charges with the three units already in operation. Dairyland has agreed to take a 30% interest in the facility, which is scheduled to go on line in 2008. The increased capacity will offset the loss of Kewaunee, whose sale to Dominion was recently approved by the Wisconsin regulators. Looking further down the road, WPS plans to build another 500-mw base-load plant with Alliant Energy in 2011.

Current-year earnings may only match 2004's strong performance. Thanks to the recent rate increase, electric and gas margins will rise. A full year of the acquisition of Advantage Energy, an electric power marketer, and a probable 2%-3% rise in retail energy sales are additional pluses. But higher pension costs and downtime for refueling Kewaunee suggest only flat earnings in 2005. Likely improvement in unregulated operations points to a modest gain in 2006.

The yield is a cut above the industry norm. And based on our projection of steady earnings gains after this year, dividend growth prospects to 2008-2010 are almost double those of its peers. Income-oriented investors might take a look here.

Arthur H. Medalie *April 1, 2005*

(A) Diluted EPS. Excl. gains, (loss): '97, 12¢; '00, 10¢; '02, 68¢; '03, 10¢; '04, (35¢). Next egs. report due late Apr. (B) Div'ds historically paid in late Mar., late June, late Sept., and late Dec. ■ Div'd reinvestment plan available. (C) Incl. intangibles. In '03, $127.7 mill., $3.46/sh. (D) In millions. (E) Rate base determination: Net orig. cost. Rate allowed in Wisc on com. equity in '04: 11.5%; earned on avg. com. equity, '03: 10.3%. Reg. Climate: Above Avg.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	85

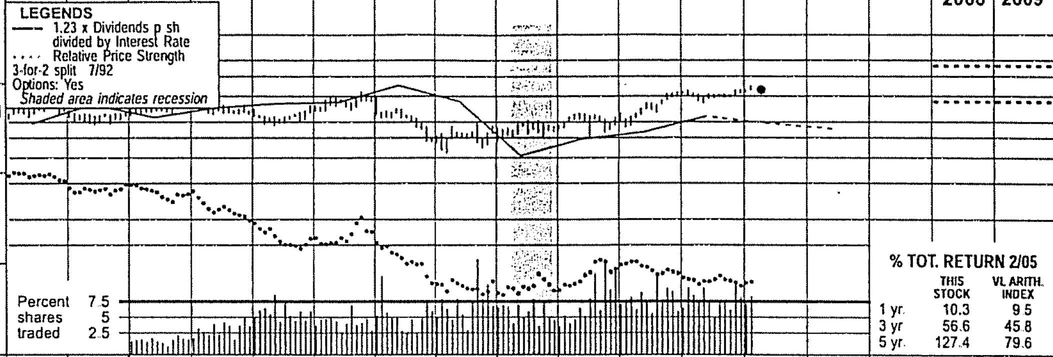
WISCONSIN ENERGY NYSE-WEC

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
34.40	15.4	(Trailing: 18.6 / Median: 15.0)	0.83	2.6%	LINE

TIMELINESS 3 Raised 2/18/05
SAFETY 2 Lowered 7/11/97
TECHNICAL 3 Raised 3/25/05
BETA .70 (1.00 = Market)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
High:	27.5	30.9	32.0	29.1	34.0	31.6	23.6	24.6	26.5	33.7	34.6	36.1
Low:	23.1	25.8	26.0	23.0	27.0	19.1	16.8	19.1	20.2	22.6	29.5	33.3

LEGENDS
— 1.23 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 7/92
Options: Yes
Shaded area indicates recession



Target Price Range

2008	2009	2010

2008-10 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+30%)	10%
Low	30	(-15%)	Nil

Insider Decisions

	M	J	J	A	S	O	N	D	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	2	0	1	0	3	0	1	0
to Sell	0	2	0	1	0	1	0	0	0

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	104	94	111
to Sell	117	109	99
Hld's(000)	66836	70040	69112

% TOT. RETURN 2/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	10.3	9.5
3 yr.	56.6	45.8
5 yr.	127.4	79.6

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
14.78	14.28	15.23	15.05	15.61	15.99	15.98	15.88	15.86	17.13	19.11	28.28	34.04	32.20	34.24	29.33	*30.75*	*32.50*	Revenues per sh	*36.75*
3.32	3.28	3.33	3.22	3.84	3.81	4.28	4.25	2.96	4.13	4.53	4.48	5.44	5.68	5.71	5.16	*5.80*	*6.15*	"Cash Flow" per sh	*7.00*
1.92	1.85	1.87	1.67	1.81	1.67	2.13	1.97	.54	1.65	1.88	1.08	1.84	2.32	2.26	1.85	*2.30*	*2.45*	Earnings per sh A	*2.75*
1.09	1.16	1.23	1.29	1.34	1.40	1.46	1.51	1.54	1.56	1.56	1.37	.80	.80	.80	.83	*.88*	*.92*	Div'd Decl'd per sh B ■	*1.04*
2.04	2.09	2.40	3.11	3.43	2.76	2.50	3.53	3.13	3.52	4.44	5.29	6.03	5.07	5.89	5.70	*7.05*	*7.50*	Cap'l Spending per sh	*7.75*
13.01	13.70	14.35	14.97	15.67	16.01	16.89	17.42	16.51	16.46	16.89	17.00	17.81	18.44	19.92	21.31	*22.75*	*24.30*	Book Value per sh C	*29.25*
101.04	101.04	101.04	103.09	105.32	108.94	110.82	111.68	112.87	115.61	118.90	118.65	115.42	116.03	118.43	116.99	*117.00*	*117.00*	Common Shs Outst'g D	*117.00*
9.8	10.6	12.1	15.6	15.2	15.2	13.1	14.3	47.3	18.0	13.3	18.7	12.1	10.5	12.4	17.5	*Bold figures are*		Avg Ann'l P/E Ratio	*13.5*
.74	.79	.77	.95	.90	1.00	.88	.90	2.73	.94	.76	1.22	.62	.57	.71	.93	*Value Line*		Relative P/E Ratio	*.90*
5.8%	6.0%	5.4%	5.0%	4.9%	5.5%	5.2%	5.4%	6.0%	5.2%	6.3%	6.8%	3.6%	3.3%	2.8%	2.6%	*estimates*		Avg Ann'l Div'd Yield	*2.8%*

CAPITAL STRUCTURE as of 12/31/04
Total Debt $3678.5 mill. Due in 5 Yrs $1641.3 mill.
LT Debt $3239.5 mill. LT Interest $186.3 mill.
Incl. $191.1 mill. capitalized leases.
(LT interest earned: 2.7x)
Leases, Uncapitalized Annual rentals $50.4 mill.

Pension Assets-12/04 $998.5 mill. Oblig. $1.2 bill.
Pfd Stock $30.4 mill. Pfd Div'd $1.2 mill.
260,000 shs 3.60%, $100 par, callable at $101;
44,498 shs. 6%, $100 par.
Common Stock 116,985,602 shs
as of 1/31/05
MARKET CAP: $4.0 billion (Mid Cap)

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006		08-10
1770.5	1773.8	1789.6	1980.0	2272.6	3354.7	3928.5	3736.2	4054.3	3431.1	*3600*	*3800*	Revenues ($mill)	*4300*
235.2	219.3	61.9	189.3	231.5	132.0	218.8	270.8	269.2	221.2	*270*	*290*	Net Profit ($mill)	*325*
37.1%	36.4%	33.4%	32.7%	33.8%	43.7%	40.9%	37.4%	35.5%	37.5%	*38.0%*	*38.0%*	Income Tax Rate	*38.0%*
3.8%	3.9%	16.7%	5.7%	5.8%	12.3%	6.9%	4.1%	6.9%	10.0%	*7.0%*	*9.0%*	AFUDC % to Net Profit	*8.0%*
41.8%	41.7%	44.7%	47.5%	48.8%	58.9%	62.2%	59.8%	59.9%	56.2%	*48.0%*	*51.5%*	Long-Term Debt Ratio	*48.0%*
57.2%	57.4%	54.4%	51.7%	45.9%	40.5%	37.2%	39.6%	39.6%	43.3%	*51.5%*	*48.0%*	Common Equity Ratio	*51.5%*
3269.4	3391.9	3425.8	3682.6	4372.8	4979.9	5523.8	5400.3	5963.3	5762.3	*5175*	*5900*	Total Capital ($mill)	*6625*
2910.6	3057.9	3185.0	3238.4	3846.6	4152.4	4188.0	4398.8	5926.1	5903.1	*6320*	*6765*	Net Plant ($mill)	*8050*
8.8%	8.0%	3.4%	6.6%	6.7%	4.7%	5.8%	7.1%	6.3%	5.6%	*7.0%*	*6.5%*	Return on Total Cap'l	*6.5%*
12.4%	11.1%	3.3%	9.8%	10.3%	6.4%	10.5%	12.5%	11.3%	8.8%	*10.0%*	*10.0%*	Return on Shr. Equity	*9.5%*
12.5%	11.2%	3.3%	9.9%	10.9%	6.5%	10.6%	12.6%	11.4%	8.8%	*10.5%*	*10.0%*	Return on Com Equity E	*9.5%*
4.0%	2.6%	NMF	.6%	1.9%	NMF	6.0%	8.3%	7.4%	4.9%	*6.5%*	*6.5%*	Retained to Com Eq	*6.0%*
68%	77%	NMF	94%	84%	NMF	43%	35%	35%	45%	*39%*	*38%*	All Div'ds to Net Prof	*39%*

ELECTRIC OPERATING STATISTICS

	2002	2003	2004
% Change Retail Sales (KWH)	+2.8	+.8	+1.7
Avg. Indust. Use (MWH)	15698	16127	16482
Avg. Indust. Revs. per KWH (¢)	4.34	4.55	4.71
Capacity at Peak (Mw)	NA	NA	NA
Peak Load, Summer (Mw)	6231	6376	5789
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	+1.2	+1.1	+1.3
Fixed Charge Cov. (%)	260	256	248

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '08-'10
Revenues	7.5%	13.0%	2.5%
"Cash Flow"	4.5%	7.5%	4.0%
Earnings	2.0%	9.5%	4.0%
Dividends	-5.0%	-12.0%	4.5%
Book Value	2.5%	3.5%	6.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	986.0	870.9	869.8	1009.5	3736.2
2003	1229.2	914.3	878.5	1032.3	4054.3
2004	1065.9	716.4	696.6	952.2	3431.1
2005	*1100*	*750*	*750*	*1000*	*3600*
2006	*1150*	*800*	*800*	*1050*	*3800*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.75	.43	.50	.64	2.32
2003	.79	.37	.47	.64	2.26
2004	.69	.17	.26	.73	1.85
2005	*.70*	*.30*	*.50*	*.80*	*2.30*
2006	*.80*	*.30*	*.55*	*.80*	*2.45*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.20	.20	.20	.20	.80
2002	.20	.20	.20	.20	.80
2003	.20	.20	.20	.20	.80
2004	.20	.21	.21	.21	.83
2005	.22				

BUSINESS: Wisconsin Energy Corporation (WEC) is a holding company for We Energies, which provides electric, gas & steam service in WI & upper MI. Customers: 1.1 mill. elec., 1 mill. gas. Acq'd Edison Sault Electric 5/98; WICOR 4/00. Discontinued pump-manufacturing ops. in '04. Elec. rev. breakdown, '04: res'l, 35%; small comm'l & ind'l, 32%; large comm'l & ind'l, 26%; other, 7%. Generating sources, '04: coal, 61%; nuclear, 24%; hydro & other, 2%; purchased, 13%. Fuel costs: 43% of revs. '04 reported deprec rate (utility): 4.2%. Has 5,700 employees, 62,000 com. stockholders. Chairman, President & CEO: Gale E. Klappa. Inc.: WI. Address: 231 W. Michigan St., P.O. Box 2949, Milwaukee, WI 53201. Tel.: 414-221-2345. Internet: www.wisconsinenergy.com.

The Wisconsin Supreme Court will have an expedited hearing of a matter concerning Wisconsin Energy's "Power the Future" plan. The company is appealing a judge's ruling, which stated that the Wisconsin commission didn't follow proper procedures when it granted Wisconsin Energy permission to build the first of two coal-fired units that are set to come on line in 2009 and 2010. The builder has agreed to delay by two months (to July 1, 2005) a provision in the contract that adds a cost escalator if construction has not begun by then. This could boost the cost of the two coal units, which is already over $2 billion, by up to $260 million. A lengthy delay would also prevent the plant from coming on line when it is needed. Power the Future also calls for the addition of two gas-fired units (the first of which is scheduled to go on line in July), but these facilities haven't been nearly as controversial as the coal plants because gas is more environmentally friendly.

Earnings should return to a more normal level this year after a depressed tally in 2004. Last year, the cost of severance programs reduced earnings by $0.13 a share, and debt-redemption costs took $0.09 a share off the bottom line. We assume no such costs in 2005. The expense reduction from the severance should add $0.15 to share net, the income from the first gas-fired unit of Power the Future should add $0.07 a share, and the utility ought to benefit from customer growth and a return to normal weather patterns. This should outweigh negative factors that include the cost of an additional nuclear refueling outage, higher benefits expenses, and the effect of a lag in the recovery of higher fuel costs. Our estimate is at the low end of the company's target of $2.30-$2.40 a share.

The utility plans to file a general rate case later this year. New electric and gas tariffs would likely go into effect in early 2006. Assuming some rate relief next year, we figure earnings will rise 6%-7%.

The board of directors has raised the quarterly dividend by one cent a share (4.8%), but this stock's yield is still well below average by utility standards. Total-return potential to 2008-2010 is only average for a utility.

Paul E. Debbas, CFA *April 1, 2005*

(A) Diluted EPS. Excl. nonrecurring gains (losses): '99, (9¢); '00, 19¢ net; '01, 1¢ net; '02, (88¢); '03, (20¢) net; '04, (81¢); gain on discontinued operations: '04, $1.54. '03 earnings don't add due to rounding. Next earnings report due late Apr. (B) Div'ds historically paid in early Mar., June, Sept., Dec. ■ Div'd reinvestment plan avail. (C) Incl. intang. In '04: $11.04/sh. (D) In mill., adj. for split. (E) Rate base: Net orig. cost. Rate allowed on com. eq. in '00: 12.2%; earned on avg. com. eq., '04: 9.1%. Regulatory Climate: Above Average.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	25
Earnings Predictability	55

KENTUCKY POWER COMPANY
American Electric Power
FIRST SET OF DATA REQUESTS OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
Case No. 2005-00341

Question No. 7

Please provide all work papers showing how Mr. Moul calculated his adjusted dividend yields for each company in his Electric Group that resulted in the average dividend yields shown on E-8 of Appendix E. Please provide all spreadsheet analyses on CD-ROM with formulas intact.

Response

The workpapers supporting Mr. Moul's calculation of the dividend yields were provided as an attachment to the response to AG First Set Data Request, Item No. 224.

Witness: Paul R. Moul

KENTUCKY POWER COMPANY
American Electric Power
FIRST SET OF DATA REQUESTS OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
Case No. 2005-00341

Question No. 8

Please provide a citation and copy of the Modigliani and Miller article or treatise relied upon by Mr. Moul for his leverage adjustment calculated on pages E-13 through E-15 of Appendix E.

Response

Please refer to the attached to the response to Attorney General First Set Data Request, Item No. 219.

Witness: Paul R. Moul

KENTUCKY POWER COMPANY
American Electric Power
FIRST SET OF DATA REQUESTS OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
Case No. 2005-00341

Question No. 9

Please provide a copy of all work papers and supporting documentation for the capitalization ratios on page E-14 of Appendix E. Please provide all spreadsheet analyses on CD-ROM with formulas intact.

Response

The requested workpapers and supporting documentation are attached. Please see enclosed CD for electronic copies.

Witness: Paul R. Moul

Electric Group
Year End 2004

Fiscal Year	Ameren Corporation 12/31/04	DTE Energy Company 12/31/04	Exelon Corp. 12/31/04	FirstEnergy Corporation 12/31/04	MGE Energy 12/31/04	Vectren Corp. 12/31/04	WPS Resources 12/31/04	Wisconsin Energy 12/31/04	Average
Capitalization at Fair Values									
Debt(D)	5,747,000	8,500,000	8,372,000	11,453,000	218,292	1,146,200	925,200	3,301,000	4,957,837
Preferred(P)	176,000	0	69,000	351,123	0	100	50,000	22,700	83,615
Equity(E)	9,787,328	7,513,636	29,271,294	12,951,515	734,638	2,034,120	1,861,487	3,943,592	8,512,201
Total	15,710,328	16,013,636	37,712,294	24,755,638	952,930	3,180,420	2,836,687	7,267,292	13,553,653
Capital Structure Ratios									
Debt(D)	36.58%	53.08%	22.20%	46.26%	22.91%	36.04%	32.62%	45.42%	36.89%
Preferred(P)	1.12%	0.00%	0.18%	1.42%	0.00%	0.00%	1.76%	0.31%	0.60%
Equity(E)	62.30%	46.92%	77.62%	52.32%	77.09%	63.96%	65.62%	54.26%	62.51%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	99.99%	100.00%
Common Stock									
Issued	195,200.000	174,209.034	666,700.000	329,836.276	20,389.619	75,900.000	37,500.791	116,985.822	
Treasury	0.000	0.000	2,500.000	2,032.800	0.000	0.000	241.238	0.000	
Outstanding	195,200.000	174,209.034	664,200.000	327,803.476	20,389.619	75,900.000	37,259.553	116,985.822	
Year-End Price	$50.14	$43.13	$44.07	$39.51	$36.03	$26.80	$49.96	$33.71	
Capitalization at Carrying Amounts	29.71	31.85	14.19	26.20	16.59	14.42	29.30	21.31	
Debt(D)	5,444,000	8,000,000	7,719,000	10,890,000	203,500	1,070,200	874,400	3,155,400	4,669,563
Preferred(P)	215,000	0	87,000	352,123	0	100	51,100	30,400	91,965
Equity(E)	5,800,000	5,548,000	9,423,000	8,589,294	338,197	1,094,800	1,091,800	2,492,400	4,297,186
Total	11,459,000	13,548,000	17,229,000	19,831,417	541,697	2,165,100	2,017,300	5,678,200	9,058,714
Capital Structure Ratios									
Debt(D)	47.51%	59.05%	44.80%	54.91%	37.57%	49.43%	43.35%	55.57%	49.02%
Preferred(P)	1.88%	0.00%	0.50%	1.78%	0.00%	0.00%	2.53%	0.54%	0.90%
Equity(E)	50.62%	40.95%	54.69%	43.31%	62.43%	50.57%	54.12%	43.89%	50.07%
Total	100.01%	100.00%	99.99%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

AMEREN CORPORATION
CONSOLIDATED BALANCE SHEET
(In millions, except per share amounts)

	December 31, 2004	December 31, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 69	$ 111
Accounts receivables – trade (less allowance for doubtful accounts of $14 and $13, respectively)	442	326
Unbilled revenue	336	221
Miscellaneous accounts and notes receivable	38	126
Materials and supplies	623	487
Other current assets	74	46
Total current assets	1,582	1,317
Property and Plant, Net	13,297	10,920
Investments and Other Noncurrent Assets:		
Investments in leveraged leases	140	152
Nuclear decommissioning trust fund	235	212
Goodwill and other intangibles, net	940	574
Other assets	411	332
Total investments and other noncurrent assets	1,726	1,270
Regulatory Assets	829	729
TOTAL ASSETS	$ 17,434	$ 14,236
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	$ 423	$ 498
Short-term debt	417	161
Accounts and wages payable	567	480
Taxes accrued	26	103
Other current liabilities	374	215
Total current liabilities	1,807	1,457
Long-term Debt, Net	5,021	4,070
Preferred Stock of Subsidiary Subject to Mandatory Redemption	20	21
Deferred Credits and Other Noncurrent Liabilities:		
Accumulated deferred income taxes, net	1,886	1,853
Accumulated deferred investment tax credits	139	151
Regulatory liabilities	1,042	824
Asset retirement obligations	439	413
Accrued pension and other postretirement benefits	756	699
Other deferred credits and liabilities	315	190
Total deferred credits and other noncurrent liabilities	4,577	4,130
Preferred Stock of Subsidiaries Not Subject to Mandatory Redemption	195	182
Minority Interest in Consolidated Subsidiaries	14	22
Commitments and Contingencies (Notes 1, 3, 15 and 16)		
Stockholders' Equity:		
Common stock, $.01 par value, 400.0 shares authorized – shares outstanding of 195.2 and 162.9, respectively	2	2
Other paid-in capital, principally premium on common stock	3,949	2,552
Retained earnings	1,904	1,853
Accumulated other comprehensive loss	(45)	(44)
Other	(10)	(9)
Total stockholders' equity	5,800	4,354
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 17,434	$ 14,236

The accompanying notes are an integral part of these consolidated financial statements.

require UE to file updated cost studies for decommissioning its Callaway nuclear plant. Electric rates may be adjusted at such times to reflect changed estimates. The latest studies were filed in 2002; updated cost studies are expected to be filed in September 2005. Costs collected from customers are deposited in an external trust fund to provide for the Callaway nuclear plant's decommissioning. If the assumed return on trust assets is not earned, we believe that it is probable that any such earnings deficiency will be recovered in rates. The fair value of the nuclear decommissioning trust fund for UE's Callaway nuclear plant is reported in Nuclear Decommissioning Trust Fund in Ameren's and UE's Consolidated Balance Sheets. This amount is legally restricted. It may be used only to fund the costs of nuclear decommissioning. Changes in the fair value of the trust fund are recorded as an increase or decrease to the nuclear decommissioning trust fund and to the regulatory asset recorded in connection with the adoption of SFAS No. 143. Upon the completion of UE's transfer of its Illinois electric and gas utility businesses to CIPS, which is subject to the receipt of regulatory approvals, the assets and liabilities related to the Illinois portion of the decommissioning trust fund will be transferred to Missouri. See Note 3 – Rate and Regulatory Matters for further information.

NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash, Temporary Investments and Short-term Borrowings

The carrying amounts approximate fair value because of the short-term maturity of these instruments.

Marketable Securities

The fair value is based on quoted market prices obtained from dealers or investment managers.

Nuclear Decommissioning Trust Fund

The fair-value estimate is based on quoted market prices for securities.

Preferred Stock of UE, CIPS, CILCO and IP

The fair-value estimate is based on the quoted market prices for the same or similar issues.

Long-term Debt

The fair-value estimate is based on the quoted market prices for same or similar issues or on the current rates offered to the Ameren Companies for debt of comparable maturities.

Derivative Financial Instruments

Market prices used to determine fair value are primarily based on published indices and closing exchange prices. In addition, valuations must also rely on management's estimates, which take into account time value of money and volatility factors.

The following table presents the carrying amounts and estimated fair values of our financial instruments at December 31, 2004 and 2003:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Ameren:[(a)]				
Long-term debt and capital lease obligations (including current portion)	$ 5,444	$ 5,747	$ 4,568	$ 4,903
Preferred stock	215	176	203	186
UE:				
Long-term debt and capital lease obligations (including current portion)	$ 2,062	$ 2,107	$ 2,102	$ 2,117
Preferred stock	113	95	113	110
CIPS:				
Long-term debt (including current portion)	$ 450	$ 483	$ 485	$ 539
Preferred stock	50	34	50	39
Genco:				
Long-term debt (including current portion)	$ 698	$ 836	$ 698	$ 832
CILCORP:[(b)]				
Long-term debt (including current portion)	$ 639	$ 708	$ 769	$ 827
Preferred stock	39	36	40	37
CILCO:				
Long-term debt (including current portion)	$ 138	$ 143	$ 238	$ 256
Preferred stock	39	36	40	37
IP:[(c)]				
Long-term debt (including current portion)	$ 1,134	$ 1,138	$ 1,925	$ 2,105
Preferred stock	46	37	46	44

(a) Excludes amounts for IP for 2003; and includes amounts for Ameren Registrant and non-Registrant subsidiaries and intercompany eliminations.
(b) CILCORP consolidates CILCO and therefore includes CILCO amounts in its balances.
(c) 2003 amounts represent predecessor information.

UE has investments in debt and equity securities that are held in trust funds for the purpose of funding the nuclear decommissioning of its Callaway nuclear plant. See Note 16 – Callaway Nuclear Plant for further information. We have classified these investments in debt and equity securities as available for sale and have recorded all such investments at their fair market value at December 31, 2004 and 2003. Investments by the nuclear decommissioning trust fund are allocated 60% to 70% to equity securities, with the balance invested in fixed-income securities. Fixed-income investments are limited to U.S. government or agency securities, municipal bonds, or investment-grade corporate securities. The proceeds from the sale of investments were $131 million in 2004 (2003 - $123 million; 2002 - $141 million). Using the specific identification method to determine cost, the gross realized gains on those sales were $1 million for 2004 (2003 - $1 million; 2002 - less than $1 million). Net realized and unrealized gains and losses are reflected in regulatory assets on Ameren's and UE's Consolidated Balance Sheets. This reporting is consistent with the method we use to account for the decommissioning costs recovered in rates. Gains or losses on assets in the trust fund could result in lower or higher funding requirements for decommissioning costs, which we believe would be reflected in electric rates paid by UE's customers.

The following table presents the costs and fair values of investments in debt and equity securities in the nuclear decommissioning trust fund at December 31, 2004, and 2003:

Security Type	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
2004:				
Debt securities	$ 65	$ 2	$ -	$ 67
Equity securities	99	65	7	157
Cash equivalents	11	-	-	11
Total	$ 175	$ 67	$ 7	$ 235
2003:				
Debt securities	$ 62	$ 2	$ -	$ 64
Equity securities	96	56	9	143
Cash equivalents	5	-	-	5
Total	$ 163	$ 58	$ 9	$ 212

The following table presents the costs and fair values of investments in debt securities according to their contractual maturities at December 31, 2004:

	Cost	Fair Value
Less than 5 years	$ 26	$ 26
5 years to 10 years	21	22
Due after 10 years	18	19
Total	$ 65	$ 67

NOTE 18 – SEGMENT INFORMATION

Ameren's reportable segment Utility Operations comprises its electric generation and electric and gas transmission and distribution operations. It includes the operations of UE, CIPS, Genco, CILCORP and CILCO. Ameren's reportable segment Other consists of the parent holding company, Ameren Corporation. The operations of IP are included in Ameren's Utility Operations segment from September 30, 2004.

The accounting policies for segment data are the same as those described in Note 1 – Summary of Significant Accounting Policies. Segment data include intersegment revenues, as well as a charge for allocating costs of administrative support services to each of the operating companies, which, in each case, is eliminated upon consolidation. Ameren Services allocates administrative support services based on various factors, such as headcount, number of customers, and total assets.

The following table presents information about the reported revenues, net income, and total assets of Ameren for the years ended December 31, 2004, 2003 and 2002:

	Utility Operations	Other	Reconciling Items	Total
2004:(a)				
Operating revenues	$ 6,342	$ -	$ (1,182)(c)	$ 5,160
Net income	526	4	-	530
Total assets	16,817	617	-	17,434

(in Millions, Except Shares)	December 31 2004	2003
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 892	$ 625
Accrued interest	111	110
Dividends payable	90	87
Accrued payroll	33	51
Income taxes	16	185
Short-term borrowings	403	370
Current portion long-term debt, including capital leases	514	477
Liabilities from risk management and trading activities	369	326
Other	581	593
	3,009	2,824
Other Liabilities		
Deferred income taxes	1,124	988
Regulatory liabilities (Notes 2 and 4)	817	817
Asset retirement obligations (Note 2)	916	866
Unamortized investment tax credit	143	156
Liabilities from risk management and trading activities	224	173
Liabilities from transportation and storage contracts	387	495
Accrued pension liability	265	345
Deferred gains from asset sales	414	311
Minority interest	132	156
Nuclear decommissioning (Notes 2 and 5)	77	67
Other	635	599
	5,134	4,973
Long-Term Debt (net of current portion) (Note 9)		
Mortgage bonds, notes and other	5,673	5,624
Securitization bonds	1,400	1,496
Equity-linked securities	178	185
Trust preferred-linked securities	289	289
Capital lease obligations	66	75
	7,606	7,669
Commitments and Contingencies (Notes 4, 5 and 13)		
Shareholders' Equity		
Common stock, without par value, 400,000,000 shares authorized, 174,209,034 and 168,606,522 shares issued and outstanding, respectively	3,323	3,109
Retained earnings	2,383	2,308
Accumulated other comprehensive loss	(158)	(130)
	5,548	5,287
Total Liabilities and Shareholders' Equity	$ 21,297	$ 20,753

See Notes to Consolidated Financial Statements

the derivatives will yield no payment. If the average NYMEX price of oil exceeds approximately $56 per barrel, the derivatives will yield a payment equal to the excess of the average NYMEX price over $56 per barrel, multiplied by the number of barrels covered, up to a maximum price of approximately $68 per barrel. The agreements do not qualify for hedge accounting and, as a result, changes in the fair value of the options are recorded currently in earnings. The fair value changes are recorded as adjustments to the gain from selling interests in synfuel facilities and therefore included in the "Asset gains and losses, net" line item in the consolidated statement of operations.

Gas Production – Our Gas Production business is engaged in natural gas exploration, development and production. We use derivative contracts to manage changes in the price of natural gas. These derivatives are designated as cash flow hedges. Amounts recorded in other comprehensive loss will be reclassified to earnings as the related forecasted production affects earnings through 2013. In 2005, we estimate reclassifying $35 million of losses to earnings.

Credit Risk

Our utility and non-utility businesses are exposed to credit risk if customers or counterparties do not comply with their contractual obligations. We maintain credit policies that significantly minimize overall credit risk. These policies include an evaluation of potential customers' and counterparties' financial condition, credit rating, collateral requirements or other credit enhancements such as letters of credit or guarantees. We use standardized agreements that allow the netting of positive and negative transactions associated with a single counterparty.

Interest Rate Risk

We use interest rate swaps, treasury locks and other derivatives to hedge the risk associated with interest rate market volatility. In 2004 and 2000, we entered into a series of interest rate derivatives to limit our sensitivity to market interest rate risk associated with the issuance of long-term debt. Such instruments were designated as cash flow hedges. We subsequently issued long-term debt and terminated these hedges at a cost that is included in other comprehensive loss. Amounts recorded in other comprehensive loss will be reclassified to interest expense as the related interest affects earnings through 2030. In 2005, we estimate reclassifying $6 million of losses to earnings.

Foreign Currency Risk

Energy Marketing and Trading has foreign currency forward contracts to hedge fixed Canadian dollar commitments existing under power purchase and sale contracts and gas transportation contracts. We entered into these contracts to mitigate any price volatility with respect to fluctuations of the Canadian dollar relative to the U.S. dollar. Certain of these contracts are designated as cash flow hedges with changes in fair value recorded to other comprehensive income. Amounts recorded to other comprehensive income are classified to operating revenues or fuel, purchased power and gas expense when the related hedged item affects earnings.

Fair Value of Other Financial Instruments

The fair value of financial instruments is determined by using various market data and other valuation techniques. The table below shows the fair value relative to the carrying value for long-term debt securities. The carrying value of certain other financial instruments, such as notes payable, customer deposits and notes receivable approximate fair value and are not shown.

	2004		2003	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
Long-Term Debt	**$8.5 billion**	**$ 8.0 billion**	$ 8.5 billion	$ 7.9 billion

NOTE-13 COMMITMENTS AND CONTINGENCIES

Synthetic Fuel Operations

We partially or wholly own nine synthetic fuel production facilities. Synfuel facilities chemically change coal, including waste and marginal coal, into a synthetic fuel as determined under applicable IRS rules. Section 29 of the Internal Revenue Code provides tax credits for the production and sale of solid synthetic fuels produced from coal. To qualify for the Section 29 tax credits, the synthetic fuel must meet three primary conditions: (1) there must be a significant chemical change in the coal feedstock, (2) the product must be sold to an unaffiliated entity, and (3) the production facility must have been placed in service before July 1, 1998. In addition to meeting the qualifying conditions, a taxpayer must have sufficient taxable income to earn the Section 29 tax credits.

In-Service Date – During July 2004, several unaffiliated companies announced that they have been notified that the IRS intends to challenge the placed in service dates for some of their synfuel facilities. If the IRS ultimately prevails, Section 29 credits claimed by these companies would be disallowed. The placed in-service issue is fact-driven and specific to each facility. The in-service dates for eight of our nine synfuel plants have been favorably reviewed by the IRS in conjunction with issuing determination letters and/or recently completed audits. We believe all nine of our synthetic fuel plants meet the required in-service condition.

Through December 31, 2004, we have generated and recorded approximately $512 million in synfuel tax credits.

Oil Prices – To reduce U.S. dependence on imported oil, the Internal Revenue Code provides Section 29 tax credits as an incentive for taxpayers to produce fuels from alternative sources. This incentive is not deemed necessary if the price of oil increases and provides a natural market for these fuels. As such, the tax credit in a given year is reduced if the Reference Price of oil within that year exceeds a threshold price. The Reference Price of a barrel of oil is an estimate of the annual average wellhead price per barrel for domestic crude oil, which in recent years has been $3 - $4 lower than the NYMEX price for light, sweet crude oil. The threshold price at which the credit begins to be reduced was set in 1980 and is adjusted annually for inflation. For 2004, we estimate that the threshold price at which the tax credit would have begun to be reduced was $51.34 and would have been completely phased out if the Reference Price reached $64.45. The Reference Price of oil is estimated to be $37.61 for 2004. We also estimate that the 2005 average wellhead price per barrel of oil would have to exceed approximately $52.37 per barrel to begin phase out and exceed approximately $65.74 per barrel to eliminate the credits. We cannot predict with any accuracy the future price of a barrel of oil.

Numerous recent events have increased domestic crude oil prices, including terrorism, storm-related supply disruptions

Exelon Corporation and Subsidiary Companies

Consolidated Balance Sheets

(in millions)	December 31, 2004	December 31, 2003
Liabilities and shareholders' equity		
Current liabilities		
Commercial paper	$ 490	$ 326
Note payable to Sithe Energies, Inc.	—	90
Long-term debt due within one year	427	1,385
Long-term debt to ComEd Transitional Funding Trust and PECO Energy Transitional Trust due within one year	486	470
Accounts payable	1,255	1,238
Mark-to-market derivative liabilities	598	584
Accrued expenses	1,143	1,260
Liabilities held for sale	—	61
Other	483	306
Total current liabilities	4,882	5,720
Long-term debt	7,292	7,889
Long-term debt due to ComEd Transitional Funding Trust and PECO Energy Transitional Trust	4,311	5,055
Long-term debt to other financing trusts	545	545
Deferred credits and other liabilities		
Deferred income taxes	4,488	4,320
Unamortized investment tax credits	275	288
Asset retirement obligations	3,981	2,997
Pension obligations	1,993	1,668
Non-pension postretirement benefits obligations	1,065	1,053
Spent nuclear fuel obligation	878	867
Regulatory liabilities	2,204	1,891
Mark-to-market derivative liabilities	323	141
Other	981	912
Total deferred credits and other liabilities	16,188	14,137
Total liabilities	33,218	33,346
Commitments and contingencies		
Minority interest of consolidated subsidiaries	42	—
Preferred securities of subsidiaries	87	87
Shareholders' equity		
Common stock (No par value, 1,200 shares authorized, 666.7 and 656.4 shares outstanding at December 31, 2004 and 2003, respectively)	7,598	7,292
Treasury stock, at cost (2.5 shares held at December 31, 2004)	(82)	—
Retained earnings	3,353	2,320
Accumulated other comprehensive loss	(1,446)	(1,109)
Total shareholders' equity	9,423	8,503
Total liabilities and shareholders' equity	$42,770	$41,936

See Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies

Consolidated Statements of Changes in Shareholders' Equity

(Dollars in millions, shares in thousands)	Issued Shares	Common Stock	Treasury Stock	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, December 31, 2001	642,014	$ 6,961	$ —	$ (2)	$ 1,169	$ (26)	$ 8,102
Net income	—	—	—	—	1,440	—	1,440
Long-term incentive plan activity	4,098	87	—	—	—	—	87
Employee stock purchase plan issuances	514	11	—	—	—	—	11
Amortization of deferred compensation	—	—	—	1	—	—	1
Common stock dividends declared	—	—	—	—	(567)	—	(567)
Other comprehensive loss, net of income taxes of $(850)	—	—	—	—	—	(1,332)	(1,332)
Balance, December 31, 2002	646,626	7,059	—	(1)	2,042	(1,358)	7,742
Net income	—	—	—	—	905	—	905
Long-term incentive plan activity	9,322	222	—	—	—	—	222
Employee stock purchase plan issuances	418	11	—	—	—	—	11
Amortization of deferred compensation	—	—	—	1	—	—	1
Common stock dividends declared	—	—	—	—	(625)	—	(625)
Redemption premium on PECO preferred stock	—	—	—	—	(2)	—	(2)
Other comprehensive income, net of income taxes of $217	—	—	—	—	—	249	249
Balance, December 31, 2003	656,366	7,292	—	—	2,320	(1,109)	8,503
Net income	—	—	—	—	1,864	—	1,864
Long-term incentive plan activity	10,013	296	—	—	—	—	296
Employee stock purchase plan issuances	309	10	—	—	—	—	10
Common stock purchases	—	—	(82)	—	—	—	(82)
Common stock dividends declared	—	—	—	—	(831)	—	(831)
Adjustments to accumulated other comprehensive loss due to the consolidation of Sithe	—	—	—	—	—	(6)	(6)
Other comprehensive loss, net of income taxes of $(190)	—	—	—	—	—	(331)	(331)
Balance, December 31, 2004	666,688	$ 7,598	$ (82)	$ —	$ 3,353	$ (1,446)	$ 9,423

See Notes to Consolidated Financial Statements

(Dollars in millions, except per share data unless otherwise noted)

made directly from corporate assets. Of the $2 billion expected to be contributed to the pension plans during 2005, $13 million is estimated to be needed to satisfy ERISA minimum funding requirements.

Estimated future benefit payments to participants in Exelon's pension plans and postretirement welfare benefit plans as of December 31, 2004 were:

	Pension Benefits	Other Postretirement Benefits (a)
2005	$ 531	$ 163
2006	530	170
2007	536	181
2008	537	190
2009	544	197
2010 through 2014	2,911	1,088
Total estimated future benefits payments	$ 5,589	$ 1,989

(a) Estimated future benefit payments do not reflect an anticipated Federal subsidy provided through the Prescription Drug Act. The Federal subsidies to be received by Exelon in the years 2006, 2007, 2008, 2009 and from 2010 through 2014 are estimated to be $8 million, $8 million, $9 million, $10 million and $63 million, respectively. A subsidy is not anticipated for 2005.

Exelon sponsors savings plans for the majority of its employees. The plans allow employees to contribute a portion of their pre-tax income in accordance with specified guidelines. Exelon matches a percentage of the employee contribution up to certain limits. The cost of Exelon's matching contribution to the savings plans totaled $57 million, $55 million, and $63 million in 2004, 2003 and 2002, respectively.

16. Fair Value of Financial Assets and Liabilities

Non-Derivative Financial Assets and Liabilities

Fair Value. As of December 31, 2004 and 2003, Exelon's carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are representative of fair value because of the short-term nature of these instruments. Fair values for long-term debt and preferred securities of subsidiaries are determined by an external valuation model which is based on conventional discounted cash flow methodology and utilizes assumptions of current market pricing curves.

The carrying amounts and fair values of Exelon's financial liabilities as of December 31, 2004 and 2003 were as follows:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt (including amounts due within one year)	$ 7,719	$ 8,372	$ 9,274	$ 9,922
Long-term debt to ComEd Transitional Funding Trust and PETT (including amounts due within one year)	4,797	5,182	5,525	6,006
Long-term debt to other financing trusts	545	573	545	567
Preferred securities of subsidiaries	87	69	87	71

(Dollars in millions, except per share data unless otherwise noted)

Credit Risk. Financial instruments that potentially subject Exelon to concentrations of credit risk consist principally of cash equivalents and customer accounts receivable. Exelon places its cash equivalents with high-credit quality financial institutions. Generally, such investments are in excess of the Federal Deposit Insurance Corporation limits. Concentrations of credit risk with respect to customer accounts receivable are limited due to Exelon's large number of customers and, in the case of the Energy Delivery business, their dispersion across many industries.

Derivative Instruments

Fair Value. The fair values of Exelon's interest-rate swaps and power purchase and sale contracts are determined using quoted exchange prices, external dealer prices or internal valuation models which utilize assumptions of future energy prices and available market pricing curves.

Interest-Rate Swaps. At December 31, 2004 and 2003, Exelon had $0.4 billion and $1.3 billion, respectively, of notional amounts of interest-rate swaps outstanding with net deferred gains (losses) of $11 million and $(44) million, respectively, as follows:

	Notional Amount	Exelon Pays	Counterparty Pays	Fair Value 12/31/04	Fair Value 12/31/03
Fair-Value Hedges					
ComEd	$ 240	3 Month LIBOR plus 1.12% – 1.60%	6.15%	$ 9	$ —
ComEd	485	3 Month LIBOR plus 1.68% – 3.09%	6.40% – 8.25%	—	33
Cash-Flow Hedges					
Exelon	200	4.59% – 4.65%	3 Month LIBOR	2	—
Generation	861(a)	5.71% – 5.74%	3 Month LIBOR	—	(77)
Net Deferred Gains (Losses)				$ 11	$ (44)

(a) Generation was released from its obligation due to sale of Boston Generating assets.

During 2004, Exelon settled interest-rate swaps in aggregate notional amounts of $800 million, and recorded net pre-tax gains of $27 million. Of the $27 million net gain, $26 million was the result of settlement by ComEd of interest-rate swaps designated as fair-value hedges and is being amortized as a reduction to interest expense over the remaining life of the related debt. The remaining $1 million was the result of settlement by Exelon and PECO of interest-rate swaps designated as cash-flow hedges and is being amortized over the lives of the related debt.

During 2003, Exelon settled interest-rate swaps in aggregate notional amounts of $860 million and recorded net pre-tax gains of $1 million. The $1 million gain was the result of settlement by PECO and Generation of interest-rate swaps designated as cash-flow hedges and is being amortized over the lives of the related debt. Additionally, during 2003, Exelon settled interest-rate swaps in aggregate notional amounts of $1,070 million and recorded net pre-tax losses of $45 million which were recorded as regulatory assets. The pre-tax losses on settlements of interest-rate swaps are being amortized over the life of the related debt to interest expense.

CONSOLIDATED BALANCE SHEETS

(In thousands)

As of December 31,	2004	2003
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 52,941	$ 113,975
Receivables-		
Customers (less accumulated provisions of $34,476,000 and $50,247,000 respectively, for uncollectible accounts)	979,242	1,000,259
Other (less accumulated provisions of $26,070,000 and $18,283,000 respectively, for uncollectible accounts)	377,195	505,241
Materials and supplies, at average cost-		
Owned	363,547	325,303
Under consignment	94,226	95,719
Prepayments and other	145,196	202,814
	2,012,347	2,243,311
Property, Plant and Equipment:		
In service	22,213,218	21,594,746
Less—Accumulated provision for depreciation	9,413,730	9,105,303
	12,799,488	12,489,443
Construction work in progress	678,868	779,479
	13,478,356	13,268,922
Investments:		
Nuclear plant decommissioning trusts	1,582,588	1,351,650
Investments in lease obligation bonds (Note 6)	951,352	989,425
Certificates of deposit (Note 10(C))	—	277,763
Other	740,026	878,853
	3,273,966	3,497,691
Deferred Charges:		
Regulatory assets	5,532,087	7,076,923
Goodwill	6,050,277	6,127,883
Other	720,911	695,218
	12,303,275	13,900,024
	$ 31,067,944	$ 32,909,948
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Currently payable long-term debt	$ 940,944	$ 1,754,197
Short-term borrowings (Note 12)	170,489	521,540
Accounts payable	610,589	725,239
Accrued taxes	657,219	669,529
Other	929,194	801,662
	3,308,435	4,472,167
Capitalization (See Consolidated Statement of Capitalization):		
Common stockholders' equity	8,589,294	8,289,341
Preferred stock of consolidated subsidiaries not subject to mandatory redemption	335,123	335,123
Long-term debt and other long-term obligations	10,013,349	9,789,066
	18,937,766	18,413,530
Noncurrent Liabilities:		
Accumulated deferred income taxes	2,324,097	2,178,075
Asset retirement obligations (Note 11)	1,077,557	1,179,493
Power purchase contract loss liability	2,001,006	2,727,892
Retirement benefits	1,238,973	1,591,006
Lease market valuation liability	936,200	1,021,000
Other	1,243,910	1,326,785
	8,821,743	10,024,251
Commitments, Guarantees and Contingencies (Notes 6 and 13)	$ 31,067,944	$ 32,909,948

The accompanying Notes to Consolidated Financial Statements are an integral part of these balance sheets.

CONSOLIDATED STATEMENTS OF CAPITALIZATION

(Dollars In thousands, except for share amounts)

As of December 31,	2004	2003
Common Stockholders' Equity:		
Common stock, $0.10 par value -authorized 375,000,000 shares- 329,836,276 shares outstanding	**$ 32,984**	$ 32,984
Other paid-in capital	**7,055,676**	7,062,825
Accumulated other comprehensive loss (Note 2(I))	**(313,112)**	(352,649)
Retained earnings (Note 10(A))	**1,856,863**	1,604,385
Unallocated employee stock ownership plan common stock- 2,032,800 and 2,896,951 shares, respectively (Note 4(B))	**(43,117)**	(58,204)
Total common stockholders' equity	**8,589,294**	8,289,341

	Number of Shares Outstanding		Optional Redemption Price			
	2004	2003	Per Share	Aggregate		
Preferred Stock of Consolidated Subsidiaries Not Subject To Mandatory Redemption (Note 10(B)):						
Ohio Edison Company Cumulative, $100 par value-Authorized 6,000,000 shares						
3.90%	152,510	152,510	$ 103.63	$ 15,804	**15,251**	15,251
4.40%	176,280	176,280	108.00	19,038	**17,628**	17,628
4.44%	136,560	136,560	103.50	14,134	**13,656**	13,656
4.56%	144,300	144,300	103.38	14,917	**14,430**	14,430
Total	609,650	609,650		$ 63,893	**60,965**	60,965
Pennsylvania Power Company Cumulative, $100 par value-Authorized 1,200,000 shares						
4.24%	40,000	40,000	103.13	4,125	**4,000**	4,000
4.25%	41,049	41,049	105.00	4,310	**4,105**	4,105
4.64%	60,000	60,000	102.98	6,179	**6,000**	6,000
7.75%	250,000	250,000	100.00	25,000	**25,000**	25,000
Total	391,049	391,049		39,614	**39,105**	39,105
Cleveland Electric Illuminating Company Cumulative, without par value-Authorized 4,000,000 shares						
$ 7.40 Series A	500,000	500,000	101.00	50,500	**50,000**	50,000
Adjustable Series L	474,000	474,000	100.00	47,400	**46,404**	46,404
Total	974,000	974,000		97,900	**96,404**	96,404
Toledo Edison Company Cumulative, $100 par value-Authorized 3,000,000 shares						
$4.25	160,000	160,000	104.63	16,740	**16,000**	16,000
$4.56	50,000	50,000	101.00	5,050	**5,000**	5,000
$4.25	100,000	100,000	102.00	10,200	**10,000**	10,000
	310,000	310,000		31,990	**31,000**	31,000
Cumulative, $25 par value-Authorized 12,000,000 shares						
$2.365	1,400,000	1,400,000	27.75	38,850	**35,000**	35,000
Adjustable Series A	1,200,000	1,200,000	25.00	30,000	**30,000**	30,000
Adjustable Series B	1,200,000	1,200,000	25.00	30,000	**30,000**	30,000
	3,800,000	3,800,000		98,850	**95,000**	95,000
Total	4,110,000	4,110,000		130,840	**126,000**	126,000
Jersey Central Power & Light Company Cumulative, $100 stated value-Authorized 15,600,000 shares						
4.00% Series	125,000	125,000	106.50	13,313	**12,649**	12,649

CONSOLIDATED STATEMENTS OF CAPITALIZATION *(Continued)*

Long-Term Debt and Other Long-Term Obligations (Note 10(C)) *(Interest rates reflect weighted average rates)* *(In thousands)*

	First Mortgage Bonds			Secured Notes			Unsecured Notes			Total	
As of December 31,		**2004**	**2003**		**2004**	**2003**		**2004**	**2003**	**2004**	**2003**
Ohio Edison Co.-											
Due 2004-2009	6.88%	$80,000	$80,000	7.61%	$ 67,476	$ 229,257	4.46%	$ 175,000	$ 526,725		
Due 2010-2014	—	—	—	7.16%	1,257	1,256	3.70%	50,000	—		
Due 2015-2019	—	—	—	3.80%	156,725	59,000	5.04%	206,000	150,000		
Due 2020-2024	—	—	—	7.01%	60,443	60,443	3.87%	50,000	—		
Due 2025-2029	—	—	—	5.75%	119,734	13,522	—	—	—		
Due 2030-2034	—	—	—	2.19%	359,800	308,012	3.35%	30,000	—		
Total-Ohio Edison		80,000	80,000		765,435	671,490		511,000	676,725	**$1,356,435**	$1,428,215
Cleveland Electric Illuminating Co.-											
Due 2004-2009	6.86%	125,000	125,000	7.29%	271,700	622,485	—	—	27,700		
Due 2010-2014	—	—	—	—	—	—	5.72%	378,700	378,700		
Due 2015-2019	—	—	—	6.23%	412,630	412,630	—	—	—		
Due 2020-2024	—	—	—	5.35%	180,560	186,660	—	—	—		
Due 2025-2029	—	—	—	7.59%	148,843	148,843	—	—	—		
Due 2030-2034	—	—	—	2.79%	180,995	30,000	7.87%	130,793	103,093		
Total-Cleveland Electric		125,000	125,000		1,194,728	1,400,618		509,493	509,493	**1,829,221**	2,035,111
Toledo Edison Co.-											
Due 2004-2009	—	—	145,000	7.13%	30,000	100,000	—	—	85,250		
Due 2020-2024	—	—	—	5.37%	166,300	144,500	—	—	—		
Due 2025-2029	—	—	—	5.90%	13,851	13,851	—	—	—		
Due 2030-2034	—	—	—	2.01%	81,600	51,100	3.90%	90,950	—		
Total-Toledo Edison		—	145,000		291,751	309,451		90,950	85,250	**382,701**	539,701
Pennsylvania Power Co.-											
Due 2004-2009	9.74%	4,870	40,344	—	—	10,300	—	—	19,700		
Due 2010-2014	9.74%	4,870	4,870	5.40%	1,000	1,000	—	—	—		
Due 2015-2019	9.74%	4,903	4,903	4.24%	45,325	45,325	—	—	—		
Due 2020-2024	7.63%	6,500	33,750	3.94%	27,182	27,182	—	—	—		
Due 2025-2029	—	—	—	4.93%	33,472	23,172	3.38%	14,500	—		
Due 2030-2034	—	—	—	2.04%	5,200	—	—	—	—		
Total-Penn Power		21,143	83,867		112,179	106,979		14,500	19,700	**147,822**	210,546
Jersey Central Power & Light Co.-											
Due 2004-2009	6.89%	45,985	256,300	5.79%	240,391	255,980	—	—	124		
Due 2010-2014	—	—	—	5.84%	117,735	117,735	—	—	155		
Due 2015-2019	7.10%	12,200	12,200	5.46%	522,486	222,486	—	—	224		
Due 2020-2024	7.50%	125,000	205,000	—	—	—	—	—	325		
Due 2025-2029	7.18%	200,000	200,000	—	—	—	—	—	471		
Due 2030-2034	—	—	—	—	—	—	—	—	682		
Due 2035-2039	—	—	—	—	—	—	—	—	987		
Total-Jersey Central		383,185	673,500		880,612	596,201		—	2,968	**1,263,797**	1,272,669
Metropolitan Edison Co.-											
Due 2004-2009	6.61%	37,830	128,265	—	—	150,000	5.79%	150,000	248		
Due 2010-2014	—	—	—	—	—	250,000	4.81%	500,000	310		
Due 2015-2019	—	—	—	—	—	—	—	—	449		
Due 2020-2024	6.10%	28,500	28,500	—	—	—	—	—	650		
Due 2025-2029	5.95%	13,690	13,690	—	—	—	—	—	941		
Due 2030-2034	—	—	—	—	—	—	—	—	1,364		
Due 2035-2039	—	—	—	—	—	—	—	—	97,685		
Total-Metropolitan Edison		80,020	170,455		—	400,000		650,000	101,647	**730,020**	672,102

CONSOLIDATED STATEMENTS OF CAPITALIZATION *(Continued)*

Long-Term Debt and Other Long-Term Obligations *(Interest rates reflect weighted average rates)* *(In thousands)*

	First Mortgage Bonds			Secured Notes			Unsecured Notes			Total	
As of December 31,		**2004**	**2003**		**2004**	**2003**		**2004**	**2003**	**2004**	**2003**
Pennsylvania Electric Co.-											
Due 2004-2009	6.12%	$ 3,495	$ 3,700	—	$ —	$ —	6.23%	$ 108,000	$ 233,124		
Due 2010-2014	5.35%	24,310	24,310	—	—	—	5.63%	185,000	35,155		
Due 2015-2019	—	—	—	—	—	—	6.63%	125,000	125,224		
Due 2020-2024	5.80%	20,000	20,000	—	—	—	—	—	325		
Due 2025-2029	6.05%	25,000	25,000	—	—	—	—	—	470		
Due 2030-2034	—	—	—	—	—	—	—	—	682		
Due 2035-2039	—	—	—	—	—	—	—	—	96,508		
Total-Pennsylvania Electric		72,805	73,010		—			418,000	491,488	**$ 490,805**	$ 564,498
FirstEnergy Corp.	—										
Due 2004-2009	—	—	—	—	—	—	5.98%	1,515,000	1,570,000		
Due 2010-2014	—	—	—	—	—	—	6.45%	1,500,000	1,500,000		
Due 2030-2034		—	—	—	—	—	7.38%	1,500,000	1,500,000		
Total-FirstEnergy		—	—	—	—	—		4,515,000	4,570,000	**4,515,000**	4,570,000
Bay Shore Power		—	—	6.24%	137,500	140,600	—	—	—	**137,500**	140,600
Facilities Services Group		—	—	5.94%	7,340	7,754	—	—	—	**7,340**	7,754
FirstEnergy Generation		—	—	—	—	—	5.00%	15,000	15,000	**15,000**	15,000
FirstEnergy Properties		—	—	7.89%	9,182	9,438	—	—	—	**9,182**	9,438
Warrenton River Terminal		—	—	6.00%	220	410	—	—	—	**220**	410
First Communications		—	—	—	—	—	6.26%	5,000	5,407	**5,000**	5,407
Total		762,153	1,350,832		3,398,947	3,642,941		6,728,943	6,477,678	**10,890,043**	11,471,451
Preferred stock subject to mandatory redemption										**16,759**	18,514
Capital lease obligations										**10,732**	13,313
Net unamortized premium on debt										**36,759**	39,985
Long-term debt due within one year										**(940,944)**	(1,754,197)
Total long-term debt and other long-term obligations										**10,013,349**	9,789,066
Total Capitalization										**$18,937,766**	$18,413,530

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

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY

(Dollars in thousands)

	Comprehensive Income	Number of Shares	Par Value	Other Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Unallocated ESOP Common Stock
Balance, January 1, 2002		297,636,276	$29,764	$6,113,260	$(169,003)	$1,521,805	$ (97,227)
Net income	$ 552,804					552,804	
Minimum liability for unfunded retirement benefits, net of $(316,681,000) of income taxes	(449,615)				(449,615)		
Unrealized gain on derivative hedges, net of $37,458,000 of income taxes	59,187				59,187		
Unrealized loss on investments, net of $(3,796,000) of income taxes	(5,269)				(5,269)		
Currency translation adjustments	(91,448)				(91,448)		
Comprehensive income	$ 65,659						
Stock options exercised				(8,169)			
Allocation of ESOP shares				15,250			18,950
Cash dividends on common stock						(439,628)	
Balance, December 31, 2002		297,636,276	29,764	6,120,341	(656,148)	1,634,981	(78,277)
Net income	$ 422,764					422,764	
Minimum liability for unfunded retirement benefits, net of $101,950,000 of income taxes	144,236				144,236		
Unrealized loss on derivative hedges, net of $(241,000) of income taxes	(347)				(347)		
Unrealized gain on investments, net of $53,431,000 of income taxes	68,162				68,162		
Currency translation adjustments	91,448				91,448		
Comprehensive income	$ 726,263						
Stock options exercised				(3,502)			
Common stock issued		32,200,000	3,220	930,918			
Allocation of ESOP shares				15,068			20,073
Cash dividends on common stock						(453,360)	
Balance, December 31, 2003		329,836,276	32,984	7,062,825	(352,649)	1,604,385	(58,204)
Net income	$ 878,175					878,175	
Minimum liability for unfunded retirement benefits, net of $(4,698,000) of income taxes	(6,256)				(6,256)		
Unrealized gain on derivative hedges, net of $9,638,000 of income taxes	19,031				19,031		
Unrealized gain on investments, net of $19,783,000 of income taxes	26,762				26,762		
Comprehensive income	$ 917,712						
Stock options exercised				(24,174)			
Allocation of ESOP shares				17,025			15,087
Common stock dividends declared in 2004 payable in 2005						(135,168)	
Cash dividends on common stock						(490,529)	
Balance, December 31, 2004		329,836,276	$32,984	$7,055,676	$ (313,112)	$1,856,863	$ (43,117)

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

CONSOLIDATED STATEMENTS OF PREFERRED STOCK

	Not Subject to Mandatory Redemption		Subject to Mandatory Redemption	
	Number of Shares	Par or Stated Value	Number of Shares	Par or Stated Value
Balance, January 1, 2002	12,449,699	$ 661,044	22,552,751	$ 624,449
Redemptions-				
7.75% Series	(4,000,000)	(100,000)		
$7.56 Series B	(450,000)	(45,071)		
$42.40 Series T	(200,000)	(96,850)		
$8.32 Series	(100,000)	(10,000)		
$7.76 Series	(150,000)	(15,000)		
$7.80 Series	(150,000)	(15,000)		
$10.00 Series	(190,000)	(19,000)		
$2.21 Series	(1,000,000)	(25,000)		
7.625% Series			(7,500)	(750)
$7.35 Series C			(10,000)	(1,000)
$90.00 Series S			(17,750)	(17,010)
8.65% Series J			(250,001)	(26,750)
7.52% Series K			(265,000)	(28,951)
9.00% Series			(4,800,000)	(120,000)
Amortization of fair market value adjustments-				
$ 7.35 Series C				(9)
$90.00 Series S				(258)
8.56% Series				(6)
7.35% Series				209
7.34% Series				214
Balance, December 31, 2002	6,209,699	335,123	17,202,500	430,138
Redemptions-				
7.625% Series			(7,500)	(750)
$7.35 Series C			(10,000)	(1,000)
8.56% Series			(5,000,000)	(125,242)
FIN 46 Deconsolidation-				
9.00% Series			(4,000,000)	(100,000)
7.35% Series			(4,000,000)	(92,618)
7.34% Series			(4,000,000)	(92,428)
Amortization of fair market value adjustments-				
$ 7.35 Series C				(7)
8.56% Series				(2)
7.35% Series				209
7.34% Series				214
Balance, December 31, 2003	6,209,699	$ 335,123	185,000	18,514*
Redemptions-				
7.625% Series			(7,500)	(750)
$7.35 Series C			(10,000)	(1,000)
Amortization of fair market value adjustments-				
$7.35 Series C				(5)
Balance, December 31, 2004	6,209,699	$ 335,123	167,500	$ 16,759*

** The December 31, 2003 and 2004 balances for Preferred Stock subject to mandatory redemption are classified as debt under SFAS 150*

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

	2004	2003	2002
	(In thousands, except per share amounts)		
Net Income, as reported	$878,175	$422,764	$552,804
Add back compensation expense reported in net income, net of tax (based on APB 25)*	21,177	23,625	22,981
Deduct compensation expense based upon estimated fair value, net of tax*	(35,660)	(35,816)	(31,640)
Proforma net income	$863,692	$410,573	$544,145
Earnings Per Share of Common Stock –			
Basic			
As Reported	$2.68	$1.39	$1.89
Proforma	$2.64	$1.35	$1.86
Diluted			
As Reported	$2.67	$1.39	$1.88
Proforma	$2.63	$1.35	$1.85

Includes restricted stock, stock options, performance shares, ESOP, EDCP and DCPD.

FirstEnergy anticipates reducing its use of stock options beginning in 2005 and increasing its use of performance-based, restricted stock units. Therefore, the pro forma effects of applying SFAS 123 may not be representative of its future effect. FirstEnergy has not and does not expect to accelerate out-of-the-money options in anticipation of implementing revisions to SFAS 123 on July 1, 2005 (see Note 15 - "New Accounting Standards and Interpretations").

Performance Shares

Performance shares are share equivalents and do not have voting rights. The shares track the performance of FirstEnergy's common stock over a three-year vesting period. During that time dividend equivalents are converted into additional shares. The final account value may be adjusted based on the ranking of FirstEnergy stock to a composite of peer companies. Compensation expense recognized for performance shares during 2004, 2003 and 2002 totaled $4,924,000, $7,131,000 and $6,757,000, respectively.

(B) ESOP

An ESOP Trust funds most of the matching contribution for FirstEnergy's 401(k) savings plan. All full-time employees eligible for participation in the 401(k) savings plan are covered by the ESOP. The ESOP borrowed $200 million from OE and acquired 10,654,114 shares of OE's common stock (subsequently converted to FirstEnergy common stock) through market purchases. Dividends on ESOP shares are used to service the debt. Shares are released from the ESOP on a pro rata basis as debt service payments are made. In 2004, 2003 and 2002, 864,151 shares, 1,069,318 shares and 1,151,106 shares, respectively, were allocated to employees with the corresponding expense recognized based on the shares allocated method. The fair value of 2,032,800 shares unallocated, as of December 31, 2004, was approximately $80 million. Total ESOP-related compensation expense was calculated as follows:

	2004	2003	2002
	(In millions)		
Base compensation	$32	$35	$34
Dividends on common stock held by the ESOP and used to service debt	(9)	(9)	(8)
Net expense	$23	$26	$26

(C) EDCP

Under the EDCP, cov of their compensation, including annual incentive awards and/or long-term incentive awards, into an unfunded FirstEnergy stock account to receive vested stock units. An additional 20 percent premium is received in the form of stock units based on the amount allocated to the FirstEnergy stock account. Dividends are calculated quarterly on stock units outstanding and are paid in the form of additional stock units. Upon withdrawal, stock units are converted to FirstEnergy shares. Payout typically occurs three years from the date of deferral; however, an election can be made in the year prior to payout to further defer shares into a retirement stock account that will pay out in cash upon retirement. Of the 1.3 million EDCP stock units authorized, 776,072 stock units were available for future award as of December 31, 2004. Compensation expense recognized on EDCP stock units in 2004, 2003 and 2002 totaled $2,311,000, $2,312,000 and $206,000, respectively.

(D) DCPD

Under the DCPD, directors can elect to allocate all or a portion of their cash retainers, meeting fees and chair fees to a deferred stock or deferred cash accounts. If the funds are deferred into the stock account, a 20 percent match is added to the funds allocated. The 20 percent match and any appreciation on it are forfeited if the director leaves the Board within three years from the date of deferral for any reason other than retirement, disability, death, upon a change in control, or when a director is ineligible to stand for re-election. Compensation expense is recognized for the 20 percent match over the three-year investing period. Directors may also elect to defer their equity retainers into the deferred stock account, however, they do not receive a 20 percent match for this deferral. DCPD expenses recognized in 2004, 2003, and 2002 were $3,556,000, $2,233,000 and $2,728,000, respectively.

5. Fair Value of Financial Instruments

Long-term Debt and Other Long-term Obligations

All borrowings with initial maturities of less than one year are defined as financial instruments under GAAP and are reported on the Consolidated Balance Sheets at cost, which approximates their fair market value. The following table provides the approximate fair value and related carrying amounts of long-term debt and other long-term obligations as of December 31:

	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In millions)			
Long-term debt	$10,787	$11,341	$11,177	$11,648
Subordinated debentures to affiliated trusts	103	112	294	322
Preferred stock subject to mandatory redemption	17	16	19	19
	$10,907	$11,469	$11,490	$11,989

The fair values of long-term debt and other long-term obligations reflect the present value of the cash outflows relating to those securities based on the current call price, the yield to maturity or the yield to call, as deemed appropriate at the end of each respective year. The yields assumed were based on securities with similar characteristics offered by corporations with credit ratings similar to the Companies' ratings.

Investments

The carrying amounts of cash and cash equivalents approximate fair value due to the short-term nature of these investments. The following table provides the approximate fair value and related carrying amounts of investments other than cash and cash equivalents as of December 31:

	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In millions)			
Debt securities: (1)				
-Government obligations	$ 797	$ 797	$ 707	$ 707
-Corporate debt securities (2)	1,205	1,362	1,492	1,601
-Mortgage-backed securities	2	2	—	—
	2,004	2,161	2,199	2,308
Equity securities (1)	1,033	1,033	1,068	1,068
	$3,037	$3,194	$3,267	$3,376

(1) Includes nuclear decommissioning, nuclear fuel disposal and NUG trust investments.
(2) Includes investments in lease obligation bonds (See Note 6).

The fair value of investments other than cash and cash equivalents represent cost (which approximates fair value) or the present value of the cash inflows based on the yield to maturity. The yields assumed were based on financial instruments with similar characteristics and terms.

Investments other than cash and cash equivalents include held-to-maturity securities and available-for-sale securities. Decommissioning trust investments are classified as available-for-sale. The Companies have no securities held for trading purposes. The following table summarizes the amortized cost basis, unrealized gains and losses and fair values for decommissioning trust investments as of December 31:

	2004				2003			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
	(In millions)							
Debt securities	$ 616	$ 19	$ 3	$ 632	$ 548	$ 26	$ 1	$ 573
Equity securities	763	207	19	951	593	217	31	779
	$1,379	$226	$22	$1,583	$1,141	$243	$32	$1,352

Proceeds from the sale of decommissioning trust investments, realized gains and losses on those sales, and interest and dividend income for the three years ended December 31, 2004 were as follows:

	2004	2003	2002
	(In millions)		
Proceeds from sales	$1,234	$ 758	$599
Realized gains	144	38	32
Realized losses	43	32	47
Interest and dividend income	45	37	33

The following table provides the fair value of and unrealized losses on nuclear decommi
deemed to be temporarily i

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Debt securities	$175	$ 3	$20	$—	$195	$ 3
Equity securities	129	12	39	7	168	19
	$304	$15	$59	$7	$363	$22

The Companies periodically evaluate the securities held by their nuclear decommissioning trusts for other-than-temporary impairment. FirstEnergy considers the length of time and the extent to which the security's fair value has been less than its cost basis and other factors to determine whether impairment is other than temporary. Unrealized gains and losses applicable to the decommissioning trusts of FirstEnergy's Ohio Companies are recognized in OCI in accordance with SFAS 115, as fluctuations in fair value will eventually affect earnings. The decommissioning trusts of FirstEnergy's Pennsylvania and New Jersey Companies are subject to regulatory accounting in accordance with SFAS 71. Net unrealized gains and losses are recorded as regulatory liabilities or assets since the difference between investments held in trust and the decommissioning liabilities are recovered from, or refunded to, customers.

The investment policy for the nuclear decommissioning trust funds restricts or limits the ability to hold certain types of assets including private or direct placements, warrants, securities of FirstEnergy, investments in companies owning nuclear power plants, financial derivatives, preferred stocks, securities convertible into common stock and securities of the trust fund's custodian or managers and their parents or subsidiaries.

Derivatives

FirstEnergy is exposed to financial risks resulting from the fluctuation of interest rates and commodity prices, including prices for electricity, natural gas and coal. To manage the volatility relating to these exposures, FirstEnergy uses a variety of non-derivative and derivative instruments, including forward contracts, options, futures contracts and swaps. The derivatives are used principally for hedging purposes, and to a lesser extent, for trading purposes. FirstEnergy's Risk Policy Committee, comprised of members of senior management, provides general management oversight to risk management activities throughout the Company. They are responsible for promoting the effective design and implementation of sound risk management programs. They also oversee compliance with corporate risk management policies and established risk management practices.

How derivative instruments are used and classified determines how they are reported in FirstEnergy's financial statements. FirstEnergy accounts for derivative instruments on its Consolidated Balance Sheet at their fair value unless they meet the normal purchase and normal sales criteria. The changes in the fair value of a derivative instrument are recorded in current earnings, in other comprehensive income, or as part of the value of the hedged item depending on whether or not it is designated as part of a hedge transaction and on the nature of the hedge transaction. FirstEnergy's primary ongoing hedging activity involves cash flow hedges of electricity and natural gas purchases. The maximum periods over which the variability of electricity and natural gas cash flows are hedged are two and three years, respectively. Gains and losses from hedges of commodity price risks are included in net income when the underlying hedged commodities are delivered. Also, gains and losses are included in net income when ineffectiveness occurs on certain natural gas hedges. The impact of ineffectiveness on earnings during 2004 was not material. FirstEnergy entered into interest rate derivative transactions during 2001 to hedge a portion of the anticipated interest payments on debt related to the GPU acquisition. Gains and losses from hedges of anticipated interest payments on acquisition debt are included in net income over the periods that hedged interest payments are made – 5, 10 and 30 years. Gains and losses from derivative contracts are included in other operating expenses. AOCL as of December 31, 2004 includes a net deferred loss of $92 million for derivative hedging activity. The $19 million decrease from the December 31, 2003 balance of $111 million includes an $11 million reduction due to the sale of GLEP, a $3 million reduction related to current hedging activity and a $5 million decrease due to net hedge losses included in earnings during the year. Approximately $14 million (after tax) of the current net deferred loss on derivative instruments in AOCL is expected to be reclassified to earnings during the next twelve months as hedged transactions occur. The fair value of these derivative instruments will continue to fluctuate from period to period based on various market factors.

During 2004, FirstEnergy executed fixed-for-floating interest rate swap agreements, whereby FirstEnergy receives fixed cash flows based on the fixed coupons of the hedged securities and pays variable cash flows based on short-term variable market interest rates (3 and 6 months LIBOR index). These derivatives are treated as fair value hedges of fixed-rate, long-term debt issues – protecting against the risk of changes in the fair value of fixed-rate debt instruments due to lower interest rates. Swap maturities, fixed interest rates received, and interest payment dates match those of the underlying obligations. FirstEnergy entered into interest rate swap agreements on a $900 million notional amount of subsidiaries' senior notes and subordinated debentures with a weighted average fixed interest rate of 5.67%. In addition, FirstEnergy unwound swaps with a total notional amount of $400 million from which it received $12 million in cash gains during 2004. The gains will be recognized over the remaining maturity of each respective hedged security as reduced interest expense. As of December 31, 2004, the aggregate notional value of interest rate swap agreements outstanding was $1.65 billion.

FirstEnergy engages in the trading of commodity derivatives and periodically experiences net open positions. FirstEnergy's risk management policies limit the exposure to market risk from open positions and require daily reporting to management of potential financial exposures. Discretionary trading in 2004 resulted in a $2 million gain.

6. Leases

The Companies lease certain generating facilities, office space and other property and equipment under cancelable and noncancelable leases.

OE sold portions of its
and Beaver Valley Unit 2 ar
the portions sold for basic lease terms of approximately 29 years. CEI and TE also sold portions of their ownership interests in Beaver Valley Unit 2 and Bruce Mansfield Units 1, 2 and 3 and entered into similar operating leases for lease terms of approximately 30 years. During the terms of their respective leases, OE, CEI and TE continue to be responsible, to the extent of their individual combined ownership and leasehold interests, for costs associated with the units including construction expenditures, operation and maintenance expenses, insurance, nuclear fuel, property taxes and decommissioning. They have the right, at the expiration of the respective basic lease terms, to renew their respective leases. They also have the right to purchase the facilities at the expiration of the basic lease term or any renewal term at a price equal to the fair market value of the facilities. The basic rental payments are adjusted when applicable federal tax law changes.

Consistent with the regulatory treatment, the rentals for capital and operating leases are charged to operating expenses on the Consolidated Statements of Income. Such costs for the three years ended December 31, 2004 are summarized as follows:

	2004	2003	2002
		(In millions)	
Operating leases			
Interest element	$172	$181	$188
Other	126	150	136
Capital leases			
Interest element	1	2	2
Other	3	2	3
Total rentals	$302	$335	$329

OE invested in the PNBV Capital Trust, which was established to purchase a portion of the lease obligation bonds issued on behalf of lessors in OE's Perry Unit 1 and Beaver Valley Unit 2 sale and leaseback transactions. CEI and TE established the Shippingport Capital Trust to purchase the lease obligation bonds issued on behalf of lessors in their Bruce Mansfield Units 1, 2 and 3 sale and leaseback transactions. The PNBV and Shippingport Capital Trust arrangements effectively reduce lease costs related to those transactions (see Note 7).

The future minimum lease payments as of December 31, 2004 are:

		Operating Leases		
	Capital Leases	Lease Payments	Capital Trusts	Net
		(In millions)		
2005	$ 5	$ 313	$ 130	$ 183
2006	5	322	142	180
2007	1	299	130	169
2008	1	294	105	189
2009	1	298	111	187
Years thereafter	6	2,217	763	1,454
Total minimum lease payments	19	$3,743	$1,381	$2,362
Executory costs	4			
Net minimum lease payments	15			
Interest portion	4			
Present value of net minimum lease payments	11			
Less current portion	2			
Noncurrent portion	$ 9			

MGE Energy, Inc.
Consolidated Balance Sheets
(In thousands)

	At December 31, 2004	At December 31, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,561	$ 2,020
Restricted cash	876	764
Accounts receivable, less reserves of $2,755 and $2,735, respectively	34,130	30,236
Other accounts receivable	22,910	7,477
Unbilled revenues	24,880	21,644
Materials and supplies, at lower of average cost or market	9,107	7,851
Fossil fuel, at lower of average cost or market	5,523	5,054
Stored natural gas, at lower of average cost or market	21,712	18,598
Prepaid taxes	14,510	14,063
Deferred income taxes	-	1,206
Other prepayments	5,029	3,816
Total Current Assets	142,238	112,729
Special billing projects	3,121	14,574
Regulatory assets	21,101	11,446
Deferred Charges	16,077	17,605
Property, Plant, and Equipment, Net	480,154	449,022
Construction work in progress	127,244	88,489
Total Property, Plant, and Equipment	607,398	537,511
Other property and investments	37,436	31,293
Total Assets	$827,371	$725,158
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Long-term debt due within one year	$ -	$ 20,000
Short-term debt - commercial paper	53,275	31,680
Accounts payable	42,488	34,103
Accrued interest and taxes	3,101	3,028
Deferred income taxes	581	-
Other current liabilities	16,116	15,814
Total Current Liabilities	115,561	104,625
Other Credits:		
Deferred income taxes	89,627	79,936
Investment tax credit - deferred	4,389	4,891
Regulatory liabilities	28,764	33,623
Accrued pension and other postretirement benefits	42,138	29,947
Other deferred liabilities	6,438	6,862
Total Other Credits	171,356	155,259
Capitalization:		
Common shareholders' equity	338,197	263,070
Long-term debt	202,257	202,204
Total Capitalization	540,454	465,274
Commitments and contingencies	-	-
Total Liabilities and Capitalization	$827,371	$725,158

The accompanying notes are an integral part of the above consolidated financial statements.

MGE Energy, Inc.
Consolidated Statements of Capitalization
(In thousands)

	At December 31,	
	2004	**2003**
Common Shareholders' Equity:		
Common stock - par value $1 per share:		
Authorized 50,000,000 shares		
Outstanding 20,389,619 and 18,343,913 shares, respectively	$ 20,390	$ 18,344
Additional paid-in capital	229,682	168,574
Retained earnings	87,439	79,542
Accumulated other comprehensive income (loss)	686	(3,390)
Total Common Shareholders' Equity	338,197	263,070
First Mortgage Bonds:		
7.70%, 2028 Series	1,200	1,200
Other Long-Term Debt:		
7.49%, due 2007	15,000	15,000
6.02%, due 2008	30,000	30,000
4.875% 2012 Series, Industrial Development Revenue Bonds	19,300	19,300
5.875% 2034 Series, Industrial Development Revenue Bonds	28,000	28,000
6.58%, due 2012	15,000	15,000
5.26%, due 2017	20,000	20,000
7.12%, due 2032	25,000	25,000
6.12%, due 2028	20,000	20,000
5.68%, due 2033	30,000	30,000
Total Other Long-Term Debt	202,300	202,300
Unamortized discount and premium on bonds, net	(1,243)	(1,296)
Total Long-Term Debt	202,257	202,204
Total Capitalization	$540,454	$465,274

The accompanying notes are an integral part of the above consolidated financial statements.

12. Fair Value of Financial Instruments - MGE Energy and MGE.

At December 31, 2004, and 2003, the carrying amount of cash, cash equivalents, and outstanding commercial paper approximates fair market value due to the short maturity of those investments and obligations. The estimated fair market value of MGE's long-term debt and interest-rate swap agreements are based on quoted market prices at December 31. The estimated fair market value of MGE's financial instruments are as follows:

	2004		2003	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
MGE Energy				
Assets:				
Cash and cash equivalents	$ 3,561	$ 3,561	$ 2,020	$ 2,020
Restricted cash	876	876	764	764
Liabilities:				
Short-term debt - bank loans	13,000	13,000	16,180	16,180
Short-term debt - commercial paper	40,275	40,275	15,500	15,500
Long-term debt	203,500	218,292	218,500	231,712
Other long-term debt swap agreements	-	-	(148)	(148)
MGE				
Assets:				
Cash and cash equivalents	970	970	450	450
Restricted cash	876	876	764	764
Liabilities:				
Short-term debt - commercial paper	40,275	40,275	15,500	15,500
Long-term debt	203,500	218,292	218,500	231,712
Other long-term debt swap agreements	-	-	(148)	(148)

13. Income Taxes.

a. MGE Energy Income Taxes.

MGE Energy files a consolidated federal income tax return that includes the operations of all subsidiary companies. The consolidated income tax provision consists of the following provision (benefit) components for the years ended December 31:

(In thousands)	2004	2003	2002
Current payable:			
Federal	$ 8,946	$ 8,976	$10,677
State	3,380	3,366	4,384
Net-deferred:			
Federal	7,486	6,874	4,073
State	1,346	1,201	113
Amortized investment tax credits	(502)	(516)	(520)
Total income tax provision	$20,656	$19,901	$18,727

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(In millions)

	At December 31, 2004	At December 31, 2003
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 123.8	$ 85.3
Accounts payable to affiliated companies	109.3	86.4
Accrued liabilities	132.1	109.3
Short-term borrowings	412.4	274.9
Current maturities of long-term debt	38.5	15.0
Long-term debt subject to tender	10.0	13.5
Total current liabilities	**826.1**	**584.4**
Long-term Debt - Net of Current Maturities & Debt Subject to Tender	1,016.6	1,072.8
Deferred Income Taxes & Other Liabilities		
Deferred income taxes	234.0	235.4
Regulatory liabilities	251.7	235.0
Deferred credits & other liabilities	163.2	153.6
Total deferred credits & other liabilities	**648.9**	**624.0**
Minority Interest in Subsidiary	0.4	0.3
Commitments & Contingencies (Notes 3, 12-14)		
Cumulative, Redeemable Preferred Stock of a Subsidiary	0.1	0.2
Common Shareholders' Equity		
Common stock (no par value) – issued & outstanding 75.9 and 75.6, respectively	526.8	520.4
Retained earnings	583.0	562.4
Accumulated other comprehensive loss	(15.0)	(11.1)
Total common shareholders' equity	**1,094.8**	**1,071.7**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	**$ 3,586.9**	**$ 3,353.4**

The accompanying notes are an integral part of these consolidated financial statements.

adjustment mechanisms. Although Vectren's regulated operations are exposed to limited commodity price risk, volatile natural gas prices can result in higher working capital requirements, increased expenses including unrecoverable interest costs, uncollectible accounts expense, and unaccounted for gas, and some level of price-sensitive reduction in volumes sold. The Company mitigates these risks by executing derivative contracts that manage the price of forecasted natural gas purchases. These contracts are subject to regulation which allows for reasonable and prudent hedging costs to be recovered through rates. When regulation is involved, SFAS 71 controls when the offset to mark-to-market accounting is recognized in earnings.

The Company's wholly owned gas retail operations also mitigate price risk associated with forecasted natural gas purchases by using derivatives. Such contracts are ordinarily designated and documented as cash flow hedges. These nonregulated gas retail operations may also from time-to-time execute weather derivatives to mitigate extreme weather affecting unregulated gas retail sales. At December 31, 2004 and 2003, the market values of these contracts and the book value of weather contracts were not significant.

Interest Rate Management
The Company is exposed to interest rate risk associated with its borrowing arrangements. Its risk management program seeks to reduce the potentially adverse effects that market volatility may have on interest expense. The Company has used interest rate swaps and treasury locks to hedge forecasted debt issuances and other interest rate swaps to manage interest rate exposure. Hedging instruments are recorded at market value. Changes in market value, when effective, are recorded in *Accumulated other comprehensive income* for cash flow hedges, as an adjustment to the outstanding debt balance for fair value hedges, or as regulatory asset/liability when regulation is involved. Amounts are recorded to interest expense as settled.

Interest rate swaps hedging the fair value of fixed-rate debt with a total notional amount of $55.5 million are outstanding. The fair value liability associated with those swaps was $0.5 million and $0.3 million, respectively, at December 31, 2004 and 2003. At December 31, 2004, approximately $5.5 million remains in *Regulatory liabilities* related to future interest payments. Of the existing regulatory liability, $0.6 million will be reclassified to earnings in 2005, $0.6 million was reclassified to earnings in 2004, and $0.3 million was reclassified to earnings during 2003.

Fair Value of Other Financial Instruments
The carrying values and estimated fair values of the Company's other financial instruments follow:

	At December 31,			
	2004		2003	
(In millions)	Carrying Amount	Est. Fair Value	Carrying Amount	Est. Fair Value
Long-term debt	$ 1,070.2	$ 1,146.2	$ 1,106.5	$ 1,184.8
Short-term borrowings & notes payable	412.4	412.4	274.9	274.9

Certain methods and assumptions must be used to estimate the fair value of financial instruments. The fair value of the Company's long-term debt was estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for instruments with similar characteristics. Because of the maturity dates and variable interest rates of short-term borrowings, its carrying amount approximates its fair value.

Under current regulatory treatment, call premiums on reacquisition of long-term debt are generally recovered in customer rates over the life of the refunding issue or over a 15-year period. Accordingly, any reacquisition would not be expected to have a material effect on the Company's results of operations.

Periodically, the Company tests its cost method investments and notes receivable for impairment which may require their fair value to be estimated. Because of the customized nature of these investments and lack of a readily available market, it is not practicable to estimate the fair value of these financial instruments at specific dates without considerable effort and costs. At December 31, 2004, and 2003, fair value for these financial instruments was not estimated.

CONSOLIDATED BALANCE SHEETS

At December 31 *(Millions)*	2004	2003
Assets		
Cash and cash equivalents	$ 40.0	$ 50.7
Restricted funds	–	3.2
Accounts receivable – net of reserves of $8.0 and $6.6, respectively	531.3	502.4
Accrued unbilled revenues	113.2	90.0
Inventories	188.8	178.3
Current assets from risk management activities	439.5	518.1
Assets held for sale	119.6	116.4
Other current assets	86.1	86.4
Current assets	1,518.5	1,545.5
Property, plant, and equipment, net	2,002.6	1,828.7
Nuclear decommissioning trusts	344.5	332.3
Regulatory assets	160.9	127.7
Long-term assets from risk management activities	80.4	104.3
Other	338.7	353.8
Total assets	$4,445.6	$4,292.3
Liabilities and Shareholders' Equity		
Short-term debt	$ 292.4	$ 38.0
Current portion of long-term debt	6.7	56.6
Note payable to preferred stock trust	–	51.5
Accounts payable	589.4	510.7
Current liabilities from risk management activities	401.6	517.3
Liabilities held for sale	2.8	2.7
Deferred income taxes	14.6	1.7
Other current liabilities	72.6	86.9
Current liabilities	1,380.1	1,265.4
Long-term debt	865.7	871.9
Deferred income taxes	65.5	78.8
Deferred investment tax credits	16.2	17.7
Regulatory liabilities	288.3	304.4
Environmental remediation liabilities	68.4	37.9
Pension and postretirement benefit obligations	94.6	137.7
Long-term liabilities from risk management activities	68.3	92.2
Asset retirement obligations	364.4	344.0
Other	91.2	88.0
Long-term liabilities	1,922.6	1,972.6
Commitments and contingencies		
Preferred stock of subsidiary with no mandatory redemption	51.1	51.1
Common stock equity	1,091.8	1,003.2
Total liabilities and shareholders' equity	$4,445.6	$4,292.3

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

CONSOLIDATED STATEMENTS OF COMMON SHAR

(Millions)	Comprehensive Income	Total	Employee Stock Plan Guarantees and Deferred Compensation Trust	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2001	$ –	$715.9	$(4.2)	$31.5	$325.4	$373.6	$(7.7)	$(2.7)
Income available for common shareholders	109.4	109.4	–	–	–	109.4	–	–
Other comprehensive income – cash flow hedges (net of tax of $3.1)	(4.6)	(4.6)	–	–	–	–	–	(4.6)
Other comprehensive income – minimum pension liability (net of tax of $1.8)	(2.7)	(2.7)	–	–	–	–	–	(2.7)
Comprehensive income	102.1	–	–	–	–	–	–	–
Issuance of common stock	–	28.3	–	0.5	21.7	–	6.1	–
Purchase of common stock	–	(1.3)	(1.3)	–	–	–	–	–
Dividends on common stock	–	(67.1)	–	–	–	(67.1)	–	–
Other	–	4.9	0.1	–	4.7	–	0.1	–
Balance at December 31, 2002	$ –	$782.8	$(5.4)	$32.0	$351.8	$415.9	$(1.5)	$(10.0)
Income available for common shareholders	94.7	94.7	–	–	–	94.7	–	–
Other comprehensive income – cash flow hedges (net of tax of $4.8)	7.2	7.2	–	–	–	–	–	7.2
Other comprehensive income – minimum pension liability (net of tax of $8.2)	(12.3)	(12.3)	–	–	–	–	–	(12.3)
Other comprehensive income – currency translation	0.1	0.1	–	–	–	–	–	0.1
Comprehensive income	89.7	–	–	–	–	–	–	–
Issuance of common stock	–	197.7	–	4.8	191.8	–	1.1	–
Purchase of common stock	–	(1.0)	(1.0)	–	–	–	–	–
Dividends on common stock	–	(71.8)	–	–	–	(71.8)	–	–
Other	–	5.8	(0.1)	–	5.9	–	–	–
Balance at December 31, 2003	$ –	$1,003.2	$(6.5)	$36.8	$549.5	$438.8	$(0.4)	$(15.0)
Income available for common shareholders	139.7	139.7	–	–	–	139.7	–	–
Other comprehensive income – cash flow hedges (net of tax of $3.1)	4.6	4.6	–	–	–	–	–	4.6
Other comprehensive income – minimum pension liability (net of tax of $4.0)	(6.0)	(6.0)	–	–	–	–	–	(6.0)
Other comprehensive income – currency translation	0.3	0.3	–	–	–	–	–	0.3
Comprehensive income	138.6	–	–	–	–	–	–	–
Issuance of common stock	–	26.3	–	0.6	25.6	–	0.1	–
Dividends on common stock	–	(81.3)	–	–	–	(81.3)	–	–
Other	–	5.0	(1.9)	0.1	7.0	(0.2)	–	–
Balance at December 31, 2004	$ –	$1,091.8	$(8.4)	$37.5	$582.1	$497.0	$(0.3)	$(16.1)

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

effect of a change in accounting principle of $3.5 million (primarily related to ESI operations) 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 SFAS No. 133. The cumulative effect of adopting this new accounting standard is expected to reverse upon the settlement of the contracts impacted by the standard. Most of this reversal occurred in 2004. The required change in accounting had no impact on the underlying economics or cash flows of the contracts.

The adoption of SFAS No. 143 at PDI on January 1, 2003, resulted in a $0.3 million negative after-tax cumulative effect of change in accounting principle related to recording a liability for the closure of an ash basin at Sunbury.

(u) **Reclassifications**—We reclassified certain prior year financial statement amounts to conform to the current year presentation.

(v) **New Accounting Pronouncements**—In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," which addresses the accounting for share-based payment transactions. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees," and requires a company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost is recognized over the period during which an employee is required to provide service in exchange for the award. SFAS No. 123R will be effective for WPS Resources on July 1, 2005. SFAS No. 123R offers companies alternative methods of adopting this standard. At the present not determined which alternative method impact on its financial position or results of operations. However, we do not expect a significant impact when we adopt the standard.

In March 2004, the FASB issued EITF No. 03-01, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments," which provides new guidance for assessing impairment losses on debt and equity investments. The new impairment model applies to investments accounted for under the cost method and investments accounted for under SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." EITF No. 03-01 also includes new disclosure requirements for cost method investments and for all investments that are in an unrealized loss position. In September 2004, the FASB delayed the accounting provisions of EITF No. 03-01; however, the disclosure requirements were effective for WPS Resources for the year ended December 31, 2004. WPS Resources does not expect the adoption of the accounting provisions of EITF No. 03-01 to have a significant impact on financial position or results of operations.

WPS Resources' investments accounted for under SFAS No. 115 that have unrealized losses at December 31, 2004, were not significant. At December 31, 2004, the aggregate carrying amount of WPS Resources' cost method investments totaled $1.5 million. These investments were not evaluated for impairment because the fair value of the investments was not estimated in accordance with paragraphs 14 and 15 of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," and no events or changes in circumstances were identified that would have had a significant adverse effect on the fair value of those investments.

NOTE 2—FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash, Short-Term Investments, Energy Conservation Loans, Notes Payable, and Outstanding Commercial Paper: The carrying amount approximates fair value due to the short maturity of these investments and obligations.

Nuclear Decommissioning Trusts: Nuclear decommissioning trust investments are recorded at fair value, net of taxes payable on unrealized gains and losses. This represents the amount of assets available to accomplish decommissioning. The nonqualified trust investments designated to pay income taxes when unrealized gains become realized are classified as nuclear decommissioning trusts – other assets.

Long-Term Debt and Preferred Stock: The fair values of long-term debt and preferred stock are estimated based on the quoted market price for the same or similar issues or on the current rates offered to WPS Resources for debt of the same remaining maturity.

Risk Management Activities: Assets and liabilities from risk management activities are recorded at fair value pursuant to SFAS No. 133.

The estimated fair values of our financial instruments as of December 31 were:

(Millions)	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 40.0	$ 40.0	$ 50.7	$ 50.7
Restricted cash	–	–	3.2	3.2
Energy conservation loans	1.6	1.6	1.9	1.9
Nuclear decommissioning trusts	344.5	344.5	332.3	332.3
Nuclear decommissioning trusts - other assets	26.8	26.8	22.5	22.5
Notes payable	12.7	12.7	10.0	10.0
Commercial paper	279.7	279.7	28.0	28.0
Note payable to preferred stock trust	–	–	51.5	51.5
Long-term debt	874.4	925.2	931.2	1,014.7
Preferred stock	51.1	50.0	51.1	49.0
Risk management activities - net	50.0	50.0	12.9	12.9

NOTE 19—PREFERRED STOCK OF SUBSIDIARY

WPSC has 1,000,000 authorized shares of preferred stock with no mandatory redemption and a $100 par value. Outstanding shares are as follows at December 31:

(Millions, except share amounts)	Series	2004 Shares Outstanding	2004 Carrying Value	2003 Shares Outstanding	2003 Carrying Value
	5.00%	130,799	$13.1	130,853	$13.1
	5.04%	29,920	3.0	29,920	3.0
	5.08%	49,928	5.0	49,928	5.0
	6.76%	150,000	15.0	150,000	15.0
	6.88%	150,000	15.0	150,000	15.0
Total		510,647	$51.1	510,701	$51.1

All shares of preferred stock of all series are of equal rank except as to dividend rates and redemption terms. Payment of dividends from any earned surplus or other available surplus is not restricted by the terms of any indenture or other undertaking by WPSC. Each series of outstanding preferred stock is redeemable in whole or in part at WPSC's option at any time on 30 days' notice at the respective redemption prices. WPSC may not redeem less than all, nor purchase any, of its preferred stock during the existence of any dividend default.

In the event of WPSC's dissolution or liquidation, the holders of preferred stock are entitled to receive (a) the par value of their preferred stock out of the corporate assets other than profits before any of such assets are paid or distributed to the holders of common stock and (b) the amount of dividends accumulated and unpaid on their preferred stock out of the surplus or net profits before any of such surplus or net profits are paid to the holders of common stock. Thereafter, the remainder of the corporate assets, surplus, and net profits shall be paid to the holders of common stock.

The preferred stock has no pre-emptive, subscription, or conversion rights, and has no sinking fund provisions.

NOTE 20—COMMON EQUITY

Shares outstanding at December 31	2004	2003
Common stock, $1 par value, 200,000,000 shares authorized	37,500,791	36,830,556
Treasury stock	12,000	15,700
Average cost of treasury shares	$25.19	$25.19
Shares in deferred compensation rabbi trust	229,238	192,880
Average cost of deferred compensation rabbi trust shares	$36.84	$33.72

On November 24, 2003, 4,025,000 shares of WPS Resources common stock were issued at $43.00 per share and resulted in a net increase in equity of $166.8 million.

Treasury shares at December 31, 2004, relate to our Non-Employee Directors Stock Option Plan. The number of stock options granted under this plan may not exceed 100,000 shares. All options under this plan have a ten-year life, but may not be exercised until one year after the date of grant.

Effective January 2001, we began issuing new stock under our Stock Investment Plan and under certain of our stock-based employee benefit plans. These stock issuances increased equity $28.3 million, $31.0 million, and $28.3 million in 2004, 2003, and 2002, respectively.

Reconciliation of Common Shares	Common Stock Shares Outstanding
Balance at December 31, 2001	31,053,250
Stock Investment Plan and other stock-based employee benefit plans	544,578
Stock issued from Treasury Stock	241,402
Increase in deferred compensation rabbi trust shares	(30,451)
Balance at December 31, 2002	31,808,779
Common stock offering	4,025,000
Stock Investment Plan and other stock-based employee benefit plans	764,681
Stock issued from Treasury Stock	49,950
Increase in deferred compensation rabbi trust shares	(26,434)
Balance at December 31, 2003	36,621,976
Stock Investment Plan and other stock-based employee benefit plans	670,235
Stock issued from Treasury Stock	3,700
Increase in deferred compensation rabbi trust shares	(36,358)
Balance at December 31, 2004	**37,259,553**

WISCONSIN ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31

CAPITALIZATION AND LIABILITIES

	2004	2003
	(Millions of Dollars)	
Capitalization		
Common equity	$2,492.4	$2,358.7
Preferred stock of subsidiary	30.4	30.4
Long-term debt	3,239.5	3,570.5
Total Capitalization	5,762.3	5,959.6
Current Liabilities		
Long-term debt due currently	101.0	166.2
Short-term debt	338.0	590.8
Accounts payable	309.7	248.7
Payroll and vacation accrued	74.3	67.3
Taxes accrued - income and other	12.1	23.0
Interest accrued	28.1	35.8
Other	129.2	80.2
Liabilities held for sale	-	251.7
Total Current Liabilities	992.4	1,463.7
Deferred Credits and Other Liabilities		
Regulatory liabilities	922.4	887.7
Asset retirement obligations	762.2	732.0
Deferred income taxes - long-term	530.4	570.8
Accumulated deferred investment tax credits	61.0	66.0
Minimum pension liability	152.8	34.7
Other long - term liabilities	381.9	300.0
Total Deferred Credits and Other Liabilities	2,810.7	2,591.2
Commitments and Contingencies (Note S)	-	-
Total Capitalization and Liabilities	$9,565.4	$10,014.5

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

WISCONSIN ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CAPITALIZATION
December 31

	2004	2003
	(Millions of Dollars)	
Common Equity (See Consolidated Statements of Common Equity)		
Common stock - $.01 par value; authorized 325,000,000 shares; outstanding - 116,985,822 and 118,425,546 shares	$1.2	$1.2
Other paid in capital	785.1	841.8
Retained earnings	1,718.7	1,510.1
Accumulated other comprehensive income (loss)	(7.4)	3.1
Unearned compensation - restricted stock awards	(7.6)	(4.7)
Stock options exercisable	2.4	7.2
Total Common Equity	2,492.4	2,358.7
Preferred Stock		
Wisconsin Energy		
$.01 par value; authorized 15,000,000 shares; none outstanding	-	-
Wisconsin Electric		
Six Per Cent. Preferred Stock - $100 par value; authorized 45,000 shares; outstanding - 44,498 shares	4.4	4.4
Serial preferred stock -		
$100 par value; authorized 2,286,500 shares; 3.60% Series redeemable at $101 per share; outstanding - 260,000 shares	26.0	26.0
$25 par value; authorized 5,000,000 shares; none outstanding	-	-
Wisconsin Gas		
$.01 par value; authorized - zero and 3,000,000 shares; none outstanding	-	-
Total Preferred Stock	30.4	30.4
Long-Term Debt		
First mortgage bonds		
7-1/4% due 2004	-	140.0
Debentures (unsecured)		
6-5/8% due 2006	200.0	200.0
9.47% due 2006	1.4	2.1
3.50% due 2007	250.0	-
4.50% due 2013	300.0	300.0
6.60% due 2013	45.0	45.0
5.20% due 2015	125.0	125.0
6-1/2% due 2028	150.0	150.0
5.625% due 2033	335.0	335.0
6-7/8% due 2095	100.0	100.0

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

WISCONSIN ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CAPITALIZATION - (Cont'd)
December 31

		2004	2003
		(Millions of Dollars)	
Long-Term Debt - (Cont'd)			
Notes (secured, nonrecourse)			
	3.79% variable rate due 2005 (a)	$6.5	$6.8
	6.36% effective rate due 2006	2.2	3.3
	6.90% due 2006	1.1	1.1
	2% stated rate due 2011	1.3	1.3
	4.81% effective rate due 2030	2.0	2.0
	2.67% variable rate due 2028 (a)	15.6	16.0
Notes (unsecured)			
	6-3/8% due 2005	65.0	65.0
	6.85% due 2005	10.0	10.0
	2.10% variable rate due 2006 (a)	1.0	1.0
	5.875% due 2006	250.0	550.0
	6.36% effective rate due 2006	2.4	3.6
	7.00% to 8.00% due 2001-2008	2.1	2.3
	5.50% due 2008	300.0	300.0
	6.21% due 2008	20.0	20.0
	6.48% due 2008	25.4	25.4
	5-1/2% due 2009	50.0	50.0
	6.50% due 2011	450.0	450.0
	6.51% due 2013	30.0	30.0
	2.10% variable rate due 2015 (a)	17.4	17.4
	1.25% variable rate due 2016 (b)	-	67.0
	1.65% variable rate due 2016 (a)	67.0	-
	6.94% due 2028	50.0	50.0
	1.52% variable rate due 2030 (b)	-	80.0
	1.70% variable rate due 2030 (a)	80.0	-
	6.20% due 2033	200.0	200.0
Junior subordinated debentures (unsecured)			
	6.85% due 2039 (see Note J)	-	206.2
Obligations under capital leases		212.9	213.2
Unamortized discount, net and other		(27.8)	(32.0)
Long-term debt due currently		(101.0)	(166.2)
Total Long-Term Debt		3,239.5	3,570.5
Total Capitalization		$5,762.3	$5,959.6

(a) Variable interest rate as of December 31, 2004.
(b) Variable interest rate as of December 31, 2003.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Cont'd)

N – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and estimated fair value of certain of our recorded financial instruments at December 31 are as follows:

	2004		2003	
Financial Instruments	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions of Dollars)			
Nuclear decommissioning trust fund	$737.8	$737.8	$674.4	$674.4
Preferred stock, no redemption required	$30.4	$22.7	$30.4	$20.9
Long-term debt including current portion	$3,155.4	$3,301.0	$3,555.5	$3,699.0

The carrying value of cash and cash equivalents, net accounts receivable, accounts payable and short-term borrowings approximates fair value due to the short term nature of these instruments. The nuclear decommissioning trust fund is carried at fair value as reported by the trustee (see Note H). The fair value of our preferred stock is estimated based upon the quoted market value for the same or similar issues. The fair value of our long-term debt, including the current portion of long-term debt but excluding capitalized leases, is estimated based upon quoted market value for the same or similar issues or upon the quoted market prices of U.S. Treasury issues having a similar term to maturity, adjusted for the issuing company's bond rating and the present value of future cash flows. The fair values of gas commodity instruments are equal to their carrying values as of December 31, 2004.

O -- BENEFITS

Pensions and Other Post-retirement Benefits: We have funded and unfunded noncontributory defined benefit pension plans that together cover substantially all of our employees. The plans provide defined benefits based upon years of service and final average salary.

We also have other post-retirement benefit plans covering substantially all of our employees. The health care plans are contributory with participants' contributions adjusted annually; the life insurance plans are noncontributory. The accounting for the health care plans anticipates future cost-sharing changes to the written plans that are consistent with our expressed intent to maintain the current cost sharing levels. The post-retirement health care plans include a limit on our share of costs for recent and future retirees. We use a year end measurement date for all of our pension and other post-retirement benefit plans.

KENTUCKY POWER COMPANY
American Electric Power
FIRST SET OF DATA REQUESTS OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
Case No. 2005-00341

Question No. 10

Please provide all work papers and supporting documentation for the leverage adjustment of 0.74% shown on page 31 of Mr. Moul's Direct Testimony. Please provide all spreadsheet analyses on CD-ROM with formulas intact.

Response

The calculation of the 0.74% leverage adjustment is shown on pages E-14 and E-15 of Appendix E to Mr. Moul's testimony. Other support can be found in the attachment to the response to KIUC Data Request Set 1 Data Request Question No. 9.

Witness: Paul R. Moul

KENTUCKY POWER COMPANY
American Electric Power
FIRST SET OF DATA REQUESTS OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
Case No. 2005-00341

Question No. 11

Please provide all work papers and supporting documentation for the leverage adjustment of 0.99% shown on page 34 of Mr. Moul's Direct Testimony. Please provide all spreadsheet analyses on CD-ROM with formulas intact.

Response

The calculation of the 0.99% leverage adjustment is shown on page E-15 of Appendix E to Mr. Moul's testimony. Other support can be found in the attachment to the response to KIUC Data Request Set 1 Data Request, Question No. 9.

Witness: Paul R. Moul

KENTUCKY POWER COMPANY
American Electric Power
FIRST SET OF DATA REQUESTS OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
Case No. 2005-00341

Question No. 12

Please refer to page 42 of Mr. Moul's Direct Testimony.

a. Please provide the basis for the formula shown on line 19. Please provide copies of all articles, treatises, etc. upon which Mr. Moul relied for this formula.

b. Please explain how the formula on line 19 adjusts for the difference between market capitalization and ratemaking capitalization.

c. Please provide any evidence or other support that investors use this formula in adjusting the Value Line betas. Please include copies of all studies, articles, treatises, etc. relied upon by Mr. Moul.

Response

a. A copy of the requested article is attached. Also, please refer to the response to Commission Staff Second Data Request, Item No. 55.

b. There is a two-step process involved in computing the beta that is applicable for the ratesetting process. First, the Value Line beta is unlevered to produce a beta applicable to a firm with 100% equity. With the unlevered beta, the beta is relevered for application to the ratesetting capital structure.

c. The Hamada formula used in this process can be found in most modern financial textbooks.

Witness: Paul R. Moul

THE EFFECT OF THE FIRM'S CAPITAL STRUCTURE ON THE SYSTEMATIC RISK OF COMMON STOCKS

ROBERT S. HAMADA*

I. INTRODUCTION

ONLY RECENTLY has there been an interest in relating the issues historically associated with corporation finance to those historically associated with investment and portfolio analyses. In fact, rigorous theoretical attempts in this direction were made only since the capital asset pricing model of Sharpe [13], Lintner [6], and Mossin [11], itself an extension of the Markowitz [7] portfolio theory. This study is one of the first empirical works consciously attempting to show and test the relationships between the two fields. In addition, differences in the observed systematic or nondiversifiable risk of common stocks, β, have never really been analyzed before by investigating some of the underlying differences in the firms.

In the capital asset pricing model, it was demonstrated that the efficient set of portfolios to any individual investor will always be some combination of lending at the risk-free rate and the "market portfolio," or borrowing at the risk-free rate and the "market portfolio." At the same time, the Modigliani and Miller (MM) propositions [9, 10] on the effect of corporate leverage are well known to the students of corporation finance. In order for their propositions to hold, personal leverage is required to be a perfect substitute for corporate leverage. If this is true, then corporate borrowing could substitute for personal borrowing in the capital asset pricing model as well.

Both in the pricing model and the MM theory, borrowing, from whatever source, while maintaining a fixed amount of equity, increases the risk to the investor. Therefore, in the mean-standard deviation version of the capital asset pricing model, the covariance of the asset's rate of return with the market portfolio's rate of return (which measures the nondiversifiable risk of the asset—the proxy β will be used to measure this) should be greater for the stock of a firm with a higher debt-equity ratio than for the stock of another firm in the same risk-class with a lower debt-equity ratio.[1]

This study, then, has a number of purposes. First, we shall attempt to link empirically corporation finance issues with portfolio and security analyses through the effect of a firm's leverage on the systematic risk of its common

* Graduate School of Business, University of Chicago, currently visiting at the Graduate School of Business Administration, University of Washington. The research assistance of Christine Thomas and Leon Tsao is gratefully acknowledged. This paper has benefited from the comments made at the Finance Workshop at the University of Chicago, and especially those made by Eugene Fama. Remaining errors are due solely to the author.

1. This very quick summary of the theoretical relationship between what is known as corporation finance and the modern investment and portfolio analyses centered around the capital asset pricing model is more thoroughly presented in [5], along with the necessary assumptions required for this relationship.

stock. Then, we shall attempt to test the MM theory, or at least provide another piece of evidence on this long-standing controversial issue. This test will not rely on an explicit valuation model, such as the MM study of the electric utility industry [8] and the Brown study of the railroad industry [2]. A procedure using systematic risk measures (β s) has been worked out in this paper for this purpose.

If the MM theory is validated by this procedure, then the final purpose of this study is to demonstrate a method for estimating the cost of capital of individual firms to be used by them for scale-changing or nondiversifying investment projects. The primary component of any firm's cost of capital is the capitalization rate for the firm if the firm had no debt and preferred stock in its capital structure. Since most firms do have fixed commitment obligations, this capitalization rate (we shall call it $E(R_A)$; MM denote it ρ^τ) is unobservable. But if the MM theory and the capital asset pricing model are correct, then it is possible to estimate $E(R_A)$ from the systematic risk approach for individual firms, even if these firms are members of a one-firm risk-class.[2]

With this statement of the purposes for this study, we shall, in Section II, discuss the alternative general procedures that are possible for estimating the effect of leverage on systematic risk and select the most feasible ones. The results are presented in Section III. And finally, tests of the MM versus the traditional theories of corporation finance are presented in Section IV.

II. Some Possible Procedures and the Selected Estimating Relationships

There are at least four general procedures that can be used to estimate the effect of the firm's capital structure on the systematic risk of common stocks. The first is the MM valuation model approach. By estimating ρ^τ with an explicit valuation model as they have for the electric utility industry, it is possible to relate this ρ^τ with the use of the capital asset pricing model to a nonleveraged systematic risk measure, ${}_A\beta$. Then the difference between the observed common stock's systematic risk (which we shall denote ${}_B\beta$) and ${}_A\beta$ would be due solely to leverage. But the difficulties of this approach for all firms are many.

The MM valuation model approach requires the specification, in advance, of risk-classes. All firms in a risk-class are then assumed to have the same ρ^τ—the capitalization rate for an all-common equity firm. Unfortunately, there must be enough firms in a risk-class so that a cross-section analysis will yield statistically significant coefficients. There may not be many more risk-classes (with enough observations) now that the electric utility and railroad industries have been studied. In addition, the MM approach requires estimating expected asset earnings and estimating the capitalized growth potential implicit in stock prices. If it is possible to consider growth and expected earnings without having

2. It is, in fact, this last purpose of making applicable and practical some of the implications of the capital asset pricing model for corporation finance issues that provided the initial motivation for this paper. In this context, if one is familiar with the fair rate of return literature for regulated utilities, for example, an industry where debt is so prevalent, adjusting correctly for leverage is not frequently done and can be very critical.